

YORKEY

Stock Code : 2788

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.
精熙國際(開曼)有限公司*

(incorporated in the Cayman Islands with limited liability)



YORKEY OPTICAL

ANNUAL REPORT 2008

* For identification purpose only

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Corporate Information

Executive Directors

Cheng Wen-Tao

Liao Kuo-Ming

Non-Executive Directors

Lai I-Jen

Wu Shu-Ping

Independent Non-Executive Directors

Chiang Hsiang-Tsai

Chou Chih-Ming

Lai Chung-Hsiung

Company Secretary and Qualified Accountant

Ng Chi-Ching, FCPA, CPA (Aust.)

Registered Office

Cricket Square, Hutchins Drive

P.O. Box 2681, Grand Cayman KY1-1111

Cayman Islands

Place of Business in Hong Kong

Workshops 1-2, 6th Floor

Block A, Goldfield Industrial Centre

1 Sui Wo Road

Shatin

New Territories

Hong Kong

Place of Business in the PRC

No. 2 Xiaobian Industrial District

Changan Town

Dongguan City

Guangdong Province

The PRC

Auditor

Deloitte Touche Tohmatsu

Principal Bankers

The Hong Kong and Shanghai Banking Corporation Ltd.

Bank Sinopac

Ta Chong Bank Ltd.

China Construction Bank

China Merchant Bank

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705, George Town

Grand Cayman

British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Ltd.

26th Floor, Tesbury Centre, 28 Queen's Road East

Wanchai, Hong Kong

Stock Code

2788

Chairman's Statement

On behalf of the board of directors, I am pleased to present the annual report of Yorkey Optical International (Cayman) Ltd (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31st December, 2008.

Annual Results

I sincerely report to our shareholders that the Group recorded a turnover of approximately US\$123,425,000 leveling with that of 2007. The profit attributable to shareholders was approximately US\$20,872,000, representing a decrease of 25% as compared with that of 2007.

Dividends

The board of directors of the Company (the "Board") recommended a final dividend of HK\$0.13 (approximately US1.68 cents) per share. Including the interim dividend of HK\$0.047 (approximately US0.6 cents) per share paid to shareholders on 14th November, 2008, total dividend paid to the shareholders in respect of the year ended 31st December, 2008 will be approximately HK\$146,517,000 (approximately US\$18,875,000), bringing a dividend payout ratio of approximately 90%.

Business Review and Outlook

The year 2008 was full of challenges to the Group's business operation that was affected by the soaring oil price and the increase in labour cost in the Mainland China in the first half year followed by a shrinking consumer confidence due to the global economy tsunami in the second half year, impacting the electronic consumer industry in this bleak business environment. Although the profit making process was inevitably interrupted by these unfavorable factors, the Group with its own comparative advantages and strengths was able to maintain a strong sales performance.

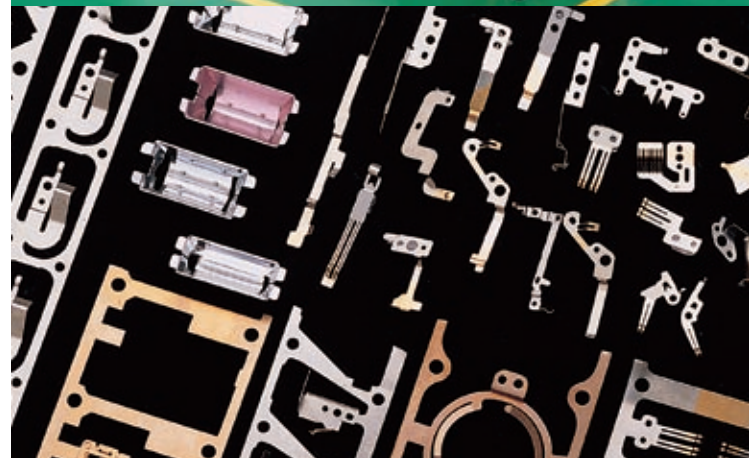
Although the business environment was in bad shape in 2008, the Group strived to adhere to the principles of meeting customers' needs and focusing on sustainable business development in order to strengthen the Group's reputation in the industry. In view of the current composition of our customers, they are mainly sizable corporations with international reputation and they are our long time business partners who have still worked closely with us and shown satisfaction with the high quality products and the "one-stop" service provided by us.

Chairman's Statement

It has been the Group's honour to have such long-term support from our customers in all these years. Therefore, the business activity for digital still cameras and handset components can be sustainably developed. Nevertheless, we have never changed the thoughts of exploring new business opportunities as a way to express our determination of stepping in other business realms by utilizing our core competitiveness. The strategy was regarded appropriate since the introduction of the new product, namely, sales of medical apparatus components that diversified risks that might be caused by over-concentration of production of similar kinds of products.

Looking forward to 2009, although the global economy would still be clouded with uncertainties, the Group is still confident about the business development in the future. It is expected that the emerging markets with a growing demand for digital still cameras be leading ahead of the others towards the recovery of the global economy, and that the well-known brand customers will continue to contract out the production process to outside manufacturers to reduce production cost. Meanwhile, we expect that the sales of medical apparatus components will continue to bring a remarkable contribution to the Group's turnover. These are the favorable factors to the Group's future development.

Besides, the Group will continue to allocate considerable resources into product development to further explore new markets and business opportunities. Facing the fast changing market, we will not stop pursuing excellence in all aspects. With our comparative advantages and competitiveness in the industry, our experienced management team is well prepared for the time of economy recovery and will strive to generate better returns to our shareholders.



Diversified Quality Products

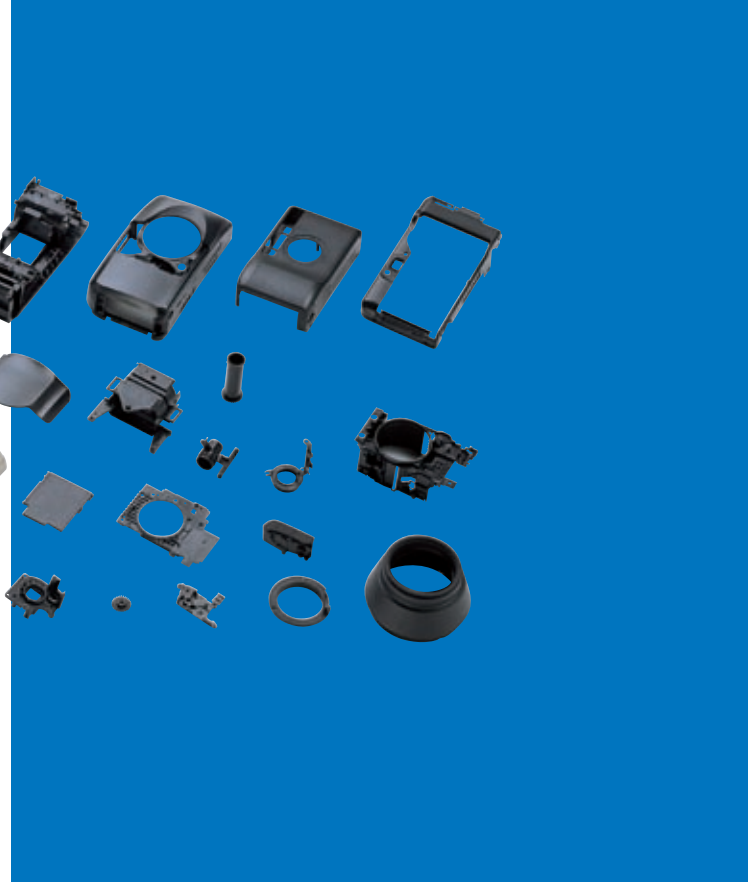


Chairman's Statement

Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, customers and suppliers for their continuous support, as well as the management team and the staff of the Group for their hard work and contributions in the past year.

Liao Kuo-Ming
Chairman



Management Discussion and Analysis

Operational and Financial Review

The Group is principally engaged in the manufacture and sale of plastic and metallic parts and components of optical and opto-electronic products including digital still cameras ("DSC"), copiers (including copier-based multifunction peripherals), computer peripherals, handsets, traditional film cameras, and others, and subsequently related accessories as well as manufacture, painting and sale of molds and cases.

Turnover

The turnover of the Group for the year was approximately US\$123,425,000 (2007: US\$124,003,000), maintaining a same level as that in the previous year.

Having been affected by the economy downturn and a subsequent decrease in demands for electronic consumer products, the Group's turnover did not drop accordingly due to the fact that the Group had previously explored a new market, namely, sales of medical apparatus components that had brought a fruitful result to the Group and, in the meantime, mitigated the impact caused by the loss of consumer confidence in general consumer products. Amid this bleak business environment, the Group will continuously and strategically focus on sales of products with high profit margins and on researching and developing new products.

Gross Profit

The gross profit for the year was approximately US\$38,698,000 (2007: US\$42,594,000) and the gross profit margin was approximately 31.4% (2007: 34.3%) showing a slight decrease in the gross profit margin and yet maintaining a level of above 30%. The decrease was caused by the increase in labour cost in the Mainland China and the soaring oil price and production material cost.

However, as the Group was committed to high-end product development accommodated by enhanced technique and economies of scales in production, continuously supplying customers with high quality components and sales services, the gross profit margin can be maintained at a high level.

Other income

The other income, contributed mainly by the bank interest income, for the year was approximately US\$4,052,000, representing a decrease of approximately 27.8% as compared with approximately US\$5,609,000 for the previous year. The decrease was caused by the slide of deposit interest rates during the year.

Net Profit

The Group's net profit for the year ended 31 December 2008 was approximately US\$20,872,000, representing an decrease of approximately 25% compared with US\$27,678,000 in 2007.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2008, the Group had current assets of approximately US\$170,141,000 (2007: US\$171,360,000) while current liabilities of approximately US\$27,867,000 (2007: US\$27,082,000). The current ratio of the Group was approximately 611% (2007: 633%).

The Group finances its operation with internally generated resources. As at 31 December 2008, the Group had cash at bank and on hand of approximately US\$132,157,000 (2007: US\$128,590,000), and zero bank borrowings.

Net cash generated from operating activities for the year was approximately US\$31,715,000.

Net cash outflow from investing activities for the year was approximately US\$4,236,000, after the offset between the capital expenditure of approximately US\$7,928,000 in enhancement of production facilities in various divisions of the Group and the bank interest income of approximately US\$3,635,000.

Net cash outflow used in financing activities for the year was payment of dividends of approximately US\$23,560,000.

In general, the Group focused on core businesses and pursued long-term stable growth. Therefore, we adopted conservative principles in financial operation. Working capital can fully meet the demand of capital expenditures and there is no need for debit finance or increasing capital from shareholders.

The Board is in the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Exchange Risk Exposure and Contingent Liabilities

The Group's sales were principally denominated in US dollars or Hong Kong dollars while purchases were also transacted mainly in US dollars, Renminbi, and Hong Kong dollars. The appreciation of Renminbi in 2008 did not materially affect the cost and operation of the Group in the year and the Group does not foresee significant risk in exchange rate fluctuation. Therefore, no financial instruments have been used for hedging purposes. The group will use forward exchange contracts for hedging purposes appropriately.

As at 31 December 2008, the Group had no significant contingent liabilities.

Capital Commitment

As at 31 December 2008, the capital commitment of Group was US\$7,000 (2007: US\$289,000).

Employment, Training and Development

As at 31 December 2008, the Group had a total of 3,493 employees. A long term and stable human capital policy accommodated with fringe benefits, including medical insurance and provident fund, and competitive remuneration packages are adopted in order to attract, retain and motivate employees.

The Group strives to maintain good relations with its employees and is committed to employee training and development on a regular basis to maintain the quality of our products.

Management Discussion and Analysis

Outlook

Despite affected by external factors causing negative effects on profit making in 2008, the Group will continuously adhere to the principles of effective business operation and provision of quality services to customers that have and will keep the Group to stay competitive in the industry.

Looking forward to 2009, the global economy would still be clouded with uncertainties. However, the management of the Group is still confident about the business development in the future. It is expected that the emerging markets with a growing demand for DSC be leading ahead of the others towards the recovery of the global economy, and that the well-known brand customers will continue to contract out the production process to outside manufacturers to reduce production cost. Meanwhile, we expect that the sales of medical apparatus components will have a remarkable contribution to the Group's turnover. These are the favorable factors to the Group's future development.

We are committed to adhere to the principle of bringing good investment returns to our investors and we will continue to accomplish it.

FINAL DIVIDEND

The board of directors proposed a final dividend of HK\$0.13 per share to shareholders whose names appear on the Register of Shareholders of the Company on 3 June 2009. The final dividend will be paid approximately in the end of June 2009.

Including the interim dividend of HK\$0.047 per share paid to the shareholders on 14 November 2008, total dividend paid to the shareholders in respect of the year ended 31 December 2008 will be HK\$0.177 per share, bringing a dividend payout ratio of approximately 90%.

Profile of Directors and Senior Management

Executive Directors

Mr. CHENG Wen-Tao (鄭文濤), aged 73, is an executive Director and the founder of the Group. Mr. Cheng is responsible for the strategic planning and overall management of the Group. Mr. Cheng is a graduate of the School of Engineering of Osaka Prefecture University (日本大阪府立大學工學部) and holds a degree of Bachelor in Engineering. He has over 30 years of experience in the optical industry. Before the establishment of the Group, Mr. Cheng worked in Ricoh Company Ltd. and was appointed as the factory manager, vice general manager of Taiwan Ricoh Company Ltd. Mr. Cheng is a director of Asia Promotion Optical International Ltd., which has an interest in the shares and/or underlying shares of the Company under Part XV of the Securities and Futures Ordinance (Cap. 571) (the "SFO") as set out in the Report of the Directors.

Mr. LIAO Kuo-Ming (廖國銘), aged 72, is an executive Director. Mr. Liao is responsible for the management of the production facilities and the public relation of the Group. Mr. Liao joined the Group in March 2001. Mr. Liao is also currently the Chairman of Asia Promotion Optical International Ltd., which has been engaged in the import and export business for more than 15 years. He was the fifth session honorary chairman of Taiwan Businessmen Association Dongguan (東莞市台商投資企業協會會長安分會第五屆名譽會長), the second session vice president of Dongguan City Chang-An Town Taiwan Businessmen Association (東莞市長安鎮台商聯誼會第二屆副會長) and the first session vice president, second session secretary general of Foreign Businessmen Association, Xiaobian, Dongguan, PRC (東莞市長安外商投資企業協會霄邊分會第一屆副會長及第二屆常務理事).

Non-executive Directors

Mr. LAI I-Jen (賴以仁), aged 60, is a non-executive Director. He has over 30 years of experience in the manufacture and sale of optical components and optical equipments. He is currently chairman of Asia Optical Co., Inc., ("Asia Optical") a company listed on the Taiwan Stock Exchange. Asia Optical is principally engaged in the design, manufacture and sale of optical parts and components and is reputable within industry. Mr. Lai has substantial experiences and international vision in business management, marketing and global logistics.

Ms. WU Shu-Ping (吳淑品), aged 46, is a non-executive Director. Ms. Wu is currently a director, the chief financial officer and spokesperson of Asia Optical, where she has worked over 26 years. Ms. Wu used to hold a directorship of various companies. She has an extensive financial background and had been actively involved in the listing, oversea financing, merger & acquisition projects of Asia Optical. Ms. Wu is experienced in the operations of the capital market and capital allocation and management of multinational enterprises in the manufacture industry.

Profile of Directors and Senior Management

Independent non-executive Directors

Mr. CHIANG Hsiang-Tsai (江向才), aged 38, was appointed as an independent non-executive Director in December 2005. Mr. Chiang holds a degree of master of accountancy and financial information systems from Cleveland State University in the United States and a doctoral degree in business administration with specialisation in accounting and information technology management from Nova Southeastern University in the US. Mr. Chiang has published a number of research papers in periodicals and produced a number of writings and he is currently a full-time associate professor (專任副教授) with the department of accounting and the chief (主任) of the accounting office in Feng Chia University in Taiwan.

Mr. CHOU Chih-Ming (周智明), aged 50, was appointed as an independent non-executive Director in December 2005. He is a registered agent for book keeping and tax return filing and founded Chou Chih-Ming Accounting and Tax Agent Firm (周智明事務所) in 1990. He has accumulated book keeping experience over 15 years. Mr. Chou's working experience also includes Chu Ting Enterprise Co., Ltd. (巨登企業股份有限公司) where he was a scrutineer (監察人). He had also been the sixth session secretary general of Taichung County Associate of Tax and Accounting Agent (台中縣稅務會計記帳代理業職業工會第六屆常務理事); and the second session secretary general of the National Federation of Tax and Accounting Agent Republic of China (中華民國稅務會計記帳代理業職業工會全國聯合會第二屆常務理事).

Mr. LAI Chung-Hsiung (賴重雄), aged 65, was appointed as an independent non-executive Director in December 2005. In 1978, Mr. Lai founded Fu Kuo Co., Ltd. in Taiwan (富國興業股份有限公司) which is engaged in the manufacture and wholeselling of leisure sports equipment. Mr. Lai has accumulated more than 25 years of experience in the manufacture and sale of sport devices.

Senior Management

Mr. FAN Yang-Hao (范揚浩), aged 53, is the department head of the metal stamping department of the Group. Prior to joining the Group Mr. Fan had worked in various Taiwanese Companies including International Kung-Li Co., Ltd. (國際共立公司), and Avy Co., Ltd. (應華工業) which are of the same industry as the Group and has over 20 years of experience in the metal stamping industry. Mr. Fan joined the Group in July 1997.

Mr. WU Wen-Tsung (吳文宗), aged 45, is the department head of the mould technology department of the Group. Mr. Wu has been working in the Group for more than 9 years and is the manager of the mould technology department. Mr. Wu joined the Group in July 1998.

Mr. CHAN Sun-Ko (詹孫科), aged 40, is the department head of the plastic injection and moulding department of the Group. Mr. Chan had worked in other companies in the plastic moulding industry and has more than 10 years of experience in this industry. He joined the Group in July 1998.

Profile of Directors and Senior Management

Mr. CHEN YAO-TANG (陳耀堂), aged 45, is the department head of the production technology department of the Group. Before Mr. Chen joined the Group, he worked in Taiwan Ricoh Co., Ltd. Mr. Chen has over 20 years of experience in the plastic and metallic mould industry. He is responsible for overseeing the production technique and ensuring the product quality for the Group. He joined the Group in June 2005.

Mr. FAN Hung-Yi (樊弘毅), aged 57, is the manager of cases and bags department of the Group. Mr. Fan had worked in Avy Co., Ltd. (應華工業) before he joined the Group and has over 30 years of experience in the field of manufacturing and assembling of cases and bags. Mr. Fan is responsible to overseeing the production process, quality of products of the cases and bags department. Mr. Fan joined the Group in July 1998.

Mr. HUANG Cheng-I (黃正一), aged 42, is the head of sales and marketing department of the Group. Mr. Huang has over 9 years of sales and marketing experience. He is responsible for the administration and supervision of overall sales and marketing activities of the Group. He joined the Group in July 2000.

Mr. NG Chi Ching (吳子正), aged 38, is the Group's chief financial officer of the Group and the qualified accountant of the Company. Mr. Ng is responsible for the overall finance and accounting of the Group. Mr. Ng graduated from The Australian National University with a degree of bachelor of commerce in 1994. He has over 10 years of experience in financial management and business management. Mr. Ng had worked in an international audit firm during the periods from May 1995 to March 1997 and from July 1997 to July 1999. Mr. Ng is a FCPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia. Mr. Ng joined the Group in January 2006.

Report of the Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31st December, 2008.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 27 to the financial statements.

Results

The results of the Group for the year are set out in the consolidated income statement on page 32.

Dividends

During the year, the Company paid a interim dividend of HK\$0.047 (approximately US0.6 cents) per share amounting to HK\$38,905,566 (approximately US\$4,988,000) in respect of the six months ended 30th June, 2008 on 14th November, 2008.

The Board has resolved to recommend a final dividend of HK\$0.13 (approximately US1.68 cents) per share amounting to HK\$107,611,140 (approximately US\$13,877,000) in respect of the year ended 31st December, 2008. The final dividend is expected to be paid around the end of June 2009 to those shareholders whose name appear on the register of members of the Company on 3rd June, 2009.

Share Capital

Details of the movements in the issued share capital of the Company during the year are set out in note 21 to the financial statements.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 34.

As at 31st December, 2008, the Company's reserve available for distribution to its shareholders comprise contributed surplus amounted to approximately US\$85,842,000 and retained profits of approximately US\$3,243,000.

Investment Properties

Details of the investment properties of the Group during the year are set out in note 12 to the financial statements.

Properties, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's largest customer and five largest customers taken together accounted for approximately 29.3% and 59% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for approximately 6.5% and 23.8% of the Group's total purchase for the year.

Save and except for Asia Optical International Ltd., none of the Directors, their respective associates or, the Directors aware, any Shareholder owns more than 5% of the issued share capital of the Company has any interest in any of the other top five customers and suppliers of the Group for the year.

Report of the Directors

Directors and directors' service contracts

The directors of the Company ("Directors") during the year and up to the date of this report were:

Executive directors:

Mr. Liao Kuo-Ming (Chairman)
Mr. Cheng Wen-Tao (CEO)

Non-executive directors:

Mr. Lai I-Jen
Ms. Wu Shu-Ping

Independent non-executive directors:

Mr. Chiang Hsiang-Tsai
Mr. Chou Chih-Ming
Mr. Lai Chung-Hsiung

The biographical details of the directors are set out on page 10 to page 12 of this annual report.

Each of the executive Directors has entered into a service contract with the Company for a term of 3 years commencing from the Listing Date. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive and independent non-executive Directors has been appointed for a term of one year commencing on 20th December, 2005. In addition, the appointment of each of the non-executive and independent non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Other than disclosed above, none of the Directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employing company within one year without payment of compensation (other than statutory compensation)).

The Company had received confirmations from each of the Company's independent non-executive Directors of their independence and considered all independent non-executive Directors to be independent. In accordance with the provisions of the Company's Articles of Association, Mr. Cheng Wen-Tao, Mr. Liao Kuo-Ming, Mr. Lai I-Jen, Ms. Wu Shu-Ping, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election. Detail of Directors' emoluments on a named basis are set out in note 8 to the financial statement on page 51 of this annual report.

Report of the Directors

Directors and Chief Executive's Interests in Shares

As at 31st December, 2008, the interest or short positions of the directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") to be notified to the Stock Exchange and the Company, are set out below:

1. Long positions in the shares, underlying shares and debentures of the Company

Name of director/ chief executive of the Company	Nature of interest	Total number of shares/underlying shares in the Company	Percentage of issued share capital in the Company
Mr. Cheng Wen-Tao	Interest of a controlled corporation	242,000,000 (Note 1)	29.23%
	Interest of a party to an agreement to acquire interests in the Company required to be disclosed under sections 317(1)(b) and 318 of the SFO	113,000,000 (Note 2)	13.65%

Note 1: Mr. Cheng Wen-Tao ("Mr. Cheng") is taken to be interested in an aggregate of 242,000,000 shares held by Asia Promotion Optical International Ltd. ("Asia Promotion"). Asia Promotion is owned as to 49.3% by Mr. Cheng, as to 26.2% by the spouse of Mr. Cheng, Ms. Huang Ching-Hui and as to 24.5% by Mr. Liao Kuo-Ming. Mr. Cheng is also the sole director of Asia Promotion.

Note 2: Mr. Cheng is also deemed to be interested in the 113,000,000 shares in the Company directly held by Fortune Lands International Ltd. ("Fortune Lands") by virtue of section 317 of the SFO because he, being a controlling person (within the meaning of section 317(7) of the SFO) and a director of the Company, advanced a loan in the sum of HK\$38,400,000 to Fortune Lands with the knowledge that it would be applied for the subscription of shares in the Company.

Report of the Directors

Save as disclosed above, as at 31st December, 2008, none of the Directors or chief executives of the Company had any long position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

2. **Short positions in the shares, underlying shares and debentures of the Company and interests and short positions in the shares, underlying shares and debentures of the Company's associated corporation**

As at 31st December, 2008, none of the Directors or chief executives of the Company, had any interest in short position in the shares, underlying shares or debentures of the Company or any interest or short position in the shares, underlying shares of debentures of the Company's associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Stock Exchange and the Company pursuant to the Model Code.

At no time during the period was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares, or debentures of, the Company or its associated corporation.

Directors' Interest in Contracts of Significance

Save as disclosed in note 26 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Report of the Directors

Substantial Shareholders

As at 31st December, 2008, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

1. Long position in the shares and underlying shares of the Company

Name of shareholder of the Company	Type of interest	Number of shares/underlying shares in the Company	Percentage of the issued share capital in the Company
Ability Enterprise (BVI) Co., Ltd.	Beneficial owner	174,252,000	21.05%
Ability Enterprise Co., Ltd.	Interest of a controlled corporation	174,252,000 (Note 1)	21.05%
Asia Promotion Optical International Ltd.	Beneficial owner	242,000,000	29.23%
Fortune Lands International Ltd.	Founder of discretionary trust	114,800,000 (Note 2)	13.87%
Fortune Lands International Ltd.	Interest of a party to be disclosed under sections 317(1)(b) and 318 of the SFO	242,000,000 (Note 2)	29.23%
Mr. Tawara Seiichi	Interest of a controlled corporation	356,800,000 (Note 3)	43.10%
Ms. Huang Ching-Hui	Interest of a spouse	355,000,000 (Note 4)	42.89%
Ms. Arai Keiko	Interest of a spouse	356,800,000 (Note 5)	43.10%

Report of the Directors

Note 1: Ability Enterprise Co., Ltd. (“Ability Enterprise”) holds 100% direct interest in the issued capital of Ability Enterprise (BVI) Co., Ltd. (“Ability Enterprise BVI”) and therefore is taken to be interested in an aggregate of 174,252,000 shares in the Company held by Ability Enterprise BVI.

Note 2: Fortune Lands is the founder of The Yorkey Employee’s Trust and is the registered owner of 114,800,000 shares in the Company which it will hold as trustee of The Yorkey Employees’ Trust.

Fortune Lands is also deemed to be interested in the 242,000,000 shares in the Company in which Mr. Cheng is interested by virtue of application of section 317 of the SFO because Mr. Cheng, being a controlling person (within the meaning of section 317(7) of the SFO) and a director of the Company, advanced a loan in the sum of HK\$38,400,000 to Fortune Lands with the knowledge that it would be applied for the subscription of shares in the Company.

Note 3: Mr. Tawara Seiichi, being the sole shareholder of Fortune Lands, is taken to be interested in an aggregate of 114,800,000 shares in the Company held by Fortune Lands.

Mr. Tawara is also deemed to be interested in the 242,000,000 shares in the Company in which Fortune Lands is deemed to be interested by virtue of application of section 317 of the SFO because Mr. Cheng, being a controlling person (within the meaning of section 317(7) of the SFO) and a director of the Company, advanced a loan in the sum of HK\$38,400,000 to Fortune Lands with the knowledge that it would be applied for the subscription of shares in the Company.

Note 4: Ms. Huang Ching-Hui, the spouse of Mr. Cheng, is taken to be interested in an aggregate of 355,000,000 shares in which Mr. Cheng is interested in.

Note 5: Ms. Arai Keiko, the spouse of Mr. Tawara, is taken to be interested in an aggregate of 356,800,000 shares in which Mr. Tawara is interested in.

Save as disclosed above, as at 31st December, 2008, the Company had not been notified of any long position being held by any persons, other than a Director or chief executive of the Company, in the shares or underlying shares in the Company which would be recorded in the register required be kept under section 336 of the SFO.

Report of the Directors

2. Short positions in the shares and underlying shares of the Company

As at 31st December, 2008, the Company had not been notified of any short position being held by any persons, other than a Director or chief executive of the Company, in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

Share Option Scheme

A share option scheme (the "Share Option Scheme") was conditionally adopted by the shareholders' written resolution of the Company dated 18th January, 2006.

The Share Option Scheme had become unconditional upon the listing of the Company's shares on the Stock Exchange on 10th February, 2006. No share options were granted, exercised or cancelled by the Company under the share option scheme during the year and there are no outstanding share options under the Share Option Scheme as at 31st December, 2008.

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or any had exercised any such right.

Summary of Principal Terms of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to employees, senior executive or officer, manager and directors of the Company or any of its subsidiaries and outside third parties who, in the sole discretion of the board of directors of the Company, have contributed or will contribute to the growth and development of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall be 80,000,000 (excluding the over-allotment portion) shares, representing 10% of the issued share capital of the Company as at the date of listing of shares on the Stock Exchange.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time. Options granted in the past 12-month period up to and including the date of grant to substantial shareholders or independent non-executive directors in excess of 0.1% of the issued share capital of the Company and with an aggregate value in excess of HK\$5,000,000 must be approved by the Company's shareholders.

Report of the Directors

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose its discretion any such minimum period at the time of grant of any particular option. The period during which the options may be exercised will be notified by the Board to each grantee upon grant of each option, provided that it shall commence on a date not earlier than the date of the grant of an option and not be more than ten (10) years from the date of grant of the option. An offer of grant of an option must be accepted being a date not more than fourteen (14) days after the date of grant. The amount payable on acceptance of an option is HK\$1.00.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and shall not be less than the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

The Share Option Scheme shall be valid and effective for a term commencing on the 18th January, 2006 and ending on the 17th January, 2016.

Connected Transactions

During the year ended 31st December, 2008, the Group had the following connected transactions that were subject to the Listing Rules' reporting requirements for disclosure in this annual report.

1. Sales of camera cases and related products from Yorkey Optical Technology Limited ("YOT") to Asia Promotion Optical Inc. ("APO Inc.")

On 1st January, 2006, YOT, a wholly-owned subsidiary of the Company, and APO Inc., which is owned as to 42% by Mr. Liao Kuo-Ming, an executive Director of the Company, entered into a master sale and purchase agreement ("AP Master Agreement") in respect of the sale of camera cases made with synthetic materials and related products by the Group to APO Inc. for a term from the date of signing of the AP Master Agreement to 31st December, 2007. The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

As the Group focuses on Japanese background customers, its sales network in Taiwan is of a relatively smaller scale and thus it is seldom to receive direct purchase orders of the Group from Taiwan background companies. On the contrary, APO Inc. is mainly engaged in the trading of synthetic leathers and other materials in Taiwan, and thus is commissioned by its Taiwan customers to purchase camera cases. In view of the availability of the Group's supply of such products, APO Inc. sources such products from the Group. In addition, the Directors consider that the Group should be in a better position to control the debt collection risks if such sales are conducted through APO Inc.

For the year ended 31st December, 2008, sales of camera cases made with synthetic materials and related products to APO Inc by the Group amounted to approximately US\$1,000.

Report of the Directors

2. Purchase of digital cameras' integrated circuits and circuit boards by YOT from Ever Pine International Limited ("Ever Pine")

On 1st January, 2006, YOT and Ever Pine, which is indirectly collectively owned as to 77% by the substantial shareholders of the Company, Ability Enterprise (BVI) Co., Ltd and Asia Promotion Optical International Ltd. ("Asia Promotion"), entered into a master sale and purchase agreement ("Ever Pine Purchase Agreement") in respect of the purchase of digital cameras' integrated circuits and circuit boards by the Group from Ever Pine for a term commencing from the date of signing of the Ever Pine Purchase Agreement to 31st December, 2007. The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

The reason for such transactions is that the Group wishes to provide convenience to the customer by offering one-stop service and the Directors consider that by purchasing from Ever Pine, the Group could have a better control over the relevant costs, such as freight.

For the year ended 31st December, 2008, purchase of digital cameras' integrated circuits and circuit boards from Ever Pine by the Group amounted to approximately US\$193,000.

3. Lease of property by Dongguan Yorkey Optical Machinery Components Ltd ("Dongguan Yorkey") to Dongguan Guang Tong Business Machines Co., Ltd. ("Dongguan Guang Tong")

On 18th July, 2005, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, as landlord and Dongguan Guang Tong, an associate of Ability Enterprise BVI and Asia Promotion, as tenant entered into a lease agreement ("Lease Agreement") pursuant to which Dongguan Guang Tong has agreed to lease a property ("PRC Property") with a gross floor area of 6,543,28 sq.m. situated at Junction of Erhuan Central Road, No. 2 Xiaobian Industrial District, Changan Town, Dongguan City, Guangdong Province, the PRC as factory premises for the operation of the business of Dongguan Guang Tong and staff quarters for a term commencing from 1st January, 2005 to 31st December, 2010 (which was subsequently modified to expire on 31st December, 2007 by a supplemental agreement dated 29th December, 2005 entered into between Dongguan Yorkey as landlord and Dongguan Guang Tong as tenant). The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

The Group entered into the Lease Agreement in order not to leave the floor area on the third floor vacant and unused.

For the year ended 31st December, 2008, the rental income received from Dongguan Guang Tong amounted to approximately US\$358,000.

Report of the Directors

4. Sales of copier related parts and components from YOT to Hong Kong Bell Shin-Ei Tech Company Limited (“Shin-Ei”)

On 1st January, 2006, YOT and Shin-Ei, an associate of Ability Enterprise BVI and Asia Promotion, entered into a master sale and purchase agreement (“Shin-Ei Master Agreement”) in respect of the sale of copier related parts and components by the Group to Shin-Ei for a term from the date of signing of the Shin-Ei Master Agreement to 31st December, 2007. The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

The reasons why Shin-Ei purchased components from the Group are as follows: (1) the Group has been granted ISO certification, and the Group’s products were manufactured up to the quality requirements as requested by the customers of Shin-Ei; and (2) in order for procurement efficiency and costs savings, Shin-Ei purchased components from the Group since Shin-Ei is also located in Dongguan, the PRC, and within the same neighborhood of the Group.

For the year ended 31st December, 2008, the sales of copier related parts and components to Shin-Ei amounted to approximately US\$492,000.

5. Sales of office equipment related parts and components from YOT to Ever Pine

On 1st January, 2006, YOT and Ever Pine entered into a master sale and purchase agreement (“Ever Pine Master Agreement”) whereby YOT agreed to sell office equipments (including but not limited to copiers and multi-function printers) related parts and components to Ever Pine for a term commencing from the date of signing of the Ever Pine Master Agreement to 31st December, 2007. The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

The reasons for such transactions are as follows: (1) the Group has been granted ISO certification, and the Group’s products were manufactured up to the quality requirements as requested by the customers of Ever Pine; and (2) in order for procurement efficiency and savings costs, Ever Pine purchased components from the Group since Dongguan Guang Tong rented certain factory premises from Dongguan Yorkey.

For the year ended 31st December, 2008, sales of office equipments (including but not limited to copiers and multi-function printers) related parts and components to Ever Pine by the Group amounted to approximately US\$105,000.

Report of the Directors

6. Purchase of materials and related parts for producing camera casings and cases by YOT from APO Inc.

On 1st January, 2006, YOT and APO Inc. entered into a master sale and purchase agreement ("AP Purchase Agreement") whereby APO Inc. agreed to sell materials and related parts for producing camera casings and cases to YOT for a term commencing from the date of signing of the AP Purchase Agreement to 31st December, 2007. The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

The reason why the Group purchases these materials and related parts through APO Inc. is that Taiwanese companies are able to offer these materials and related parts to the Group at reasonable price and quality which fits the requirements of the Group and it is the existing practice of the Group to purchase these materials from Taiwanese companies. However, in view of the fact that the Group does not have establishments in Taiwan, the Group conducts the related business via APO Inc.. By doing so, the Group is able to enjoy the foregoing benefits and also to avoid the costs and the possible costs associated with securing stable supply with the suppliers.

For the year ended 31st December, 2008, purchase of materials and related parts for producing camera casings and case from APO Inc. by the Group amounted to approximately US\$619,000.

7. Provision of recruitment services by APO Inc. to YOT.

On 1st August, 2005, YOT and APO Inc. entered into a management agreement ("Management Agreement") whereby APO Inc. agreed to provide recruitment services to YOT for a term commencing from the date of the Management Agreement to 31st December, 2007. Pursuant to the Management Agreement, YOT shall pay APO a management fee of US\$100,000 per month as reimbursement to APO Inc. for salaries, insurance and related expenses paid by APO Inc. to the Taiwanese personnel who provide services to the Group. Further, the parties may make any adjustment to the management fees payable by YOT by reference with the actual payment made by APO Inc. under the arrangement. The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

Because the Group does not have fixed operating place nor any branch in Taiwan, the Group is unable to provide the labor insurance or social welfare benefit to Taiwanese personnel. Therefore, the Group and APO Inc. entered into the Management Agreement under which APO Inc. agreed to retain Taiwanese personnel for the Group and grant those people benefits under the labor welfare system, such as the Taiwan labor insurance, health insurance, and pension. The Group then pays APO Inc. the equivalent amount.

For the year ended 31st December, 2008, the management fees paid by the Group to APO Inc. amounted to approximately US\$1,416,000.

Report of the Directors

8. Sale of digital camera parts made with plastic and/or metal materials, molding, coating and printing related products from YOT to Ability Group

On 22nd August, 2006, YOT entered into a master sale and purchase agreement (“Ability Group Master Agreement”) with Ability Enterprise Co., Ltd., the parent company of Ability Enterprise BVI, and its affiliate companies that are engaged in DSC assembly or sales, including Viewquest Technologies (BVI) Inc., Gold Market Investments Ltd. and Ashine Precision (China) Ltd. (collectively the “Ability Group”). Pursuant to the Ability Group Master Agreement, YOT agreed to sell digital camera parts made with plastic and/or metal materials, molding, coating and printing related products to Ability Group. The Ability Group Master Agreement will expire on 31st December, 2007. The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

The benefits of entering into the Ability Group Master Agreement are that (1) the Group will be in a better position to control the debt collection risks if such transaction is conducted with Ability Group; and (2) the Group is expected to benefit from Ability Enterprise’s better understanding of operations of the Group which should allow expedient and efficient sales transaction.

For the year ended 31st December, 2008, the sales of digital camera parts made with plastic and/or metal materials, molding, coating and printing related products to the Ability Group by the Group amounted to approximately US\$1,676,000.

9. Sale of synthetic leather cases for office equipment parts from Dongguan Yorkey to Dongguan Guang Tong

On 22nd August, 2006, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, and Dongguan Guang Tong, an associate of Ability Enterprise BVI and Asia Promotion, entered into a master sale and purchase agreement (“Dongguan Guang Tong Master Agreement”) whereby Dongguan Yorkey agreed to sell synthetic leather cases for office equipment parts to Dongguan Guang Tong. The Dongguan Guang Tong Master Agreement will expire on 31st December, 2007. The term was extended to 31st December, 2010 according to the supplemental agreement entered into by both parties on 8th April, 2008.

The benefits of entering into the Dongguan Guang Tong Master Agreement are that (1) the Group will be in a better position to control the debt collection risks if such transaction is conducted with Dongguan Guang Tong; and (2) the Group is expected to benefit from Dongguan Guang Tong’s better understanding of operations of the Group which should allow expedient and efficient sales transaction.

For the year ended 31st December, 2008, the sales of leather cases for office equipment parts to Dongguan Guang Tong by the Group amounted to approximately US\$95,000.

Report of the Directors

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the connected transactions of the Group to assist the Directors to evaluate whether the transactions:

1. have received the approval from the Board;
2. were in accordance with the pricing policies of the Company where the transactions involve provision of goods and services by the Company and with reference to similar transactions with independent third parties;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the caps disclosed in the previous announcement.

The auditor has reported their factual findings on these procedures to the Board of Directors. The independent non-executive Directors of the Company have reviewed the above connected transactions and have confirmed the transactions have been entered into by the Group:

1. in the ordinary and usual course of their business of the Group;
2. either on normal commercial terms, on terms no less favorable to the Group than those available to or from independent third parties; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Management Contracts

Except for the connected transactions as stated in this directors' report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' Remuneration

The director's fees, basic salaries and other allowances are disclosed in note 8 of the financial statements.

There were no compensation paid during the financial year or receivable by Directors or past Directors for the loss of office as a Director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

Pension Schemes

The pension schemes of the Company and its subsidiaries are primarily in form of contributions to the China statutory public welfare fund.

Sufficiency of Public Float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

Report of the Directors

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31st December, 2008, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the listed securities of the Company.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under company laws in the Cayman Islands.

Auditor

A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company will be submitted at the annual general meeting of the Company.

On behalf of the Board

LIAO Kuo-Ming

Chairman

23rd March, 2009

Corporate Governance Report

Corporate Governance Practices

The Group is committed to ensuring high standards of corporate governance in the interest of its shareholders. The Directors also acknowledge that it is their responsibility for preparing the financial statements of the Group for the year ended 31st December, 2008.

The Group has adopted the code provisions set out in the Code of Corporate Governance Practices (the "Code") as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has reviewed each code provision set out in the Code and confirmed that the Company has fully complied with the Code during the period.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of all The Directors regarding any non-compliance with the Model Code during the period and they all confirmed they have fully complied with the required standard set out in the Model Code.

Board of Directors

As at the date of this report, the Board of the Company comprises two executive Directors, namely, Mr. Cheng Wen-Tao and Mr. Liao Kuo-Ming, two non-executive Directors, namely, Mr. Lai I-Jen and Ms. Wu Shu-Ping, and three independent non-executive Directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung. Mr. Cheng Wen-Tao is the chief executive officer of the Company. Mr. Liao Kuo Ming is the Chairman of the Company.

The Board will have four scheduled meetings a year and meet at other times as and when required to review financial and internal control, risk management, company strategy and operating performance of the Group. Board minutes are kept by the secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors. During the year, four board meetings were held and the attendance of each director is set out below:

Name of director	Number of meetings attended
Cheng Wen-Tao	4/4
Liao Kuo-Ming	4/4
Lai I-Jen	4/4
Wu Shu-Ping	4/4
Chiang Hsiang-Tsai	4/4
Chou Chih-Ming	4/4
Lai Chung-Hsiung	4/4

The Board is responsible to ensure that there is a competent executive management which is able to run the Company in a sound and efficient manner. The Board is also responsible for establishing the Company's business strategies and plans from time to time to ensure that the operations of the Company are conducted effectively.

Corporate Governance Report

Each executive Director is delegated individual authority and responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The roles of the chairman of the Board and the chief executive officer are segregated and are not exercised by the same individual. The Company has received, from each independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent. The independent non-executive Directors will provide independent opinion and share their knowledge and experience with the other members of the Board.

Each of the non-executive Directors, namely, Mr. Lai I-Jen and Ms. Wu Shu-Ping, is appointed for an initial term of one year commencing from 20th December, 2005, subject to re-election at forthcoming annual general meetings in accordance with the Articles of Association of the Company and the relevant letter of appointment.

The Board had conducted appropriate internal control procedures and reviewed risk management strategies and policies of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity.

Remuneration of Directors

The Company has established a remuneration committee with written terms of reference as suggested under the code provisions under the Code. The remuneration committee comprises three members, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung, all being independent non-executive Directors. The chairman of the remuneration committee is Mr. Chiang Hsiang-Tsai. The remuneration committee

will meet at least once a year to determine the remuneration policy for Directors and senior management. During the year, two remuneration committee meetings were held and the attendance of each director is set out below:

Name of director	Number of meetings attended
Chiang Hsiang-Tsai	2/2
Chou Chih-Ming	2/2
Lai Chung-Hsiung	2/2

The principal responsibilities of the remuneration committee include making recommendations to the Board on the remuneration package of the Directors and the senior management to ensure that the remuneration offered is appropriate for the duties and responsibilities assumed and in line with the general market practice.

Details of the amount of Directors emoluments are set out in note 8 to the accounts.

Auditors' Remuneration

During the year ended 31st December, 2008, the fee paid/payable to auditor in respect of audit services provided by the auditor to the Group was approximately US\$201,000 and other services of US\$77,000.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code. The audit committee ensures adequate supervision of the Company's financial reporting processes, reviews the internal audit program and reports, ensures co-ordination between the internal and external auditors, and monitors the compliance with applicable statutory accounting and reporting

Corporate Governance Report

requirements, legal and regulatory requirements, internal rules and procedure approved by the Board.

The audit committee comprises three independent non-executive Directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung. The chairman of the audit committee is Mr. Chiang Hsiang-Tsai.

During the year, two audit committee meetings were held and the attendance of each Director is set out below:

Name of director	Number of meetings attended
Chiang Hsiang-Tsai	2/2
Chou Chih-Ming	2/2
Lai Chung-Hsiung	2/2

The Group's annual results for the year ended 31st December, 2008 have been reviewed by the audit committee.

Nomination of Directors

The Board will meet to discuss nomination of Directors when circumstances required. Upon receipt of a nomination from members of the Board, a board meeting will then be convened to consider and discuss the nominated candidate(s) for directorship. Criteria adopted by the Board in considering the suitability of a candidate for directorship includes his/her qualifications, experience, expertise and knowledge as well as the requirement under the Listing Rules.

Investor Relations

The Company is committed to maintain high level of transparency in communicating with shareholders and the investment community at large. The Company provides information in relation to the Company and its business in its annual report which is to be dispatched to shareholders on a timely basis. The Group's corporate website www.yorkey-optical.com also provides an effective communication medium through which the public and investor community can obtain updated information about the Group.

All the shareholders of the Company are to be given a 21 days' notice of the date and venue of the Company's Annual General Meeting where the shareholders will have an opportunity to communicate directly with the Board of the Company.

Independent Auditor's Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 65, which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2008 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23rd March, 2009

Consolidated Income Statement

For the year ended 31st December, 2008

	<i>Notes</i>	2008 US\$'000	2007 US\$'000
Turnover	6	123,425	124,003
Cost of goods sold		(84,727)	(81,409)
Gross profit		38,698	42,594
Other income		4,052	5,609
Distribution costs		(2,324)	(1,697)
Administrative expenses		(18,913)	(17,427)
Profit before taxation	7	21,513	29,079
Taxation	9	(641)	(1,401)
Profit for the year		20,872	27,678
Dividends recognised as distribution	10	23,560	18,089
Dividends proposed	10	13,887	18,572
Earnings per share			
– Basic	11	US2.52 cents	US3.34 cents

Consolidated Balance Sheet

At 31st December, 2008

	Notes	2008 US\$'000	2007 US\$'000
Non-current assets			
Investment properties	12	746	776
Property, plant and equipment	13	32,299	30,623
Land use rights	14	255	244
Deposits made on acquisition of property, plant and equipment		286	294
Deferred taxation	15	1,173	1,173
		34,759	33,110
Current assets			
Inventories	16	8,831	9,067
Trade and other receivables	17	29,003	33,552
Amounts due from related companies	18	150	56
Amounts due from shareholders	18	–	95
Bank balances and cash	19	132,157	128,590
		170,141	171,360
Current liabilities			
Trade and other payables	20	26,678	25,973
Taxation		1,189	1,109
		27,867	27,082
Net current assets		142,274	144,278
Net assets		177,033	177,388
Capital and reserves			
Share capital	21	1,066	1,066
Reserves		175,967	176,322
Total equity		177,033	177,388

The consolidated financial statements on pages 32 to 65 were approved and authorised for issue by the Board of Directors on 23rd March, 2009 and are signed on its behalf by:

LIAO KUO-MING
CHAIRMAN

CHENG WEN-TAO
CHIEF EXECUTIVE OFFICER

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Attributable to equity holders of the Company						
	Share capital US\$'000	Share premium US\$'000	Special reserve US\$'000	Translation reserve US\$'000	Statutory surplus reserve fund US\$'000	Retained profits US\$'000	Total US\$'000
At 1st January, 2007	1,069	64,401	19,350	2,462	2,276	75,761	165,319
Exchange differences arising from the translation of financial statements of foreign operations recognised directly in equity	-	-	-	3,084	-	-	3,084
Profit for the year	-	-	-	-	-	27,678	27,678
Total recognised income for the year	-	-	-	3,084	-	27,678	30,762
Repurchase and cancellation of shares	(3)	(601)	-	-	-	-	(604)
Dividend recognised as distribution	-	-	-	-	-	(18,089)	(18,089)
	(3)	(601)	-	-	-	(18,089)	(18,693)
At 31st December, 2007	1,066	63,800	19,350	5,546	2,276	85,350	177,388
Exchange differences arising from the translation of financial statements of foreign operations recognised directly in equity	-	-	-	2,333	-	-	2,333
Profit for the year	-	-	-	-	-	20,872	20,872
Total recognised income for the year	-	-	-	2,333	-	20,872	23,205
Dividend recognised as distribution	-	-	-	-	-	(23,560)	(23,560)
At 31st December, 2008	1,066	63,800	19,350	7,879	2,276	82,662	177,033

The special reserve represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of share capital of the subsidiaries acquired pursuant to the Group's reorganisation in 2005.

As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiary of the Company is required to maintain a statutory surplus reserve fund, which is non-distributable. Appropriation to such reserve is made out of profit after taxation of the statutory financial statements of the PRC subsidiary while the amount and allocation basis are decided by its Board of Directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	2008 US\$'000	2007 US\$'000
Operating activities		
Profit before taxation	21,513	29,079
Adjustments for:		
Interest income	(3,635)	(5,246)
Depreciation on investment properties	77	73
Depreciation on property, plant and equipment	5,348	4,607
Loss on disposal of property, plant and equipment	22	12
Operating lease rentals in respect of land use rights	6	13
Allowance for obsolete inventories	472	–
Allowance for bad and doubtful debts	3	–
Write off of amounts due from shareholders	95	–
Operating cash flows before movements in working capital	23,901	28,538
Increase in inventories	(236)	(4,565)
Decrease (increase) in trade and other receivables	4,546	(12,366)
(Increase) decrease in amounts due from related companies	(94)	418
Increase in trade and other payables	3,598	9,068
Cash from operations	31,715	21,093
Mainland China income tax paid	(561)	(964)
Net cash from operating activities	31,154	20,129
Investing activities		
Interest received	3,635	5,246
Purchase of property, plant and equipment	(5,261)	(4,004)
Proceeds from disposal of property, plant and equipment	57	35
Deposits paid on acquisition of property, plant and equipment	(2,667)	(294)
Net cash (used in) from investing activities	(4,236)	983
Financing activities		
Dividends paid	(23,560)	(18,089)
Repurchase of shares	–	(604)
Cash used in financing activities	(23,560)	(18,693)
Net increase in cash and cash equivalents	3,358	2,419
Cash and cash equivalents at 1st January	128,590	125,052
Effect of foreign exchange rate changes	209	1,119
Cash and cash equivalents at 31st December	132,157	128,590
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	132,157	128,590

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

1. GENERAL

The Company is incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 26. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in United States Dollar, which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of financial statements ²
HKAS 23 (Revised)	Borrowing costs ²
HKAS 27 (Revised)	Consolidated and separate financial statements ³
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ²
HKAS 39 (Amendment)	Eligible hedged items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate ²
HKFRS 2 (Amendment)	Vesting conditions and cancellations ²
HKFRS 3 (Revised)	Business combinations ³
HKFRS 7 (Amendment)	Improving disclosures about financial instruments ²
HKFRS 8	Operating segments ²
HK(IFRIC) – INT 13	Customer loyalty programmes ⁴
HK(IFRIC) – INT 15	Agreements for the construction of real estate ²
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation ⁵
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners ³
HK(IFRIC) – INT 18	Transfer of assets from customers ⁶

¹ Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.

² Effective for annual periods beginning on or after 1st January, 2009.

³ Effective for annual periods beginning on or after 1st July, 2009.

⁴ Effective for annual periods beginning on or after 1st July, 2008.

⁵ Effective for annual periods beginning on or after 1st October, 2008.

⁶ Effective for transfers on or after 1st July, 2009.

The application of HKFRS 3 (Revised) may affect the Group’s accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Rental income, including rentals invoiced in advance, from investment properties let under operating leases is recognised on a straight line basis over the period of the respective leases.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. The cost of investment properties are depreciated over its estimated useful life of 20 or 50 years using the straight line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

For the leasehold land and buildings in Hong Kong where the cost of leasehold land cannot be reliably separated from the cost of leasehold land and buildings, the cost of leasehold land and buildings is depreciated over the lease term of 50 years using the straight line method.

The cost of buildings in the Mainland China ("PRC") is depreciated over 20 years using the straight line method.

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases or 5 years, whichever is shorter.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	10%

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment or investment properties under the cost model.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, amounts due from shareholders and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivable

Impairment of loans and receivable are assessed for indicators of impairment at each balance sheet date. Impairment of loans and receivable are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, or default or delinquency in interest or principal payments or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method (continued)

Impairment of loans and receivable (continued)

For impairment of loans and receivable, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60-120 days, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of loans and receivables is reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Effective interest method (continued)

Financial liabilities

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets is realised. Deferred tax is charged or credited in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currency) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States Dollar ("US\$")) at the rate of exchange prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as a separate component of equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

Payments to defined contribution retirement benefits plans are charged as an expense when employees have rendered services entitling them to the contributions.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share options reserve.

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists primarily of equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

At 31st December, 2008 and 31st December, 2007, no external debts are raised by the Group.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs of the Company. The Group's overall strategy remains unchanged from prior year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

5. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and other receivables, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	2008	2007
	US\$'000	US\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	161,147	162,293
Financial liabilities		
Amortised cost	25,914	25,973

At 31st December, 2008 and 31st December, 2007, the Group's financial assets and financial liabilities mainly consists of trade and other receivables, bank balances and cash and trade and other payables.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated on the balance sheet.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated balance sheet are net of allowances for doubtful debts estimated by the Group's management based on prior experience and their assessment of the current economic environment. In order to minimise the credit risk, the management of the Group continuously monitors to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

5. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Credit risk (continued)

The credit risk on bank balances and cash is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group has concentration of credit risk as 52% (2007: 29%) and 79% (2007: 69%) of the total trade receivables are due from the Group's largest customer and the five largest customers respectively.

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flow. The Group has certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arises. During the year ended 31st December, 2008 and 31st December, 2007, approximately 11% and 10% respectively of the Group's sales and all of the Group's costs are denominated in currencies other than the functional currency of the Group entity making the sales and purchases. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at each balance sheet dates are disclosed in respective notes. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group mainly exposes to currency of Hong Kong dollars and Japanese Yen. The following table details the Group's sensitivity to a 10% increase and decrease in United States dollars against the Japanese Yen. Management considers the exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant and therefore has not been included in the sensitivity analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis includes trade and other receivables, trade and other payables as well as bank balances. A positive number indicates an increase in profit for the year where the United States dollars strengthens against the relevant currency. If there is 10% increase in United States dollars against the Japanese Yen, the increase (decrease) in the profit for the year is shown as below. For a 10% weakening of United States dollars against the Japanese Yen, there would be an equal and opposite impact on the profit, and the balance below would be negative.

	2008	2007
	US\$'000	US\$'000
Japanese Yen	(11)	219

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

5. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Liquidity risk management

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities as at 31st December, 2008 and 31st December, 2007. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Over 3 months but not more than 6 months US\$'000	Over 6 months but not more than 1 year US\$'000	Total undiscounted cash flows US\$'000	Carrying amount US\$'000
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At 31st December, 2008

Financial liabilities

Trade and other payables	21,426	4,474	14	25,914	25,914
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At 31st December, 2007

Financial liabilities

Trade and other payables	20,470	5,036	467	25,973	25,973
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Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets, mainly bank balances at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balance at the balance sheet date. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

5. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Interest rate risk management (continued)

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2008 would increase/decrease by US\$1,322,000 (2007: increase/decrease by US\$1,286,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values at the respective balance sheet dates.

6. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents fair value of amounts received and receivable for goods sold by the Group to outside customers during the year.

Business segment

The Group's operation is regarded as a single segment, being an enterprise engaged in the manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products.

Geographical segment

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as over 90% of which are generated from or situated in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

7. PROFIT BEFORE TAXATION

	2008 US\$'000	2007 US\$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (<i>note 8</i>)	108	149
Staff's retirement benefits scheme contributions	246	176
Other staff costs	15,635	13,313
	15,989	13,638
Less: Staff costs included in research and development costs	(218)	(224)
	15,771	13,414
Depreciation on property, plant and equipment	5,348	4,607
Less: Depreciation included in research and development costs	(534)	(7)
	4,814	4,600
Auditor's remuneration	201	210
Allowance for bad and doubtful debts	3	–
Allowance for obsolete inventories included in cost of goods sold	472	–
Depreciation on investment properties	77	73
Exchange loss included in administrative expenses	28	1,510
Loss on disposal of property, plant and equipment	22	12
Operating lease rentals in respect of		
– land use rights	6	13
– motor vehicles	239	121
– plant and machinery	1,563	861
– rented premises	1,102	937
Research and development costs included in administrative expenses	2,012	2,563
Write off of amounts due from shareholders	95	–
and after crediting:		
Interest income	3,635	5,246
Property rental income before deduction of negligible outgoings	373	341

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

8. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

Details of emoluments paid by the Group to the directors are as follows:

	2008			2007		
	Salaries and other			Salaries and other		
	Fees US\$'000	benefits US\$'000	Total US\$'000	Fees US\$'000	benefits US\$'000	Total US\$'000
Executive directors						
Mr. Cheng Wen-Tao	16	–	16	16	41	57
Mr. Liao Kuo-Ming	16	–	16	16	–	16
Non-executive directors						
Mr. Lai I-Jen	16	–	16	16	–	16
Ms. Wu Shu-Ping	15	–	15	15	–	15
Independent non-executive directors						
Ms. Chiang Hsiang-Tsai	15	–	15	15	–	15
Mr. Chou Chih-Ming	15	–	15	15	–	15
Mr. Lai Chung-Hsiung	15	–	15	15	–	15
	108	–	108	108	41	149

One of the five individuals with the highest emoluments in the Group, is a director of the Company. The emoluments of the remaining four individuals were as follows:

	2008 US\$'000	2007 US\$'000
Employees		
– basic salaries and allowances	149	122
– retirement benefits scheme contributions	2	2
	151	124

During the year, no emoluments were paid by the Group to the director or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

9. TAXATION

	2008 US\$'000	2007 US\$'000
The charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	(630)	(1,307)
Underprovision in prior years	(11)	–
	(641)	(1,307)
Deferred taxation	–	(94)
	(641)	(1,401)

The PRC subsidiary was entitled to 50% relief from PRC income tax pursuant to relevant PRC laws and regulations as it was classified as an export enterprise in 2007.

On 16th March, 2007, the Enterprise Income Tax Law (the “new EIT Law”) was passed at the Fifth session of the Tenth National People’s Congress of the PRC, the income tax rate for both domestic and foreign-investment enterprise will be unified at 25% effective from 1st January, 2008. The PRC subsidiary which was entitled to concessionary income tax rate at 15% in 2007 is subject to a tax rate of 25% effective from 1st January, 2008.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group’s profits neither arises in nor derived from Hong Kong during the year.

Tax charge for the year is reconciled to profit before taxation as follows:

	2008 US\$'000	%	2007 US\$'000	%
Profit before taxation	21,513		29,079	
Tax at the applicable income tax rate	(5,378)	(25.0)	(9,596)	(33.0)
Tax effect of expenses not deductible for tax purposes	(395)	(1.8)	(267)	(0.9)
Tax effect of income not taxable for tax purposes	867	4.0	2,405	8.2
Tax effect of deemed deductions in the PRC	4,276	19.8	4,270	14.7
Effect of tax relief granted to the PRC subsidiary	–	–	1,881	6.5
Underprovision in respect of prior years	(11)	(0.1)	–	–
Others	–	–	(94)	(0.3)
Tax charge and effective tax rate for the year	(641)	(3.0)	(1,401)	(4.8)

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

10. DIVIDENDS

	2008	2007
	US\$'000	US\$'000
Dividends recognised as distribution		
2008 Interim dividend of US0.60 (2007: US0.60) cents per share paid	4,988	5,001
2007 Final dividend of US2.24 (2006: US1.58) cents per share paid	18,572	13,088
	23,560	18,089
Dividends proposed		
2008 Final dividend of US1.68 (2007: US2.24) cents per share proposed	13,887	18,572

A final dividend of US1.68 cents per share for the year ended 31st December, 2008 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the year attributable to equity holders of the Company of US\$20,872,000 (2007: US\$27,678,000) and on the weighted average number of 827,778,000 (2007: 829,685,803) shares.

No diluted earnings per share is presented as there were no potential dilutive shares during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

12. INVESTMENT PROPERTIES

	2008	2007
	US\$'000	US\$'000
COST		
At 1st January	1,461	1,370
Currency realignment	94	91
At 31st December	1,555	1,461
DEPRECIATION		
At 1st January	685	572
Currency realignment	47	40
Provided for the year	77	73
At 31st December	809	685
CARRYING VALUE		
At 31st December	746	776

The carrying amount of the Group's investment properties comprises:

	2008	2007
	US\$'000	US\$'000
Investment properties held under medium-term leases		
– leasehold land and buildings in Hong Kong	61	64
– buildings in the PRC	685	712
	746	776

The fair value of the Group's investment properties, including leasehold land portion, at the balance sheet date was US\$1,098,000 (2007: US\$1,647,000). The fair value has been arrived at based on a valuation as at 31st December, 2008 and 31st December, 2007, respectively, determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was carried out with reference to recent market prices for similar properties.

All the Group's investment properties are held for rental purposes under operating leases.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Plant and machinery	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1st January, 2007	4,277	7,147	1,636	580	34,110	47,750
Currency realignment	275	483	110	33	2,430	3,331
Additions	118	382	62	–	4,928	5,490
Disposals	–	(52)	–	(164)	(26)	(242)
At 31st December, 2007	4,670	7,960	1,808	449	41,442	56,329
Currency realignment	302	540	124	30	2,812	3,808
Additions	1	1,401	233	57	3,363	5,055
Disposals	–	(220)	–	(86)	(229)	(535)
At 31st December, 2008	4,973	9,681	2,165	450	47,388	64,657
DEPRECIATION						
At 1st January, 2007	1,713	3,495	861	468	13,295	19,832
Currency realignment	120	257	66	27	992	1,462
Provided for the year	218	826	280	36	3,247	4,607
Eliminated on disposals	–	(43)	–	(144)	(8)	(195)
At 31st December, 2007	2,051	4,535	1,207	387	17,526	25,706
Currency realignment	138	310	83	25	1,204	1,760
Provided for the year	232	1,022	316	29	3,749	5,348
Eliminated on disposals	–	(188)	–	(77)	(191)	(456)
At 31st December, 2008	2,421	5,679	1,606	364	22,288	32,358
CARRYING VALUES						
At 31st December, 2008	2,552	4,002	559	86	25,100	32,299
At 31st December, 2007	2,619	3,425	601	62	23,916	30,623

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	2008	2007
	US\$'000	US\$'000
The carrying amount of the Group's property interests comprises:		
Properties held under medium-term leases		
– leasehold land and buildings in Hong Kong	142	149
– buildings in the PRC	2,410	2,470
	2,552	2,619

14. LAND USE RIGHTS

	2008	2007
	US\$'000	US\$'000
CARRYING VALUE		
At 1st January	244	241
Currency realignment	17	16
Charged to income statement during the year	(6)	(13)
At 31st December	255	244

Land use rights represent prepayment of rentals for land situated in the PRC for a period of 50 years.

15. DEFERRED TAXATION

The following is the deferred tax assets recognised by the Group and movements thereon during the current and prior years.

	Difference
	in depreciation
	US\$'000
At 1st January, 2007	1,232
Currency realignment	35
Charged to income statement for the year	(94)
At 31st December, 2007 and 31st December, 2008	1,173

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

16. INVENTORIES

	2008	2007
	US\$'000	US\$'000
Raw materials	5,860	5,007
Work in progress	1,193	2,051
Finished goods	1,778	2,009
	8,831	9,067

17. TRADE AND OTHER RECEIVABLES

	2008	2007
	US\$'000	US\$'000
Trade receivables		
– related companies in which certain directors of the Company have beneficial interests	1,427	844
– others	27,372	31,184
	28,799	32,028
Less: Allowance for doubtful debts	(111)	(1,028)
	28,688	31,000
Value-added tax recoverable	163	2,406
Other receivables	152	146
	29,003	33,552

Payment terms with customers are mainly on credit. Invoices to outside customers are normally payable within 60 to 120 days of issuance, while invoices to long-established customers are normally payable within one year. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date.

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For the year ended 31st December, 2008

17. TRADE AND OTHER RECEIVABLES (continued)

	2008	2007
	US\$'000	US\$'000
Age		
0 to 60 days	13,388	19,193
61 to 90 days	8,031	5,787
91 to 120 days	7,117	4,427
121 to 180 days	121	1,367
181 to 365 days	31	226
	28,688	31,000

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US\$152,000 (2007: US\$1,593,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date of credit was initially granted. The Group does not hold any collateral over these balances. The average age of these receivables is 62 days (2007: 121 days).

Aging of trade receivables which are past due but not impaired is as follows:

	2008	2007
	US\$'000	US\$'000
Age		
121 to 180 days	121	1,367
181 to 365 days	31	226
Total	152	1,593

No interest is charged on trade receivables. The Group has made full allowances on all the receivables overdue for 365 days based on historical experience as such receivables are generally not recoverable. Allowances on trade receivables between 121 and 365 days are made based on estimated irrecoverable amounts from the sale of goods by reference to past default experience.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

17. TRADE AND OTHER RECEIVABLES (continued)

Movement in the allowance for doubtful debts is as follows:

	2008	2007
	US\$'000	US\$'000
Balance at beginning of the year	1,028	1,023
Currency realignment	–	6
Allowance for bad and doubtful debts	3	–
Amounts written off as uncollectible	(920)	(1)
Balance at end of the year	111	1,028

Included in trade and other receivables are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2008	2007
	US\$'000	US\$'000
Japanese Yen	1,390	1,753
Hong Kong dollars	322	1,793
Taiwan dollars	–	19

18. AMOUNTS DUE FROM RELATED COMPANIES/SHAREHOLDERS

The amounts due from related companies which represent companies in which certain substantial shareholders of the Company, Ability Enterprise (BVI) Co., Ltd. ("Ability Enterprise") and Asia Promotion Optical International Ltd. ("Asia Promotion") have controlling interests are unsecured, interest-free and are repayable on demand.

The amounts due from shareholders which represented amounts due from Ability Enterprise and Asia Promotion have been written off in current year. The amounts were unsecured, interest-free and were repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry at the prevailing market interest rate of approximately 3.6% (2007: 4.1%) per annum.

Included in bank balances and cash are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2008	2007
	US\$'000	US\$'000
Japanese Yen	1,058	165
Hong Kong dollars	8,592	30,215

20. TRADE AND OTHER PAYABLES

	2008	2007
	US\$'000	US\$'000
Trade payables		
– related companies in which certain directors of the Company have beneficial interests	155	159
– others	22,262	19,118
	22,417	19,277
Payable for purchase of property, plant and equipment	214	3,107
Payroll and welfare payables	1,043	1,275
Other payables	3,004	2,314
	26,678	25,973
Age of trade payables		
0 to 60 days	12,261	11,963
61 to 90 days	5,669	4,648
91 to 180 days	4,474	2,660
181 to 360 days	13	6
	22,417	19,277

The average credit period on purchases of goods is 60 days.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

20. TRADE AND OTHER PAYABLES (continued)

Included in trade and other payables are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2008	2007
	US\$'000	US\$'000
Japanese Yen	2,340	4,108
Hong Kong dollars	1,442	1,525

21. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each				
– at 1st January, 2007	1,000,000,000	10,000	830,000,000	8,300
– repurchase and cancellation of shares	–	–	(2,222,000)	(22)
– at 31st December, 2007 and 31st December, 2008	1,000,000,000	10,000	827,778,000	8,278
				US\$'000
Shown in the consolidated balance sheet at 31st December, 2008 and 31st December, 2007				1,066

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

22. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 18th January, 2006 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees, and will expire on 17th January, 2016. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services to the Company and for the purpose of rewarding their contribution to the long-term success of the Group by providing the opportunity to obtain ownership interest in the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the date of listing of shares on the Stock Exchange which represents 80,000,000 shares (excluding the over-allotment portion), without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme shall not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under this Scheme and any other share option scheme of the Company if such limit is exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share in issue or with an aggregate value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days of the date of grant, upon payment in total of HK\$1. Options may be exercised at any time immediately from the date of grant of the share option and during the period in which notified by the Board of Directors at date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Up to 31st December, 2008, no options were granted to directors, eligible employees and other outside third parties under the Scheme.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

23. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Motor vehicles		Plant and machinery		Rented premises	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Within one year	145	126	1,563	1,426	705	782
In the second to fifth year inclusive	9	30	391	1,782	–	580
	154	156	1,954	3,208	705	1,362

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments in respect of investment properties which fall due as follows:

	2008 US\$'000	2007 US\$'000
Within one year	366	352
In the second to fifth year inclusive	–	9
	366	361

The investment properties held have committed tenants for periods of average lease term of 1 year.

24. CAPITAL COMMITMENTS

	2008 US\$'000	2007 US\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	7	289

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

25. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each of the employee make monthly mandatory contributions to the scheme.

The employees employed in the PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in the future years.

26. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related parties as disclosed in notes 17, 18 and 20, the Group has the following significant transactions with related companies in which a director of the Company, Mr. Cheng Wen-Tao has beneficial interests during the year:

Nature of transactions	2008 US\$'000	2007 US\$'000
Sales of goods	2,369	6,902
Purchases of raw materials	813	1,019
Property rental income	358	326
Management fee paid	1,416	1,383

The Company's directors represented the Group's key management and their emoluments for the year are set out in note 8.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

27. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31st December, 2008 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Yorkey Optical Technology Limited	Samoa/PRC	US\$550,001	Investment holding and trading of plastic and metallic parts and components of optical and opto-electronic products
Bioamazing Services Limited	British Virgin Islands/PRC	US\$1	Provision of research technical support services
Click Away Services Limited	British Virgin Islands/PRC	US\$1	Provision of technical training and after sales services
東莞精熙光機有限公司 (Dongguan Yorkey Optical Machinery Components Ltd.)	PRC (wholly foreign owned enterprise established for a term of 30 years commencing 11th December, 1995)	US\$16,300,000	Manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Financial Summary

	Year ended 31st December,				2008
	2004 US\$'000	2005 US\$'000	2006 US\$'000	2007 US\$'000	US\$'000
RESULTS					
Turnover	66,855	78,871	82,220	124,003	123,425
Profit before taxation	10,814	21,014	22,867	29,079	21,513
Taxation	379	(984)	(211)	(1,401)	(641)
Profit for the year	11,193	20,030	22,656	27,678	20,872
As at 31st December,					
	2004 US\$'000	2005 US\$'000	2006 US\$'000	2007 US\$'000	2008 US\$'000
ASSETS AND LIABILITIES					
Total assets	82,812	91,385	181,800	204,470	204,900
Total liabilities	(37,022)	(10,322)	(16,481)	(27,082)	(27,867)
Net assets	45,790	81,063	165,319	177,388	177,033

The results and summary of assets and liabilities for the year ended 31st December, 2004, which were extracted from the Company's prospectus dated 26th January, 2006 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited had been in existence throughout that year.