

# 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)



\* For identification purpose only

## 2013 Annual Report





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# Corporate Information

## Executive Directors

Lai I-Jen  
Nagai Michio

## Non-Executive Directors

Liao Kuo-Ming  
Wu Shu-Ping

## Independent Non-Executive Directors

Chiang Hsiang-Tsai  
Chou Chih-Ming  
Wang Yi-Chi

## Company Secretary and Qualified Accountant

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

## Registered Office

Codan Trust Company (Cayman) Limited  
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

CTBC Bank Co., Ltd.  
HSBC Bank (Taiwan) Limited  
Bank Sinopac  
Ta Chong Bank Ltd.  
China Construction Bank  
China Merchant Bank

## Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust  
Company (Cayman) Limited  
4th Floor, Royal Bank House,  
24 Shedden Road, George Town,  
Grand Cayman KY1-1110,  
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Stock Code

2788

# Chairman's Statement



*On behalf of the board of directors, I am pleased to present the shareholders the annual report of Yorkey Optical International (Cayman) Ltd (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.*

## Annual Results

I am also pleased to report to our shareholders that the Group recorded a turnover of approximately US\$84,288,000 representing a decrease of 9% as compared with US\$92,766,000 of 2012. The profit attributable to shareholders was approximately US\$2,566,000, representing an increase of 4,177% compared with US\$60,000 in 2012.

## Dividends

The board of directors of the Company ("the Board") recommended a final dividend of HK\$0.025 (approximately US0.322 cents) and special dividend of HK\$0.025 (approximately US0.322 cents) per share. Including the interim dividend of HK\$0.025 (approximately US0.322 cents) per share paid to shareholders on 7 November 2013, total dividend paid to the shareholders in respect of the year ended 31 December 2013 will be HK\$62,083,000 (approximately US\$8,007,000), bringing a dividend payout ratio over 100%.

## Business Review and Outlook

Looking back, in 2013, affected by competition on mobile devices, coupled with other factors such as the economic slowdown and changing economic conditions in China and the Japanese Government's announcement on the "nationalisation of Diaoyu Islands" on 11 September 2012 (the "Diaoyu Islands Incident"), the turnover of the Group for the year had decreased compared with that of the previous financial year.

However, with the concerted efforts of the management and staff, the Group's results for the second half of the year significantly improved as compared with that in the first half of 2013. The turnover in the second half of the year was approximately US\$48,677,000, representing an increase of approximately 37% as compared with the turnover of US\$35,611,000 in the first half of 2013. The Group's net profit for the year ended 31 December 2013 was approximately US\$2,566,000, representing an increase of 4,177% compared with US\$60,000 in 2012.

## Chairman's Statement

Pioneer Yorkey do Brasil Ltda ("PYBL"), a joint venture established in Brazil in October 2011, engaged principally in the manufacture and sale of optical and opto-electronic products in Brazil. For the year ended 31 December 2013, PYBL recorded a turnover of approximately US\$31,059,000, representing an increase of 6% compared with that of the previous year (2012: US\$29,313,000); and an operating loss of US\$4,445,000 (2012: US\$3,470,000) due to high operating cost caused by non-attainment of economies of scale of production.

PYBL's revenue was mainly derived from the sales of components for DSCs and the percentage of its contribution accounted for 90%. The remaining represents sales of components for Yamaha and Honda scooters and DVD module.

Through the establishment of PYBL and a new manufacturing plant, with a gross floor area of 11,000 square meters, constructed in August 2012, PYBL will work to lower material costs globally by taking advantage of the synergy arising from the mutual expertise in procuring components and will aim for better quality and shorter lead times resulting from the shift to local procurement of mechanical components. PYBL will aim to expand its business by strengthening its operational systems in the Brazilian market, which is expected to grow strongly.

Brazil is an emerging economy and is one of the BRIC countries among Russia, India and China. According to the data provided by the International Monetary Fund, Brazil's economic growth has averaged 3.1 percent per year in the crisis period since 2008. In 2013, GDP expanded by 2.3 percent, with investment rising by 6.3 percent. Brazil is preparing for a new phase of world economy by undertaking structural reforms which will be noticed by those who visit Brazil during the World Cup. In response to this, PYBL will continue to strive to capture this economic growth by strengthening its core advantages and competitiveness in order to increase the sales orders and the subsequent operating profit through the attainment of economies of scale of production.

The Group is confident that there will be a positive operating result to be appeared in the near future, even though operating losses for the financial years 2012 and 2013 were recorded at this early stage of investment period. Details of the interest in PYBL are set out in note 16 to the financial statements.

# Chairman's Statement

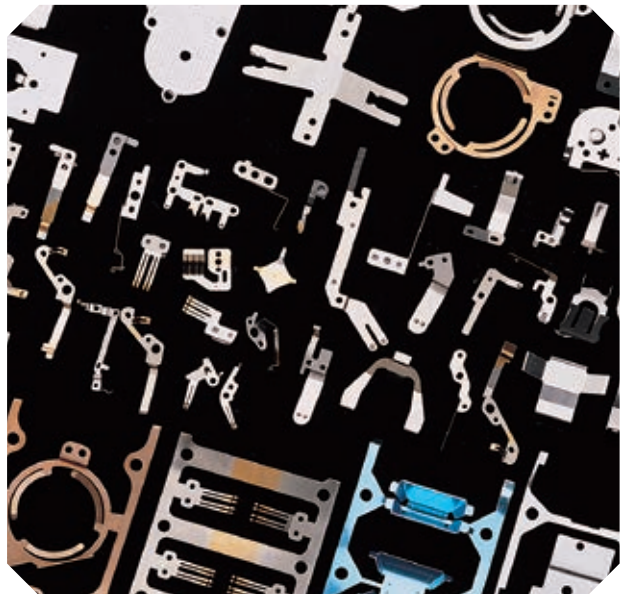
Looking into year 2014, the sales of digital cameras will continue to be affected by the global economic conditions and the competition in the mobile devices sector. Brand manufacturers will focus on promoting high-end products and actively expand the sales in emerging markets. Leverage on its own core comparative advantages and highly responsive ability, the Group will step up its research and development efforts on new products as well as strengthen its partnership with internationally renowned customers. The Group will also endeavour to provide "one-stop" services to customers and continue to diversify customer base with a view to increasing profitability.

Besides, R&D and innovation are crucial elements to the survival of an enterprise. The Group will continue to allocate considerable resources into R&D activities in pursuit of excellence. The Group will endeavour to expand the market and customer base to generate better returns to our shareholders.

## 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.

**Lai I-Jen**  
*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 Group's turnover for the year that was approximately US\$84,288,000, representing a decrease compared with that for the previous year (2012: US\$92,766,000). However, the turnover in the second half of the year was approximately US\$48,677,000 (second half of 2012: US\$44,971,000), representing an increase of approximately 8% as compared with that in the same period of last year and an increase of 37% as compared with the turnover of US\$35,611,000 in the first half of 2013.

The Group's revenue was mainly derived from the sales of components for DSCs and the percentage of its contribution accounted for 82.4%.

In 2013, affected by competition on mobile devices, coupled with other factors such as the economic slowdown and changing economic conditions in China and the Japanese Government's announcement on the "nationalisation of Diaoyu Islands" on 11 September 2012 (the "Diaoyu Islands Incident"), the turnover of the Group for the year had decreased compared with that of the previous financial year. However, with the concerted efforts of the management and staff, the Group's results for the second half of the year significantly improved as compared with that in the same period of last year. The Group will endeavour to expand business and strive for better results leveraging on its own core competence and superior ability to respond and by developing and researching new products.

## Gross Profit

The Group's gross profit for the year was approximately US\$19,787,000 (2012: US\$18,324,000) and the gross profit margin was approximately 23.5% (2012: 19.8%), representing an increase as compared to those in the previous year. In 2013, the increase in the gross profit margin was as a result of the Group's continued cost control efforts. In the second half of 2013, the gross profit was approximately US\$12,818,000 (second half of 2012: US\$8,178,000) and the gross profit margin was approximately 26.3% (second half of 2012: approximately 18.2%), representing an increase as compared to those in the previous year. In the second half of 2013, the increase in gross profit margin was due to the economies of scale as a result of the growth in revenue and the continued cost control efforts.

The Group was committed to high-end product development accommodated by enhanced technique and R&D capabilities, continuously supplying customers with high quality components and sales services, the gross profit margin can still be maintained at a high level.

## Other Income and Gains

The other income of the Group, contributed mainly by the bank interest income and exchange gain, for the year was approximately US\$1,788,000, representing a decrease of approximately 12% as compared with approximately US\$2,028,000 in 2012.

## Net Profit

The Group's net profit for the year ended 31 December 2013 was approximately US\$2,566,000, representing an increase compared with US\$60,000 in 2012, mainly due to the increase in gross profit as a result of the growth in revenue for the second half of the year and the Company's continued efforts to effectively control the operating expenses.



# Management Discussion and Analysis

## Liquidity and Financial Resources

As at 31 December 2013, the Group had current assets of approximately US\$143,794,000 (2012: US\$139,480,000) and current liabilities of approximately US\$21,907,000 (2012: US\$22,557,000). The current ratio of the Group was approximately 656% (2012: 618%).

The Group finances its operation with internally generated resources. As at 31 December 2013, the Group had cash at bank and on hand of approximately US\$118,974,000 (2012: US\$113,146,000), and zero bank borrowings.

Net cash generated from operating activities for the year was approximately US\$8,793,000.

Net cash inflow from investing activities for the year was approximately US\$1,438,000, which comprised interest received of approximately US\$1,452,000, proceeds from disposal of available-for-sale investments of US\$1,041,000, purchase available-for-sale investments of US\$500,000, capital expenditure in various divisions of the Group of US\$617,000 and cash inflow from other investment activities of US\$62,000.

Net cash outflow used in financing activities for the year was approximately US\$4,803,000, representing dividend paid during the year.

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 debt 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 United States dollars, Hong Kong dollars and Japanese Yen while purchases were also transacted mainly in United States dollars, Renminbi, Hong Kong dollars and Japanese Yen. The Group is mainly exposed to currencies of Hong Kong dollars and Japanese Yen. Since Hong Kong dollars is pegged to United States dollars, the management considers that the exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant. 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.

As at 31 December 2013, the Group had no significant contingent liabilities.

## Capital Commitment

As at 31 December 2013, the capital commitment of the Group was US\$261,000 (2012: US\$309,000).

## Employment, Training and Development

As at 31 December 2013, the Group had a total of 2,484 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 and retain quality personnel and provide incentives for the staff to enhance performance.

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

Looking into year 2014, the sales of digital cameras will continue to be affected by the global economic conditions and the competition in the mobile devices sector. Brand manufacturers will focus on promoting high-end products and actively expand the sales in emerging markets. Leverage on its own core comparative advantages and highly responsive ability, the Group will step up its research and development efforts on new products as well as strengthen its partnership with internationally renowned customers. The Group will also endeavour to provide “one-stop” services to customers and continue to diversify customer base with a view to increasing profitability.

## Final Dividend

The Directors proposed to declare and distribute to the shareholders a final dividend of HK\$0.025 per share. It is expected that the final dividend will be paid in around July 2014. Further announcement will be made by the Company regarding book closure timing information as and when appropriate.

## Special Dividend

Being determined to make better return to the shareholders, the Directors proposed to declare and distribute to the shareholders a special dividend of HK\$0.025 per share. It is expected that the special dividend will be paid in around September 2014. Further announcement will be made by the Company regarding book closure timing information as and when appropriate.

Including the interim dividend of HK\$0.025 per share paid to the shareholders on Thursday, 7 November 2013, total dividend paid to the shareholders in respect of the year ended 31 December 2013 will be HK\$0.075 per share, bringing a dividend payout ratio of over 100%.

# Profile of Directors and Senior Management

## Executive Directors

**Mr. LAI I-Jen (賴以仁)**, aged 65, is an executive Director and chairman of the Group. 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”, the ultimate holding company of the Group) 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 is also currently chairman of Asia Tech Image Inc., (“Asia Tech”) a company listed on the Taiwan’s GreTai Securities Market. Asia Tech is held by Asia Optical as to 31%, and principally engaged in the trading of image sensor and electronic related parts and components.

Mr. Lai has substantial experiences and international vision in business management, marketing and global logistics.

**Mr. NAGAI Michio (永井三知夫)**, aged 59, is an executive Director and the chief executive office of the Group. Prior to joining the Group, Mr. Nagai was employed by Pioneer Corporation and has served in various senior positions including as a division head and as a senior vice president. Mr. Nagai has over 30 years of experience in mid and long term strategic planning, organizational restructuring, enhancement of manufacture engineering, development and introduction of automation device, project management and various areas of specialty in kind. Mr. Nagai joined the Group in March 2011.

## Non-executive Directors

**Mr. LIAO Kuo-Ming (廖國銘)**, aged 77, is a non-executive Director. Mr. Liao joined the Group in March 2001. He was the fifth session honorary chairman of Taiwan Businessmen Association Dongguan (東莞市台商投資企業協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).

**Ms. WU Shu-Ping (吳淑品)**, aged 51, is a non-executive Director. Ms. Wu is currently a director of Asia Optical Co., Inc., Asia Tech Image Inc., and holds directorship in 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 43, 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 vice 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 55, 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 20 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. WANG Yi-Chi (王逸琦)**, aged 42, was appointed as an independent non-executive Director in May 2012. He holds a doctoral degree in industrial engineering with specialisation in lean enterprise transformation and simulation modeling and analysis from Mississippi State University in the US. Mr. Wang has published a number of research papers in periodicals and produced a number of writings and he is currently a full-time vice professor (專任副教授) with the department of industrial engineering and systems management in Feng Chia University in Taiwan.

## Senior Management

**Mr. CHEN Yao-Tang (陳耀堂)**, aged 50, is the department head of the mould technology department of the Group. Before Mr. Chen joined the Group, he worked in Ricoh Company Limited. 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. CHANG Chen-Chi (張振吉)**, aged 49, head of metal stamping department of the Group. Mr. Chang had worked in other companies in the metal stamping industry and has more than 20 years of experience in this industry. He joined the Group in November 2010.

**Mr. CHAN Sun-Ko (詹孫科)**, aged 45, is the department head of the plastic injection and moulding department and surface treatment processing 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

**Ms. TAN Ya-Juan (譚亞娟)**, aged 38, is the department head of the manager of cases and bags department of the Group. Ms Tan has over 15 years of experience in the field of manufacturing and assembling of cases and bags, and is responsible to overseeing the production process, quality of products of the cases and bags department. Ms. Tan joined the Group in December 1995.

**Mr. ZOU Zhigang (鄒志剛)**, aged 57, is the head of assembly department of the Group. Mr. Zou has over 20 years of working experience in the industry. Mr. Zou joined the Group in June 2012.

**Mr. HUANG Cheng-I (黃正一)**, aged 47, is the head of sales and marketing department of the Group. Mr. Huang has over 10 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 43, is the 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 31 December 2013.

## Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 30 to the financial statements.

## Results

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 31.

## Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 82 of this annual report.

## Dividends

During the year, the Company paid an interim dividend of HK\$0.025 (approximately US0.322 cents) per share amounting to HK\$20,694,000 (approximately US\$2,669,000) in respect of the six months ended 30 June 2013 on 7 November 2013.

The Board has resolved to recommend a payment of final dividend of HK\$0.025, (approximately US0.322 cents) and special dividend HK\$0.025, (approximately US0.322 cents), totally HK\$0.05, (approximately US0.644 cents) per share, amounting to HK\$0.075, (approximately US0.966 cents) in respect of the year ended 31 December 2013. The final dividend is expected to be paid in around July 2014. The special dividend is expected to be paid in around September 2014.

## Share Capital

Details of the movements in the issued share capital of the Company during the year are set out in note 24 to the consolidated financial statements.

## Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2013 amounted to approximately US\$145,460,000.

## 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 33.

## Investment Properties

Details of the investment properties of the Group during the year are set out in note 13 to the consolidated 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 14 to the consolidated 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 25.83% and 57.79% 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 7.16% and 27.87% of the Group's total purchase for the year.

Save and except for Asia Optical Co., Inc. and 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.

## Directors and directors' service contracts

The directors of the Company ("Directors") during the year were:

### Executive directors:

Mr. Lai I-Jen (*Chairman*) (appointed on 7 June 2013)  
Mr. Nagai Michio

### Non-executive directors:

Mr. Liao Kuo-Ming (appointed on 7 June 2013)  
Ms. Wu Shu-Ping

### Independent non-executive directors:

Mr. Chiang Hsiang-Tsai  
Mr. Chou Chih-Ming  
Mr. Wang Yi-Chi

The biographical details of the directors are set out on page 9 to page 10 of this annual report.

Mr. Liao Kuo-Ming retired from his position as the chairman of the Company effective from 7 August 2013, due to his desire to spend more time with his family. Mr. Liao has confirmed that he has no disagreement with the Board and there is no other matter relating to his retirement that needs to be brought to the attention of the shareholders of the Company. Mr. Lai I-Jen was appointed as the chairman of the Company effective from 7 August 2013.

Each of the executive Directors has entered into a service contract with the Company for a term of 1 year commencing on 7 June 2013 or 24 May 2012. 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 Directors has been appointed for a term of one year commencing on 7 June 2013 or 20 December 2005. In addition, the appointment of each of the non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Each of the independent non-executive Directors has been appointed for a term of one year commencing on 24 May 2012 or 20 December 2005. In addition, the appointment of each of the 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. Lai I-Jen, Mr. Nagai Michio, Mr. Liao Kuo-Ming, Ms. Wu Shu-Ping, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Wang Yi-Chi 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 9 to the consolidated financial statements on page 63 of this annual report.

# Report of the Directors

## Directors and Chief Executive's Interests in Shares

As at 31 December 2013, 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

Save as disclosed above, as at 31 December 2013, 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 31 December 2013, 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 or 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 29 to the consolidated 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.



# Report of the Directors

## 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.

## Substantial Shareholders

As at 31 December 2013, 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
Asia Optical International Ltd.	Beneficial owner	186,833,000	22.57%
Asia Optical Co., Inc.	Interest of a controlled corporation	226,833,000 (Note 1)	27.40%
Ability Enterprise (BVI) Co., Ltd.	Beneficial owner	144,473,000	17.45%
Ability Enterprise Co., Ltd.	Interest of a controlled corporation	144,473,000 (Note 2)	17.45%
Fortune Lands International Ltd.	Founder of discretionary trust	113,000,000 (Note 3)	13.65%
Mr. Chen Yao-Tang	Interest of a controlled corporation	113,000,000 (Note 4)	13.65%
Ms. Ho Shu-Chun	Interest of a spouse	113,000,000 (Note 5)	13.65%
Templeton Asset Management Ltd.	Investment manager	48,818,000	5.90%

# Report of the Directors

*Note 1:* Asia Optical Co., Inc. holds 100% direct interest in the issued capital of Asia Optical International Ltd. ("AOIL") and therefore is taken to be interested in an aggregate of 186,833,000 Shares held by AOIL.

*Note 2:* 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 144,473,000 Shares held by Ability Enterprise BVI.

*Note 3:* As recorded in the register required to be kept under section 336 of the SFO, Fortune Lands is the founder of the Yorkey Employee's Trust and is the registered owner of 113,000,000 Shares which it will hold as trustee of The Yorkey Employees' Trust.

*Note 4:* As recorded in the register required to be kept under section 336 of the SFO, Mr. Chen Yao-Tang ("Mr. Chen"), being the sole shareholder of Fortune Lands, is taken to be interested in an aggregate of 113,000,000 Shares held by Fortune Lands.

*Note 5:* As recorded in the register required to be kept under section 336 of the SFO, Ms. Ho Shu-Chun, the spouse of Mr. Chen, is taken to be interested in an aggregate of 113,000,000 Shares in which Mr. Chen is interested in.

Save as disclosed above, as at 31 December 2013, 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 to be kept under section 336 of the SFO.

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

As at 31 December 2013, the Company had not been notified of any short position being held by any substantial shareholder 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 18 January 2006.

The Share Option Scheme had become unconditional upon the listing of the Company's shares on the Stock Exchange on 10 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 31 December 2013.

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.

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 18 January 2006 and ending on the 17 January 2016.

# Report of the Directors

## Connected Transactions

During the year ended 31 December 2013, the Group had the following connected transactions that were subject to the Listing Rules' reporting requirements for disclosure in this annual report.

**1. Purchase of digital cameras' integrated circuits and circuit boards by Yorkey Optical Technology Limited ("YOT") from Ever Pine International Limited ("Ever Pine")**

On 1 January 2006, YOT, a wholly-owned subsidiary of the Company and Ever Pine 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 31 December 2007. The term was extended to 31 December 2015 according to the supplemental agreement entered into by both parties in 2010 and 2013.

Ever Pine is owned as to approximately 34.65% by Ability Enterprise BVI, the substantial shareholder of the Company and is an associate of Ability Enterprise BVI. Hence, Ever Pine is a connected person of the Company.

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 31 December 2013, purchase of digital cameras' integrated circuits and circuit boards from Ever Pine by the Group amounted to approximately US\$0.

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

On 18 July 2005, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, as landlord and Dongguan Guang Tong, 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 5,028.19 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 1 January 2005 to 31 December 2010 (which was subsequently modified to expire on 31 December 2007 by a supplemental agreement dated 29 December 2005 entered into between Dongguan Yorkey as landlord and Dongguan Guang Tong as tenant). The term was extended to 31 December 2015 according to the supplemental agreement entered into by both parties in 2010 and 2013.



Dongguan Guang Tong is wholly owned by Ever Pine. As such, Ability Enterprise BVI indirectly holds 34.65% of the equity interests in Dongguan Guang Tong. Dongguan Guang Tong is an associate of Ability Enterprise BVI and hence, a connected person of the Company for the purposes of the Listing Rules.

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 31 December 2013, the rental income received from Dongguan Guang Tong amounted to approximately US\$305,000.

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

On 1 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 31 December 2007. The term was extended to 31 December 2015 according to the supplemental agreement entered into by both parties in 2010 and 2013.

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 31 December 2013, 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\$98,000.

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

On 22 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 31 December 2007. The term was extended to 31 December 2013 according to the supplemental agreement entered into by both parties in 2010. (prior to 2 months before expiry of Ability Group Agreements, unless one of the parties gives written request of cessation to the other party, the agreements will be automatically renewed for a period of 3 years.)

# Report of the Directors

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 31 December 2013, 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\$0.

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

On 22 August 2006, Dongguan Yorkey and Dongguan Guang Tong 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 31 December 2007. The term was extended to 31 December 2015 according to the supplemental agreement entered into by both parties in 2010 and 2013.

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 31 December 2013, the sales of leather cases for office equipment parts to Dongguan Guang Tong by the Group amounted to approximately US\$35,000.

## 6. Sale to and purchase from Asia Optical Co., Inc. and its subsidiaries (the "Asia Optical Group")

On 10 April 2013, YOT, Dongguan Yorkey and the Asia Optical Group, representing Asia Optical Co., Inc., the substantial shareholder of the Company, and its subsidiaries, entered into the Asia Optical Group Master Agreement ("Master Agreement") for a term commencing from the date of signing of the Master Agreement to 31 December 2015 whereby YOT and Dongguan Yorkey agreed to conduct sale and purchase transactions with the Asia Optical Group, including (a) Sale of optical and opto-electronic product related parts and components, digital still camera related parts and components and image sensor related parts and components to the Asia Optical Group, (b) Purchase of optical and opto-electronic product related parts and components, namely digital still camera related parts and components, from the Asia Optical Group and (c) Engagement of the Asia Optical Group for provision of plating and surface treatment processing of optical and opto-electronic product related parts and components.

The Directors considered that the entering into of the agreement for the sale and purchase of optical and opto- electronic product related parts and components to the Asia Optical Group will benefit the Group from (i) expedient and efficient sales transaction due to a better understanding of operations of the Group by the Asia Optical Group; (ii) the enhancement of the Group's sales portfolio from the sale of the optical and opto-electronic product related parts and components to the Asia Optical Group; (iii) better control over the relevant costs, such as freight; and (iv) efficiency of processing.

For the year ended 31 December 2013, (a) Sale of optical and opto-electronic product related parts and components, digital still camera related parts and components and image sensor related parts and components to the Asia Optical Group amounted to approximately US\$10,064,000, (b) Purchase of optical and opto-electronic product related parts and components, namely digital still camera related parts and components, from the Asia Optical Group amounted to approximately US\$247,000 and (c) Engagement of the Asia Optical Group for provision of plating and surface treatment processing of optical and opto-electronic product related parts and components amounted to approximately US\$1,527,000.

## 7. Lease of property by Dongguan Sintai Optical Co., ("Dongguan Sintai") to Dongguan Yorkey

On 1 August 2013, Dongguan Yorkey Optical Machinery Components Ltd. as tenant entered into a tenancy agreement ("Tenancy Agreement") with Dongguan Sintai as landlord pursuant to which Dongguan Sintai agreed to lease a property located in Xiao-bian, the Second Industrial Zone, Chang-an town, Dong-guan city, Guangdong, China, with a gross floor area of approximately 17,953.51 square metres in which a gross floor area of approximately 13,300.13 square metres is for the usage as manufacturing plant and a gross floor area of approximately 4,653.38 square metres is for the usage as staff dormitories for a term commencing from 1 August 2013 and expiring on 31 December 2015 and automatically renewed for one year if no objection is raised by either party one month before the expiry.

Dongguan Sintai is a wholly-owned subsidiary of Asia Optical International Ltd ("AOIL"), the substantial shareholder of the Company, and hence a connected person of the Company.

As the Group consider that (i) the premises are suitable for the usage as a manufacturing plant and staff dormitories; and (ii) reasonable rental terms were agreed, the tenant entered into the Tenancy Agreement with the landlord.

# Report of the Directors

For the year ended 31 December 2013, the rental paid to Dongguan Sintai amounted to approximately US\$474,000.

The Independent Non-Executive Directors have reviewed the continuing connected transactions and in their opinion, these transactions were entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## Related Party Transactions and Continuing Connected Transactions

The related party transactions referred to in note 29 to the financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## 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.

## Emolument Policy

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

The emolument of the directors of the Company are recommended by the Remuneration Committee and are decided by the board of directors, as authorised by shareholders at the annual general meeting.

The Company has adopted a share option scheme as an incentive to eligible employees. Details of the scheme is set out on page 16.

## Directors' Remuneration

The director's fees, basic salaries and other allowances are disclosed in note 9 to the consolidated 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



# Report of the Directors

Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

## Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2013, 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

**LAI I-Jen**  
*Chairman*

17 March 2014

# 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 31 December 2013.

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

For the year ended 31 December 2013, the Board of the Company comprised two executive Directors, namely, Mr. Lai I-Jen and Mr. Nagai Michio, two non-executive Directors, namely, Mr. Liao Kuo-Ming and Ms. Wu Shu-Ping, and three independent non-executive Directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Wang Yi-Chi. Mr. Lai I-Jen was 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, six board meetings were held and the attendance of each director is set out below:

Name of director	Number of Meetings attended
Lai I-Jen ( <i>Chairman</i> )	6/6
Nagai Michio ( <i>Chief Executive Officer</i> )	6/6
Liao Kuo-Ming	6/6
Wu Shu-Ping	6/6
Chiang Hsiang-Tsai	6/6
Chou Chih-Ming	6/6
Wang Yi-Chi	6/6

# Corporate Governance Report

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.

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. Liao Kuo-Ming and Ms. Wu Shu-Ping, is appointed for an initial term of one year commencing from 7 June 2013 or 20 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 Committee

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. Wang Yi-Chi, 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
Wang Yi-Chi	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.

The work performed by the Remuneration Committee during the year ended 31 December 2013 included determining the policy for the remuneration of executive directors, assessing performance of executive directors and approving the terms of executive directors' service contracts.

## Remuneration of Directors

Details of the amount of Directors emoluments are set out in note 9 to the accounts.

# Corporate Governance Report

## Auditors' Remuneration

During the year ended 31 December 2013, the fees paid/payable to the auditor in respect of audit services provided by the auditor to the Group was approximately US\$197,000 and other non-audit services particularly for interim results review and tax compliance which amounted to approximately US\$77,000 and US\$29,000 respectively for the year under review.

## 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 requirements, legal and regulatory requirements, internal rules and procedure approved by the Board. The Audit Committee performed the above duties during the year ended 31 December 2013.

The audit committee comprises three independent non-executive Directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Wang Yi-Chi. 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
Wang Yi-Chi	2/2

The directors acknowledged their responsibility for preparing the financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

The Group's interim results for the six months ended 30 June 2013 and annual results for the year ended 31 December 2013 have been reviewed by the audit committee.

## Nomination Committee

The Nomination Committee was established on 16 March 2012. Details of the duties and responsibilities of the Nomination Committee are set out in its terms of reference. The Nomination Committee is established primarily for the purpose of regularly reviewing the structure, size and composition of the Board, and making recommendations to the Board, on nominations and appointment of Directors, and succession planning for Directors.

The nomination committee comprises three independent non-executive Directors, namely, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Wang Yi-Chi. The chairman of the audit committee is Mr. Chiang Hsiang-Tsai.

# Corporate Governance Report

During the year, one nomination committee meeting was held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Chiang Hsiang-Tsai	1/1
Chou Chih-Ming	1/1
Wang Yi-Chi	1/1

The following is a summary of the work performed by the Nomination Committee in 2013:

- reviewed the structure, size and composition of the Board and made recommendation to the Board on the Directors who should retire and make themselves available for re-election and election at the annual general meeting of the Company held on 7 June 2013, pursuant to the Company's Articles of Association;
- assessed the independence of all independent non-executive Directors.

## Corporate Governance Functions

The Board has delegated the responsibility to the Audit Committee to perform the corporate governance functions of the Company, including the following:

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board;

- (b) to review and monitor the training and continuous professional development of directors and senior management;

- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- (d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and

- (e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

## Shareholders' Rights

### Procedures for call for extraordinary general meeting and making recommendation

Pursuant to the articles of association of the Company, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.



# Corporate Governance Report

## Making Enquiries to the Board

Shareholders who would like to make enquiries regarding the Company to the Board may send such enquiry emails to: [ir@yorkey-optical.com](mailto:ir@yorkey-optical.com)

During the year, an annual general meeting (the "2013 AGM") and an extraordinary general meeting (the "2013 EGM") of the Company were held on 7 June 2013. The attendance of each director is shown below:

Name of director	Number of general meetings attended/ held in 2013
Lai I-Jen	0/2
Nagai Michio	2/2
Liao Kuo-Ming	0/2
Wu Shu-Ping	2/2
Chiang Hsiang-Tsai	2/2
Chou Chih-Ming	0/2
Wang Yi-Chi	0/2

## 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.

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.

## Company Secretary

Our company secretary, Mr. Ng Chi-Ching, is a full time employee of the Company. For the year ended 31 December 2013, Mr. Ng confirmed that he complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

## Constitutional Documents

There were no changes made to the Company's constitutional documents during the year ended 31 December 2013.

## **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 31 to 81, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors' Responsibility for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **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, in accordance with our agreed terms of engagement, 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 about whether the consolidated financial statements are free from material misstatement.

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 of consolidated financial statements that give a true and fair view 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.

# Independent Auditor's Report

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 affairs of the Group as at 31 December 2013, and of the Group's 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

17 March 2014

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

		<b>2013</b>	2012
	<i>Notes</i>	<b>US\$'000</b>	US\$'000
Turnover	7	<b>84,288</b>	92,766
Cost of goods sold		<b>(64,501)</b>	(74,442)
Gross profit		<b>19,787</b>	18,324
Other income and gains		<b>1,788</b>	2,028
Distribution costs		<b>(1,141)</b>	(1,004)
Administrative expenses		<b>(13,146)</b>	(15,753)
Research and development expenses		<b>(1,894)</b>	(2,031)
Gain on disposal of available-for-sale investments		<b>41</b>	–
Share of results of an associate		<b>(2,178)</b>	(1,700)
Profit (loss) before taxation	8	<b>3,257</b>	(136)
Taxation	10	<b>(691)</b>	196
Profit for the year		<b>2,566</b>	60
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
– exchange differences arising from translation of financial statements of foreign operations		<b>(167)</b>	(1,128)
– fair value gain on available-for-sale investments		<b>43</b>	103
– reclassification adjustment relating to disposal of available-for-sale investments		<b>(41)</b>	–
Other comprehensive expense for the year		<b>(165)</b>	(1,025)
Total comprehensive income (expense) for the year		<b>2,401</b>	(965)
Earnings per share			
– Basic	12	<b>US0.31 cents</b>	US0.01 cents

# Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 US\$'000	2012 US\$'000
<b>Non-current assets</b>			
Investment properties	13	355	454
Property, plant and equipment	14	20,620	24,241
Prepaid lease payments	15	257	256
Interest in an associate	16	6,910	10,272
Deposits paid for acquisition of property, plant and equipment		176	461
		<b>28,318</b>	35,684
<b>Current assets</b>			
Inventories	17	5,512	4,739
Trade and other receivables	18	18,277	17,693
Amount due from an associate	19	–	2,278
Amounts due from related companies	20	31	126
Available-for-sale investments	21	1,000	1,498
Bank balances and cash	22	118,974	113,146
		<b>143,794</b>	139,480
<b>Current liabilities</b>			
Trade and other payables	23	20,604	21,747
Taxation payable		1,303	810
		<b>21,907</b>	22,557
Net current assets		<b>121,887</b>	116,923
Total assets less current liabilities		<b>150,205</b>	152,607
<b>Capital and reserves</b>			
Share capital	24	1,066	1,066
Reserves		149,139	151,541
Total equity		<b>150,205</b>	152,607

The consolidated financial statements on pages 31 to 81 were approved and authorised for issue by the Board of Directors on 17 March 2014 and are signed on its behalf by:

**LAI I-JEN**  
CHAIRMAN

**NAGAI MICHIO**  
EXECUTIVE DIRECTOR



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners 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	Investment revaluation reserve US\$'000	Retained profits US\$'000	Total US\$'000
At 1 January 2012	1,066	63,800	19,350	10,590	2,425	(105)	65,495	162,621
Other comprehensive (expense) income for the year	-	-	-	(1,128)	-	103	-	(1,025)
Profit for the year	-	-	-	-	-	-	60	60
Total comprehensive (expense) income for the year	-	-	-	(1,128)	-	103	60	(965)
Dividend recognised as distribution (Note 11)	-	-	-	-	-	-	(9,049)	(9,049)
At 31 December 2012	1,066	63,800	19,350	9,462	2,425	(2)	56,506	152,607
Other comprehensive (expense) income for the year	-	-	-	(167)	-	2	-	(165)
Profit for the year	-	-	-	-	-	-	2,566	2,566
Total comprehensive (expense) income for the year	-	-	-	(167)	-	2	2,566	2,401
Transfers	-	-	-	-	100	-	(100)	-
Dividend recognised as distribution (Note 11)	-	-	-	-	-	-	(4,803)	(4,803)
At 31 December 2013	1,066	63,800	19,350	9,295	2,525	-	54,169	150,205

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 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 allocated based on 10% of the profit after taxation of the statutory financial statements of the PRC subsidiary. The statutory surplus reserve fund can be used by the PRC subsidiary to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 US\$'000	2012 US\$'000
Operating activities		
Profit (loss) before taxation	3,257	(136)
Adjustments for:		
Interest income	(1,452)	(1,471)
Depreciation on investment properties	117	101
Depreciation on property, plant and equipment	5,021	5,414
Loss on disposal of property, plant and equipment	22	77
Amortisation of land use rights	6	6
Allowance for obsolete inventories	35	58
Impairment losses recognised on receivables	38	48
Reversal of allowance for bad and doubtful debts	–	(7)
Share of results of an associate	2,178	1,700
Gain on disposal of available-for-sale investments	(41)	–
Operating cash flows before movements in working capital	9,181	5,790
(Increase) decrease in inventories	(662)	5,495
(Increase) decrease in trade and other receivables	(522)	7,015
Decrease in amount due from an associate	2,278	–
Decrease (increase) in amounts due from related companies	97	(99)
Decrease in trade and other payables	(1,373)	(8,207)
Cash from operations	8,999	9,994
PRC income tax paid	(206)	(305)
Net cash from operating activities	8,793	9,689
Investing activities		
Interest received	1,452	1,471
Proceeds from disposal of available-for-sale investments	1,041	–
Proceeds from disposal of property, plant and equipment	62	–
Purchase of available-for-sale investments	(500)	(500)
Purchase of property, plant and equipment	(294)	(543)
Deposits paid for acquisition of property, plant and equipment	(323)	(676)
Capital contribution to an associate	–	(8,869)
Net cash from (used in) investing activities	1,438	(9,117)
Cash used in financing activities		
Dividends paid	(4,803)	(9,049)
Net increase (decrease) in cash and cash equivalents	5,428	(8,477)
Cash and cash equivalents at 1 January	113,146	121,467
Effect of foreign exchange rate changes	400	156
Cash and cash equivalents at 31 December	118,974	113,146
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	118,974	113,146

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 1. GENERAL

The Company is incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are 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 principal subsidiaries are set out in note 30. The major shareholder of the Company is Asia Optical Co., Inc. which holds approximately 27.4% of the issued shares of the Company as at 31 December 2013. In the opinion of the directors, Asia Optical Co., Inc. is the ultimate holding company of the Company. 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 dollars ("US\$"), 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 new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
Amendments to HKAS 1	Presentation of items of other comprehensive income
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

### **New and revised standards on consolidation, joint arrangements, associates and disclosures**

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 “Consolidated financial statements”, HKFRS 11 “Joint arrangements”, HKFRS 12 “Disclosure of interests in other entities”, HKAS 27 (as revised in 2011) “Separate financial statements” and HKAS 28 (as revised in 2011) “Investments in associates and joint ventures”, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

#### **Impact of the application of HKFRS 10**

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and separate financial statements” that deal with consolidated financial statements and HK(SIC) INT – 12 “Consolidation – Special purpose entities”. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 January 2013) and concluded that the application of HKFRS 10 has not had any material impact on the amounts reported in the consolidated financial statements.

#### **Impact of the application of HKFRS 12**

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The directors concluded that the application of HKFRS 12 has not had any material impact on the disclosures set out in the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

### HKFRS 13 “Fair value measurement”

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (see note 6 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

### Amendments to HKAS 1 “Presentation of items of other comprehensive income”

The Group has applied the amendments to HKAS 1 “Presentation of items of other comprehensive income”. Upon the adoption of the amendments to HKAS 1, the Group’s “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

### Amendments to HKAS 1 “Presentation of items of other comprehensive income” (continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle <sup>2</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle <sup>2</sup>
HKFRS 9	Financial instruments <sup>3</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities <sup>1</sup>
Amendments to HKAS 19	Defined benefit plans: Employee contributions <sup>2</sup>
Amendments to HKAS 32	Offsetting financial assets and financial liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets <sup>1</sup>
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting <sup>1</sup>
HK(IFRIC) – INT 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.

<sup>3</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

### Annual improvements to HKFRSs 2010 – 2012 cycle

The “Annual improvements to HKFRSs 2010 – 2012 cycle” includes a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of “vesting condition” and “market condition”; and (ii) add definitions for “performance condition” and “service condition” which were previously included within the definition of “vesting condition”. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

### Annual improvements to HKFRSs 2010 – 2012 cycle (continued)

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”; and (ii) clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the “Annual improvements to HKFRSs 2010 – 2012 cycle” will have a material effect on the Group’s consolidated financial statements.

### Annual improvements to HKFRSs 2011 – 2013 cycle

The “Annual improvements to HKFRSs 2011 – 2013 cycle” includes a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

### Annual improvements to HKFRSs 2011 – 2013 cycle (continued)

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the “Annual improvements to HKFRSs 2011 – 2013 cycle” will have a material effect on the Group’s consolidated financial statements.

### HKFRS 9 “Financial instruments”

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

### HKFRS 9 “Financial instruments” (continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors do not anticipate that the adoption of HKFRS 9 in the future will have a significant impact on the amounts reported in respect of the Group’s financial assets and financial liabilities. Regarding the Group’s available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors do not anticipate that the application of the other new and revised HKFRSs will have material impact on the results and financial positions of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investments that are measured at fair values, and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, balances, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 "Financial instruments: Recognition and measurement" are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 on initial recognition.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially 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. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties (continued)

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 disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### 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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

For 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 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 recognised so as to write off the cost of other items of property, plant and equipment less their residual values 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%

The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 and points 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

### ***Loans and receivables***

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Financial assets (continued)*

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of the reporting period. Changes in the carrying amount of available-for-sale financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

##### *Impairment of financial assets*

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets measured at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Financial assets (continued)*

##### *Impairment of financial assets (continued)*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For loans and receivables, such as trade receivables that are assessed not to be impaired individually are, in addition, 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 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

#### *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 (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### *Financial liabilities*

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

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Derecognition* (continued)

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash-generating unit) 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 "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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 other 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 associated with investments in subsidiaries and associates, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes 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. US\$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

### Retirement benefits costs

Payments to defined contribution retirement benefits plans or state-managed retirement benefits schemes are recognised as expenses when employees have rendered services entitling them to the contributions.

### Research and development expenditure

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

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing (continued)

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### Share-based payment arrangements

#### *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 date of grant 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 the end of the reporting period, 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 such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options 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 options reserve will continue to be held in share options reserve.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated impairment on interest in an associate

In determining whether there is an impairment loss, the Group takes into consideration the estimated future cash flows to be generated by the associate. The amount of the impairment loss is measured as the difference between the carrying amount of the interest in an associate and the share of the present value of estimated future cash flows expected to be generated by the associate. As at 31 December 2013, the carrying amount of the interest in an associate is US\$6,910,000 (2012: US\$10,272,000). For the purpose of impairment testing, the recoverable amount of the associate has been determined based on a value in use calculation. In determining the value in use of the investment, the Group estimated its share of the present value of the estimated future cash flows expected to be generated from the investment in the associate, comprising the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment. No impairment on interest in an associate is required as the management expected that the present value of estimated future cash flows of the associate would exceed its carrying amount. Where the actual future cash flows are less than expected, an impairment loss may arise.

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of trade receivables is US\$16,450,000 (net of allowance for doubtful debts of US\$88,000) (2012: carrying amount of US\$16,546,000, net of allowance for doubtful debts of US\$56,000).

### Fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. The chief financial officer of the Company determines the approximate valuation techniques and inputs for fair value measurements. The valuation is performed at the end of the reporting period. Where there is material change in the fair value of the assets, the cause of the fluctuation will be reported to the management of the Group.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. When Level 1 inputs are not available, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of financial instruments. Detailed information about the valuation techniques and inputs used in the determination of the fair value of financial assets is disclosed in note 6.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 5. 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 its owners.

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

At the end of the reporting period, 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 the prior year.

## 6. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade receivables, amount due from an associate, amounts due from related companies, bank balances 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 and the basis of measurement, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

### Categories of financial instruments

	2013 US\$'000	2012 US\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	135,455	132,096
Available-for-sale investments	1,000	1,498
Financial liabilities		
Amortised cost	15,166	16,953

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 6. FINANCIAL INSTRUMENTS (continued)

### 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 in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated statement of financial position 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 the end of the reporting period 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.

The credit risk on bank balances 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 15% (2012: 28%) and 46% (2012: 68%) of the total trade receivables are due from the Group's largest customer and the five largest customers, respectively. In addition, the Group has concentration of credit risk by geographical location as 45% (2012: 53%) and 49% (2012: 30%) of the total trade receivables are due from customers located in Japan and the PRC, respectively.

### Market risk

#### *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 flows. The Group has certain transactions denominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 13% (2012: 16%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale whilst all costs are denominated in the group entities' functional currency. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 6. FINANCIAL INSTRUMENTS (continued)

### Market risk (continued)

#### Foreign currency risk (continued)

The Group is mainly exposed 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 Japanese Yen. Since Hong Kong dollars is pegged to United States dollars, the management considers that 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 rate used is the rate when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes trade and other receivables, trade and other payables and bank balances. The number below indicates an increase in profit for the year where United States dollars strengthens against Japanese Yen. If United States dollars weakens against Japanese Yen, there would be an equal and opposite impact on the profit.

	2013 US\$'000	2012 US\$'000
Japanese Yen	284	443

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

#### Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on variable-rate 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 analysis below has been determined based on the exposure to interest rates for bank balances at the end of the reporting period. The analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 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.

If interest rates had been 50 basis point basis points (2012: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2013 would increase/decrease by US\$595,000 (2012: increase/decrease by US\$566,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 6. FINANCIAL INSTRUMENTS (continued)

### Price risk

The Group's available-for-sale investments are measured at fair value at the end of the reporting period. Therefore, the Group is exposed to price risk. The management manages this exposure by monitoring the investment portfolios.

### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks of the available-for-sale investments at the end of the reporting period while all other variables were held constant. If the prices of the available-for-sale instruments had been 5% (2012: 5%) higher/lower, the investment valuation reserve would increase/decrease by US\$50,000 (2012: increase/decrease by US\$74,900) for the Group as a result of the changes in fair value of the available-for-sale investments.

### 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 monitoring and maintaining 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 at the end of the reporting period. 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 cash flows of principal bearing no interest.

	Repayable on demand or less than 3 months US\$'000	Total undiscounted cash flows US\$'000	Carrying amount US\$'000
At 31 December 2013			
<b>Financial liabilities</b>			
Trade and other payables	15,166	15,166	15,166
At 31 December 2012			
<b>Financial liabilities</b>			
Trade and other payables	16,953	16,953	16,953

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 6. FINANCIAL INSTRUMENTS (continued)

### Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of the financial assets.

The Group's available-for-sale investments are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of the financial assets are determined (in particular, the valuation technique(s) and input(s) used).

Financial assets	Fair value as at 31 December 2013 US\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale investments	1,000	Level 2	The fair value is determined based on the price that the counterparty financial institution would pay to redeem the unit.

There were no transfers between Level 1 and 2 in both years.

## 7. TURNOVER AND OPERATING SEGMENT

### Turnover

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

### Operating segment

The chief executive officer, being the chief operating decision maker of the Group, regularly reviews revenue analysis of the components of optical and opto-electronic products and considers them as one single operating segment on an aggregate basis. Other than revenue analysis, no operating results and other discrete financial information are available for the assessment of performance of the respective business divisions. For these reasons, no separate segment information is presented.

The chief executive officer reviews the profit for the year of the Group as a whole to make decisions about performance assessment and resource allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating segments" and accordingly, no separate segment information is prepared.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 7. TURNOVER AND OPERATING SEGMENT (continued)

### Other segment information

#### Geographical information

The Group's operations are located in the PRC (country of domicile).

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Japan	50,004	57,779	–	–
PRC	32,322	34,334	21,408	25,412
Others	1,962	653	–	–
	<b>84,288</b>	92,766	<b>21,408</b>	25,412

#### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2013 US\$'000	2012 US\$'000
Customer A	21,774	24,355
Customer B	8,703	*
Customer C	8,448	13,209

\* The corresponding revenue does not contribute over 10% of the total sales of the Group in the respective year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 7. TURNOVER AND OPERATING SEGMENT (continued)

### Other segment information (continued)

#### Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2013 US\$'000	2012 US\$'000
Components of optical and opto-electronic products		
– cameras and copiers	76,045	84,490
– others	8,243	8,276
	<b>84,288</b>	<b>92,766</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 8. PROFIT (LOSS) BEFORE TAXATION

	2013 US\$'000	2012 US\$'000
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration (note 9)	274	300
Staff's retirement benefits scheme contributions	826	892
Other staff costs	20,486	22,385
	<b>21,586</b>	23,577
Less: Staff costs included in research and development expenses	(506)	(555)
	<b>21,080</b>	23,022
Depreciation on property, plant and equipment	5,021	5,414
Less: Depreciation included in research and development expenses	(92)	(89)
	<b>4,929</b>	5,325
Allowance for bad and doubtful debts, net	38	41
Allowance for obsolete inventories included in cost of goods sold	35	58
Amortisation of land use rights	6	6
Auditor's remuneration	274	291
Cost of inventories recognised as expense	64,501	74,442
Depreciation on investment properties	117	101
Exchange loss, net	579	–
Loss on disposal of property, plant and equipment	22	77
Operating lease rentals in respect of		
– motor vehicles	263	274
– rented premises	888	1,271
and after crediting:		
Exchange gain, net	–	134
Gain on disposal of available-for-sale investments	41	–
Interest income (included in other income and gains)	1,452	1,471
Property rental income before deduction of negligible outgoings	305	305

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

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

	2013			2012		
	Fees US\$'000	Salaries and other benefits US\$'000	Total US\$'000	Fees US\$'000	Salaries and other benefits US\$'000	Total US\$'000
Executive directors						
Mr. Cheng Wen-Tao ( <i>note (a)</i> )	–	–	–	7	–	7
Mr. Lai I-Jen ( <i>note (b)</i> )	9	–	9	–	–	–
Mr. Liao Kuo-Ming ( <i>note (c)</i> )	7	–	7	16	–	16
Mr. Nagai Michio ( <i>notes (d) and (e)</i> )	16	166	182	9	192	201
Non-executive directors						
Mr. Lai I-Jen ( <i>note (b)</i> )	7	–	7	16	–	16
Mr. Liao Kuo-Ming ( <i>note (c)</i> )	9	–	9	–	–	–
Ms. Wu Shu-Ping	15	–	15	15	–	15
Independent non-executive directors						
Mr. Chiang Hsiang-Tsai	15	–	15	15	–	15
Mr. Chou Chih-Ming	15	–	15	15	–	15
Mr. Lai Chung-Hsiung ( <i>note (a)</i> )	–	–	–	6	–	6
Mr. Wang Yi-Chi ( <i>note (d)</i> )	15	–	15	9	–	9
	<b>108</b>	<b>166</b>	<b>274</b>	108	192	300

Notes:

- (a) Retired at the annual general meeting of the Company held on 24 May 2012 and not offered for re-election.
- (b) Re-designated from a non-executive director to an executive director with effect from 7 June 2013.
- (c) Re-designated from an executive director to a non-executive director with effect from 7 June 2013.
- (d) Appointed on 24 May 2012.
- (e) Mr. Nagai Michio acts as the Chief Executive of the Company. The remuneration of Mr. Nagai Michio as the Chief Executive of the Company was US\$166,000 (2012: US\$192,000) for the year ended 31 December 2013.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

The five highest paid individuals of the Group included one (2012: one) director, whose emoluments are disclosed above. The emoluments of the remaining four (2012: four) individuals in the Group were as follows:

	2013 US\$'000	2012 US\$'000
Employees		
– basic salaries and allowances	144	146
– retirement benefits scheme contributions	3	3
	<b>147</b>	<b>149</b>

There is no performance related incentive payment to the four (2012: four) highest paid individuals during the year. The emoluments of each of these highest paid individuals is less than HK\$1,000,000 (equivalent to US\$129,000).

During the year, no emoluments were paid by the Group to the directors 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.

## 10. TAXATION

	2013 US\$'000	2012 US\$'000
The tax (charge) credit comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	(485)	(169)
(Under)overprovision in prior years	(206)	365
	<b>(691)</b>	<b>196</b>

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary was unified at 25% effective from 1 January 2008 onwards.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's profit neither arises in nor is derived from Hong Kong during both years.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 10. TAXATION (continued)

Tax (charge) credit for the year is reconciled to profit (loss) before taxation as follows:

	2013 US\$'000	2012 US\$'000
Profit (loss) before taxation	3,257	(136)
Tax at the applicable income tax rate of 25% (2012: 25%)	(814)	34
Tax effect of share of results of an associate	(545)	(425)
Tax effect of expenses not deductible for tax purposes	(144)	(83)
Tax effect of income not taxable for tax purposes	102	202
Tax effect of different tax rates applied to certain subsidiaries regarded as foreign enterprises in the PRC	916	824
Tax effect of tax losses not recognised	–	(721)
(Under)overprovision in prior years	(206)	365
Tax (charge) credit for the year	(691)	196

## 11. DIVIDENDS

	2013 US\$'000	2012 US\$'000
Dividends recognised as distribution during the year		
– Interim dividend for 2013 of HK2.5 cents (equivalent to US0.322 cents) (2012: HK2.5 cents; equivalent to US0.322 cents) per share	2,669	2,669
– Final dividend for 2012 of nil (2012: final dividend for 2011 of HK3.0 cents; equivalent to US0.386 cents) per share	–	3,190
– Special dividend for 2012 of HK2.0 cents (equivalent to US0.258 cents) (2012: special dividend for 2011 of HK3.0 cents; equivalent to US0.386 cents) per share	2,134	3,190
	4,803	9,049
Dividends proposed		
– Final dividend for 2013 of HK2.5 cents (equivalent to US0.322 cents) (2012: final dividend for 2012 of nil)	2,669	–
– Special dividend for 2013 of HK\$2.5 cents (equivalent to US0.322 cents) (2012: special dividend for 2012 of HK2.0 cents; equivalent to US0.258 cents) per share	2,669	2,134
	5,338	2,134



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 11. DIVIDENDS (continued)

A final dividend of HK2.5 cents (2012: nil) per share and a special dividend of HK2.5 cents (2012: HK2.0 cents) per share have been proposed by the directors for the year and are subject to approval by the shareholders in the forthcoming annual general meeting. They are calculated on the basis of 827,778,000 shares (2012: 827,778,000 shares) in issue at the date of issuance of these consolidated financial statements.

## 12. 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 owners of the Company of US\$2,566,000 (2012: US\$60,000) and on 827,778,000 shares (2012: 827,778,000 shares) in issue during the year.

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

## 13. INVESTMENT PROPERTIES

	2013 US\$'000	2012 US\$'000
<b>COST</b>		
At 1 January	1,712	1,688
Currency realignment	60	24
At 31 December	1,772	1,712
<b>DEPRECIATION</b>		
At 1 January	1,258	1,147
Currency realignment	42	10
Provided for the year	117	101
At 31 December	1,417	1,258
<b>CARRYING VALUE</b>		
At 31 December	355	454

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 13. INVESTMENT PROPERTIES (continued)

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

	2013 US\$'000	2012 US\$'000
Investment properties held under medium-term leases		
– leasehold land and buildings in Hong Kong	52	53
– buildings in the PRC	303	401
	<b>355</b>	454

The fair value of the Group's investment properties, including leasehold land portion, at the end of the reporting period was US\$1,653,000 (2012: US\$1,361,000). The fair value has been arrived at based on a valuation at the end of the reporting period, 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 in similar locations and conditions.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US\$'000	Furniture, fixtures and equipment US\$'000	Leasehold improvements US\$'000	Motor vehicles US\$'000	Plant and machinery US\$'000	Total US\$'000
At 1 January 2012	6,675	12,299	2,507	455	59,132	81,068
Currency realignment	74	145	30	5	705	959
Additions	–	236	–	–	700	936
Disposals	–	(101)	–	–	(463)	(564)
At 31 December 2012	6,749	12,579	2,537	460	60,074	82,399
Currency realignment	180	366	75	12	1,750	2,383
Additions	–	155	90	1	604	850
Disposals	–	(41)	–	(61)	(730)	(832)
At 31 December 2013	<b>6,929</b>	<b>13,059</b>	<b>2,702</b>	<b>412</b>	<b>61,698</b>	<b>84,800</b>
<b>DEPRECIATION</b>						
At 1 January 2012	3,546	9,436	2,366	413	36,771	52,532
Currency realignment	51	122	30	5	484	692
Provided for the year	326	910	88	19	4,071	5,414
Eliminated on disposals	–	(90)	–	–	(390)	(480)
At 31 December 2012	3,923	10,378	2,484	437	40,936	58,158
Currency realignment	113	312	73	12	1,239	1,749
Provided for the year	320	798	55	6	3,842	5,021
Eliminated on disposals	–	(36)	–	(55)	(657)	(748)
At 31 December 2013	<b>4,356</b>	<b>11,452</b>	<b>2,612</b>	<b>400</b>	<b>45,360</b>	<b>64,180</b>
<b>CARRYING VALUES</b>						
At 31 December 2013	<b>2,573</b>	<b>1,607</b>	<b>90</b>	<b>12</b>	<b>16,338</b>	<b>20,620</b>
At 31 December 2012	2,826	2,201	53	23	19,138	24,241

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

	2013 US\$'000	2012 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	114	120
– buildings in the PRC	2,459	2,706
	2,573	2,826

## 15. PREPAID LEASE PAYMENTS

	2013 US\$'000	2012 US\$'000
<b>CARRYING VALUE</b>		
At 1 January	256	259
Currency realignment	7	3
Charged to profit or loss	(6)	(6)
	257	256

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 16. INTEREST IN AN ASSOCIATE

	2013 US\$'000	2012 US\$'000
Cost of investment, unlisted	13,893	13,893
Share of post-acquisition losses	(3,964)	(1,786)
Currency realignment	(3,019)	(1,835)
	<b>6,910</b>	10,272

The Group contributed 49% of the registered capital of Pioneer Yorkey do Brasil Ltda. ("PYBL"), which is established in Brazil and is engaged in the manufacturing and sales of digital cameras and component products for electronic devices or others.

The Group is able to exercise significant influence over PYBL because it has the power to appoint one out of the three directors of PYBL under the provisions stated in the Articles of Association of PYBL.

The summarised financial information below represents amounts shown in PYBL's financial statements prepared in accordance with HKFRSs. PYBL is accounted for using the equity method in these consolidated financial statements.

	At 31 December	
	2013 US\$'000	2012 US\$'000
Current assets	14,719	26,313
Non-current assets	20,380	24,064
Current liabilities	(16,338)	(20,141)
Non-current liabilities	(4,659)	(9,272)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 16. INTEREST IN AN ASSOCIATE (continued)

	Year ended 31 December	
	2013 US\$'000	2012 US\$'000
Revenue	31,059	29,313
Loss from continuing operations	(4,445)	(3,470)
Post-tax loss from discontinued operations	–	–
Loss for the year	(4,445)	(3,470)
Other comprehensive expense for the year	(2,416)	(3,151)
Total comprehensive expense for the year	(6,861)	(6,621)
Dividends received or receivable from the associate during the year	–	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

	At 31 December	
	2013 US\$'000	2012 US\$'000
Net assets	14,102	20,964
Group's 49% share of net assets of an associate	6,910	10,272



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 17. INVENTORIES

	2013 US\$'000	2012 US\$'000
Raw materials	2,625	2,548
Work in progress	1,039	928
Finished goods	1,848	1,263
	<b>5,512</b>	<b>4,739</b>

## 18. TRADE AND OTHER RECEIVABLES

	2013 US\$'000	2012 US\$'000
Trade receivables		
– companies controlled by shareholders of the Company which have significant influence over the Company	3,311	34
– others	13,227	16,568
	<b>16,538</b>	<b>16,602</b>
Less: Allowance for doubtful debts	(88)	(56)
	<b>16,450</b>	<b>16,546</b>
Other receivables	1,827	1,147
	<b>18,277</b>	<b>17,693</b>

Payment terms with customers are mainly on credit. Invoices to outside customers are normally payable within 60 days to 120 days of issuance, while invoices to long-established customers are normally payable within one year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 18. TRADE AND OTHER RECEIVABLES (continued)

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2013 US\$'000	2012 US\$'000
Age		
0 to 60 days	13,272	11,970
61 to 90 days	2,122	2,588
91 to 120 days	196	1,011
121 to 180 days	854	746
181 to 365 days	6	71
Over 365 days	–	160
	<b>16,450</b>	<b>16,546</b>

Before accepting any new customers, the Group will appoint a special team to monitor the potential customer's credit quality and define credit limits by customer. More than 90% of the trade receivables are neither past due nor impaired.

Included in the Group's trade receivables balance at the end of the reporting period are debtors with aggregate carrying amount of US\$860,000 (2012: US\$977,000) 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 when credit was initially granted. The Group does not hold any collateral over these balances. The average age of these receivables is 151 days (2012: 195 days).

Aging of trade receivables based on the invoice date which are past due but not impaired is as follows:

	2013 US\$'000	2012 US\$'000
Overdue by 1 to 60 days	854	746
Overdue by 61 to 245 days	6	71
Over 246 days	–	160
	<b>860</b>	<b>977</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 18. TRADE AND OTHER RECEIVABLES (continued)

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 days and 365 days are made based on estimated irrecoverable amounts from the sales of goods with reference to past default experience.

Movement in the allowance for doubtful debts is as follows:

	2013 US\$'000	2012 US\$'000
At 1 January	56	379
Currency realignment	1	1
Impairment losses recognised on receivables	38	48
Impairment losses reversed	–	(7)
Amount written off as uncollectible	(7)	(365)
At 31 December	88	56

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

	2013 US\$'000	2012 US\$'000
Japanese Yen	441	2,867
Hong Kong dollars	806	269

## 19. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate was unsecured, interest-free and repayable on demand.

## 20. AMOUNTS DUE FROM RELATED COMPANIES

The amounts are due from companies controlled by shareholders of the Company which have significant influence over the Company. The amounts are unsecured and interest-free. The age of these receivables was within 60 days (2012: within 60 days).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 21. AVAILABLE-FOR-SALE INVESTMENTS

	2013 US\$'000	2012 US\$'000
Unlisted securities: – unlisted funds	1,000	1,498

The investments represent a number of units of unlisted funds which mainly invest in debt securities and have no obligation to pay interest. They are measured at fair value.

## 22. BANK BALANCES AND CASH AND ANALYSIS OF CASH AND CASH EQUIVALENTS

The bank deposits carry interest at prevailing market rates ranging from 0.35% to 3.24% (2012: 0.25% to 3.81%) per annum. The bank deposits are with original maturity of not more than three months.

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

	2013 US\$'000	2012 US\$'000
Japanese Yen	2,522	1,787
Hong Kong dollars	2,698	1,239

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 23. TRADE AND OTHER PAYABLES

	2013 US\$'000	2012 US\$'000
Trade payables		
– companies controlled by shareholders of the Company which have significant influence over the Company	721	–
– others	14,432	14,764
	<b>15,153</b>	14,764
Payables for purchase of property, plant and equipment	13	10
Payroll and welfare payables	2,300	2,112
Other payables and accruals (including accruals for rental expense payable to a related company amounting to US\$192,000; 2012: nil, and payables for purchase on behalf of an associate amounting to nil; 2012: US\$2,179,000)	3,138	4,861
	<b>20,604</b>	21,747

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2013 US\$'000	2012 US\$'000
Age		
0 to 60 days	7,919	10,954
61 to 90 days	2,079	2,143
91 to 180 days	2,135	1,592
181 to 365 days	3,020	75
	<b>15,153</b>	14,764

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 23. TRADE AND OTHER PAYABLES (continued)

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

	2013 US\$'000	2012 US\$'000
Japanese Yen	128	224
Hong Kong dollars	949	893

## 24. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.01 each				
– at 1 January 2012,				
31 December 2012 and				
31 December 2013	1,000,000	10,000	827,778	8,278
				US\$'000
Shown in the consolidated statement of financial position at 31 December 2013 and 31 December 2012 as				1,066



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 25. 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 18 January 2006 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees, and will expire on 17 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 the Scheme shall not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under the 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 shares 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 the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest 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 shares.

Up to 31 December 2013, no options were granted to directors, eligible employees or other outside third parties under the Scheme.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 26. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Motor vehicles		Rented premises	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Within one year	92	245	1,439	882
In the second to fifth year inclusive	–	56	1,202	–
	92	301	2,641	882

The leases are negotiated for an average term of 2 years (2012: 2 years) and rentals are fixed over the contracted lease terms.

### The Group as lessor

At the end of the reporting period, the Group has contracted with tenants for future minimum lease payments in respect of investment properties which fall due as follows:

	2013 US\$'000	2012 US\$'000
Within one year	309	300

The investment properties held have committed tenants for periods of an average lease term of 1 year (2012: 1 year).

## 27. CAPITAL COMMITMENTS

	2013 US\$'000	2012 US\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	261	309

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 28. 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 employees 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 future years.

## 29. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related companies as disclosed in notes 18, 20 and 23, the Group has the following significant transactions with related parties during the year:

Nature of transactions	2013 US\$'000	2012 US\$'000
Sales of goods	10,197	173
Purchases of raw materials	247	134
Property rental income	305	296
Processing charges paid	1,527	–
Management fee paid	–	472
Rental paid	474	–

In addition, the Group earned commission income from an associate, amounting to nil (2012: US\$109,000), for purchases made on its behalf.

The Company's directors represent the Group's key management and their emoluments for the year are set out in note 9.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

## 30. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries, all of which are wholly-owned by the Company, at 31 December 2013 and 2012 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
<i>Directly held:</i>			
Yorkey Optical Technology Limited	Samoa/PRC	US\$550,001	Investment and property holding and trading of plastic and metallic parts and components of optical and opto-electronic products
<i>Indirectly held:</i>			
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 11 December 1995	US\$20,680,000	Manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

## Financial Summary

	Year ended 31 December				
	2009 US\$'000	2010 US\$'000	2011 US\$'000	2012 US\$'000	2013 US\$'000
<b>RESULTS</b>					
Turnover	87,760	81,010	122,092	92,766	<b>84,288</b>
Profit (loss) before taxation	9,131	6,111	7,531	(136)	<b>3,257</b>
Taxation	(302)	(254)	(846)	196	<b>(691)</b>
Profit for the year	8,829	5,857	6,685	60	<b>2,566</b>
	At 31 December				
	2009 US\$'000	2010 US\$'000	2011 US\$'000	2012 US\$'000	2013 US\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	193,796	184,627	191,511	175,164	<b>172,112</b>
Total liabilities	(25,551)	(20,838)	(28,890)	(22,557)	<b>(21,907)</b>
Net assets	168,245	163,789	162,621	152,607	<b>150,205</b>