
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your independent licensed securities dealer, bank manager, solicitor, professional accountant or other independent professional adviser.

If you have sold or transferred all your shares in Yorkey Optical International (Cayman) Ltd., you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

YORKEY
YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.
精熙國際(開曼)有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2788)

ENTERING INTO NEW CONTINUING CONNECTED TRANSACTIONS

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



Terms used in this cover page shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 5 to 28 of this circular. A letter from the Independent Board Committee is set out on pages 29 to 30 of this circular. A letter from GF Capital (Hong Kong) Limited, the independent financial adviser, to the Independent Board Committee and the Independent Shareholders, is set out on pages 31 to 42 of this circular.

A notice convening the EGM to be held at The Charterhouse Hotel, 209-219 Wanchai Road, Hong Kong on Friday, 7 June 2013 at 11:00 a.m. is set out on pages 47 to 48 of this circular. If you are not able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof in person, if you so wish.

22 May 2013

* For identification purpose only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	29
Letter from GF Capital	31
Appendix – General Information	43
Notice of EGM	47

DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“Annual Caps”	the estimated annual caps of the continuing connected transactions contemplated under the Asia Optical Group Master Agreement of the three years ending 31 December 2015
“AOIL”	Asia Optical International Ltd., a wholly-owned subsidiary of Asia Optical
“AOF”	AOF Imaging Technology Limited
“AO ETHER”	AO ETHER Corporation
“AOETHER Optronics (Shenzhen)”	AOETHER Optronics (Shenzhen) Limited
“AOF (Shenzhen)”	AOF Imaging Technology (Shenzhen) Co., Ltd.
“Asia Optical”	Asia Optical Co., Inc.
“Asia Optical Group”	Asia Optical and its subsidiaries, including AOIL; AOF; AO ETHER; Powerlink; Pentax Sintai; Asia Samoa; Dongguan Sintai; Dongguan Tailien; Pioneer Sintai; Shenzhen Sintai; Guangdong Nikon; Sintai-North; Shen Zhen Asia Image; AOF (Shenzhen); and AOETHER Optronics (Shenzhen)
“Asia Optical Group Master Agreement”	the agreement dated 10 April 2013 entered into between (1) Asia Optical; (2) AOIL; (3) AOF; (4) AO ETHER; (5) Powerlink; (6) Pentax Sintai; (7) Asia Samoa; (8) Dongguan Sintai; (9) Dongguan Tailien; (10) Pioneer Sintai; (11) Shenzhen Sintai; (12) Guangdong Nikon; (13) Sintai-North; (14) Shen Zhen Asia Image; (15) AOF (Shenzhen); (16) AOETHER Optronics (Shenzhen); (17) Yorkey Optical Technology; and (18) Dongguan Yorkey in respect of the sale and purchase of optical and opto-electronic product related parts and components until 31 December 2015
“Asia Samoa”	Asia Image Tech (Samoa) Limited
“associate”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	Yorkey Optical International (Cayman) Ltd., a company incorporated in the Cayman Islands with limited liability whose Shares are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Dongguan Sintai”	Dongguan Sintai Optical Co., Ltd.
“Dongguan Tailien”	Dongguan Tailien Optical Co., Ltd.
“Dongguan Yorkey”	Dongguan Yorkey Optical Machinery Components Ltd., a wholly foreign owned enterprise established under the laws of the PRC on 11 December 1995 and an indirect wholly-owned subsidiary of the Company
“Directors”	directors of the Company
“DSCs”	digital still cameras
“EGM”	an extraordinary general meeting of the Company to be held at The Charterhouse Hotel, 209-219 Wanchai Road, Hong Kong on Friday, 7 June 2013 at 11:00 a.m. to approve the continuing connected transactions contemplated under the Asia Optical Group Master Agreement and their Annual Caps for each of the three years ending 31 December 2015
“GF Capital”	GF Capital (Hong Kong) Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Guangdong Nikon”	Dongguan Nikon Surveying Instruments Co., Ltd.
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising Messrs. Chiang Hsiang-Tsai, Chou Chih-Ming and Wang Yi-Chi, established to review and consider the continuing connected transactions under the Asia Optical Group Master Agreement, and their Annual Caps for each of the three years ending 31 December 2015
“Independent Shareholders”	the Shareholders other than Asia Optical, AOIL and their associates
“independent third party(ies)”	independent third party(ies) who is (are) not connected persons of the Company as defined in the Listing Rules and is (are) independent of the Company and the connected persons of the Company
“Latest Practicable Date”	16 May 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Pentax Sintai”	Pentax Sintai Holding Co., Ltd.
“Pioneer Sintai”	Pioneer Sintai (Dongguan) Optical Co., Ltd.
“Powerlink”	Powerlink Electronic International Ltd.
“PRC”	the People’s Republic of China
“Optical and opto-electronic product”	the optical and opto-electronic products, namely DSC, photocopiers, multifunctional printers, projector, portable consumer electronics products, aimers, binoculars, optical instruments, image sensor, microscope, laser range finders, DVD drives, delicate optical instruments, laser printers, scanners, dedicated electronic equipments, dedicated electronic testing equipments and printing devices, of which the related parts and components made with plastic and/or metallic materials, moulding, coating and printed related products are sold by the Group to Asia Optical Group and purchased by the Group from Asia Optical Group under the Asia Optical Group Master Agreement

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholders”	shareholder(s) of the Company
“Shares”	the ordinary shares of HK\$0.01 each in the share capital of the Company
“Shenzhen Sintai”	Sintai Optical (Shenzhen) Co., LTD.
“Shen Zhen Asia Image”	Asia Tech Image ShenZhen Inc.
“Sintai-North”	Dongguan Sintai-North Precision Optical Co., Ltd.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yorkey Optical Technology”	Yorkey Optical Technology Limited, a company incorporated in Samoa with limited liability on 12 April 2005 which is a direct wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	US dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD

YORKEY

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

精熙國際(開曼)有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2788)

Executive Directors

Liao Kuo-Ming

Nagai Michio

Non-executive Directors

Lai I-Jen

Wu Shu-Ping

Independent non-executive Directors

Chiang Hsiang-Tsai

Chou Chih-Ming

Wang Yi-Chi

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Head office and principal

place of business:

Workshops 1-2, 6th Floor

Block A, Goldfield Industrial Centre

1 Sui Wo Road

Shatin

New Territories

Hong Kong

22 May 2013

To the Shareholders

Dear Sir/Madam,

ENTERING INTO NEW CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

In the announcement of the Company dated 25 March 2013 and the clarification announcement dated 10 April 2013, the Company announced that it intends to seek the approval from the Independent Shareholders with respect to the continuing connected transactions under the Asia Optical Group Master Agreement and their Annual Caps for each of the three years ending 31 December 2015.

On 10 April 2013, (1) Asia Optical; (2) AOIL; (3) AOF; (4) AO ETHER; (5) Powerlink; (6) Pentax Sintai; (7) Asia Samoa; (8) Dongguan Sintai; (9) Dongguan Tailien; (10) Pioneer Sintai; (11) Shenzhen Sintai; (12) Guangdong Nikon; (13) Sintai-North; (14) Shen Zhen Asia Image; (15) AOF (Shenzhen); (16) AOETHER Optronics (Shenzhen); (17) Yorkey Optical

** For identification purpose only*

LETTER FROM THE BOARD

Technology; and (18) Dongguan Yorkey agreed to cancel the AOIL Agreement, AOF Agreement and Asia Optical Group Agreement and enter into the Asia Optical Group Master Agreement, of which the term will last until 31 December 2015, in relation to the following transactions:

- (i) the sale of the optical and opto-electronic product related parts and components, namely photocopiers, multifunctional printers and DSCs related parts and components from Yorkey Optical Technology to AOIL;
- (ii) the sale of DSCs related parts and components from Yorkey Optical Technology to AOF;
- (iii) the sale of optical and opto-electronic product related parts and components, namely projector and portable consumer electronics products related parts and components from Yorkey Optical Technology to Asia Optical;
- (iv) the sale of optical and opto-electronic product related parts and components, namely portable consumer electronics products related parts and components from Yorkey Optical Technology to AO ETHER;
- (v) the sale of optical and opto-electronic product related parts and components, namely aimers, binoculars and other optical instruments related parts and components from Yorkey Optical Technology to Powerlink;
- (vi) the sale of optical and opto-electronic product related parts and components, namely optical instruments related parts and components from Yorkey Optical Technology to Pentax Sintai;
- (vii) the sale of image sensor related parts and components from Yorkey Optical Technology to Asia Samoa;
- (viii) the sale of optical and opto-electronic product related parts and components, namely microscope, laser range finders and other optical products related parts and components from Dongguan Yorkey to Dongguan Sintai;
- (ix) the sale of optical and opto-electronic product related parts and components, namely DSCs related parts and components from Dongguan Yorkey to Dongguan Tailien;
- (x) the sale of optical and opto-electronic product related parts and components, namely DVD drives and delicate optical instruments related parts and components from Dongguan Yorkey to Pioneer Sintai;
- (xi) the sale of optical and opto-electronic product related parts and components, namely laser printers and scanners related parts and components from Dongguan Yorkey to Shenzhen Sintai;

LETTER FROM THE BOARD

- (xii) the sale of optical and opto-electronic product related parts and components, namely dedicated electronic equipments related parts and components from Dongguan Yorkey to Guangdong Nikon;
- (xiii) the sale of optical and opto-electronic product related parts and components, namely delicate instruments, dedicated electronic testing equipments and printing devices related parts and components from Dongguan Yorkey to Sintai-North;
- (xiv) the sale of image sensor related parts and components from Dongguan Yorkey to Shen Zhen Asia Image;
- (xv) the sale of DSCs related parts and components from Dongguan Yorkey to AOF (Shenzhen);
- (xvi) the sale of optical and opto-electronic product related parts and components, namely portable consumer electronics products related parts and components from Dongguan Yorkey to AOETHER Optronics (Shenzhen);
- (xvii) the purchase of optical and opto-electronic product related parts and components, namely DSCs related parts and components by Yorkey Optical Technology from AOIL; and
- (xviii) the engagement of Shenzhen Sintai for plating and surface treatment processing of optical and opto-electronic product related parts and components by Dongguan Yorkey.

The purpose of this circular is to (i) provide you with further information in relation to the continuing connected transactions under the Asia Optical Group Master Agreement; (ii) set out the opinions and recommendations of the Independent Board Committee and GF Capital, the independent financial adviser, to the Independent Board Committee and the Independent Shareholders; and (iii) give you notice of the EGM at which the resolution as set out therein will be proposed.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE ASIA OPTICAL GROUP MASTER AGREEMENT

- | | |
|--|---|
| (i) the sale of the optical and opto-electronic product related parts and components, namely photocopiers, multifunctional printers and DSCs related parts and components from Yorkey Optical Technology to AOIL under the Asia Optical Group Master Agreement | <p>The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to AOIL shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.</p> <p>Purchase price for the optical and opto-electronic product related parts and components shall be payable by AOIL by way of telegraphic transfer with a credit period of 120 days.</p> |
| (ii) the sale of DSCs related parts and components from Yorkey Optical Technology to AOF under the Asia Optical Group Master Agreement | <p>The pricing basis and policy for the supply of DSCs related parts and components to AOF shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each</p> |

LETTER FROM THE BOARD

product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.

Purchase price for the DSCs related parts and components shall be payable by AOF by way of telegraphic transfer with a credit period of 120 days.

- (iii) the sale of optical and opto-electronic product related parts and components, namely projector and portable consumer electronics products related parts and components from Yorkey Optical Technology to Asia Optical under the Asia Optical Group Master Agreement

The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Asia Optical shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.

LETTER FROM THE BOARD

- Purchase price for the optical and opto-electronic product related parts and components shall be payable by Asia Optical by way of telegraphic transfer with a credit period of 120 days.
- (iv) the sale of optical and opto-electronic product related parts and components, namely portable consumer electronics products related parts and components from Yorkey Optical Technology to AO ETHER under the Asia Optical Group Master Agreement
- The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to AO ETHER shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.
- Purchase price for the optical and opto-electronic product related parts and components shall be payable by AO ETHER by way of telegraphic transfer with a credit period of 120 days.

LETTER FROM THE BOARD

- | | |
|--|---|
| (v) the sale of optical and opto-electronic product related parts and components, namely aimers, binoculars and other optical instruments related parts and components from Yorkey Optical Technology to Powerlink under the Asia Optical Group Master Agreement | <p>The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Powerlink shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.</p> <p>Purchase price for the optical and opto-electronic product related parts and components shall be payable by Powerlink by way of telegraphic transfer with a credit period of 120 days.</p> |
| (vi) the sale of optical and opto-electronic product related parts and components, namely optical instruments related parts and components from Yorkey Optical Technology to Pentax Sintai under the Asia Optical Group Master Agreement | <p>The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Pentax Sintai shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each</p> |

LETTER FROM THE BOARD

quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.

Purchase price for the optical and opto-electronic product related parts and components shall be payable by Pentax Sintai by way of telegraphic transfer with a credit period of 60 days.

- (vii) the sale of image sensor related parts and components from Yorkey Optical Technology to Asia Samoa under the Asia Optical Group Master Agreement

The pricing basis and policy for the supply of image sensor related parts and components to Asia Samoa shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.

LETTER FROM THE BOARD

- | | |
|--|--|
| | <p>Purchase price for the image sensor related parts and components shall be payable by Asia Samoa by way of telegraphic transfer with a credit period of 120 days.</p> |
| <p>(viii) the sale of optical and opto-electronic product related parts and components, namely microscope, laser range finders and other optical products related parts and components from Dongguan Yorkey to Dongguan Sintai under the Asia Optical Group Master Agreement</p> | <p>The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Dongguan Sintai shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.</p> <p>Purchase price for the optical and opto-electronic product related parts and components shall be payable by Dongguan Sintai by way of telegraphic transfer with a credit period of 30 days.</p> |
| <p>(ix) the sale of optical and opto-electronic product related parts and components, namely DSCs related parts and components from Dongguan Yorkey to Dongguan Tailien under the Asia Optical Group Master Agreement</p> | <p>The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Dongguan Tailien shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to</p> |

LETTER FROM THE BOARD

the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.

Purchase price for the optical and opto-electronic product related parts and components shall be payable by Dongguan Tailien by way of telegraphic transfer with a credit period of 30 days.

- (x) the sale of optical and opto-electronic product related parts and components, namely DVD drives and delicate optical instruments related parts and components from Dongguan Yorkey to Pioneer Sintai under the Asia Optical Group Master Agreement

The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Pioneer Sintai shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less

LETTER FROM THE BOARD

- favourable than terms available to or from any independent third parties.
- Purchase price for the optical and opto-electronic product related parts and components shall be payable by Pioneer Sintai by way of telegraphic transfer with a credit period of 30 days.
- (xi) the sale of optical and opto-electronic product related parts and components, namely laser printers and scanners related parts and components from Dongguan Yorkey to Shenzhen Sintai under the Asia Optical Group Master Agreement
- The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Shenzhen Sintai shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.
- Purchase price for the optical and opto-electronic product related parts and components shall be payable by Shenzhen Sintai by way of telegraphic transfer with a credit period of 30 days.
- (xii) the sale of optical and opto-electronic product related parts and components, namely dedicated electronic equipments related parts and
- The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Guangdong Nikon shall be determined in line with industry practice. The Group would agree with

LETTER FROM THE BOARD

components from Dongguan Yorkey to Guangdong Nikon under the Asia Optical Group Master Agreement

customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.

Purchase price for the optical and opto-electronic product related parts and components shall be payable by Guangdong Nikon by way of telegraphic transfer with a credit period of 30 days.

- (xiii) the sale of optical and opto-electronic product related parts and components, namely delicate instruments, dedicated electronic testing equipments and printing devices related parts and components from Dongguan Yorkey to Sintai-North under the Asia Optical Group Master Agreement

The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to Sintai-North shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the

LETTER FROM THE BOARD

- manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.
- Purchase price for the optical and opto-electronic product related parts and components shall be payable by Sintai-North by way of telegraphic transfer with a credit period of 30 days.
- (xiv) the sale of image sensor related parts and components from Dongguan Yorkey to Shen Zhen Asia Image under the Asia Optical Group Master Agreement
- The pricing basis and policy for the supply of image sensor related parts and components to Shen Zhen Asia Image shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.
- Purchase price for the image sensor related parts and components shall be payable by Shen Zhen Asia Image by way of telegraphic transfer with a credit period of 120 days.

LETTER FROM THE BOARD

- | | |
|---|--|
| (xv) the sale of DSCs related parts and components from Dongguan Yorkey to AOF (Shenzhen) under the Asia Optical Group Master Agreement | <p>The pricing basis and policy for the supply of DSCs related parts and components to AOF (Shenzhen) shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.</p> <p>Purchase price for the DSCs related parts and components shall be payable by AOF (Shenzhen) by way of telegraphic transfer with a credit period of 30 days.</p> |
| (xvi) the sale of optical and opto-electronic product related parts and components, namely portable consumer electronics products related parts and components from Dongguan Yorkey to AOETHER Optronics (Shenzhen) under the Asia Optical Group Master Agreement | <p>The pricing basis and policy for the supply of optical and opto-electronic product related parts and components to AOETHER Optronics (Shenzhen) shall be determined in line with industry practice. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the average profit rate of the previous year. However, each quotation may vary taking into account various factors, including the</p> |

LETTER FROM THE BOARD

quantum of orders to be made by a customer, payment history of such customer, the delivery time, the degree of complication in the manufacturing process and the degree of popularity of such product etc. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.

Purchase price for the optical and opto-electronic product related parts and components shall be payable by AOETHER Optronics (Shenzhen) by way of telegraphic transfer with a credit period of 120 days.

- (xvii) the purchase of optical and opto-electronic product related parts and components, namely printed circuit boards by Yorkey Optical Technology from AOIL under the Asia Optical Group Master Agreement

The pricing basis and policy for the purchase of optical and opto-electronic product related parts and components by Yorkey Optical Technology from AOIL shall be determined from time to time after arm's length negotiation between parties with reference to the prevailing market price and on normal commercial terms which are no less favourable as those applicable to the purchase of same type of circuits and circuit boards from independent third parties.

Purchase price for the optical and opto-electronic product related parts and components shall be payable by Yorkey Optical Technology by way of telegraphic transfer with a credit period of 120 days.

LETTER FROM THE BOARD

(xviii) the engagement of Shenzhen Sintai for plating and surface treatment processing of optical and opto-electronic product related parts and components by Dongguan Yorkey under the Asia Optical Group Master Agreement

The pricing basis and policy for the engagement of Shenzhen Sintai for plating and surface treatment processing by Dongguan Yorkey shall be determined from time to time after arm's length negotiation between parties with reference to the prevailing market price and on normal commercial terms which are no less favourable as those applicable to the purchase of same type of circuits and circuit boards from independent third parties.

Purchase price for the engagement of Shenzhen Sintai for plating and surface treatment processing shall be payable by Dongguan Yorkey by way of telegraphic transfer with a credit period of 90 days.

The prices and terms of sale of optical and opto-electronic product related parts and components by the Group to Asia Optical Group shall be no less favourable to the Group and no more favourable to Asia Optical Group than those in the sale of similar products to other customers. The prices and terms of purchase of optical and opto-electronic product related parts and components by the Group from Asia Optical Group shall be no less favourable to the Group and no more favourable to Asia Optical Group than those in the purchase of similar products from other customers.

The range of target gross profit rate for sales under the Asia Optical Group Master Agreement is expected to be no less than that of independent third party customers. As an internal control, the Group would keep internal records of the pricing and payment terms of other customers. The Group would compare such terms with the terms of transactions under Asia Optical Group Master Agreement before accepting their orders and when determining the prices of relevant products in order to ensure that future prices of the products supplied to Asia Optical Group will be on terms no more favourable than those provided to independent third parties and future prices of the products purchased from Asia Optical Group will be on terms no less favourable than those available from independent third parties. The Board makes reference to the average profit rate figure of previous year when determining the target gross profit rate. This average profit rate figure is calculated by dividing the gross profit of previous year by the total turnover. The same method of determining the target gross profit rates is applicable to third party customers for each of the transactions (i) to (xvi).

The credit terms provided by the Company to Asia Optical Group will be comparable to those available to the Ability Group and its associates, and the third party customers, provided that the Company has the discretion to relax the credit terms taking into account the fact that Asia Optical Group is one of the largest customers of the Group and the interest of the shareholders of the Company as a whole.

LETTER FROM THE BOARD

Asia Optical Group was the Group's largest customer in the past and it is still one of the top three customers of the Group. In view of the importance of Asia Optical Group to the Group's business, it is reasonable to grant a longer credit term to Asia Optical Group as compared to other relatively smaller customers and it is in accordance with the market practice. The main reason for granting a longer credit term to Asia Optical Group is that it would help to increase long-term orders from Asia Optical Group and thus is beneficial to the Company.

The prices of the Company's products are determined based on the cost of production in addition to the target gross profit rate estimated by the Board. The Company also takes into account the market competition when determining the prices and terms of the Company's products. The same price determination criteria and basis apply to all transactions.

The Company would consider the following factors in negotiating the purchase prices for transactions (xvii) and (xviii):-

- (a) purchase order volume;
- (b) whether the transactions would help in stabilizing long-term purchase orders placed with the Group;
- (c) whether the counterparties in the transactions are one of the most important customers to the Group; and
- (d) market practice, for example, if the purchase volume is large, the Company would try to negotiate for lower prices or longer credit terms.

The Group would normally obtain quotations from a pool of qualified suppliers and in general select the one offered the lowest price before making a purchase order unless the purchasing amount is too small to obtain quotations.

If the Group enjoys better and more favourable terms in the transactions of optical and opto-electronic product related parts and components with other customers, the Group can give five days' notice to Asia Optical Group and new terms which are equally favourable to the Group as compared to the transaction terms with other customers would be applied after expiration of the notice period. These procedures have been stated in the Company's internal control standards, namely "Customer Orders Management Standards".

In view of the abovementioned factors, the Directors are of the view that the prices and terms of the sale of optical and opto-electronic product related parts and components by the Group to Asia Optical Group shall be no less favourable than those in the sale of similar products to other customers. The prices and terms of the purchase of optical and opto-electronic product related parts and components by the Group from Asia Optical Group shall be no more favourable than those in the purchase of similar products from other suppliers.

CONDITION

The effective date of the Asia Optical Group Master Agreement shall be subject to the passing of an ordinary resolution by the Independent Shareholders at the EGM approving the Asia Optical Group Master Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATIONS

There is no individual annual cap for each transaction contemplated under Asia Optical Group Master Agreement. The Annual Caps are determined on a gross basis as set out below:

	Annual Caps of transactions contemplated under Asia Optical Group Master Agreement (US\$'000)
Year ending 31 December 2013	19,828
Year ending 31 December 2014	23,794
Year ending 31 December 2015	28,553

The Annual Caps are determined by the Company based on the following major factors:

- (i) the historical sales and purchases of the optical and opto-electronic product related parts and components with Asia Optical Group amounted to approximately US\$25,186,000, US\$20,494,400 and US\$13,802,700 for the years ended 31 December 2010, 2011 and 2012 respectively;
- (ii) the inflation of market price of optical and opto-electronic product related parts and components;
- (iii) the expected increase in the Company and its subsidiaries' manufacturing cost of optical and optoelectronic product related parts and components; and
- (iv) the expected growth of opto-electronic industry of approximately 13% each year from 2013 to 2015 in terms of revenue, according to the report “台灣精密光學元件產值發展趨勢分析” published by Photonics Industry & Technology Development Association in Taiwan in December 2012.

The expected increase in the proposed Annual Cap for 2013 was mainly attributable to (i) the expected increase in revenue of approximately 30% of the Asia Optical Group and (ii) the slightly increase in proportion of purchases of the Asia Optical Group from the Group as a result of the vertical integration of functions upon Asia Optical becoming an indirect substantial Shareholder. Such vertical integration will lead to increase in the proportion of purchases from the Asia Optical Group to the Group from approximately 25% to 28% in 2013 because the Asia Optical Group, now being the single largest Shareholder, can derive synergy and operation efficiency from further utilizing production capacity of the Group.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS UNDER THE ASIA OPTICAL GROUP MASTER AGREEMENT

The Group is principally engaged in the manufacture and sale of plastic and metallic parts and components of optical and opto-electronic products including DSCs, copiers (including copier-based multifunction peripherals), computer peripherals, handsets, traditional film cameras and others, and subsequently related accessories, while Asia Optical Group are principally engaged in the sale of optical and opto-electronic product.

LETTER FROM THE BOARD

The Directors consider that the Asia Optical Group Master Agreement will benefit the Group from (1) expedient and efficient sales transaction due to the better understanding of operations of the Group by Asia Optical Group; and (2) the enhancement of the Group's sales portfolio from the sales of the optical and opto-electronic product related parts and components to Asia Optical Group.

The Group wishes to provide convenience to the customers by offering one-stop service and therefore, it purchases from AOIL the printed circuit boards, which the Group does not have the capability to produce. The Directors consider that due to (1) better understanding of operations of the Group by Asia Optical Group; and (2) the proximity of locations of Asia Optical Group in the surrounding areas of the Group, it can provide efficiency of processing while saving transportation costs by purchasing optical and opto-electronic product related parts and components from Asia Optical Group.

In such regards, the Company proposed to seek the approval from the Independent Shareholders with respect to the continuing connected transactions under the Asia Optical Group Master Agreement and to adopt the Annual Caps for the three years ending 31 December 2013, 2014 and 2015. The Directors consider that it is, to certain extent, beneficial to the Group's profitability to continue supplying the optical and opto-electronic product related parts and components to Asia Optical Group and purchasing the optical and opto-electronic product related parts and components from Asia Optical Group and to adopt the respective Annual Caps. The Directors also consider that the respective target gross profit rates in respect of each product supplied to Asia Optical Group are fair and reasonable.

Since the continuing connected transactions under the Asia Optical Group Master Agreement are in the ordinary and usual course of business of the Group and that the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable and negotiated at arm's length, and are no more favourable than those provided to independent third parties in transactions numbers (i) to (xvi) and no less favourable than those available from independent third parties in transactions (xvii) and (xviii), to the best of the knowledge, information and belief of the Directors, the Directors are not aware of any disadvantage in respect of the continuing connected transactions under the Asia Optical Group Master Agreement.

The Company keeps internal records of the pricing and payment terms of other customers. The Company compares such terms with the terms of transactions under Asia Optical Group Master Agreement when determining the prices of relevant products in order to ensure that future prices of the products supplied to Asia Optical Group will be on terms no more favourable than those provided to independent third parties and future prices of the products purchased from Asia Optical Group will be on terms no less favourable than those available from independent third parties.

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES TO ASIA OPTICAL GROUP MASTER AGREEMENT

Asia Optical is a company listed on the Taiwan Stock Exchange. It is an indirect substantial shareholder of the Company holding approximately 27.4% of the equity interests in the Company and hence a connected person of the Company for the purpose of the Listing Rules. It is principally engaged in the production and sale of optical and optoelectronic products and related parts and components.

AOIL is a wholly-owned subsidiary of Asia Optical. It is a substantial shareholder of the Company holding approximately 22.57% of the equity interests in the Company and hence a connected person of the Company for the purpose of the Listing Rules. It is principally engaged in the trading of optical instruments.

AOF is held by AOIL as to 80.1% and Flextronics Sales and Marketing Consumer Digital Ltd., an independent third party, as to 19.9% and hence a connected person of the Company. It is principally engaged in the trading of DSCs and components.

AO ETHER is held by Asia Optical as to 60.06%, Ether Precision INC. an independent third party, as to 39.16% and another independent third party as to 0.78% and hence a connected person of the Company. It is principally engaged in the design, manufacture and sale of mobile consumer electronic products.

Powerlink is a wholly-owned subsidiary of Asia Optical and hence a connected person of the Company. It is principally engaged in the trading of optical instruments.

Pentax Sintai is held by AOIL as to 45% and Pentax Hong Kong Limited, an independent third party, as to 55% and hence a connected person of the Company. It is principally engaged in the trading of printing devices and related parts and components.

Asia Samoa is indirectly held by Asia Optical as to 34% and the remaining 66% is held by public shareholders and hence a connected person of the Company. It is principally engaged in the trading of image sensor and electronic related parts and components.

Dongguan Sintai is a wholly-owned subsidiary of AOIL and hence a connected person of the Company. It is principally engaged in the production of optical products and related parts and components.

Dongguan Tailien is indirectly held by Asia Optical as to 28.61%, directly held by Ricoh Company, Ltd. as to 10.37% and Good News Enterprises Ltd. as to 61.02%. It is principally engaged in the production of DSCs and related parts and components. Both Ricoh Company, Ltd. and Good News Enterprises Ltd. are independent third parties. Although Dongguan Tailien is not a connected person of the Company, in view of its close relationship with Asia Optical Group, the Group considers the transaction with Dongguan Tailien as a continuing connected transaction and such transaction is subject to the terms under the Asia Optical Group Master Agreement.

LETTER FROM THE BOARD

Pioneer Sintai is held by AOIL as to 50% and Pioneer Electronics (China) Ltd. as to 15% and Towada Pioneer Corporation as to 35% and hence a connected person of the Company. It is principally engaged in the production and sale of optoelectronic equipment and related parts and components. Both Pioneer Electronics (China) Ltd. and Towada Pioneer Corporation are independent third parties.

Shenzhen Sintai is a wholly-owned subsidiary of AOIL and hence a connected person of the Company. It is principally engaged in the production and sale of optical and opto-electronic products related parts and components.

Guangdong Nikon is held by AOIL as to 40% and Nikon Geotec Co., an independent third party, as to 60% and hence a connected person of the Company. It is principally engaged in the research and development, production and sale of electronic specific equipment.

Sintai-North is held by AOIL as to 60%, Kobe Steel, Ltd. as to 15% and ALCONIX Corporation as to 25% and hence a connected person of the Company. It is principally engaged in the production and sale of optical and opto-electronic products related parts and components. Both Kobe Steel, Ltd. and ALCONIX Corporation are independent third parties.

Shen Zhen Asia Image is indirectly held by Asia Optical as to 34% and the remaining 66% is held by public shareholders and hence a connected person of the Company. It is principally engaged in the production and sale of image sensors.

AOF (Shenzhen) is indirectly held by AOIL as to 80.1% and Flextronics Sales and Marketing Consumer Digital Ltd., an independent third party, as to 19.9% and hence a connected person of the Company. It is principally engaged in the production and sale of DSCs and related parts and components.

AOETHER Optronics (Shenzhen) is indirectly held by Asia Optical as to 60.06%, Ether Precision INC, as independent third party, as to 39.16% and another independent third party as to 0.78% and hence a connected person of the Company. It is principally engaged in the design and manufacture of mobile consumer electronic products.

FORTUNE LANDS INTERNATIONAL LIMITED AND THE YORKEY EMPLOYEE'S TRUST

Fortune Lands International Limited is the trustee of The Yorkey Employee's Trust. The current board members of Fortune Lands International Limited are Mr. Chen Yao Tang, Mr. Nagai Michio, Mr. Cheng Wen-Tao, Mr. Chiang Hsiang-Tsai and Mr. Wang Yi-Chi. The sole shareholder of Fortune Lands International Limited is Mr. Chen Yao Tang. To the best of the Directors' knowledge, none of the board members and shareholder of Fortune Lands International Limited (i) has any shareholding or family relationship with the Company and its connected persons; (ii) has any shareholding in or any family relationship with Asia Optical Group and its respective associates; (iii) is a board member of Asia Optical Group and its respective associates; or (iv) has any family relationship with any of the board members of Asia Optical Group and its respective associates.

LETTER FROM THE BOARD

Mr. Tawara Seiichi held the entire issued share capital of Fortune Lands International Limited at the time when The Yorkey Employee's Trust was set up. The money used for subscription of the Company's shares by Fortune Lands International Limited was advanced by Mr. Cheng Wen-Tao. To the best of the Director's knowledge, neither Mr. Tawara Seiichi nor Mr. Cheng Wen-Tao (i) has any shareholding in or any family relationship with the Company and its connected persons; (ii) has any shareholding in or any family relationship with Asia Optical Group and its respective associates; (iii) is a board member of Asia Optical Group and its respective associates; or (iv) has any family relationship with any of the board members of Asia Optical Group and its respective associates.

The beneficiaries of The Yorkey Employee's Trust are the Company's employees who have contribution to the Company. The board of directors of Fortune Lands International Limited determines who are eligible to be the beneficiaries of The Yorkey Employee's Trust. To the best of the Company's knowledge, none of the beneficiaries of The Yorkey Employee's Trust (i) has any shareholding in or any family relationship with the Company and its connected persons; (ii) has any shareholding in or any family relationship with Asia Optical Group and its respective associates; (iii) is a board member of Asia Optical Group and its respective associates; or (iv) has any family relationship with any of the board members of Asia Optical Group and its respective associates.

Since Fortune Lands International Limited is not an associate of the Company or Asia Optical Group under the Listing Rules and does not have any material interests in the transactions contemplated under the Asia Optical Group Master Agreement, save as his interests as a shareholder of the Company, Fortune Lands International Limited and its associate shall not be required to abstain from voting in respect of the approval of the Asia Optical Group Master Agreement and the transactions contemplated thereunder at the EGM.

ABILITY ENTERPRISE CO., LTD.

Ability Enterprise Co., Ltd. is a company listed on the Taiwan Stock Exchange, of which 12.35% of the shares is held by Unihan Corporation as a major shareholder. Ability Enterprise Co., Ltd. does not have (i) any business relationship with Asia Optical Group and its respective associates; or (ii) any shareholding relationship with Asia Optical Group and its respective associates other than their interests in the Company. Therefore, Ability Enterprise Co., Ltd. is an Independent Shareholder of the Company who is entitled to vote in respect of the approval of the Asia Optical Group Master Agreement and the transactions contemplated thereunder at the EGM.

IMPLICATIONS UNDER THE LISTING RULES

As the parties to the Asia Optical Group Master Agreement are connected persons of the Company as disclosed in the above section, the transactions contemplated under the Asia Optical Group Master Agreement constitute continuing connected transactions.

As the applicable percentage ratios (other than the profits ratio, as defined under Rule 14.07 of the Listing Rules) for the Annual Caps in relation to the continuing connected transactions under the Asia Optical Group Master Agreement are expected to be more than 5%

LETTER FROM THE BOARD

and the annual consideration is expected to be more than HK\$10 million, the continuing connected transactions under the Asia Optical Group Master Agreement constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules and are therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in connection with the continuing connected transactions under the Asia Optical Group Master Agreement and the Annual Caps. GF Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Asia Optical Group Master Agreement (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and whether the continuing connected transactions under the Asia Optical Group Master Agreement are in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee expresses their views on the continuing connected transactions under the Asia Optical Group Master Agreement and the Annual Caps after considering the opinion of the independent financial adviser.

EGM

A notice convening the EGM to be held at The Charterhouse Hotel, 209-219 Wanchai Road, Hong Kong on Friday, 7 June 2013 at 11:00a.m. is set out on pages 47 to 48 of this circular. At the EGM, an ordinary resolution will be proposed to consider and, if thought fit, to approve the continuing connected transactions under the Asia Optical Group Master Agreement by way of poll.

A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof in person, if you so wish.

Pursuant to Rule 14A.18 of the Listing Rules, as AOIL, being a substantial Shareholder, and Asia Optical, being an indirect substantial Shareholder, have material interests in the continuing connected transactions under the Asia Optical Group Master Agreement, AOIL, Asia Optical and its associates are required to abstain from voting on the ordinary resolution proposed to be passed at the EGM for approving the Annual Caps and the continuing connected transactions under the Asia Optical Group Master Agreement.

Among the then Directors at the material time when the relevant board resolution approving the Asia Optical Group Master Agreement and the transactions contemplated thereunder were passed, since Mr. Lai I-Jen and Ms. Wu Shu-Ping are also directors of Asia Optical, to avoid any potential conflict of interest, both the above Directors have abstained from voting on the relevant board resolution.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other than each of AOIL and Asia Optical and their respective associates, as at the Latest Practicable Date, no other Shareholders have material interests in the continuing connected transactions under the Asia Optical Group Master Agreement and are required to abstain from voting in respect of the approval of the Asia Optical Group Master Agreement and the transactions contemplated thereunder at the EGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 29 to 30 of this circular which contains its recommendation to the Independent Shareholders in relation to the Asia Optical Group Master Agreement and the Annual Caps. Your attention is also drawn to the letter of advice from GF Capital set out from pages 31 to 42 of this circular which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Asia Optical Group Master Agreement and the Annual Caps, and the principal factors and reasons taken into account in arriving at its recommendation.

The Directors (including all the non-executive Directors) consider that the terms of the Asia Optical Group Master Agreement (including the Annual Caps) are fair and reasonable, and the continuing connected transactions under the Asia Optical Group Master Agreement are entered into in the ordinary and usual course of business of the Group on normal commercial terms, and thus are in the interests of the Company and the Shareholders as a whole. The Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Annual Caps and the continuing connected transactions under the Asia Optical Group Master Agreement.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

By Order of the Board
Yorkey Optical International (Cayman) Ltd.
Nagai Michio
Chief Executive Officer and Executive Director

YORKEY

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

精熙國際(開曼)有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2788)

22 May 2013

To the Independent Shareholders

Dear Sir/Madam,

ENTERING INTO NEW CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 22 May 2013 of Yorkey Optical International (Cayman) Ltd. (the “**Circular**”), of which this letter forms part. Terms defined in the Circular bear the same meanings herein, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to make a recommendation to the Independent Shareholders in relation to the Annual Caps and the continuing connected transactions under the Asia Optical Group Master Agreement.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 28 of the Circular, which provides details of the Annual Caps and the continuing connected transactions under the Asia Optical Group Master Agreement. Your attention is also drawn to the letter from GF Capital to the Independent Board Committee and the Independent Shareholders which contains its advices in respect of the Annual Caps and the continuing connected transactions under the Asia Optical Group Master Agreement, as set out on pages 31 to 42 of the Circular.

Having considered, amongst other things, the principal factors and reasons considered by, and the recommendations of GF Capital as stated in its aforementioned letter of advice, the Independent Board Committee concurs with the views of GF Capital that the terms of the Asia Optical Group Master Agreement (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and that the continuing connected transactions under the Asia Optical Group Master Agreement are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

** For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Annual Caps and the continuing connected transactions under the Asia Optical Group Master Agreement.

Yours faithfully,

For and on behalf of the Independent Board Committee

Chiang Hsiang-Tsai

Chou Chih-Ming

Wang Yi-Chi

LETTER FROM GF CAPITAL

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from GF Capital which has been prepared for inclusion in this circular.



29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

22 May 2013

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

ENTERING INTO OF NEW NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the non-exempt continuing connected transactions under the Asia Optical Group Master Agreement (the “**Non-exempt Continuing Connected Transactions**”) and the proposed Annual Caps for the three years ending 31 December 2015. Details of the Non-exempt Continuing Connected Transactions and the terms of the Asia Optical Group Master Agreement are set out in the “Letter from the Board” contained in the circular (the “**Board Letter**”) of the Company to the Shareholders dated 22 May 2013 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Asia Optical, being an indirect substantial Shareholder holding through its subsidiaries approximately 27.4% of the equity interests in the Company, is hence a connected person of the Company for the purpose of the Listing Rules. The Asia Optical Group refers to Asia Optical and certain of its direct and indirect subsidiaries namely AOIL, AOF, AO ETHER, Powerlink, Pentax Sintai, Asia Samoa, Dongguan Sintai, Dongguan Tailien, Pioneer Sintai, Shenzhen Sintai, Guangdong Nikon, Sintai-North, Shen Zhen Asia Image, AOF (Shenzhen), AOETHER Optronics (Shenzhen) and is hence a connected person of the Company for the purpose of the Listing Rules.

As Asia Optical became an indirect substantial Shareholder since 8 March 2013, the transactions between the Group and the Asia Optical Group contemplated under the Asia Optical Group Master Agreement have become continuing connected transactions. As the proposed Annual Caps in relation to the continuing connected transactions under the Asia

LETTER FROM GF CAPITAL

Optical Group Master Agreement are expected to be more than 5% and the annual consideration is expected to be more than HK\$10 million, the continuing connected transactions under the Asia Optical Group Master Agreement constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules and are therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information, statements, opinions and representations provided to us by the Company, its management and the Directors for which they are solely and wholly responsible and we have assumed that all information, statements, opinions and representations made or referred to in the Circular were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Group and the respective terms of the Asia Optical Group Master Agreement (including the proposed Annual Caps), including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company, its representatives as set out in the Circular were reasonably made after due and careful enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management and/or representatives of the Company. We have not, however, conducted an independent in-depth investigation into the business, affairs, financial positions and prospects of the Group and the Asia Optical Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion regarding the terms of the Asia Optical Group Master Agreement (including the proposed Annual Caps), we have considered the following principal factors and reasons:

Background of and reasons for the transactions

The Group is principally engaged in the manufacture and sale of plastic and metallic parts and components of optical and opto-electronic products including DSCs, copiers (including copier based multifunction peripherals), computer peripherals, handsets, traditional film cameras and subsequently related accessories.

Asia Optical is a listed company on the Taiwan Stock Exchange and the parent company of AOIL, a substantial Shareholder. The Asia Optical Group is principally engaged in the sale of optical and opto-electronic products, namely DSC, photocopiers, multifunctional printers, projector, portable consumer electronics products, aimers, binoculars, optical instruments, image sensor, microscope, laser range finders, DVD drives, delicate optical instruments, laser printers, scanners, dedicated electronic equipments, dedicated electronic testing equipments and printing devices and related parts and components.

LETTER FROM GF CAPITAL

On 10 April 2013, the Group (through Yorkey Optical Technology and Dongguan Yorkey) and the Asia Optical Group entered into the Asia Optical Group Master Agreement, of which the term will last until 31 December 2015, in relation to the following transactions:–

- (i) the sale of the optical and opto-electronic product related parts and components, namely photocopiers, multifunctional printers and DSCs related parts and components from Yorkey Optical Technology to AOIL;
- (ii) the sale of DSCs related parts and components from Yorkey Optical Technology to AOF;
- (iii) the sale of optical and opto-electronic product related parts and components, namely projector and portable consumer electronics products related parts and components from Yorkey Optical Technology to Asia Optical;
- (iv) the sale of optical and opto-electronic product related parts and components, namely portable consumer electronics products related parts and components from Yorkey Optical Technology to AO ETHER;
- (v) the sale of optical and opto-electronic product related parts and components, namely aimers, binoculars and other optical instruments related parts and components from Yorkey Optical Technology to Powerlink;
- (vi) the sale of optical and opto-electronic product related parts and components, namely optical instruments related parts and components from Yorkey Optical Technology to Pentax Sintai;
- (vii) the sale of image sensor related parts and components from Yorkey Optical Technology to Asia Samoa;
- (viii) the sale of optical and opto-electronic product related parts and components, namely microscope, laser range finders and other optical products related parts and components from Dongguan Yorkey to Dongguan Sintai;
- (ix) the sale of optical and opto-electronic product related parts and components, namely DSCs related parts and components from Dongguan Yorkey to Dongguan Tailien;
- (x) the sale of optical and opto-electronic product related parts and components, namely DVD drives and delicate optical instruments related parts and components from Dongguan Yorkey to Pioneer Sintai;
- (xi) the sale of optical and opto-electronic product related parts and components, namely laser printers and scanners related parts and components from Dongguan Yorkey to Shenzhen Sintai;
- (xii) the sale of optical and opto-electronic product related parts and components, namely dedicated electronic equipments related parts and components from Dongguan Yorkey to Guangdong Nikon;

LETTER FROM GF CAPITAL

- (xiii) the sale of optical and opto-electronic product related parts and components, namely delicate instruments, dedicated electronic testing equipments and printing devices related parts and components from Dongguan Yorkey to Sintai-North;
- (xiv) the sale of image sensor related parts and components from Dongguan Yorkey to Shen Zhen Asia Image;
- (xv) the sale of DSCs related parts and components from Dongguan Yorkey to AOF (Shenzhen);
- (xvi) the sale of optical and opto-electronic product related parts and components, namely portable consumer electronics products related parts and components from Dongguan Yorkey to AOETHER Optronics (Shenzhen);
- (xvii) the purchase of optical and opto-electronic product related parts and components, namely printed circuit boards by Yorkey Optical Technology from AOIL; and
- (xviii) the engagement of Shenzhen Sintai for plating and surface treatment processing of optical and opto-electronic product related parts and components by Dongguan Yorkey.

As stated in the Board Letter, the Directors consider that the entering into of the Asia Optical Group Master Agreement in relation to the sale of products from the Group to the Asia Optical Group will benefit the Group from (i) expedient and efficient sales transactions due to the better understanding of operations of the Group by the Asia Optical Group; (ii) close proximity of locations of the Asia Optical Group in the surrounding areas of the Group to enhance efficiency of processing and save transportation costs; and (iii) the enhancement of the Group's sales portfolio from the sales of the optical and opto-electronic product related parts and components to the Asia Optical Group. In relation to the purchase by Yorkey Optical Technology from AOIL, the Group wishes to provide convenience to the customers by offering one-stop service and therefore, it purchases from AOIL the DSCs related parts and components, which the Group does not have the capability to produce and the Directors consider that the Group could have a better control over the relevant costs, such as freight. In relation to the engagement of Shenzhen Sintai for plating and surface treatment processing by Dongguan Yorkey, the Directors represented that since the Group does not possess plating and surface treatment processing production capability and after considering (i) due to better understanding of operations of the Group by Shenzhen Sintai; and (ii) Shenzhen Sintai is located in the surrounding area of the Group, such engagement can provide efficiency of processing while saving transportation costs.

Based on the discussion with the management of the Company and our review on the annual reports of the Company, we noted that the transactions as contemplated under the Asia Optical Group Master Agreement have been entered into between the Group and the Asia Optical Group as early as prior to the listing of the Company on the Stock Exchange in 2006. By virtue of Asia Optical becoming an indirect substantial Shareholder since 8 March 2013, such transactions as contemplated under the Asia Optical Group Master Agreement would subsequently constitute continuing connected transactions. Accordingly, the Company must comply with all applicable reporting annual review and disclosure requirements of Chapter 14A of the Listing Rules in respect of the Non-exempt Continuing Connected Transactions.

LETTER FROM GF CAPITAL

Given that there has been long cooperation history and historical transactions between the Group and the Asia Optical Group even before Asia Optical became an indirect substantial Shareholder, we are of the view that the entering into of the Asia Optical Group Master Agreement will set out the framework under which the Non-exempt Continuing Connected Transactions would be conducted in compliance with the relevant provisions under Chapter 14A of the Listing Rules and safeguard the interests of the Shareholders thereunder.

In light of the above, we concur with the view of the Directors that the entering into of the Asia Optical Group Master Agreement and the Non-exempt Continuing Connected Transactions are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Principal terms of the Asia Optical Group Master Agreement

Pursuant to the Asia Optical Group Master Agreement, the major terms are as follows:–

Date of the agreement: 10 April 2013

Parties involved: (i) the Group
(ii) the Asia Optical Group

Nature of transaction: (1) Sale of optical and opto-electronic product, namely DSC, photocopiers, multifunctional printers, projector, portable consumer electronics products, aimers, binoculars, optical instruments, image sensor, microscope, laser range finders, DVD drives, delicate optical instruments, laser printers, scanners, dedicated electronic equipments, dedicated electronic testing equipments and printing devices; (2) purchase of optical and opto-electronic product related parts and components; and (3) engagement for plating and surface treatment processing.

Pricing terms: In relation to (1) the sale transactions, the pricing basis and policy for the sales of optical and opto-electronic product related parts and components by the Group to the Asia Optical Group shall be determined in line with industry practice and from time to time after arm's length negotiation. The Group would agree with customers in advance the unit price of such products before the purchase orders are placed. The Group would provide quotation to each customer calculated with reference to the costs of such products plus expected profit. In principle, the Group has set a target gross profit rate in respect of each product by making reference to the

LETTER FROM GF CAPITAL

average profit rate of the previous year. Each sale of the products shall be on normal commercial terms which at any time are no less favourable than terms available to or from any independent third parties.

The pricing basis and policy for (2) the purchases or (3) the engagement for plating and surface treatment processing of optical and opto-electronic product related parts and components by the Group from the Asia Optical Group shall be determined from time to time after arm's length negotiation between parties with reference to the prevailing market price and on normal commercial terms which are no less favourable as those applicable to the purchase or the engagement for plating and surface treatment processing of same type of circuits and circuit boards from independent third parties respectively.

Payment terms:

Corresponding transactions under the Asia Optical Group Master Agreement (as referred to the paragraph headlined <i>"Background of and reasons for the transactions"</i> set out above)	Credit period
(i) to (v), (vii), (xiv), (xvi) to (xvii)	120 days
(vi)	60 days
(viii) to (xiii), (xv)	30 days
(xviii)	90 days

Expiry date:

31 December 2015

According to the management of the Company, the Group had been conducting similar type of transactions with the Asia Optical Group in accordance with the aforesaid pricing terms and policies under the Asia Optical Group Master Agreement long before Asia Optical became an indirect substantial Shareholder.

As to the pricing terms of sale transactions, the Group adopted a cost-plus pricing method, i.e. applied a target gross profit on top of the costs of production in respect of each sale product. We noticed that, in determining the target gross profit rate, the Group would generally take into account the historic average profit rate with the customers, the internal target return, the then market condition and then conclude the final selling price after arm's length negotiation with the customers. We have reviewed certain samples of historical transactions and noticed that the selling prices to the Asia Optical Group are no more favourable than those available to independent customers for similar opto-electronic products. Based on our findings, such actual historic gross profit rates were in the range of approximately 19.4% to 20.9% for sales to the Asia Optical Group and approximately 17.3% to 20.9% to independent customers.

LETTER FROM GF CAPITAL

On this basis, we concur with the Directors that the respective target gross profit rates applied in respect of each product supplied to the Asia Optical Group under the sale transactions of the Asia Optical Group Master Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

We have, however, also noticed that for some historical transactions the payment terms offered to the Asia Optical Group were longer than those offered to independent customers. According to the management of the Company, even though the payment terms for certain historical transactions were longer than those offered to independent third parties, such payment terms were on normal commercial terms that were arrived at after arm's length negotiation because the Group had taken into account of the order amount, annual transaction volume, credit worthiness and long term cooperation history of the Asia Optical Group, who being one of the largest customers of the Group in the past three years, in determining those terms. As an example, the Group offered a credit period of 60 days and 90 days to Ever Pine and Ability Group respectively. As discussed with the Company, the shorter credit period offered to Ever Pine and Ability Group compared with that of the Asia Optical Group was determined after taking into account the lower annual transaction volume. We have reviewed the historical transaction amounts that each of Ever Pine and Ability Group, which accounted for less than 0.1% of the Group's total revenue in 2012 respectively, as compared with the corresponding percentage of approximately 14.9% for the Asia Optical Group. Notwithstanding shorter credit terms would be more preferable, however, based on our findings, we are of the view that the credit terms provided to the Asia Optical Group, which was determined on arm's length basis after taking into account, among other things, the order amount, annual transaction volume, credit worthiness and long term cooperation history of the Asia Optical Group, are justifiable.

As to the purchase transactions, the Company would consider the following normal commercial factors, among others, in negotiating purchase prices for purchase transactions, namely (a) purchase order volume; (b) whether the transactions would help in stabilizing long-term purchase orders placed with the Group; (c) whether the counterparties in the transactions are one of the most important customers to the Group; and (d) market practice. We consider that the above factors are commonly considered during a negotiation of transaction terms. We have also discussed with the Company and noticed that the Group would normally obtain quotations from a pool of qualified suppliers and in general select the one offered the lowest price before making a purchase order unless the purchasing amount is too small to obtain quotations. For the three years ended 31 December 2012, the purchase of optical and opto-electronic product related parts and components from AOIL, one of the Asia Optical Group members, amounted to US\$358,000, US\$276,000 and US\$239,000, respectively. As such, we are unable to observe the quotations as regards to historic purchase transactions with AOIL under transaction (xvii) due to the relatively small invoiced amounts of purchase transactions.

As to the processing transactions, we have reviewed samples of quotation under transaction (xviii) in which Shenzhen Sintai, one of the Asia Optical Group members, was engaged for plating and surface treatment processing due to the lowest price offered to the Group and noticed that the pricing terms from Shenzhen Sintai are no less favourable than those available from independent customers.

LETTER FROM GF CAPITAL

Going forward, the Company has also confirmed to us that they will ensure that the key terms, including the pricing terms and payment terms, of the upcoming continuing connected transactions under the Asia Optical Group Master Agreement will continue to follow strictly the normal commercial terms principle which must be determined after arm's length negotiation or such that (i) the pricing terms under the Asia Optical Group Master Agreement will be in general comparable to that for independent third party customers for all future sales; (ii) the Company has confirmed to us future prices of the products purchased or the plating and surface treatment processing fee from the Asia Optical Group will be on terms no less favourable than those available from independent third parties.

As an internal control, as stated in the Board Letter, the Group would keep internal records of the pricing and payment terms of other customers. The Group would compare such terms with the terms of transactions under the Asia Optical Group Master Agreement before accepting their orders when determining the prices of relevant products in order to ensure that future prices of the products supplied to the Asia Optical Group will be on terms no more favourable than those provided to independent third parties and future prices of the products purchased from the Asia Optical Group will be on terms no less favourable than those available from independent third parties. As stated in the Board Letter, if the Group enjoys better and more favourable terms in the transactions of optical and opto-electronic product related parts and components with other customers, the Group can give five days' notice to the Asia Optical Group and new terms which are equally favourable to the Group as compared to the transaction terms with other customers would be applied after expiration of the notice period. In this regard, we have discussed with the management and noticed that the above procedures have been stated in their internal control standards, namely "Customer Orders Management Standards". In addition, as stated in the paragraph headed "Listing Rules Implications" set out below, an annual review procedure would be conducted in compliance with the relevant provisions of the Listing Rules. As confirmed by the management of the Company, the same mechanism and internal control procedure would apply to all transactions under the Asia Optical Group Master Agreement. On this basis, we are of the view that internal control procedure is in place in relation to the Non-exempt Continuing Connected Transactions.

Based on the above, we consider that terms under the Asia Optical Group Master Agreement are based on normal commercial terms which will be arrived at after arm's length negotiation.

The proposed Annual Caps

The Company estimates the proposed Annual Caps for the three years ending 31 December 2015 to be approximately US\$19.83 million, US\$23.79 million and US\$28.55 million respectively, representing a year-on-year growth rate of approximately 20%.

As stated in the Board Letter, the Non-exempt Continuing Connected Transactions comprises of sale transactions, purchase transactions and processing transactions and the proposed Annual Caps are determined on a gross basis. As discussed with the management of the Company, there is no individual annual cap for each transaction contemplated under the Asia Optical Group Master Agreement. We have reviewed the transaction amounts of the sale transactions, purchase transactions and processing transactions during the past three years and

LETTER FROM GF CAPITAL

noticed that the sale transactions accounted for most of the annual aggregated transaction amounts during the past three years, while the purchase transactions and the processing transactions accounted for the remaining portion.

As stated in the Board Letter, in determining the proposed Annual Caps the Directors have considered: (i) the historical sales and purchases of the optical and opto-electronic products with the Asia Optical Group for the three years ended 31 December 2012; (ii) the inflation of market price of optical and opto-electronic products; (iii) the expected increase in the Company's manufacturing costs of optical and opto-electronic product related parts and components; and (iv) the expected growth of opto-electronic industry of approximately 13% each year from 2013 to 2015 in terms of revenue according to the report “台灣精密光學元件產值發展趨勢分析” published by Photonics Industry & Technology Development Association in Taiwan in December 2012.

As set out in the Board Letter, the historical amounts of similar type of transactions from the Group to the Asia Optical Group for each of the three years ended 31 December 2010, 2011 and 2012 were approximately US\$25.19 million, US\$20.49 million and US\$13.8 million respectively. We have discussed with the management of the Company and noted that the significant decrease in 2012 was primarily due to (i) the outbreak of the European debt crisis which caused negative impact on the consumption of digital camera products, and (ii) the filing of bankruptcy of Eastman Kodak Company (also known as “**Kodak**”), a multinational imaging and photographic equipment, materials and services company, being a major customer of Asia Optical, in January 2012 due to decline in sales of photographic film and slowness in transitioning to digital photography. As a result, the Asia Optical Group reduced their purchases of optical and opto-electronic product related parts and components from the Group in order to avoid the risk of obsolete stocks piling. However, the management of the Company expected a turnaround in 2013 due to the recovery of the global economy and regain of new customers by the Asia Optical Group.

In determining the proposed annual cap for 2013, the Company expected the transaction amounts with the Asia Optical Group would increase by approximately 40% compared with that of 2012. In assessing the expected growth in transaction amount, we have discussed with the Company and noted that despite the bankruptcy of Kodak, JK Imaging Limited (“**JK Imaging**”) became the worldwide licensee for Kodak and is now being a major customer of the Asia Optical Group. We noticed from the Company that before the bankruptcy of Kodak, the Asia Optical Group was one of the three major suppliers to Kodak. Upon JK Imaging became the worldwide licensee for Kodak, the Asia Optical Group now became the sole OEM supplier to JK Imaging. As a result, there is expected increase in purchases from the Asia Optical Group to the Group driven by expected increasing orders from JK Imaging to the Asia Optical Group.

In assessing the basis of the proposed Annual Caps, we have obtained and reviewed the proposed Annual Caps calculation provided by the Company. According to the calculation, it is noted that the expected increase in the proposed annual cap for 2013 was mainly attributable to (i) the expected increase in revenue of approximately 30% of the Asia Optical Group and (ii) the slight increase in proportion of purchases of the Asia Optical Group from the Group as a result of the vertical integration of functions upon Asia Optical becoming an indirect

LETTER FROM GF CAPITAL

substantial Shareholder. According to the management of the Company, such vertical integration will lead to increase in the proportion of purchases from the Asia Optical Group to the Group from approximately 25% to 28% in 2013 because the Asia Optical Group, now being the single largest Shareholder, could derive synergy and operation efficiency from further utilizing production capacity of the Group. Given Asia Optical became a substantial Shareholder, we are of the view that the Asia Optical Group can benefit from centralizing their purchases of optical products through the Group and the slight increase in proportion of purchases is not unjustifiable. In analyzing the expected increase in revenue of the Asia Optical Group, we have reviewed a research report published by Good Securities Investment Consultant (a Taiwanese securities investment consulting firm independent of the Company) dated 20 March 2013 which stated that the Asia Optical Group has become the sole OEM supplier to JK Imaging and undergone cooperation to launch new models of advanced digital cameras including the “36-times zoom”, “52-times zoom” and “64-times zoom” digital cameras which will be brought to the market in 2013 onwards. Accordingly, the research report expected the Asia Optical Group would record approximately 30% increase in revenue compared with that of 2012.

In determining the proposed annual cap for 2014 and 2015, the Company applied an industry growth of approximately 13%, an expected inflation of approximately 5% and an annual buffer of approximately 2% (in aggregate 20%) based on the proposed annual cap of 2013. In assessing the expected growth of the opto-electronic industry, we have reviewed the said report by Photonics Industry & Technology Development Association (a non-profit organization working with private enterprises and Taiwan government agencies to increase the competitiveness of Taiwan’s optoelectronics industry and is independent of the Company) in Taiwan issued in December 2012 and noted that the expected opto-electronic industrial output in Taiwan from 2013 to 2015 amounted to approximately TWD89.35 billion, TWD100.66 billion and TWD113.71 billion respectively, representing a year-on-year growth of approximately 13%. The reasons for the expected growth of the industry are attributable to (i) the enhanced application of camera in mobile handsets and (ii) increase in production of advanced DSC product like digital single lens reflex camera.

The Company considered that the expected increase in manufacturing costs of optical and opto-electronic products (mainly comprises raw material costs and labour costs) was caused by the general inflation. In assessing the expected inflation of 5%, we have reviewed a report titled “World Economic Outlook” published by International Monetary Fund dated April 2013. According to the report, the world inflation was about 3.25% in 2012, and it is projected to stay around the same level throughout the next two years. In relation to the emerging market and developing economies which includes China, Hong Kong and Taiwan, the inflation was about 5% in 2012 and projected to stay around the same level throughout the next two years. Therefore, we are of the view the expected inflation applied by the Group is fair and reasonable so far as the Independent Shareholders are concerned.

Based on the aforesaid, we are of the view that the basis of determination of the proposed Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM GF CAPITAL

Listing Rules' implications

Pursuant to the Listing Rules, the Company will seek the approval by the Independent Shareholders for the Non-exempt Continuing Connected Transactions (including the proposed Annual Caps) for the three years ending 31 December 2015 subject to the following conditions:

1. Each year the independent non-executive Directors must review the Non-exempt Continuing Connected Transactions and confirm in the annual report and accounts that the transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and
 - (c) in accordance with the Asia Optical Group Master Agreement governing the Non-exempt Continuing Connected Transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
2. Each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange), confirming that the Non-exempt Continuing Connected Transactions:
 - (a) have received the approval of the Board;
 - (b) are in accordance with the pricing policies of the Company;
 - (c) have been entered into in accordance with the Asia Optical Group Master Agreement governing the Non-exempt Continuing Connected Transactions; and
 - (d) the transacted amount of the Non-exempt Continuing Connected Transactions have not exceeded the relevant proposed Annual Caps; and
3. The Company will comply with all other relevant requirements under the Listing Rules.

We consider that the annual review requirements can provide appropriate measures to govern the Group in carrying out the Non-exempt Continuing Connected Transactions and safeguard the interests of the Shareholders thereunder.

LETTER FROM GF CAPITAL

RECOMMENDATION

Having considered the principal factors discussed above, we are of the view that the entering into of the Asia Optical Group Master Agreement and the Non-exempt Continuing Connected Transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and that the terms of the Asia Optical Group Master Agreement (including the proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders, and we recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM for approving the Non-exempt Continuing Connected Transactions under the Asia Optical Group Master Agreement and the proposed Annual Caps.

Yours faithfully,

For and on behalf of

GF Capital (Hong Kong) Limited

Danny Wan

Managing Director

Brian Lee

Deputy Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be 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 be interested in under such provision of the SFO), or as recorded in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other Shareholders, other than the Directors or chief executive of the Company, who had an interest or short position in Shares or underlying Shares of the Company, which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each such person's interest in such securities, together with particulars of any options in respect of such capital, or as otherwise recorded in the register required to be kept by the Company under section 336 of the SFO:

(I) Long positions in Shares and underlying Shares of the Company

Name of Shareholder of the Company	Type of interest	Total number of Shares/ underlying Shares in the Company	Percentage of 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 Shun Chun	Interest of a spouse	113,833,000 (Note 5)	13.65%
Templeton Asset Management Ltd.	Investment manager	57,860,000	6.99%

Note:

1. Asia Optical Co., Inc. holds 100% direct interest in the issued share 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.
2. Ability Enterprise Co., Ltd. holds 100% direct interest in the issued share 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.
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 holds as trustee of the Yorkey Employees' Trust.

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

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his associates (as would be required to be disclosed under Rule 8.10 of the Listing Rules if any of them was a controlling Shareholder) was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contracts with any members of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. EXPERT

- (a) The following is the qualification of the independent financial adviser, which has given its opinions or advices contained in this circular:

Name	Qualification
GF Capital	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, GF Capital did not have any shareholding, direct or indirect, in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group, nor did it have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to the Group or were proposed to be acquired or disposed of by or leased to the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.
- (c) GF Capital has given and has not withdrawn its consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

7. DIRECTOR'S INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

- (a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any members of the Group or are proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2012, being the date up to which the latest published audited financial statements of the Group were made.
- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any members of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

8. MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2012, the date to which the latest published audited financial statements of the Group were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at Workshops 1-2, 6th Floor, Block A, Goldfield Industrial Centre, 1 Sui Wo Road, Shatin, New Territories, Hong Kong up to and including the date of EGM:

- (a) Asia Optical Group Master Agreement;
- (b) the letter from GF Capital to the Independent Board Committee and the Independent Shareholders; and
- (c) the consent letter issued by GF Capital as referred to in the paragraph headed "Expert" in this appendix.

NOTICE OF EGM

YORKEY

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

精熙國際(開曼)有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2788)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Yorkey Optical International (Cayman) Ltd. (the “**Company**”) will be held at The Charterhouse Hotel, 209-219 Wanchai Road, Hong Kong on Friday, 7 June 2013 at 11:00a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** the annual caps of US\$19,828,000, US\$23,794,000 and US\$28,553,000 (the “**Annual Caps**”), being the annual caps for the years ending 31 December 2013, 31 December 2014 and 31 December 2015 respectively, in respect of the continuing connected transactions contemplated under the agreement dated 10 April 2013 entered into between the Company and its subsidiaries (“**the Group**”) and Asia Optical Group in respect of the sale and purchase of the optical and opto-electronic product parts and components made with plastic and/or metallic materials, moulding, coating and printing related products between the Group and Asia Optical Group (the “**Asia Optical Group Master Agreement**”) be and are hereby generally and unconditionally approved and that the directors of the Company be and are hereby authorized to take all actions and execute all documents which they deem necessary, desirable or appropriate in order to implement and validate anything relating to the Asia Optical Group Master Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps.”

By Order of the Board

Yorkey Optical International (Cayman) Ltd.

Nagai Michio

Chief Executive Officer and Executive Director

Hong Kong, 22 May 2013

Principal 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

** For identification purpose only*

NOTICE OF EGM

Note:

1. Any member entitled to attend and vote at the general meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares is entitled to appoint more than one proxy to represent him and vote on his behalf at the general meeting of the Company. A proxy is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll, votes may be given either in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized.
3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of authority shall be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time for holding the general meeting or adjourned meeting (as the case may be) at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution, except at an adjourned meeting or on a poll demanded at a general meeting or an adjourned meeting in cases where the general meeting was originally held within 12 months from such date.
4. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such joint holder may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting either in person or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share(s) shall alone be entitled to vote in respect thereof.
6. A form of proxy for use at the extraordinary general meeting is enclosed herewith.