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ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

**PROFIT WARNING
AND
UPDATE ON CONNECTED TRANSACTION**

PROFIT WARNING

This section of the announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules.

The Board wishes to inform the shareholders of the Company and potential investors that the net profit for the year ending 31st December, 2012 is presently anticipated to be significantly lower than that of 2011.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

UPDATE ON CONNECTED TRANSACTION

Reference is made to the Company's announcement dated 2nd July, 2010 in relation to the Share Purchase Agreement, whereby Mr. Ng agreed to sell and Allied Power agreed to purchase the entire issued share capital of Art Talent and take an assignment of the benefit of the Shareholder Loans, for a total consideration of HK\$55 million. Art Talent, through its wholly-owned subsidiary Hongmao, owns or has rights to the Properties.

Under the Share Purchase Agreement, Mr. Ng undertook to use all reasonable endeavours to assist Allied Power, Art Talent, and/or Hongmao to obtain, by no later than 31st December, 2012, necessary certificate(s) and permit(s) from, and complete requisite filing and/or registration procedures with the relevant Government Authorities in respect of the land use right certificate and the real estate title certificates to the Properties to the extent not already obtained, and agreed to indemnify Allied Power in respect of all losses, damages, costs, claims, liabilities,

* For identification purpose only

charges and expenses which Allied Power, Art Talent, and/or Hongmao may suffer up to an amount of HK\$55 million, in the event that by 31st December, 2012: (i) Hongmao has not obtained the land use right certificate in respect of Land A; and (ii) Hongmao has not obtained real estate title certificates in respect of the buildings being constructed on Land A.

As of today's date, the abovementioned land use right certificate and the real estate title certificates have not been obtained. In order to assist in obtaining the necessary land use right certificate and real estate title certificates, Mr. Ng has agreed to extend the duration of the undertaking and indemnity to 31st December, 2015, and a supplemental deed between Allied Power and Mr. Ng dated 20th December, 2012 was executed to this effect.

Mr. Ng is a connected person of the Company by virtue of his being a director and controlling shareholder of the Company. As the provision of the indemnity constituted financial assistance provided by a connected person for the benefit of the Company on normal commercial terms (or better) where no security is granted, this transaction is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

PROFIT WARNING

This section of the announcement is made by Arts Optical International Holdings Limited (the "Company", and together with its subsidiaries, the "Group") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The board of directors of the Company (the "Board") wishes to inform the shareholders of the Company and potential investors that based on the Company's preliminary review of the results of the Group for the ten months ended 31st October, 2012, the net profit for the year ending 31st December, 2012 is presently anticipated to be significantly lower than that of 2011.

Based on the information currently available, the Board believes that the significant decrease in the net profit of the Group will be attributable to various factors, including (i) the increase in labour costs after the minimum wage in Shenzhen, where the Group's manufacturing facilities are located, increased by 20% in April 2011 and 14% in February 2012; and (ii) the appreciation of Renminbi in 2012.

The Company has yet to finalise the annual results of the Group for the year ending 31st December, 2012. The information contained in this announcement is based only on a preliminary assessment of the unaudited consolidated management accounts of the Group for the ten months ended 31st October, 2012, but not on any data or information which has been audited or reviewed by the Company's auditors. Further details of the financial information of the Group will be published when the annual results of the Group for the year ending 31st December, 2012 are released.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

UPDATE ON CONNECTED TRANSACTION

Reference is made to the Company's announcement dated 2nd July, 2010 (the "2010 Announcement") whereby Allied Power, a wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with Mr. Ng Hoi Ying, Michael, a connected person of the Company, pursuant to which Mr. Ng agreed to sell and Allied Power agreed to purchase the entire issued share capital of Art Talent and take an assignment of the benefit of the Shareholder Loans owed to Mr. Ng by Art Talent and Hongmao respectively, for a total consideration of HK\$55 million. Art Talent, through its wholly-owned subsidiary Hongmao, owns or has rights to the Properties. The Share Purchase Agreement was completed on 5th July, 2010. Terms used or construed in the 2010 Announcement shall bear the same meaning or construction when used in this Announcement save as otherwise set forth.

Under the Share Purchase Agreement, Mr. Ng undertook to use all reasonable endeavours to assist Allied Power, Art Talent, and/or Hongmao to obtain, by no later than 31st December, 2012, necessary certificate(s) and permit(s) from, and complete requisite filing and/or registration procedures with the relevant Government Authorities in respect of the land use right certificate and the real estate title certificates to the Properties to the extent not already obtained.

In addition, Mr. Ng agreed to indemnify Allied Power in respect of all losses, damages, costs, claims, liabilities, charges and expenses which Allied Power, Art Talent, and/or Hongmao may suffer up to an amount of HK\$55 million, in the event that by 31st December, 2012: (i) Hongmao has not obtained the land use right certificate in respect of Land A; and (ii) Hongmao has not obtained real estate title certificates in respect of the buildings being constructed on Land A.

Mr. Ng further agreed to indemnify Allied Power in respect of any increase in the land premium to be payable if the authorised construction area is exceeded in respect of Land A.

The Company wishes to inform its shareholders that as of today's date, the abovementioned land use right certificate and the real estate title certificates have not been obtained. In response to an enquiry made by the Company, the Longgang Management Bureau of the Urban Planning Land and Resources Commission of Shenzhen Municipality (the "Bureau") has indicated on 6th December, 2012 that Land A is currently still zoned for industrial use but the ultimate zoning will depend on the final plans to be released by the Bureau. The Board believes that the Bureau will accept and handle the application for the land use right certificate and the real estate title certificates after the final plans are released.

In order to assist in obtaining the necessary land use right certificate and real estate title certificates, Mr. Ng has agreed to extend the duration of the undertaking and indemnity described above to 31st December, 2015, and a supplemental deed between Allied Power and Mr. Ng dated 20th December, 2012 was executed to this effect.

Mr. Ng is a connected person of the Company by virtue of his being a director and controlling shareholder of the Company. As the provision of the indemnity constituted financial assistance provided by a connected person for the benefit of the Company on normal commercial terms (or better) where no security is granted, this transaction is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 20th December, 2012

As at the date of this announcement, the Board comprises six directors, three of whom are executive directors, namely Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying and Mr. Lee Wai Chung, and three are independent non-executive directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.