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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)

**VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION
IN RELATION TO THE ARGENT LAND AND
THE SERVICE AGREEMENT
AND
RESUMPTION OF TRADING**

The Board is pleased to announce that on 15 August 2014, Argent, an indirect wholly-owned subsidiary of the Company, Kaisa Property and Kaisa Shenzhen entered into the Relocation Agreement in relation to, among others, the Disposal. Pursuant to the Relocation Agreement, it was agreed between the parties that, among others, Kaisa Property shall pay the Consideration in the amount of RMB1,579,700,000 (equivalent to approximately HK\$1,989,500,000) to Argent while Argent shall transfer its interest in the Argent Urban Renewal Project to Kaisa Property. On the same day, each of Mr. Ng Hoi Ying, Michael (a Director and Chairman of the Company), Mr. Ng Kim Ying (a Director), Mr. Li Chi Hung (a member of the senior management of the Company) and Mr. Hung Chao Chia (a member of the senior management of the Company) entered into the Individual Relocation Agreements with Kaisa Property and Kaisa Shenzhen in respect of facilitating Kaisa Property to become the named developer of the Argent Urban Renewal Project and the disposal of Land A, Land B, Land C and Land D respectively. The aggregate consideration for the Disposal and the Individuals' Disposals is RMB1,800,000,000 (equivalent to approximately HK\$2,267,000,000).

The Relocation Agreement is conditional upon obtaining Shareholders' approval for the Disposal. The completion of each of the Individual Relocation Agreements is subject to the completion of the Relocation Agreement.

Additionally, on 15 August 2014, Argent entered into the Service Agreement with QLH Property, in relation to the provision of consultation services by QLH Property to Argent in relation to the sale of the Argent Urban Renewal Project for a service fee of RMB117,000,000 (equivalent to approximately HK\$147,400,000), representing 6.5% of the aggregate consideration for the Disposal and the Individuals' Disposals.

* For identification purpose only

Payment pursuant to the Service Agreement is subject to, among other things, the Relocation Agreement obtaining Shareholders' approval.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Disposal exceed(s) 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. The Disposal is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying are Directors and connected persons of the Company. Since the Individuals' Disposals and the Disposal are related to each other, entered into as part of the same transaction with the same counter-parties, and are inter-conditional, the Individuals' Disposals and the Disposal fall under the circumstances described in Rule 14A.20(1) of the Listing Rules. As such, the entering into of the Relocation Agreement and the Individual Relocation Agreements on the same day represented an arrangement under Rule 14A.20(1) of the Listing Rules, and it follows that each of Kaisa Property and Kaisa Shenzhen is a "deemed connected person" of the Company in respect of the Relocation Agreement and the Individual Relocation Agreements pursuant to the same rules.

The service fee payable by Argent pursuant to the Service Agreement relates to the provision of consultation services by QLH Property to Argent in relation to the Argent Urban Renewal Project (in which the Individuals are interested by virtue of the Individual Relocation Agreements). As such, the entering into of the Service Agreement between Argent and QLH Property constitutes the provision of financial assistance to the Individuals by the Company pursuant to Rule 14A.24(4) of the Listing Rules.

As the Relocation Agreement, the Individual Relocation Agreements and the Service Agreement relate to the Argent Urban Renewal Project and are entered into on the same day, these transactions should be aggregated under the Rule 14.22 of the Listing Rules. Accordingly, the Transactions constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements thereunder.

SGM AND DESPATCH OF CIRCULAR

The SGM will be convened for the Shareholders to consider and, if thought fit, to approve the Transactions. An Independent Board Committee will be established to make recommendations to the Independent Shareholders regarding the Transactions. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Transactions.

As at the date of this announcement, Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying, Mr. Li Chi Hung, Mr. Hung Chao Chia and their associates are interested in approximately 41.58%, 5.64%, 0.75% and 0.52% of the Shares respectively.

A circular containing, among other things, further particulars of the Transactions, the financial information of the Group, the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Transactions, a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions, a valuation report on the Argent Land, and the notice of the SGM is expected to be despatched to the Shareholders on or before 22 September 2014, as additional time is required to prepare and finalize the information for inclusion in the circular.

As the Transactions may only proceed upon approval by the Shareholders at the SGM, the issue of this announcement should not be regarded in any way as implying that the Transactions will be completed. Therefore, Shareholders and potential investors should exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 18 August 2014 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 19 August 2014.

The Board is pleased to announce that on 15 August 2014, Argent, an indirect wholly-owned subsidiary of the Company, Kaisa Property and Kaisa Shenzhen entered into the Relocation Agreement in relation to, among others, the Disposal. Since the Argent Land forms part of the land in the Argent Urban Renewal Project, which is an urban renewal project in Shenzhen, the parties are obliged under 深圳市城市更新辦法實施細則 (the Implementation Rules of the Measures on Administration of Urban Renewal of Shenzhen Municipality) to enter into a relocation agreement (rather than a sale and purchase agreement) and set out the terms relating to the transfer of land use rights (and related interests) and details of consideration therein.

THE RELOCATION AGREEMENT

Date

15 August 2014

Parties

- (i) Argent
- (ii) Kaisa Property; and
- (iii) Kaisa Shenzhen

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Kaisa Property, Kaisa Shenzhen and their ultimate beneficial owners are Independent Third Parties. However, as explained in the section headed "Listing Rules Implications" below, Kaisa Property and Kaisa Shenzhen are deemed connected persons of the Company in respect of the Relocation Agreement pursuant to Rule 14A.20(1) of the Listing Rules.

Assets to be disposed of

Argent's interest in the Argent Urban Renewal Project, including the development rights, the Argent Land and all buildings, structures and attachments erected thereon (including all land use rights relating thereto).

The Argent Land has a site area of 59,701.30 square metres and is currently used by the Group mainly for manufacturing purposes.

Consideration

The Consideration for the Disposal is RMB1,579,700,000 (equivalent to approximately HK\$1,989,500,000) shall be settled in cash by Kaisa Property to Argent. The Consideration covers, including but not limited to, consideration for disposal of the Argent Land and the properties and structures erected thereon, transfer of all land use rights, relocation, resettlement and renovation of properties, suspension of operations and production, costs of dismissal of the employees of Argent and related settlement fees.

Condition precedent

The Relocation Agreement is conditional upon obtaining Shareholders' approval for the Disposal.

In the event that the approval by the Shareholders for the Disposal is not obtained, the Relocation Agreement shall be automatically terminated, and the initial deposit of RMB50,000,000 (equivalent to approximately HK\$63,000,000) paid by Kaisa Property shall be returned within five business days of such Shareholders' meeting. In these circumstances, the Individual Relocation Agreements shall also be terminated simultaneously.

Key responsibilities of the parties

Key responsibilities of the parties under the Relocation Agreement include, among other things:

(A) Kaisa Property

Kaisa Property shall pay the Consideration to Argent in accordance with the payment schedule under the Relocation Agreement.

(B) Argent

- (i) Within twenty five business days from the signing of the Relocation Agreement and the Individual Relocation Agreements, Argent shall procure the Company to issue a notice to convene the SGM to approve, among other things, the Disposal.
- (ii) Within five business days from the payment of the first instalment of the Consideration, Argent shall deliver to Kaisa Property originals of all documents relating to the Argent Urban Renewal Project (including, but not limited to original title deeds) in accordance with the Relocation Agreement.
- (iii) After the Shareholders have approved the Disposal and one month before delivery of vacant possession of the Argent Land to Kaisa Property, Argent shall submit all information that is required to be submitted by Argent to Kaisa Property and the relevant PRC government authorities to obtain confirmation for Kaisa Property to become the named developer of the Argent Urban Renewal Project. At the same time, Argent shall facilitate the signing of any and all agreements between Kaisa Property and the parties or individuals interested in the Argent Urban Renewal Project, including but not limited to a relocation and compensation agreement between Kaisa Property and Huanggekeng Company, and bear all costs incurred in relation to such acts.
- (iv) Within twelve months of having received the first instalment of the Consideration, Argent shall deliver vacant possession of the Argent Land to Kaisa Property. At the same time, Argent shall issue a statement and declaration in relation to the transfer of all titles in the Argent Land to Kaisa Property. Once all of the Argent Land and the relevant land use rights have been transferred to Kaisa Property pursuant to the terms of the Relocation Agreement, all rights and liabilities in relation to the Argent Land and its land use rights shall vest in Kaisa Property.
- (v) Within five business days after Kaisa Property has been confirmed as the named developer of the Argent Urban Renewal Project, Argent shall authorize Kaisa Property to complete all procedures relating to transfer of the Argent Land including applying for deregistration of the existing title registration of the Argent Land and the buildings erected thereon and deliver the original authorization to Kaisa Property.

(C) Kaisa Shenzhen

Pursuant to the Relocation Agreement, Kaisa Shenzhen shall provide a joint and several guarantee of all obligations of Kaisa Property under the Relocation Agreement.

Payment schedule

The Consideration shall be settled in cash by Kaisa Property as follows:

- (i) an initial deposit of RMB50,000,000 (equivalent to approximately HK\$63,000,000) was paid at signing of the Relocation Agreement;
- (ii) upon satisfaction of the condition precedent in the Relocation Agreement, the first instalment of the Consideration in the amount of RMB577,000,000 (equivalent to approximately HK\$726,700,000), shall be paid by Kaisa Property within five business days of the receipt of, amongst others, the Shareholders' resolutions approving the Relocation Agreement, and the initial deposit of RMB50,000,000 (equivalent to approximately HK\$63,000,000) shall be applied to set off in part the first instalment of the Consideration;
- (iii) the second instalment of the Consideration in the amount of RMB316,000,000 (equivalent to approximately HK\$398,000,000) shall be paid within five business days after Argent has delivered vacant possession of the Argent Land to Kaisa Property;
- (iv) the third instalment of the Consideration in the amount of RMB316,000,000 (equivalent to approximately HK\$398,000,000) shall be paid within five business days after Kaisa Property has obtained confirmation from the relevant PRC government authorities confirming it as the named developer of the Argent Urban Renewal Project and Argent having fulfilled its obligations set out in item B(iii) of the sub-paragraph headed "Key responsibilities of the parties" above; and
- (v) the fourth instalment of the Consideration in the amount of RMB370,700,000 (equivalent to approximately HK\$466,800,000) shall be paid within five business days after Argent has issued to Kaisa Property an original power of attorney authorizing Kaisa Property to complete all procedures relating to the transfer of the Argent Land and land use rights in accordance with the Shenzhen urban renewal policies and to apply for deregistration of the existing title records.

The Consideration was agreed after arm's length negotiations between Argent and Kaisa Property having considered various characteristics of the Argent Land including location, permitted use, development potential, and having regard to the fair market value of the Argent Land based on the valuation of RMB1,238,000,000 (equivalent to approximately HK\$1,559,200,000) as at 31 July 2014 made by Vigers Appraisal & Consulting Limited, a firm of independent qualified professional valuers not connected with the Group.

Default and penalties

If the Relocation Agreement is terminated pursuant to reasons solely relating to Kaisa Property, Argent may forfeit the initial deposit of RMB50,000,000 (equivalent to approximately HK\$63,000,000) paid by Kaisa Property. In the event that Kaisa Property delays in performing its obligations as referred to in item (A) of the sub-paragraph headed “Key responsibilities of the parties” above, in addition to any damages that Kaisa Property shall be liable to pay to Argent, Kaisa Property shall be liable to pay a daily penalty equal to 0.03% of the amount of outstanding Consideration which is overdue. In the event that the delay in Kaisa Property’s performance of the same obligation is more than ninety days, or if there is a change in control of Kaisa Property’s controlling shareholder or ultimate controller before Kaisa Property has paid the Consideration to Argent in full, Argent shall have the right to terminate the Relocation Agreement and receive an amount of RMB60,000,000 (equivalent to approximately HK\$75,600,000), as penalty for such breach of contract. Argent shall refund any Consideration received (having deducted the penalty payment of RMB60,000,000 (equivalent to approximately HK\$75,600,000)), without interest, to Kaisa Property within five business days after Kaisa Property has returned possession of the Argent Land and the properties erected thereon and all relevant documents provided by Argent.

In the event that Argent fails to perform its obligations in a timely manner as referred to in item (B)(iv) of the sub-paragraph headed “Key responsibilities of the parties” above, in addition to any damages that Argent shall be liable to pay to Kaisa Property, Argent shall be liable to pay a daily penalty equal to 0.03% of the amount of Consideration received from Kaisa Property, and Kaisa Property may deduct such amounts from the outstanding Consideration. In the event that Argent fails to perform its obligations in a timely manner as referred to in item (B)(iii) of the sub-paragraph headed “Key responsibilities of the parties” above, in addition to any damages that Argent shall be liable to pay to Kaisa Property, Argent shall be liable to pay a daily penalty equal to 0.03% of the amount of Consideration received from Kaisa Property.

Kaisa Property may elect to unilaterally terminate the Relocation Agreement if any of the following occurs, among other things:

- (i) if Argent fails to deliver vacant possession in accordance with the Relocation Agreement more than six months beyond the agreed deadline;
- (ii) if Argent does not possess all of the rights over the Argent Land and the land use rights or if there is any dispute over such rights, or if by reason of debtor claims against Argent, an effective judicial body grants the rights over the Argent Land and the land use rights to a third party, unless Kaisa Property opts for a refund or a suspension in payment of the Consideration pursuant to the Relocation Agreement;

- (iii) if Argent fails to comply with its obligations pursuant to the Relocation Agreement in relation to the delivery of vacant possession, transfer of property rights and provision of relevant information to Kaisa Property, rendering Kaisa Property unable to proceed with the Argent Urban Renewal Project as required by the relevant PRC government policies;
- (iv) upon a change in control of Argent (save for any internal restructuring of the Group); or
- (v) if the parties or individuals interested in the Argent Urban Renewal Project (including, the Individuals and, Huanggekeng Company after it has entered into a relocation and compensation agreement with Kaisa Property pursuant to Argent's obligations as set out in item (B)(iii) of the sub-paragraph headed "Key responsibilities of the parties" above) fail to perform, or fail to fully perform their respective relocation agreements entered into with Kaisa Property.

Upon termination, Argent shall return the Consideration paid by Kaisa Property in full, without interest, and also pay a penalty of RMB60,000,000 (equivalent to approximately HK\$75,600,000) for breach of contract.

Termination

The Relocation Agreement may be terminated by mutual agreement between Argent and Kaisa Property. In the event of termination of the Relocation Agreement, all other relocation agreements relating to the Argent Urban Renewal Project entered into between Kaisa Property and other parties or individuals interested in the Argent Urban Renewal Project shall be terminated simultaneously.

INFORMATION ON THE INDIVIDUAL RELOCATION AGREEMENTS

On 15 August 2014, each of Mr. Ng Hoi Ying, Michael (a Director and Chairman of the Company), Mr. Ng Kim Ying (a Director), Mr. Li Chi Hung (a member of the senior management of the Company) and Mr. Hung Chao Chia (a member of the senior management of the Company) entered into the Individual Relocation Agreements with Kaisa Property and Kaisa Shenzhen in respect of facilitating Kaisa Property to become the named developer of the Argent Urban Renewal Project and the disposal of Land A, Land B, Land C and Land D respectively, for an aggregate consideration of RMB220,300,000 (equivalent to approximately HK\$277,500,000). The consideration for the Individuals' Disposals was agreed after arm's length negotiations between the Individuals and Kaisa Property having considered various characteristics of Land A, Land B, Land C and Land D including location, permitted use, development potential and having regard to their fair market value based on the aggregate valuation of RMB203,000,000 (equivalent to approximately HK\$255,700,000) as at 31 July 2014 made by Vigers Appraisal & Consulting Limited, a firm of independent qualified professional valuers not connected with the Group. Argent and the Individuals have agreed to negotiate and enter into the Relocation Agreement and the Individual Relocation Agreement with Kaisa Property at the same time at its request.

The terms and provisions of each of the Individual Relocation Agreements are substantially the same as each other. Payments to be made pursuant to each of the Individual Relocation Agreements by Kaisa Property to each Individual are (i) subject to the Relocation Agreement becoming unconditional; (ii) subject to, and correspond with, the payment schedule under the Relocation Agreement, as disclosed under the heading “The Relocation Agreement” above; and (iii) subject to due and timely performance of the obligations by other parties or individuals interested in the Argent Urban Renewal Project. Each of the Individual Relocation Agreements is subject to simultaneous completion of the other Individual Relocation Agreements and the simultaneous completion of the Relocation Agreement.

Kaisa Shenzhen shall provide a joint and several guarantee of all obligations of Kaisa Property under each of the Individual Relocation Agreements.

Default and penalties

As with the Relocation Agreement, each Individual Relocation Agreement gives a right to Kaisa Property or the relevant Individual (as the case may be) the right to charge a daily penalty against the defaulting party in case of delays under circumstances similar to those disclosed under the heading “The Relocation Agreement – Default and penalties” above. Moreover, as with the Relocation Agreement, Kaisa Property may, pursuant to the Individual Relocation Agreements, elect to unilaterally terminate an Individual Relocation Agreement under circumstances similar to those disclosed under the heading “The Relocation Agreement – Default and penalties” (save and except for paragraphs (iv) and (v)) above. Upon termination, the defaulting Individual shall return the consideration paid by Kaisa Property in full, without interest, and also pay a penalty of RMB2,000,000 (equivalent to approximately HK\$2,500,000) for breach of contract.

Pursuant to the Relocation Agreement and the Individual Relocation Agreements, upon a default by any of the Individuals giving Kaisa Property the right to unilaterally terminate the relevant Individual Relocation Agreement, the defaulting Individual shall return the consideration paid by Kaisa Property in full, without interest, and also pay a penalty of RMB2,000,000 (equivalent to approximately HK\$2,500,000) for breach of contract. This shall also constitute a default by Argent under the Relocation Agreement giving a right to Kaisa Property to unilaterally terminate the Relocation Agreement, whereby Argent shall return the Consideration paid by Kaisa Property in full, without interest, and also pay a penalty of RMB60,000,000 (equivalent to approximately HK\$75,600,000) for breach of contract. As a result, all the other Individual Relocation Agreements will be terminated simultaneously and the other Individuals shall return the consideration paid by Kaisa Property in full, without interest.

In addition, after Argent has procured Huanggekeng Company to enter into a relocation and compensation agreement with Kaisa Property, if Huanggekeng Company fails to perform or fails to perform in full, its obligations pursuant to such agreement, this shall also constitute a default by Argent under the Relocation Agreement giving a right to Kaisa Property to unilaterally terminate the Relocation Agreement, whereby Argent

shall return the Consideration paid by Kaisa Property in full, without interest, and also pay a penalty of RMB60,000,000 (equivalent to approximately HK\$75,600,000) for breach of contract. As a result, all the other Individual Relocation Agreements will be terminated simultaneously and the other Individuals shall return the consideration paid by Kaisa Property in full, without interest.

Termination

An Individual Relocation Agreement may not be terminated by mutual agreement between the relevant Individual and Kaisa Property. In the event of termination of the Relocation Agreement (including where the Relocation Agreement is terminated because the condition precedent to the Relocation Agreement is not fulfilled), the Individual Relocation Agreements shall be terminated simultaneously and any consideration received by the Individuals shall be returned to Kaisa Property, without interest.

INFORMATION ON THE ARGENT LAND AND THE ARGENT URBAN RENEWAL PROJECT

The Argent Land, Land A, Land B, Land C and Land D all form part of the land under the Argent Urban Renewal Project, which is situated within Longcheng Street, Longgang District, Shenzhen and which covers an aggregate site area of approximately 65,396.60 square metres. The following table provides a break-down of the approximate site area of the parcels of land comprising the Argent Urban Renewal Project:

	Square metres
國有已出讓土地 (State-owned land with land use rights granted):	
Argent Land	59,701.30
Land A	375.10
Land B	376.60
Land C	277.85
Land D	465.45
Less: Surveying discrepancy	(55.65)
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Sub-total:	61,140.65
Huanggekeng Land	1,257.15
國有未出讓土地 (State-owned land without land use rights granted) (to be converted into land for community use)	2,998.51
Rounding	0.29
	<hr/>
Total:	<u><u>65,396.60</u></u>

On 21 June 2010, Argent received a letter dated 8 June 2010 from 深圳市體育新城土地整備安置領導小組辦公室 (the Land Preparation and Resettlements Bureau of Tiyuxincheng District, Shenzhen) informing it that the location of its existing facility situated at the Argent Land would be the subject of special planning for redevelopment and Argent would be required to prepare for relocation of its existing facility. To better realize the potential value of the Argent Land and control the progress of implementation of the factory relocation plan, Argent submitted the Argent Urban Renewal Project to the relevant PRC government authorities. On 24 January 2014, 深圳市規劃和國土資源委員會 (the Urban Planning Land and Resources Commission of the Shenzhen Municipality) issued a letter and a notice of approval to Argent, approving, among other things, the Argent Urban Renewal Project submitted by Argent, to renew the land covered by the Argent Urban Renewal Project into a community comprising residential, office and commercial facilities. The approval for the Argent Urban Renewal Project covers the Argent Land, Land A, Land B, Land C, Land D, the Huanggekeng Land and certain parcel(s) of 國有未出讓土地 (State-owned land without land use rights granted).

The Argent Land is currently used by the Group mainly for manufacturing purposes. Residential buildings erected on Land A, Land B, Land C and Land D are currently leased out by the Individuals.

As at 30 June 2014, the net book value of the Argent Land and the properties erected thereon (as recorded in the Group's unaudited consolidated financial statements) was approximately HK\$155,000,000 (equivalent to approximately RMB123,100,000). According to the latest valuation on the Argent Land conducted by Vigers Appraisal and Consulting Limited, a firm of independent qualified professional valuers not connected with the Group, the Argent Land was valued at approximately RMB1,238,000,000 (equivalent to approximately HK\$1,559,200,000) as at 31 July 2014.

FINANCIAL IMPACT OF THE DISPOSAL AND INTENDED USE OF PROCEEDS

As a result of receiving the Consideration in full under the Relocation Agreement, it is estimated that the Group will record a gain on the Disposal after taxation ranging from approximately RMB667,600,000 (equivalent to approximately HK\$840,700,000) to approximately RMB791,600,000 (equivalent to approximately HK\$996,900,000). Such gain is estimated based on the Consideration of RMB1,579,700,000 (equivalent to approximately HK\$1,989,500,000), less the net book value of Argent Land and the properties erected thereon of approximately RMB123,100,000 (equivalent to approximately HK\$155,000,000) as at 30 June 2014, the service fee under the Service Agreement of RMB117,000,000 (equivalent to approximately HK\$147,400,000), taxes payable ranging from approximately RMB148,000,000 (equivalent to approximately HK\$186,400,000) to approximately RMB272,000,000 (equivalent to approximately HK\$342,600,000) and other related relocation costs and expenses of approximately RMB400,000,000 (equivalent to approximately HK\$503,800,000). The final financial

impact of the Disposal will be subject to the net book value of Argent Land and the properties erected thereon as at the date of delivery of vacant possession of the Argent Land to Kaisa Property, actual tax liabilities arising from the Disposal, and actual relocation costs and expenses incurred. Hence, the final amount of the gain on the Disposal is subject to change and may be different from the amount presented above.

The Company intends to apply the net proceeds from the Disposal for its future investment(s) or acquisition(s) when such opportunities arise and as general working capital of the Group. The Company has not yet determined the exact allocation of the net proceeds. As of the date of this announcement, the Company has not identified any acquisition or investment target and has not entered into or propose to enter into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, and negotiation (whether concluded or not) regarding any potential acquisition or potential further disposal. In the event that no appropriate potential acquisitions could be identified in the near future, the Company will place the net proceeds from the Disposal as deposits into banks or other financial institutions for earning of interest.

SERVICE AGREEMENT

Date

15 August 2014

Parties

- (i) Argent; and
- (ii) QLH Property

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, QLH Property and its ultimate beneficial owners are Independent Third Parties. However, as explained in the section headed "Listing Rules Implications" below, the service fee payable by Argent pursuant to the Service Agreement relates to the provision of consultation services by QLH Property to Argent in relation to the Argent Urban Renewal Project (in which the Individuals are interested by virtue of the Individual Relocation Agreements). As such, the entering into of the Service Agreement between Argent and QLH Property constitutes the provision of financial assistance to the Individuals by the Company pursuant to Rule 14A.24(4) of the Listing Rules.

Subject matter: The provision of consultation services (the "Services") by QLH Property to Argent in relation to the sale of the Argent Urban Renewal Project.

Service Fee: RMB117,000,000 (equivalent to approximately HK\$147,400,000), representing 6.5% of the aggregate consideration for the Disposal and the Individuals' Disposals.

The service fee shall be payable in cash in the following manner:

- (i) after the signing of a relocation agreement between Argent and a purchaser and the same becoming unconditional and Argent has received in part consideration of not less than RMB577,000,000 (equivalent to approximately HK\$726,700,000), Argent shall pay to QLH Property, an amount in Hong Kong dollars equivalent to 70% of the service fee (being RMB81,900,000 (equivalent to approximately HK\$103,200,000)) within ten days; and
- (ii) after such purchaser has received approval from the relevant PRC government authorities as the named developer of the Argent Urban Renewal Project and Argent has received in part consideration of not less than RMB1,209,000,000 (equivalent to approximately HK\$1,522,700,000), Argent shall pay to QLH Property, an amount in Hong Kong dollars equivalent to the balance of the service fee (being RMB35,100,000 (equivalent to approximately HK\$44,200,000)) within five days.

The consideration for the Services was determined after arm's length negotiations between Argent and QLH Property having regard to the professional expertise and experience of QLH Property as well as its sales network and ability to secure a satisfactory price with a reputable purchaser.

In the event that the relocation agreement entered into between Argent and a purchaser is terminated due to defaults on the part of Argent at a time before such purchaser has received approval from the relevant PRC government authorities as the named developer of the Argent Urban Renewal Project, QLH Property shall retain any service fee paid by Argent to QLH Property, and Argent shall pay any balance of the service fee to QLH Property pursuant to the Service Agreement.

Default and penalties

In the event that Argent delays in making payment to QLH Property, Argent shall be liable to pay a daily penalty equal to 0.03% of the amount of outstanding service fee which is overdue.

INFORMATION ON THE PARTIES

Argent and the Group

Argent is a limited liability company incorporated in Hong Kong in 1990. It is principally engaged in the manufacture of optical frames and sunglasses.

The Company is an investment holding company incorporated in Bermuda with limited liability. The Group is principally engaged in the design, manufacture and sale of various kinds of optical products.

Kaisa Property and Kaisa Shenzhen

Kaisa Property is a limited liability company established in the PRC and a subsidiary of Kaisa Shenzhen. Kaisa Shenzhen and Kaisa Property are principally engaged in property development. Kaisa Shenzhen is a subsidiary of Kaisa Group Holdings Ltd. (stock code: 1638), a limited liability company incorporated in the Cayman Islands and the issued shares of which are listed on the Main Board of the Stock Exchange. Kaisa Group Holdings Ltd. is an investment holding company, and its subsidiaries are principally engaged in property development, property investment and property management, and hotel and catering operations.

QLH Property

QLH Property is a limited liability company established in the PRC and principally engaged in the provision of consultancy and agency services related to property development in the PRC.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group's production facilities in the Argent Land have been in use for nearly thirty years. The lack of space for further expansion and the dated design of the buildings limit the implementation of modern production processes. The factory relocation as a result of the Transactions represents a good opportunity for the Group to upgrade and modernize its production processes in its newly established factories in Heyuan City and Pingdi Town, Shenzhen City. As the Group is expected to deliver vacant possession of the Argent Land to Kaisa Property in the second half of 2015, the Group anticipates that there will be no material disruption to its manufacturing operations.

Moreover, according to 關於加強和改進城市更新實施工作的暫行措施 (the Provisional Measures on Strengthening and Improving Urban Renewal Implementation, the "Provisional Measures") promulgated by the Shenzhen Peoples' Government in 2014, if an urban renewal project does not confirm its named developer within two years from the date on which such urban renewal project has been approved by the relevant PRC government authorities, such urban renewal project may be excluded from the Shenzhen urban renewal plans. The Argent Urban Renewal Project has been approved on 24 January 2014, therefore, Argent is required to confirm the named developer for the Argent Urban Renewal Project on or before 23 January 2016. The agreed timetable in the Relocation Agreement allows the Group to realize the potential value of the Argent Land, and also gives the Group control and flexibility over the progress of the implementation of the factory relocation plan within the prescribed time limit set out in the Provisional Measures.

The Board considers the Transactions to be an important opportunity for the Group to capitalize on its investment gain and to finance the relocation of its manufacturing facilities. Further, the proceeds generated from the Transactions can strengthen the cash flow of the Group and will allow the Group to reallocate its resources for future development.

Based on the above, the Directors (including the independent non-executive Directors) consider that the terms of the Relocation Agreement and the Service Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Disposal exceed(s) 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. The Disposal is therefore subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying are Directors and connected persons of the Company. Since the Individuals' Disposals and the Disposal are related to each other, entered into as part of the same transaction with the same counter-parties, and are inter-conditional, the Individuals' Disposals and the Disposal fall under the circumstances described in Rule 14A.20(1) of the Listing Rules. As such, the entering into of the Relocation Agreement and the Individual Relocation Agreements on the same day represented an arrangement under Rule 14A.20(1) of the Listing Rules, and it follows that each of Kaisa Property and Kaisa Shenzhen is a "deemed connected person" of the Company in respect of the Relocation Agreement and the Individual Relocation Agreements pursuant to the same rules.

The service fee payable by Argent pursuant to the Service Agreement relates to the provision of consultation services by QLH Property to Argent in relation to the Argent Urban Renewal Project (in which the Individuals are interested by virtue of the Individual Relocation Agreements). As such, the entering into of the Service Agreement between Argent and QLH Property constitutes the provision of financial assistance to the Individuals by the Company pursuant to Rule 14A.24(4) of the Listing Rules.

As the Relocation Agreement, the Individual Relocation Agreements and the Service Agreement relate to the Argent Urban Renewal Project and are entered into on the same day, these transactions should be aggregated under the Rule 14.22 of the Listing Rules. Accordingly, the Transactions constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements thereunder.

Any Shareholder with a material interest in the Relocation Agreement, the Individual Relocation Agreements and the Service Agreement and his/her/its associates will abstain from voting on the ordinary resolutions approving the Transactions. In view of the interests of the Individuals in the Transactions, they are required to abstain and shall abstain from voting on the resolutions to be proposed at the SGM to approve the Transactions.

SGM AND DESPATCH OF CIRCULAR

The SGM will be convened for the Shareholders to consider and, if thought fit, to approve the Transactions. An Independent Board Committee will be established to make recommendations to the Independent Shareholders regarding the Transactions. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Transactions.

As at the date of this announcement, Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying, Mr. Li Chi Hung, Mr. Hung Chao Chia and their associates are interested in approximately 41.58%, 5.64%, 0.75% and 0.52% of the Shares respectively.

A circular containing, among other things, further particulars of the Transactions, the financial information of the Group, the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Transactions, a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions, a valuation report on the Argent Land and the notice of the SGM is expected to be despatched to the Shareholders on or before 22 September 2014, as additional time is required to prepare and finalize the information for inclusion in the circular.

As the Transactions may only proceed upon approval by the Shareholders at the SGM, the issue of this announcement should not be regarded in any way as implying that the Transactions will be completed. Therefore, Shareholders and potential investors should exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 18 August 2014 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 19 August 2014.

DEFINITIONS

“Argent Urban Renewal Project”	the urban renewal project titled “龍崗區龍城街道雅駿眼鏡廠更新單元規劃” (Longgang District Longcheng Street Argent Optical Manufactory Urban Renewal Project) comprising the Argent Land, Land A, Land B, Land C, Land D, the Huanggekeng Land and certain parcel(s) of 國有未出讓土地 (State-owned land without land use rights granted), with a total site area of 65,396.60 square metres
“Argent”	Argent Optical Manufactory Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company

“Argent Land”	the land and premises owned by Argent and situated at Longcheng Street, Longgang District, Shenzhen, Guangdong Province, the PRC, particulars of which are set out in the section headed “Information on the Argent Land and the Argent Urban Renewal Project” of this announcement
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Company”	Arts Optical International Holdings Limited (stock code: 1120), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Consideration”	the consideration payable by Kaisa Property under the Relocation Agreement being RMB1,579,700,000 (equivalent to approximately HK\$1,989,500,000)
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of Argent Land by Argent to Kaisa Property pursuant to the Relocation Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Huanggekeng Company”	深圳市黃閣坑股份合作公司大圍分公司 (Shenzhen Huanggekeng Cooperative Stock Company Dawei Branch), a company established in the PRC, an Independent Third Party

“Huanggekeng Land”	parcel(s) of land situated at Longcheng Street, Longgang District, Shenzhen, Guangdong Province, the PRC and forms part of the land under the Argent Urban Renewal Project, in which the Huanggekeng Company is interested in
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, to advise the Independent Shareholders in connection with the Transactions in accordance with the Listing Rules
“Independent Financial Adviser”	the independent financial adviser to be appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions
“Independent Shareholders”	for the purpose of considering, and if thought fit, approving the Transactions, the Shareholders other than the Shareholder(s) (if any) who is/are required to abstain from voting on the resolution(s) to be proposed at the SGM to approve the Transactions
“Independent Third Party(ies)”	individual(s) or company(ies) which is/are independent of and not connected with (within the meaning of the Listing Rules) any member of the Group, the Directors, chief executive and substantial shareholders of the Company and its subsidiaries
“Individual(s)”	being Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying, Mr. Li Chi Hung and Mr. Hung Chao Chia, each of whom entered into a relocation agreement with Kaisa Property and Kaisa Shenzhen
“Individuals’ Disposals”	the proposed disposals of the Land A, Land B, Land C and Land D by each of the Individuals to Kaisa Property pursuant to their respective Individual Relocation Agreements and the transactions contemplated thereunder

“Individual Relocation Agreement(s)”	搬遷補償協議 (relocation agreement(s)) entered into between each of Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying, Mr. Li Chi Hung and Mr. Hung Chao Chia with Kaisa Property and Kaisa Shenzhen dated 15 August 2014 in respect of Land A, Land B, Land C and Land D respectively
“Kaisa Property”	深圳市橫崗佳兆業投資諮詢有限公司 (Shenzhen Henggang Kaisa Investment Consulting Co., Ltd.), a limited liability company established in the PRC
“Kaisa Shenzhen”	佳兆業集團(深圳)有限公司 (Kaisa Group (Shenzhen) Co., Ltd.), a limited liability company established in the PRC
“Land A”	the land and premises owned by Mr. Ng Hoi Ying, Michael, and situated at Longcheng Street, Longgang District, Shenzhen, Guangdong Province, the PRC and forms part of the land under the Argent Urban Renewal Project
“Land B”	the land and premises owned by Mr. Ng Kim Ying, and situated at Longcheng Street, Longgang District, Shenzhen, Guangdong Province, the PRC and forms part of the land under the Argent Urban Renewal Project
“Land C”	the land and premises owned by Mr. Li Chi Hung, and situated at Longcheng Street, Longgang District, Shenzhen, Guangdong Province, the PRC and forms part of the land under the Argent Urban Renewal Project
“Land D”	the land and premises owned by Mr. Hung Chao Chia, and situated at Longcheng Street, Longgang District, Shenzhen, Guangdong Province, the PRC and forms part of the land under the Argent Urban Renewal Project
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	People’s Republic of China

“QLH Property”	深圳市全聯行地產顧問有限公司 (Shenzhen Quanlianhang Property Consulting Co., Ltd.), a limited liability company established in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Relocation Agreement”	搬遷補償協議 (relocation agreement) between Argent, Kaisa Property and Kaisa Shenzhen dated 15 August 2014 relating to, among others, the Disposal
“Service Agreement”	居間服務協議 (service agreement) dated 15 August 2014 between Argent and QLH Property in relation to the Argent Urban Renewal Project
“SGM”	the special general meeting of the Company to be held for the purpose of considering, and if thought fit, approving the Transactions
“Share(s)”	ordinary share(s) in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“Transactions”	the Disposal, the Service Agreement and the transactions contemplated thereunder
“%”	per cent.

In this announcement, unless otherwise stated, amounts denominated in RMB are translated, for the purpose of illustration only, into HK\$ at the exchange rate of HK\$1 to RMB0.794.

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 19 August 2014

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.