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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 and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance.

The Board wishes to inform the shareholders of the Company and potential investors that the Group is expected to record a loss for the year ending 31st December, 2015.

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.

Reference is also made to the Company's announcement dated 20th December, 2012, whereby the land use right certificate and the real estate title certificates had not been obtained and Allied Power entered into a supplemental deed with Mr. Ng on 20th December, 2012 pursuant to which Mr. Ng agreed to extend the duration of the undertaking and indemnity to 31st December, 2015.

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 the Group in obtaining the necessary land use right certificate and real estate title certificates, Mr. Ng has agreed to further extend the duration of the undertaking and indemnity described above to 31st December, 2018, and a second supplemental deed dated 16th December, 2015 between Allied Power and Mr. Ng was entered into 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 giving 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.90 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") and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

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, 2015, the Group is expected to record a loss for the year ending 31st December, 2015.

The anticipated loss for the year ending 31st December, 2015 is mainly attributable to:

- (i) the negative impact on the profitability of the Group arising from diseconomies of scale as the Group's consolidated revenue decreased by 11% from HK\$1,325.8 million in the first ten months of 2014 to HK\$1,177.5 million in the first ten months of 2015;

- (ii) the significant increase in labour costs where the manufacturing facilities of the Group are located, namely Shenzhen City, Heyuan City and Zhongshan City, where the statutory minimum wage increased by 12%, 20% and 15% respectively, since March 2015 for Shenzhen City and since May 2015 for Heyuan and Zhongshan Cities;
- (iii) the significant increase in other operating costs in Mainland China throughout 2015 as compared with 2014;
- (iv) additional costs and expenses incurred in 2015 as the Group accelerated the pace of its factory relocation project from October 2014 onwards with new buildings being constructed on its factory sites in Pingdi Town of Shenzhen City, Heyuan City and Zhongshan City, which resulted in higher depreciation charges of the buildings and leasehold improvement;
- (v) cost and expenses of HK\$13.9 million incurred in the first ten months of 2015 relating to the disposal of land and premises situated at Longguan District, Shenzhen City as announced by the Company on 19th August, 2014; and
- (vi) an impairment charge of US\$1.6 million (equivalent to approximately HK\$12.4 million) on the loan granted to a corporate customer of the Group due to uncertainty of its collectability.

The Company has yet to finalise the annual results of the Group for the year ending 31st December, 2015. 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, 2015, 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, 2015 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.

Reference is also made to the Company's announcement dated 20th December, 2012, whereby the land use right certificate and the real estate title certificates had not been obtained and Allied Power entered into a supplemental deed with Mr. Ng on 20th December, 2012 pursuant to which Mr. Ng agreed to extend the duration of the undertaking and indemnity to 31st December, 2015.

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 a recent enquiry made by the Group, the Longgang Management Bureau of the Urban Planning, Land and Resources Commission of Shenzhen Municipality (the "Bureau") has indicated that the final plans of Land A are still under preparation and not yet effective. 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 and become effective.

In order to assist the Group in obtaining the necessary land use right certificate and real estate title certificates, Mr. Ng has agreed to further extend the duration of the undertaking and indemnity described above to 31st December, 2018, and a second supplemental deed dated 16th December, 2015 between Allied Power and Mr. Ng was entered into 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 giving 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.90 of the Listing Rules.

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 16th December, 2015

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.