THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares in **Arts Optical International Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Arts Group

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 AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

CROSBY

Crosby Securities Limited

All capitalized terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 5 to 20 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 21 of this circular. A letter from Crosby Securities, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 33 of this circular.

A notice convening the SGM to be held at Garden Room A-B, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 8 October 2014 at 3:00 p.m. is set out on pages 66 to 67 of this circular. A form of proxy for use at the SGM is also enclosed. Such form of proxy is also published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Whether or not you are able to attend the SGM, please complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof should you so wish.

* *For identification purpose only*

19 September 2014

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Pages

In this circular, unless the context otherwise requires, the following expressions have the following meaning:

"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 approximately 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 circular
"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 the 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 forming part of the land under the Argent Urban Renewal Project in which Huanggekeng Company is interested in
"Independent Board Committee"	the independent board committee of the Company comprising all the 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" or "Crosby Securities"	Crosby Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, the independent financial adviser to 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) which 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 an Individual Relocation Agreement with Kaisa Property and Kaisa Shenzhen
"Individuals' Disposals"	the proposed disposals of 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 and 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 forming 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 forming 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 forming 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 forming part of the land under the Argent Urban Renewal Project
"Latest Practicable Date"	16 September 2014, 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
"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) entered into 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 entered into between Argent and QLH Property in relation to the Argent Urban Renewal Project
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held at Garden Room A-B, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 8 October 2014 at 3:00 p.m., for the purpose of considering, and if thought fit, approving the Transactions, the notice of which is set out on pages 66 to 67 of this circular
"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
"Vigers"	Vigers Appraisal & Consulting Limited, a firm of independent qualified professional valuers not connected with the Group
"€"	Euro, the lawful currency of the European Union
"£"	Pound sterling, the lawful currency of the United Kingdom of Great Britain and Northern Ireland
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, the conversion of RMB into HK$ is based on the exchange rate of HK$1.00 to RMB0.794, the conversion of € into HK$ is based on the exchange rate of €1.00 to HK$10.534 and the conversion of £ into HK$ is based on the exchange rate of £1.00 to HK$13.283. Such rates are for the purpose of illustration only and do not constitute a representation that any amount in RMB, in €, in £ or HK$ has been or could have been or may be converted at such or another rate or at all.

ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1120)

Executive Directors:
Mr. NG Hoi Ying, Michael *(Chairman)*
Mr. NG Kim Ying
Mr. LEE Wai Chung

Independent non-executive Directors:
Mr. WONG Chi Wai
Mr. CHUNG Hil Lan Eric
Mr. LAM Yu Lung

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

19 September 2014

To: the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 19 August 2014 in relation to, among others, the Transactions.

The purpose of this circular is to provide you with, among other things, (i) further information on the Transactions; (ii) financial information of the Group; (iii) the valuation report on the Argent Land; and (iv) the notice of SGM.

* *For identification purpose only*

THE RELOCATION AGREEMENT

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.

A summary of the salient terms of the Relocation Agreement is set out below:

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.

Asset 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 approximately 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) which 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 Shareholders' approval 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 this circumstance, 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 (including any compensation to be paid to Huanggekeng Company in this connection) 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 the 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 on 15 August 2014 upon 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, 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, and having considered the estimated compensation to be paid to Huanggekeng Company, taking into account factors including the area of the Huanggekeng Land, and the fact that the Huanggekeng Land is currently occupied by Argent therefore delivery of possession in the Huanggekeng Land by Huanggekeng Company is not required.

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 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, 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.

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 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 deliver vacant possession, transfer property rights and provide relevant information to Kaisa Property pursuant to the Relocation Agreement, 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 under the above circumstances, 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.

Huanggekeng Company

As at the Latest Practicable Date, Argent is in negotiations with Huanggekeng Company and Kaisa Property in relation to, among other things, the terms and provisions of a relocation and compensation agreement to be entered into between Kaisa Property and Huanggekeng Company in relation to the Huanggekeng Land. As such negotiations were ongoing as at the Latest Practicable Date, the terms and provisions (including the amount of compensation to be paid to Huanggekeng Company that shall be borne by Argent) of such relocation and compensation agreement are yet to be agreed.

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. Argent and the Individuals have agreed to negotiate and enter into the Relocation Agreement and the Individual Relocation Agreements 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) to impose a daily penalty at the same rate as that contained in the Relocation Agreements, being 0.03% of the amount of consideration paid by Kaisa Property or 0.03% of the amount of outstanding consideration that is overdue (as the case may be) against the defaulting party in case of delay 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" above (save and except for paragraphs (iv) and (v)). Upon termination under the above circumstances, 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 Individual Relocation Agreements will be terminated simultaneously and the 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 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: discrepancy from land survey	(55.65)
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
Total:	**65,396.60**

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 redevelopment plans in relation to the Argent Urban Renewal Project to the relevant PRC government authorities in the first quarter of 2012, to apply for approval to, among other things, convert the Argent Land, Land A, Land B, Land C, Land D, the Huanggekeng Land and certain adjoining parcels of land from mainly industrial and residential use, to a community comprising residential, office and commercial facilities. 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, redevelopment plans in relation to 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 with a total gross floor area of approximately 260,000 square metres. Please refer to Notes 2 and 3 to the valuation report of Vigers set out in Appendix 2 to this circular for further details. 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, 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 TRANSACTIONS 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) (inclusive of the compensation to be paid to Huanggekeng Company). 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.

As a result of the Transactions, the Company estimates that its bank and cash balance will increase by an amount ranging from approximately RMB790,700,000 (equivalent to approximately HK$995,700,000) to RMB914,700,000 (equivalent to approximately HK$1,151,900,000), its property, plant and equipment will decrease by approximately RMB123,100,000 (equivalent to approximately HK$155,000,000), and its Shareholders' equity will increase by an amount ranging from approximately RMB667,600,000 (equivalent to approximately HK$840,700,000) to RMB791,600,000 (equivalent to approximately HK$996,900,000).

As the Group is principally engaged in the design, manufacture and sale of various kinds of optical products, the Company intends to apply the net proceeds from the Disposal for future investment(s) or acquisition(s) that will complement the core business of the Group as and 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 circular, 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.

In addition, the Board has always sought to maintain and enhance capital efficiency and return on equity for the Group. As such, the Board intends, after receiving the Consideration, when cash becomes available for distribution and is surplus to foreseeable requirements, to distribute the surplus to Shareholders by way of special distributions. The timing, amount and number of such distributions cannot currently be ascertained. The Company will make announcements as and when appropriate.

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 Argent Urban Renewal Project, including providing market information to Argent, locating and recommending reputable potential buyers for the Argent Urban Renewal Project to Argent, and assisting Argent with the negotiation of pricing and other terms offered by such potential buyers.

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 Optical 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 default on the part of Argent prior to such purchaser having 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 resulting from 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.

Since June 2010 when Argent has been informed that its existing facility situated at the Argent Land would be the subject of special planning for redevelopment, the Company has been contemplating to sell the Argent Land as it had and currently have no plans to diversify into property development. Argent submitted the redevelopment plans in relation to the Argent Urban Renewal Project in the first quarter of 2012 so that it could increase the attractiveness and value of the Argent Land to potential buyers of the Argent Urban Renewal Project and to maintain control over the progress of the implementation of its factory relocation plan.

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 People's Government in 2014, if a named developer cannot be confirmed within two years from the date on which a 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 had 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 Disposal 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 Transactions are on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

As disclosed in the interim report of the Company for the six months ended 30 June 2014, the Group recorded a consolidated revenue of HK$772.2 million, representing an increase of 9% when compared with the consolidated revenue of HK$706.7 million in the corresponding period of 2013. Profit attributable to Shareholders for the same period decreased by 70% to HK$5.4 million when compared with the profit of HK$18.2 million in the corresponding period of 2013.

The Group's order book remains stable at about three months of sales orders. On the cost side, increase in labour and operating costs will continue to put pressure on the margin of the Group. Modest price adjustments can only alleviate part of the cost pressure.

The Board considers the Disposal to be an important opportunity for the Group to capitalize on its investment gain. The proceeds generated from the Disposal can finance the relocation of its manufacturing facilities from the Argent Land to its newly established factories in Heyuan City and Pingdi Town, Shenzhen City and the Group will benefit from the improvement of operational efficiency in the long term.

As disclosed in the paragraph headed "Financial Impact of the Transactions and Intended Use of Proceeds" above, the estimated relocation costs and expenses (inclusive of the compensation to be paid to Huanggekeng Company) to be incurred by the Group is approximately RMB400,000,000 (equivalent to approximately HK$503,800,000). The Company expects to finance such relocation costs and expenses by the proceeds from the Disposal and the Group's internal resources.

The Board is optimistic about the prospect of the Group given the benefits anticipated to be accrued to the Group as a result of the Transactions. The Group will continue to explore investment opportunities in strategic areas for improvement in its overall competitiveness that will create value to the Shareholders.

The Group intends to continue with operating its core business of design, manufacture and sale of various kinds of optical products.

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 represent 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 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.

Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying are Directors and have a material interest in the Transactions. They have abstained from voting on the board resolution approving the same.

SGM

The SGM will be held at Garden Room A-B, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 8 October 2014 at 3:00 p.m. for the Shareholders to consider and, if thought fit, to approve the Transactions.

As at the Latest Practicable Date, the Individuals and their associates are interested in 188,738,000 Shares, representing approximately 49.2% of the issued share capital of the Company. In view of the interests of the Individuals in the Individual Relocation Agreements and thereby the Transactions, the Individuals and their associates are required to abstain and shall abstain from voting on the resolution to be proposed at the SGM to approve the Transactions.

To the best of the Directors' knowledge, information and belief and having made reasonable enquiries, Kaisa Group Holdings Ltd, and QLH Property and their associates are not interested in any Shares.

The votes to be taken at the SGM in relation to the proposed resolution will be taken by poll.

The Independent Board Committee comprising the three independent non-executive Directors has been established to make recommendations to the Independent Shareholders regarding the Transactions.

Crosby Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Transactions.

A notice convening the SGM is set out on pages 66 to 67 of this circular. Whether or not you are able to attend the SGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of this circular which contains its recommendation to the Independent Shareholders in relation to the terms of the Transactions.

Your attention is also drawn to the letter from Crosby Securities set out on pages 22 to 33 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transactions and the principal factors and reasons taken into account in arriving at its recommendation.

The Directors consider that the terms of the Transactions are determined after arm's length negotiations between the parties and on normal commercial terms. The Directors further consider that the terms of the Transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, having taken into account the terms of the the Transactions and the advice of Crosby Securities, considers that the the Transactions are on normal commercial terms and, although not in the ordinary and usual course of the business of the Company, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular and the notice of SGM.

Yours faithfully,
By Order of the Board
Arts Optical International Holdings Limited

Ng Hoi Ying, Michael
Chairman

ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

19 September 2014

To: the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION

We refer to the circular issued by the Company to the Shareholders dated 19 September 2014 (the "Circular") which this letter forms part. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider the terms and conditions of the Transactions (details of which are set out in the "Letter from the Board" in the Circular) and to advise the Independent Shareholders in respect of the same. Crosby Securities has been appointed as the Independent Financial Adviser.

We wish to draw your attention to the "Letter from the Board" and the "Letter from Crosby Securities" as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Crosby Securities as set out in its letter of advice, we consider that the terms and conditions of the Transactions are on normal commercial terms and, although not in the ordinary and usual course of business of the Company, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders to vote in favour of the ordinary resolution approving the Transactions at the SGM.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Wong Chi Wai
Chung Hil Lam Eric
Lam Yu Lung
Independent Non-executive Directors

* *For identification purpose only*

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

CROSBY

5/F, AXA Centre
151 Gloucester Road
Wanchai, Hong Kong

19 September 2014

To the Independent Board Committee and
the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE ARGENT LAND AND THE SERVICE AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Relocation Agreement and Service Agreement, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company (the "**Circular**") to the Shareholders dated 19 September 2014, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 15 August 2014, Argent, an indirect wholly-owned subsidiary of the Company, Kaisa Property and Kaisa Shenzhen entered into the Relocation Agreement, pursuant to which 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, for an aggregate consideration of RMB220,300,000 (equivalent to approximately HK$277,500,000).

Furthermore, 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.

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.

Furthermore, 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.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, has been formed to advise the Independent Shareholders in respect of the Transactions.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company. The Directors have declared in a responsibility statement set out in the Appendix 3 to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, Kaisa Property, Kaisa Shenzhen and QLH Property or any of their respective subsidiaries or associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, our sole responsibility is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice, we have considered the following principal factors and reasons:

A. Background and reasons for entering into the Relocation Agreement

Information on the Company

The Group is principally engaged in the design, manufacture and sale of various kinds of optical products. According to the announcement (the "**Results Announcement**") of the Company dated 28 August 2014 on the interim results for the six months ended 30 June 2014, the Group recorded revenue of approximately HK$772.2 million, representing an increase of approximately 9.3% as compared to the corresponding period in 2013. Both the profit attributable to the Shareholders and basic earnings per Share decreased by approximately 70% to HK$5.4 million and 1.4 HK cents respectively for the six months ended 30 June 2014 as compared to the corresponding period in 2013. According to the Results Announcement, the significant increases in labour and other operating costs in the PRC continued to put pressure on the gross margin of the Group. In particular, the statutory minimum wage in Shenzhen City where the Group's main manufacturing facilities were located increased by approximately 13% in February 2014.

Information on the Argent Land and the Argent Urban Renewal Project

The Argent Urban Renewal Project is situated in Longcheng Street, Longgang District, Shenzhen. The Argent Urban Renewal Project has a site area of approximately 65,396.60 square metres and is comprised of several parcels of land: (i) the Argent Land, which will be disposed by the Group under the Relocation Agreement; (ii) Land A, Land B, Land C and Land D (collectively the "**Individuals' Land**"), which will be disposed by the Individuals under the Individual Relocation Agreements; (iii) the Huanggekeng Land; and (iv) 國有未出讓土地 (State-owned land without land use rights granted). Please refer to the Letter from the Board for details of the site area of each parcel of land comprising the Argent Urban Renewal Project.

The Argent Land is currently used by the Group mainly for manufacturing purposes and has a site area of approximately 59,701.30 square metres (representing approximately 91.3% of the site area of the Argent Urban Renewal Project). The Individuals' Land is currently leased out by the Individuals and has an aggregate area of approximately 1,495 square metres (representing approximately 2.3% of the site area of the Argent Urban Renewal Project).

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, 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) (the "**Appraised Value**") as at 31 July 2014.

As disclosed in the Letter from the Board, Argent received a letter (the "**Letter**") 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) in June 2010, 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 on the Argent Land. The Group is principally engaged in the design, manufacture and sale of optical products and has no experience in property development. To better realize the potential value of the Argent Land, increase the attractiveness and value of the Argent Land to potential buyers of the Argent Urban Renewal Project and control the progress of implementation of the factory relocation plan, Argent submitted to the relevant PRC government authorities the redevelopment plans in relation to the Argent Urban Renewal Project in the first quarter of 2012, to apply for approval to, among other things, convert the Argent Land, Land A, Land B, Land C, Land D, the Huanggekeng Land and certain adjoining parcels of land from mainly industrial and residential use, to a community comprising residential, office and commercial facilities. The Argent Urban Renewal Project subsequently obtained approval from 深圳市規劃和國土資源委員會 (the Urban Planning Land and Resources Commission of the Shenzhen Municipality) in January 2014 and is permitted to renew the land covered by the Argent Urban Renewal Project into a community comprising residential, office and commercial facilities with a total gross floor area of approximately 260,000 square metres. Given that property development is outside the business scope of the Group, we concur with the Directors that the disposal of the Argent Urban Renewal Project to realize the market value of the project is in the interests of the Company and the Shareholders as a whole.

According to the Company, its existing facilities in the Argent Land have been in use for nearly thirty years. There is a lack of space for further expansion and the dated design of the buildings erected hinders the implementation of modern production processes. The factory relocation 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.

Moreover, pursuant 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 People's Government in 2014, the Argent Urban Renewal Project which obtained approval on 24 January 2014, is required to confirm the named developer for the Argent Urban Renewal Project on or before 23 January 2016. As the Group is expected to deliver vacant possession of the Argent Land to Kaisa Property in the second half of 2015 pursuant to the Relocation Agreement, such timeline is within the prescribed time limit set out in the Provisional Measures and allows the Group sufficient time to arrange for the relocation of facilities and to avoid material disruption to its manufacturing operations.

After taking into account that (i) the Group's existing production facilities situated on the Argent Land is required to be relocated pursuant to the Letter and; (ii) such facilities have been in use for a long time and is incapable of further expansion or implementation of modern production, the Directors consider that the Disposal represent an important opportunity for the Group to capitalize on its investment gain and to finance the relocation of its manufacturing facilities. As the Group is principally engaged in the design, manufacture and sale of various kinds of optical products, the Company intends to apply the net proceeds from the Disposal for future investment(s) or acquisition(s) that will complement the core business of the Group as and when such opportunities arise and as general working capital of the Group. As at the Latest Practicable

Date, the Company has not yet determined the exact allocation of the net proceeds and 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. If 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. Furthermore, after receiving the Consideration, if cash becomes available for distribution and is surplus to foreseeable requirements, the Board intends to distribute the surplus to Shareholders by way of special distributions.

Given the above and our analysis on the major terms of the Relocation Agreement (as elaborated below), we concur with the view of the Directors that the entering into of the Relocation Agreement is in the interests of the Company and the Shareholders as a whole.

B. Major terms of the Relocation Agreement

Pursuant to the Relocation Agreement dated 15 August 2014, Argent, an indirectly wholly-owned subsidiary of the Company, conditionally agreed to transfer its interest in the Argent Urban Renewal Project to Kaisa Property, which in turn conditionally agreed to pay the Consideration in the amount of RMB1,579,700,000 (equivalent to approximately HK$1,989,500,000) to Argent. Argent's interest in the Argent Urban Renewal Project includes the development rights, the Argent Land and all buildings, structures and attachments erected thereon (including all land use rights relating thereto). As mentioned above, the Argent Land is currently used by the Group mainly for manufacturing purposes and has a site area of approximately 59,701.30 square metres (representing approximately 91.3% of the site area of the Argent Urban Renewal Project). Pursuant to the Relocation Agreement, Kaisa Shenzhen shall provide a joint and several guarantee of all obligations of Kaisa Property (a subsidiary of Kaisa Shenzhen) under the Relocation Agreement.

Kaisa Property is a subsidiary of Kaisa Shenzhen, which in turn is a subsidiary of Kaisa Group Holdings Ltd. ("**Kaisa Group**"). Kaisa Group is listed on the Main Board of the Stock Exchange and its subsidiaries are principally engaged in property development, property investment and property management, and hotel and catering operations. Kaisa Shenzhen and Kaisa Property are principally engaged in property development. As disclosed in the Letter from the Board, 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. Nonetheless, as explained in the section headed "Listing Rules Implications" in the Letter from the Board, 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.

The Relocation Agreement is conditional upon obtaining Independent Shareholders' approval for the Disposal and Argent shall procure the Company to issue a notice to convene the SGM to approve, among other things, the Disposal within twenty five business days from the signing of the Relocation Agreement and the Individual Relocation Agreements. In the event that the approval by the Independent 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. The Individual Relocation Agreements will be terminated simultaneously under such circumstances.

It is noted that as the Argent Urban Renewal Project requires the relocation of all parcels of land it covers, including both the Argent Land and the Individuals' Land, the completion of the Relocation Agreement and the Individual Relocation Agreements are inter-conditional. For Kaisa Property to become the named developer of the Argent Urban Renewal Project, the transactions contemplated under the Relocation Agreement as well as the Individual Relocation Agreements must be materialized.

Pursuant to the Relocation Agreement, after obtaining Independent Shareholders' approval at the SGM and one month before delivery of vacant possession of the Argent Land to Kaisa Property, Argent shall submit all required information 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. Furthermore, within twelve months of having received the first installment of the Consideration, Argent shall deliver vacant possession of the Argent Land to Kaisa Property and issue a statement and declaration in relation to the transfer of all titles in the Argent Land to Kaisa Property.

After Kaisa Property received confirmation 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.

Pursuant to the Relocation Agreement, Kaisa Property may elect to unilaterally terminate the Relocation Agreement under certain specified conditions as set out in details in the Letter from the Board. In the event of unilateral termination by Kaisa Property, 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.

According to the Relocation Agreement, 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 which is interested in the Huanggekeng Land, and bear all costs (the "**Huanggekeng Compensation**") incurred. We have discussed with the Company in respect of the Huanggekeng Compensation and understand that:

(i) the Company is major stakeholder of the Argent Urban Renewal Project with property interest in approximately 91.3% of the total site area and led the sale of the Argent Urban Renewal Project;

(ii) the completion of the Relocation Agreement is conditional upon the completion of the relocation of all parcels of land comprising the Argent Urban Renewal Project, including the Huanggekeng Land which represents approximately 1.9% of the Argent Urban Renewal Project in terms of the total site area; and

(iii) the Company and Huanggekeng Company are still in the early stage of negotiations and the amount of Huanggekeng Compensation has yet to be determined. Based on the Company's estimation, the Company considers that the Consideration after deduction of the Huanggekeng Compensation will still represent a premium above the Appraised Value (as elaborated below).

Consideration

The Consideration for the Disposal is RMB1,579,700,000 (equivalent to approximately HK$1,989,500,000) and 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.

As disclosed in the Letter from the Board, 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, having regard to the fair market value of the Argent Land based on the Appraised Value of RMB1,238,000,000 (equivalent to approximately HK$1,559,200,000) as at 31 July 2014, and having considered the estimated compensation to be paid to Huanggekeng Company, taking into account factors including the area of the Huanggekeng Land, and the fact that the Huanggekeng Land is currently occupied by Argent therefore delivery of possession in the Huanggekeng Land by the Huanggekeng Company is not required.

In assessing the fairness and reasonableness of the Consideration for the Disposal, we have discussed with the management of the Company to understand the principal basis in determining the consideration and reviewed the valuation report (the "**Valuation Report**") of the Argent Land prepared by Vigers (the "**Valuer**") and the list of offers from various potential buyers of the Argent Urban Renewal Project. As the offers only contained price quotations from potential buyers, the Company selected the offer with the highest price for it to further negotiate other detailed offer terms with the selected buyer. We understand from the Company that the Company would be responsible for the compensation of the Huanggekeng Land and the service fee payable to QLH Property for the sale of the entire Argent Urban Renewal Project whichever offer the Company selects. As advised by the Company, the Consideration was arrived at after arm's length negotiation between the parties and taking into account (i) the offers from other potential buyers for the Argent Urban Renewal Project; and (ii) the Appraised Value of the Argent Land. Based on the information provided by the Company, we note that the aggregate consideration for the Argent Urban Renewal Project of RMB1,800,000,000 (equivalent to approximately HK$2,267,000,000) payable by Kaiser Property pursuant to the Relocation Agreement and the Individuals Relocation Agreements is higher than those offered by other potential buyers for the Argent Urban Renewal Project. Furthermore, we note that the Consideration of RMB1,579,700,000 (equivalent to approximately HK$1,989,500,000) represents a premium of approximately 27.6% to the Appraised Value of RMB1,238,000,000 (equivalent to approximately HK$1,559,200,000) as at 31 July 2014. As discussed in the paragraph headed "Major terms of the Service Agreement", the Company will bear the Service Fee attributable to the Individuals in the amount of RMB14,319,500 (equivalent to approximately HK$18,035,000). On the basis that the Service Fee attributable to the Individuals and the estimated amount of Huanggekeng Compensation were both deducted from the Consideration, the adjusted consideration (the "**Adjusted Consideration**") for the Argent Land would still represent a premium of 20% or above as compared to the Appraised Value.

Taking into account (i) the Appraised Value is determined by the Valuer on a fair and reasonable basis (as elaborated below) and the Adjusted Consideration is estimated to represent a premium of 20% or above to the Appraised Value; and (ii) the Consideration is the highest price among the offers from all potential buyers, we concur with the Directors that the Consideration is fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Appraised Value

In assessing the fairness and reasonableness of the Appraised Value, we have performed the work done as set out below:

(i) Experience of the Valuer and its engagement

We have interviewed the Valuer and reviewed the Valuer's engagement letter and other information provided by the Valuer. Based on the review and the interview, we are satisfied with the terms of the engagement of the Valuer and its qualification and experience for preparation of the Valuation Report. Furthermore, the Valuer confirmed that it is independent of and not connected with the Group, Kaisa Property, Kaisa Shenzhen and their respective associates.

(ii) Valuation assumption and methodology

As stated in the Valuation Report, the Valuer was instructed by the Company to conduct a valuation of the property interest held by the Group in the Argent Land.

The Valuation Report is prepared in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors ("**HKIS**") and the requirements set out in Chapter 5 and Practice Note 12 to the Listing Rules. According to the Valuation Report, the Appraised Value is the Valuer's opinion of the market value of the property interest which represents the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

We have discussed with the Valuer regarding the valuation assumptions as set out in the Valuation Report and note that they are normal assumptions in relation to valuation of assets. Please refer to the Valuation Report in Appendix 2 to the Circular for detailed description of the valuation assumptions. We note that the Valuer has conducted a site visit on 14 May 2014 and obtained extracts of the title documents relating to the property interests, legal opinion of the Group's PRC legal adviser and other relevant information as part of its due diligence to determine the valuation of the Argent Land. As advised by the Valuer, it has adopted the direct comparison approach with reference to comparable transactions in the locality and taken into account the supplemental land premium payable. According to the Valuer, the direct comparison method considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a real property that a reasonable investor would have to pay for a similar real property of comparable utility and with an absolute title.

According to the Valuer, the comparable transactions are selected based on locality and transaction nature. We understand from the Valuer that the comparable transactions are recent transactions of residential, office and commercial facilities from completed redevelopment projects in Longgang District of Shenzhen where the Argent Urban Renewal Project is located. Based on our discussion with the Valuer, we are satisfied with the basis of the comparables selection. As advised by the Valuer, the valuation method it has adopted for the valuation is commonly adopted for valuation of land, consistent with normal market practice, and complies with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Payment of Consideration

The Consideration shall be settled in cash by Kaisa Property in the following manner:

(i) an initial deposit of RMB50,000,000 (equivalent to approximately HK$63,000,000) was paid on 15 August 2014 upon signing of the Relocation Agreement;

(ii) upon satisfaction of the condition precedent in the Relocation Agreement, the first installment 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 installment of the Consideration;

(iii) the second installment 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 installment 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 "The Relocation Agreement – Key responsibilities of the parties" in the Letter from the Board; and

(v) the fourth installment 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.

As stated in the Letter from the Board, 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) (inclusive of the Huanggekeng Compensation).

As a result of the Transactions, the Company estimates that its bank and cash balance will increase by an amount ranging from approximately RMB790,700,000 (equivalent to approximately HK$995,700,000) to RMB914,700,000 (equivalent to approximately HK$1,151,900,000), its property, plant and equipment will decrease by approximately RMB123,100,000 (equivalent to approximately HK$155,000,000), and its Shareholders' equity will increase by an amount ranging from approximately RMB667,600,000 (equivalent to approximately HK$840,700,000) to RMB791,600,000 (equivalent to approximately HK$996,900,000).

Taking into account that (i) the Group's existing production facilities situated on the Argent Land is required to be relocated pursuant to the Letter and have limited space and capacity for expansion and modernized manufacturing; (ii) the Consideration is approximately 27.6% higher than the Appraised Value and represents the highest price amount offer received by the Group from potential buyers; and (iii) the gain on disposal to be recorded by the Group, we concur with the view of the Directors that the terms of the Relocation Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

C. Background of the Individual Relocation Agreements

At the request of Kaisa Property, Argent and the Individuals have agreed to negotiate and enter into the Relocation Agreement and the Individual Relocation Agreements with Kaisa Property and Kaisa Shenzhen at the same time. Accordingly, 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) on 15 August 2014. The aggregate consideration is at a premium of approximately 8.5% as compared to its valuation of RMB203,000,000 (equivalent to approximately HK$255,700,000) as at 31 July 2014 as assessed by the Valuer. The terms and provisions of each of the Individual Relocation Agreements are substantially the same as each other.

As disclosed in the Letter from the Board, 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 property valuation as assessed by the Valuer. 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. As the Individuals' Land forms part of the entire Argent Urban Renewal Project, the Relocation Agreement and the Individual Relocation Agreements are inter-conditional. We consider that the Individual Relocation Agreements are on normal commercial terms.

D. Background and reasons for the Service Agreement

On 15 August 2014, Argent and QLH Property entered into the Service Agreement, pursuant to which QLH Property shall provide consultation services to Argent in relation to the Argent Urban Renewal Project. Such consultation services include providing market information to Argent, locating and recommending reputable potential buyers for the Argent Urban Renewal Project to Argent, and assisting Argent with the negotiation of pricing and other terms offered by such potential buyers. As stated in the Letter from the Board, 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. As 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), the Service Agreement constitutes the provision of financial assistance to the Individuals by the Company pursuant to Rule 14A.24(4) of the Listing Rules.

As advised by the Company, QLH Property is familiar with the local market in Shenzhen. Its management team has professional expertise and experience in property consultancy in Shenzhen. QLH Property has an extensive sales network and can facilitate negotiations with a reputable purchaser. It has introduced various potential buyers to the Group. As the Company is based in Hong Kong and principally engaged in the design, manufacture and sale of various kinds of optical products, it lacks sufficient access to and information on potential buyers in the local market and requires a professional property agency to assist in the sale of the Argent Land.

Taking into the account that the Company can benefit from the QLH Property's sales network and services, we concur with the Directors' view that the Service Agreement is in the interests of the Company and the Shareholders as a whole.

E. Major terms of the Service Agreement

Pursuant to the Service Agreement, the Group shall pay RMB117,000,000 (equivalent to approximately HK$147,400,000), representing 6.5% of the aggregate consideration of RMB1,800,000,000 (equivalent to approximately HK$2,267,000,000) for the Disposal and the Individuals' Disposals, to QLH Property for the consultancy services provided by QLH Property. As disclosed in the Letter from the Board, 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.

We note that the service fee payable by the Group comprised (i) 6.5% of the Consideration of RMB1,579,700,000 (equivalent to approximately HK$1,989,500,000) pursuant to the Disposal; and (ii) 6.5% of the consideration for Individuals' Disposals of RMB220,300,000 (equivalent to approximately HK$277,500,000). After discussion with the Company, we understand from the Company that:

(i) as the major stakeholder of the Argent Urban Renewal Project interested in approximately 91.3% of the total site area, the Group led the sale of the Argent Urban Renewal Project and the completion of the Relocation Agreement and the Individual Relocation Agreements are inter-conditional;

(ii) the service fee (the "**Individuals' Service Fee**") attributable to the Individuals' Disposals in the amount of RMB14,319,500 (equivalent to approximately HK$18,035,000), which is borne by the Company pursuant to the Service Agreement, effectively reduces the Consideration by the same amount; and

(iii) on such basis, as set out in the paragraph headed "Consideration" above, the Adjusted Consideration for the Argent Land is estimated to represent a premium of 20% or above to the Appraised Value, which is still higher than the premium of approximately 8.5% of the Individuals' Land's aggregate consideration as compared to its valuation as set out in the paragraph headed "Background of the Individual Relocation Agreements".

Given the above, we concur with the view of the Directors that although the Company is required to pay for the entire amount of the service fee pursuant to the Service Agreement including the service fee attributable to the Individuals' Disposals, which in turn benefits the Individuals including Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying who are the connected persons to the Company under the Listing Rules, it is still justifiable for the Company to enter into the Service Agreement in order to facilitate the Disposal, the disposal of the Argent Urban Renewal Project and the transactions contemplated thereunder.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the terms of the Relocation Agreement and the Service Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. We consider that the Relocation Agreement and the Service Agreement are not agreements normally conducted in the ordinary and usual course of business of the Company.

Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Transactions.

Yours faithfully,
For and on behalf of
Crosby Securities Limited

Alex Lau
Managing Director
Corporate Finance

Cathy Leung
Vice President
Corporate Finance

Note:

Mr. Alex Lau of Crosby Securities has been a responsible officer of Type 6 (advising on corporate finance) regulated activities since 2003. Ms. Cathy Leung of Crosby Securities has been a representative of Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Alex Lau and Ms. Cathy Leung of Crosby Securities have participated in and completed various advisory transactions involving properties.

FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the three years ended 31 December 2013 and for the six months ended 30 June 2014 are disclosed in the Company's annual reports for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 and interim report for the six months ended 30 June 2014, respectively, which are incorporated by reference into this circular. The said annual reports and interim report of the Company are available on the Company's website at www.artsgroup.com and the website of the Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

The following is a quick link to the 2011 annual report of the Company published on 17 April 2012 with its audited consolidated financial statements for the year ended 31 December 2011 on pages 26 to 81:

http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0417/LTN20120417141.pdf

The following is a quick link to the 2012 annual report of the Company published on 15 April 2013 with its audited consolidated financial statements for the year ended 31 December 2012 on pages 31 to 95:

http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0415/LTN20130415207.pdf

The following is a quick link to the 2013 annual report of the Company published on 15 April 2014 with its audited consolidated financial statements for the year ended 31 December 2013 on pages 29 to 97:

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0415/LTN20140415679.pdf

The following is a quick link to the 2014 interim report of the Company published on 10 September 2014 with its unaudited condensed consolidated financial statements for the six months ended 30 June 2014 on pages 9 to 28:

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0910/LTN20140910164.pdf

PROPERTY VALUATION RECONCILIATION

The statement below shows the reconciliation of the net book value of Argent Land and the properties erected thereon as recorded in the Group's unaudited consolidated financial statements as at 30 June 2014 with the valuation of Argent Land as at 31 July 2014 as set out in Appendix 2 to this circular.

	RMB
Net book value of Argent Land and the properties erected thereon as at 30 June 2014	123,100,000
Add: Additions during the period from 1 July 2014 to 31 July 2014	–
Less: Disposal during the period from 1 July 2014 to 31 July 2014	–
Less: Depreciation during the period from 1 July 2014 to 31 July 2014	(600,000)
Net book value of Argent Land and the properties erected thereon as at 31 July 2014	122,500,000
Net valuation surplus	1,115,500,000
Market value of Argent Land as at 31 July 2014 as set out in the valuation report in Appendix 2 to this circular	**1,238,000,000**

STATEMENT OF INDEBTEDNESS

At the close of business on 31 July 2014, being the latest practicable date prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK$83,792,000 including unsecured discounted bills with recourse of approximately HK$30,964,000 and bank borrowings of approximately HK$52,828,000 that were secured by the Group's leasehold land and buildings with carrying amount of approximately HK$66,241,000 and the Group's investment properties with carrying amount of approximately HK$85,680,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 July 2014 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that taking into account the Consideration receivable under the Relocation Agreement in connection with the Argent Urban Renewal Project and the present financial resources available to the Group including but not limited to its internally generated revenue and funds, cash and cash equivalents on hand, other available banking facilities and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in the Company's interim results announcement dated 28 August 2014 in which it was announced that, among other things, the profit attributable to the Shareholders and basic earnings per Share for the six months ended 30 June 2014 decreased by approximately 70% despite an increase in revenue by approximately 9% as compared to the corresponding period in 2013, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest audited consolidated financial statements of the Group were made up.

MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis extracted from the annual reports of the Group for the financial years ended 31 December 2011, 2012, and 2013, and the interim report for the six months ended 30 June, 2014, and modified as appropriate:

(a) Management discussion and analysis for the six months ended 30 June 2014

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 9% to HK$772.2 million in the six months ended 30th June, 2014 (2013: HK$706.7 million). Both the profit attributable to the Shareholders and basic earnings per share decreased by 70% to HK$5.4 million and 1.4 HK cents respectively in the period under review (2013: HK$18.2 million and 4.7 HK cents respectively).

The significant increases in labour and other operating costs in China continued to put pressure on the gross margin of the Group. The statutory minimum wage in Shenzhen City where the Group's main manufacturing facilities are located increased by 13% in February 2014. As a result, the gross profit ratio (being the ratio of gross profit to revenue) of the Group declined by 3.1% from 19.4% in the first half of 2013 to 16.3% in the corresponding period of 2014. Although the Group managed to cut down its total expenses-to-revenue ratio (being the ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) by 0.6% from 17.5% to 16.9%, the net profit ratio (being the ratio of profit attributable to the Shareholders to revenue) still decreased by 1.9% from 2.6% for the first half of 2013 to 0.7% for the period under review principally as a result of the decline in gross margin ratio.

Original design manufacturing (ODM) division

Revenue generated by the ODM division contributed 91% of the consolidated revenue of the Group in the six months ended 30th June, 2014 (2013: 90%). Although market sentiment in all major market segments remained weak in 2014, the Group benefited from the increased emphasis placed by its major ODM customers on the reliability of supply chain which resulted in the consolidation of their vendor portfolio. Accordingly, sales to ODM customers increased by 11% from HK$633.7 million in the first half of 2013 to HK$702.8 million in the first six months of 2014. Increases in turnover was recorded in all major ODM markets, including Europe, the United States (the "US") and Asia. Geographically, sales to Europe, the US, Asia and other regions accounted for 63%, 29%, 7% and 1% respectively (2013: 69%, 26%, 4% and 1% respectively) of the revenue of the ODM division in the period under review. The Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 50%, 48% and 2% respectively of the revenue of this division during the period under review (2013: 51%, 46% and 3% respectively).

Distribution and retailing divisions

Revenue generated by sale of house brand and licensed brand products through the designated distributors of the distribution division accounted for 9% of the consolidated revenue of the Group in the first half of 2014 (2013: 10%). Revenue of the distribution division decreased modestly by 4% from HK$71.3 million in the first half of 2013 to HK$68.2 million in the first half of 2014. Growth in sales was recorded in all market segments except for South America and Africa. Sales to Europe, Asia and other regions accounted for 46%, 31% and 23% respectively of the revenue of the distribution division in the first six months of 2014 (2013: 44%, 25% and 31% respectively).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division declined from HK$1.7 million in the first half of 2013 to HK$1.2 million in the corresponding period of 2014 as the retailing market in Shenzhen remained weak.

Financial position and liquidity

Cash flows

The Group generated a net cash inflow from operating activities of HK$63.0 million during the period under review (2013: HK$66.7 million). Capital expenditure increased significantly from HK$32.3 million in the first six months of 2013 to HK$94.9 million in the period under review as the Group completed the acquisition of its office in Hong Kong with a total cost of HK$35.6 million and incurred additional capital expenditure in preparation of its factory relocation in the first half of 2014. Total dividend payments of HK$9.6 million were made (2013: HK$10.6 million). The net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$169.5 million as at 31st December, 2013 to HK$127.5 million as at 30th June, 2014.

Working capital management

As a result of the strenuous efforts made by the Group including the streamlining of internal operations and installations of advanced semi-automated equipment, inventory turnover period (being the ratio of inventory balances to cost of sales) decreased from 57 days in the first half of 2013 to 54 days in the first half of 2014. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased from 95 days in the first six months of 2013 to 101 days in the first six months of 2014 as a higher proportion of sales was made in the second quarter of 2014 as compared to that of 2013. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 2.5 to 1.0 as at 31st December, 2013 to 2.3 to 1.0 as at 30th June, 2014, as a result of the decrease in net cash position of the Group.

Gearing position

The Group's gearing position remained low throughout the first six months of 2014. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to the Shareholders) remained stable at less than 1% as at both 30th June, 2014 and 31st December, 2013. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$9.0 million as at 30th June, 2014 (31st December, 2013: HK$10.1 million).

Net asset value

The Company had 383,650,000 shares in issue as at both 30th June, 2014 and 31st December, 2013 with an equity attributable to the Shareholders amounting to HK$1,310.0 million and HK$1,316.4 million as at 30th June, 2014 and 31st December, 2013 respectively. Net asset value per share (being the equity attributable to the Shareholders divided by the total number of Shares in issue) as at 30th June, 2014 was HK$3.41 (31st December, 2013: HK$3.43).

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollar, Hong Kong dollar or Renminbi and exchange rate movements between US dollar and Hong Kong dollar were relatively stable during the period under review.

Charges on the Group's assets

As at 30th June, 2014, all of the Group's bank borrowings were secured by the Group's leasehold land and buildings with carrying amount of HK$82.8 million (31st December, 2013: HK$93.6 million) as well as the Group's investment properties with carrying amount of HK$62.8 million (31st December, 2013: Nil).

PROSPECTS

The business environment of the Group's major ODM markets remains soft. Concerns over the geo-political tensions in Europe and the Middle East also affect the procurement confidence of the customers. Despite this, the Group's order book remains stable at about three months of sales orders as a result of the continuous consolidation of the supply chain by major ODM customers.

Cost containment is another major challenge to the Group. Increase in labour and operating costs in mainland China will continue to put pressure on our group margin. Any effect of modest price adjustments can only alleviate part of the cost problems in the short term. In the longer term, the Group will tackle these problems by further improvement of operational efficiency after factory relocation and increase in sales of higher margin house brands products.

In relation to the Disposal, the Group believes that the factory relocation represents a good opportunity for the Group to upgrade and modernize its production facilities in its newly established factories in Heyuan City and Pingdi Town, Shenzhen City. As the relocation is expected to complete in the second half of 2015, the Group anticipates that there will be no material disruption to its manufacturing operations. Please refer to "Letter from the Board – Reasons for and Benefits of the Transactions" of this circular.

The Group's interest in Trenti Industria Occhiali S.r.l. ("Trenti") will increase from 13% to 50% upon completion of its subscription as well as its acquisition of additional quotas in this Italian company in late August 2014. This strategic alliance presents opportunities to the customers of both ODM and distribution divisions to source "Made in Italy" products by leveraging the combined design and product development as well as manufacturing capabilities of the Group and Trenti.

The Group continues to invest in its distribution division as its house brand products carry higher profit margins and allow greater control over the supply chain to the Group. The acquisition of the entire shareholding of Stepper (UK) Limited, the distributor for STEPPER eyewear in the United Kingdom, in July 2014 provided a good opportunity for the Group to further expand its global distributor network of its own brand products. The Group has also commenced the distribution of STEPPER eyewear by its subsidiary incorporated in France which has taken over the business of its distributor in France, Belgium and Luxembourg with effect from August 2014.

The Group will continue its strategy of focusing on its core business of eyewear manufacturing and distribution, continuous investment in strategic areas for improvement in its overall competitiveness and maintaining a solid and liquid financial position.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2014, the Group employed approximately 11,000 (31 December 2013: 9,800) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

(b) Management discussion and analysis for the year ended 31 December 2013

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue remained fairly stable in 2013 and decreased by less than 1% to HK$1,463.0 million (2012: HK$1,475.5 million). Both profit attributable to the Shareholders and basic earnings per share decreased by 2% to HK$47.7 million and 12.4 HK cents respectively in the year under review (2012: HK$48.9 million and 12.7 HK cents).

Higher labour costs and continued appreciation of Renminbi continued to put pressure on the gross margin of the Group. The statutory minimum wages in Shenzhen City, Zhongshan City and Heyuan City, where the Group's manufacturing facilities are located, were raised by 6.7%, 19.1% and 18.8% respectively in 2013. The Renminbi also appreciated by almost 3% against both United States ("US") dollar and Hong Kong dollar throughout 2013. Despite this, the Group managed to keep its gross profit ratio (being the ratio of gross profit to revenue) stable at 18.5% in 2013 (2012: 18.5%) through improvement in operational efficiency, modest price adjustments and increase in sales of higher margin house brand and licensed brand products. Because of the increase in depreciation charge after the production plants in Heyuan City started operations in late 2012, total expenses-to-revenue ratio (being the ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) increased by 0.9% from 16.5% to 17.4%. The Group recorded a net after-tax gain of HK$19.3 million on disposal of two wholly-owned subsidiaries holding two pieces of unutilised land in Heyuan City during the year. Accordingly, the net profit ratio (being the ratio of profit attributable to the Shareholders to revenue) remained flat at 3.3% in both 2013 and 2012. The net profit ratio of 2013 would have decreased to 1.9% if this gain was excluded.

Original design manufacturing (ODM) division

Revenue generated by the ODM division contributed 90% to the consolidated revenue of the Group in both 2013 and 2012. Market sentiment in the two principal markets of the ODM division, namely Europe and the US remained soft in 2013. Sales to ODM customers decreased by 2% from HK$1,331.1 million in 2012 to HK$1,311.0 million in 2013. The geographical sales mix of the Group remained fairly stable in 2013. Sales to Europe, the US, Asia and other regions accounted for 66%, 28%, 5% and 1% respectively of the revenue of the ODM division in 2013 (2012: 67%, 27%, 4% and 2% respectively). The Group continued to maintain a balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 50%, 47% and 3% respectively of the revenue of this division in 2013 (2012: 48%, 50% and 2% respectively).

Distribution and retailing divisions

Revenue generated by sale of house brand and licensed brand products through the designated distributors of the distribution division accounted for 10% of the consolidated revenue of the Group in both 2013 and 2012. Revenue of the distribution division increased modestly by 6% from HK$140.1 million in 2012 to HK$148.5 million in 2013. Decline in sales to the European markets was offset by the increase in sales to emerging markets in Asia and South America. Sales to Europe, Asia, North America and other regions accounted for 48%, 28%, 7% and 17% respectively of the revenue of the distribution division in 2013 (2012: 54%, 24%, 8% and 14% respectively).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division decreased from HK$4.3 million in 2012 to HK$3.5 million in 2013 as the Group only operated one shop in Shenzhen City in 2013 after the closure of two shops in 2012.

Financial position and liquidity

Cash flows

The cash inflow generated by the Group's operating activities decreased from HK$153.9 million in 2012 to HK$113.4 million in 2013 as a result of decline in profitability and increase in working capital during the year under review. On the other hand, capital expenditure decreased significantly from HK$206.5 million in 2012 to HK$66.2 million in 2013 as the Group completed the acquisition of an office premise in Hong Kong with a total cost of HK$99.0 million in 2012. Total amount of dividend payments was also reduced from HK$40.9 million in 2012 to HK$20.2 million in 2013 because of the decline in profitability of the Group. Accordingly the net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) increased from HK$126.6 million as at 31st December, 2012 to HK$169.5 million as at 31st December, 2013.

Working capital management

As production activity is normally at the peak level before Chinese New Year and Chinese New Year in 2014 was closer to the financial year end date of 2013 than in other years, inventory balances increased by 6% from HK$196.5 million as at 31st December, 2012 to HK$208.1 million as at 31st December, 2013. Inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 60 days in 2012 to 64 days in 2013. Total amount of debtors and bills receivable balances increased slightly by 2% from HK$406.3 million as at 31st December, 2012 to HK$413.3 million as at 31st December, 2013 and the debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also increased from 101 days in 2012 to 103 days in 2013. Despite this, the Group's financial position remained strong and liquid. The current ratio (being the ratio of total current assets to total current liabilities) of the Group increased from 2.2 to 1.0 as at 31st December, 2012 to 2.5 to 1.0 as at 31st December, 2013 as a result of the increase in net cash position of the Group.

Gearing position

The gearing position of the Group remained low throughout 2013. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to the Shareholders) remained stable at less than 1% as at both 31st December, 2013 and 31st December, 2012. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$10.1 million as at 31st December, 2013 (31st December, 2012: HK$8.4 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2013 and 31st December, 2012 with an equity attributable to the Shareholders amounting to HK$1,316.4 million and HK$1,273.3 million as at 31st December, 2013 and 31st December, 2012 respectively. Net asset value per share (being the equity attributable to the Shareholders divided by the total number of Shares in issue) as at 31st December, 2013 was HK$3.43 (31st December, 2012: HK$3.32).

Foreign currency exposure

The Group was exposed to the continuous appreciation of Renminbi against both US dollar and Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollar, Hong Kong dollar or Renminbi and exchange rate movements between the US dollar and the Hong Kong dollar were relatively stable during the year under review.

PROSPECTS

The global economic environment remains volatile with low business visibility. Concerns over the effects of the withdrawal of quantitative easing policy by the US Federal Reserve, the extreme weather conditions in Northern Hemisphere in the past few months and the recent geo-political tensions in Europe affect the procurement confidence of customers. On the other hand, customers are placing more emphasis on the reliability of the supply chain and are consolidating the vendor portfolio into a smaller number of larger key vendors. The Group benefitted from this trend and its core ODM division currently maintains a stable order book of around three months' sales order on hand.

On the costs side, there are no signs of abatement in the upward trend of labour costs in China. The statutory minimum wage of Shenzhen City has increased by 13% since February, 2014 and it is anticipated that other cities where the Group's manufacturing facilities are located will also raise their respective statutory minimum wages in the near future. Although the pace of appreciation of Renminbi is slowing down in the first quarter of 2014, the market consensus is that the currency will appreciate steadily in the long term. The Group continues to tackle these challenges by enhancing flexibility in its production scale, streamlining operations and making modest price adjustments.

Revenue contributed by the distribution division has increased by 41% and 393% over the past five years and ten years respectively. The Group will continue to leverage on its extensive global distributor network developed over the past ten years, further invest in acquiring or developing new brands and expand its distributor network.

The factory relocation plan from Long Gang Area, Shenzhen City to Pingdi Town, Shenzhen City and Heyuan City is being executed in phases. The Group has submitted its redevelopment plan for the land occupied by its existing factory in Long Gang Area with a site area of approximately 60,000 square metres to the relevant bureau of the Shenzhen municipal government for its approval and is evaluating various options for realizing the full potential value of this piece of land.

The Group remains alert to further difficulties and challenges that may arise in the global operating environment and will address the various challenges in coming years with financial discipline. The Group is steadfast in its strategy to invest in the future and position itself to seize opportunities that emerge in these challenging times.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2013, the Group employed approximately 9,800 (31st December, 2012: 10,200) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

(c) Management discussion and analysis for the year ended 31 December 2012

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 5% to HK$1,475.5 million (2011: HK$1,547.3 million) whereas the profit attributable to the Shareholders decreased by 56% to HK$48.9 million (2011: HK$112.2 million) in 2012. Basic earnings per share also decreased correspondingly by 56% to 12.7 HK cents (2011: 29.2 HK cents) in 2012.

As reported in the 2012 Interim Report, 2012 was the most challenging and difficult year faced by the Group since the listing of the Company in 1996. The Board issued two "Profit Warning" announcements on 30th May, 2012 and 20th December, 2012. The significant decrease in net profit of the Group was attributable to various factors, including (i) the increase in labour costs after the statutory minimum wage in Shenzhen, where the Group's main manufacturing facilities were located, increased by 14% in February 2012; and (ii) the appreciation of the Renminbi against both the United States ("US") dollar and the Hong Kong dollar throughout 2012. Accordingly, the gross profit ratio (being the ratio of gross profit to revenue) of the Group decreased by 3.3% from 21.8% in 2011 to 18.5% in 2012. The net profit ratio (being the ratio of profit attributable to the Shareholders to revenue) also decreased by 4.0% from 7.3% in 2011 to 3.3% in 2012.

Original design manufacturing (ODM) division

Revenue generated by the ODM division represented 90% of the consolidated revenue of the Group in 2012 (2011: 92%). The exports market remained soft in 2012 amid concerns over the spread of the European sovereign debt crisis and repercussions of the fiscal cliff in the US. Sales to ODM customers decreased by 6% from HK$1,418.8 million in 2011 to HK$1,331.1 million in 2012. Sales to Europe, the US, Asia and other regions accounted for 67%, 27%, 4% and 2% respectively (2011: 59%, 36%, 4% and 1% respectively) of the revenue of the ODM division in 2012. The increase in proportion of sales to Europe reflected the increased dominance of the market by the leading Italian eyewear companies that distributed their portfolio of branded products through their global distribution or retailing networks. The de-stocking exercise carried out by some major American customers also resulted in drop in sales to the US market. Sales of sunglasses, prescription frames and spare parts accounted for 50%, 48% and 2% respectively of the revenue of this division in 2012 (2011: 46%, 53% and 1% respectively). The change in sales mix also matched with the increased emphasis placed by the global leaders of the eyewear industry on sunglasses carrying fashion labels.

Distribution and retailing divisions

The distribution division accounted for 10% of the consolidated revenue of the Group in 2012 (2011: 8%). The Group replaced the two licensed brands (Fiorucci and Pantone) by its own brands C E O·V and BOXX in 2012. The response was encouraging and revenue generated by the distribution division recorded a satisfactory growth of 13% from HK$124.3 million in 2011 to HK$140.1 million in 2012. Sales to Europe, Asia, North America and other regions accounted for 54%, 24%, 8% and 14% respectively of the revenue of the distribution division in 2012 (2011: 55%, 26%, 4% and 15% respectively). All geographical segments reported growth in revenue in 2012.

The retailing division contributed less than 1% to the consolidated revenue of the Group in both 2012 and 2011. Revenue of this division remained relatively flat at HK$4.3 million in 2012 (2011: HK$4.2 million) although the Group closed 2 shops during the year.

Financial position and liquidity

Cash flows

The Group's operating activities continued to generate a healthy net cash inflow of HK$153.9 million (2011: HK$162.4 million) despite a significant decline in the profitability of the Group in 2012. Capital expenditure increased substantially from HK$142.7 million in 2011 to HK$206.5 million in 2012 as the Group completed the acquisition of its new office in Hong Kong with a total cost of HK$99.0 million which was financed by the Group's internal resources and a bank loan of HK$47.6 million. Total dividend payments of HK$40.9 million were made in 2012 (2011: HK$52.5 million). Accordingly, net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$215.7 million as at 31st December, 2011 to HK$126.6 million as at 31st December, 2012.

Working capital management

The Group had been scaling down its production volume amid the weak external market demand since mid-2011. Inventory balances declined slightly by 1% from about HK$197.6 million as at 31st December, 2011 to HK$196.5 million as at 31st December, 2012. Inventory turnover period (being the ratio of inventory balances to cost of sales) remained stable at 60 days in both 2011 and 2012. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) improved from 102 days in 2011 to 101 days in 2012. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 2.6 to 1.0 as at 31st December, 2011 to 2.2 to 1.0 as at 31st December, 2012 mainly as a result of the reduction in its net cash position.

Gearing position

The gearing position of the Group remained low throughout 2012. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to the Shareholders) remained stable at 0.7% as at 31st December, 2011 and 31st December, 2012. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$8.4 million as at 31st December, 2012 (31st December, 2011: HK$8.9 million).

Net book value

The Group had 383,650,000 shares in issue as at both 31st December, 2012 and 31st December, 2011 with an equity attributable to the Shareholders amounting to HK$1,273.3 million and HK$1,259.3 million as at 31st December, 2012 and 31st December, 2011 respectively. Net asset value per share (being the equity attributable to the Shareholders divided by the total number of Shares in issue) as at 31st December, 2012 was HK$3.32 (31st December, 2011: HK$3.28).

Foreign currency exposure

The Group was exposed to the continuous appreciation of Renminbi against both US dollars and Hong Kong dollars. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and the exchange rate movements between US dollars and Hong Kong dollars were relatively stable during the year under review.

Contingent liabilities

	2012	**2011**
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to an independent trade debtor	9,690	9,709

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2011 and 31st December, 2012 are insignificant and of low applicable default risk. Accordingly, the Group has not recognised any liability in the consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

PROSPECTS

Major markets of the Group's ODM division are still mired in macroeconomic uncertainties and challenges in 2013. Worry over the effects of high unemployment rates in Europe and automatic spending cut on US federal spending heavily affect our customers' confidence in procurement. The management continues to adopt measures to maintain flexibility and enhance the productivity of its labour force to cope with the increased volatility of the order book. Currently, the Group's ODM and distribution divisions have three months' sales order on hand.

The Group is determined to increase the proportion of revenue contribution by its distribution division. The Group has gained considerable experience from the success of its German house brand STEPPER. Its extensive global distributor network provides an excellent platform for selling other house brand products of the Group. More new brands will be launched in the coming years after recent launching of two house brands, CEO·V and BOXX in 2011 and 2012 respectively.

Our operating margin will continue to be adversely affected by the cost pressure arising from the appreciation of Renminbi and the rise in labour costs in China. The minimum wages in Shenzhen was raised by 7% in March 2013 after a 14% increment in February 2012 whereas the minimum wages in other areas of Guangdong province will also increase by an average of 19% in May 2013. Given the current external market environment, price adjustments on the Group's products can only be modest and the Group strives to absorb part of the impact by improving operational efficiency and the sale of higher margin house brand products.

The factory relocations from the existing factory in Long Gang Area, Shenzhen City to the two new factories in Pingdi Town, Shenzhen City and Heyuan City are underway and implemented in phases in order to ensure that service to our customers will not be jeopardized. The Group is also negotiating with the local government on the future use of the land occupied by the existing factory in Long Gang Area.

The eyewear industry is still full of opportunities. Aging population, increased awareness of eyecare and vision correction, improved affluence of the emerging markets and the eventual rebound of the economy in developed countries are all long term drivers to growth. Although the outlook for 2013 remains uncertain, the management believes that given the strong and solid fundamentals, business strategy and model of the Group, it is well-positioned to weather the short term challenges and capture long term opportunities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2012, the Group employed approximately 10,200 (31st December, 2011: 10,500) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

(d) Management discussion and analysis for the year ended 31 December 2011

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 14% to HK$1,547.3 million (2010: HK$1,361.0 million) whereas the profit attributable to the Shareholders decreased by 10% to HK$112.2 million (2010: HK$124.7 million) in 2011. Basic earnings per share also decreased correspondingly by 10% to 29.2 HK cents (2010: 32.5 HK cents) in 2011.

Like most of the manufacturers operating in mainland China, the gross margin of the core businesses of the Group continued to be under pressure. The Group raised the wages of its workers in mainland China twice (in January and April) in 2011 to maintain its competitiveness in the tight labour market. Inflation remained high in mainland China and Renminbi appreciated by more than 4% against both United States ("US") dollars and Hong Kong dollars. All these negative cost factors dragged down the gross profit ratio (being the ratio of gross profit to revenue) of the Group by 2.3% from 24.1% in 2010 to 21.8% in 2011. The net profit ratio (being the ratio of profit attributable to the Shareholders to revenue) decreased by 1.9% from 9.2% in 2010 to 7.3% in 2011.

Original design manufacturing (ODM) division

Sales to ODM customers increased by 15% from HK$1,238.5 million in 2010 to HK$1,418.8 million in 2011. Geographically, sales to Europe, the US and Asia were up by 9%, 27% and 14% respectively. Europe, the US, Asia and other regions accounted for 59%, 36%, 4% and 1% respectively (2010: 62%, 32%, 4% and 2% respectively) of the revenue of the ODM division in 2011. The relatively satisfactory sales performance was mainly attributable to the higher level of sales orders received before the market began to slowdown in mid-2011 amid concerns over the spread of European sovereign debt crisis and double-dip recession in the US. Sales of prescription frames grew modestly by 7% whereas sales of sunglasses were up by 27% in 2011. The trend and change in sales mix were the results of increased emphasis placed by the global leaders of the eyewear industry on sunglasses carrying fashion labels. Sales of prescription frames, sunglasses and spare parts accounted for 53%, 46% and 1% respectively of the revenue of this division in 2011 (2010: 57%, 41% and 2% respectively).

Distribution and retailing divisions

Revenue from the distribution division increased modestly by 5% from HK$118.1 million in 2010 to HK$124.3 million in 2011. Sales in Europe, the biggest market of the distribution division, were flat. Sales to emerging markets such as Brazil were excellent and offset the decline in sales in the North American markets. Sales to Europe, Asia, North America and other regions accounted for 55%, 26%, 4% and 15% respectively of the revenue of the distribution division in 2011 (2010: 59%, 26%, 5% and 10% respectively).

The retailing division of the Group operated a total of 3 shops in Shenzhen in both 2010 and 2011. Revenue of this division remained relatively flat at HK$4.2 million in 2011 (2010: HK$4.4 million).

Financial position and liquidity

Working capital management

The Group maintained a stable current ratio (being the ratio of total current assets to total current liabilities) during the year under review. The current ratio of the Group remained at 2.6 to 1.0 at both 31st December, 2011 and 31st December, 2010. As the market began to soften since mid-2011, the Group had taken appropriate action to scale down its production volume. Inventory balances remained fairly stable at about HK$197.6 million as at 31st December, 2011 (31st December, 2010: HK$197.2 million) despite the increase in revenue by 14% in 2011. Inventory turnover period (being the ratio of inventory balances to cost of sales) decreased accordingly from 70 days in 2010 to 60 days in 2011. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased slightly from 101 days in 2010 to 102 days in 2011.

Cash flows

The Group's operating activities generated a healthy net cash inflow of HK$227.3 million (2010: HK$240.3 million) before movements in working capital and HK$176.8 million (2010: HK$160.8 million) after movements in working capital in 2011. Net increase in working capital of HK$50.5 million in 2011 was relatively low as compared with HK$79.5 million of 2010 because of the effects of adjustment in production volume since mid-2011 as explained above. Capital expenditure was still high at HK$142.7 million (2010: HK$106.8 million) as the Group continued to execute its reinvestment plan of equipment upgrade and factory relocation. Total dividend payments of HK$51.8 million were made in both 2011 and 2010. The net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$239.6 million as at 31st December, 2010 to HK$215.7 million as at 31st December, 2011.

Gearing position

The Group continued to keep a low gearing position throughout 2011. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$8.9 million as at 31st December, 2011 (31st December, 2010: HK$13.4 million). The debt to equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to the Shareholders) declined from 1.1% as at 31st December, 2010 to 0.7% as at 31st December, 2011.

Net book value

The Group had 383,650,000 shares in issue as at both 31st December, 2011 and 31st December, 2010 with an equity attributable to the Shareholders amounting to HK$1,259.3 million and HK$1,172.3 million as at 31st December, 2011 and 31st December, 2010 respectively. Net asset value per share (being the equity attributable to the Shareholders divided by the total number of Shares in issue) as at 31st December, 2011 was HK$3.28 (31st December, 2010: HK$3.06).

Foreign currency exposure

The Group was exposed to the continuous appreciation of Renminbi against both US dollars and Hong Kong dollars. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and the exchange rate movements between US dollars and Hong Kong dollars were relatively stable during the year under review.

Contingent liabilities

	2011	**2010**
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	9,709	9,729

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2010 and 31st December, 2011 are insignificant and of low applicable default risk. Accordingly, the Group has not recognised any liability in the consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

PROSPECTS

The demand for the Group's products is still affected by the uncertainty and volatility of the global economy amid the long and fragile economic recoveries in the US and debt-ridden Europe. Although the Group still maintains a stable order book of around three months sales order on hand for its ODM and distribution divisions, the management is monitoring exports performance closely and implementing appropriate measures to enhance the flexibility and productivity of its workforce. The factory relocation plans to Pingdi Town, Shenzhen City and Heyuan City will be implemented in phases taking into account both the short term and long term impact of changes in the external macro-economic environment and local government policies.

The cost pressure on our operating margin remains high. The minimum wages in China keeps rising as a result of the government's initiative to boost domestic consumption and narrow a widening poverty gap. The minimum wages in Shenzhen was further raised by 14% in February 2012 after a 20% increment in April 2011. The Chinese government is also under continuous external pressure to appreciate the Renminbi. Price adjustment, operational efficiency improvements and increased sales of higher margin products can only alleviate part of the cost pressure.

The Group is committed to increasing the contributions from its higher margin distribution business. The launching of two house brands, CEO·V in Hong Kong Optical Fair in November 2011 and BOXX in the trade fair in Milan in March 2012, will provide further growth momentum to the distribution division. Limited contribution from the retailing division is expected in 2012 as there will not be any significant change in its operating scale.

As a manufacturer with its production base in China and major exports market in Europe and the US, 2012 will definitely be a challenging year for the Group. With its solid financial position and flexible operational base, the management is confident that the Group can weather the challenges together with the its professional, loyal and creative workforce.

UPDATE ON THE ACQUISITION OF PROPERTY

Reference is made to the Company's announcement dated 25th October, 2011 in relation to the sale and purchase agreement entered into between Sin Dak Industrial Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, and Bright Treasure Development Limited (the "Vendor") with respect to the whole of the 32nd Floor of, and nine car parks on the 2nd Floor of, No. 55 King Yip Street, Kowloon, Hong Kong (the "Property") (the "SPA"). According to the said announcement, completion was expected to take place in March 2012.

Pursuant to the SPA, completion will take place within 14 days of the date of the Purchaser being notified in writing that: (a) the occupation permit has been issued and the Vendor is in the position validly to assign the Property to the Purchaser; or (b) the occupation permit and the certificate of compliance have been issued; whichever is earlier. The Company has been advised that the construction of the building where the Property is located is expected to complete within a few months. As such, the management expects that completion of the SPA will take place before December 2012.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2011, the Group employed approximately 10,500 (31st December, 2010: 11,800) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

Vigers Appraisal & Consulting Limited
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19 September 2014

The Board of Directors
Arts Optical International Holdings Limited
Unit 308 on 3rd Floor
Sunbeam Centre
No. 27 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

In accordance with the instructions of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (the "Group") for us to value a property interest held by Argent Optical Manufactory Limited ("Argent") in the People's Republic of China ("the PRC"), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at 31 July 2014 ("date of valuation") for the purpose of incorporation in the circular.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property, we have valued such property interest on redevelopment basis that it will be developed and completed in accordance with the permitted use and plot ratio in accordance with the Longgang District Longcheng Street Argent Optical Manufactory Urban Renewal Project ("Argent Urban Renewal Project") approved by the Urban Planning Land and Resources Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會). We have assumed that all consents, approvals and licences from relevant government authorities for the redevelopment have been obtained or will be obtained without onerous conditions or undue time delays. We have also assumed that the design and construction of the redevelopment are in compliance with the local planning regulations and have been approved by the relevant authorities. In arriving at our opinion of value, we have adopted the direct comparison approach by making reference to comparable sales evidences as available in the relevant market and have also taken into account the costs that will be expended to complete the redevelopment to reflect the quality of the completed redevelopment.

Our valuation has been made on the assumption that the owner sells the relevant property interest in the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which would serve to increase the value of such interest. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting a sale and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interest, we have assumed that the owner has free and uninterrupted rights to use, occupy or assign the property interest for the whole of the unexpired term of the respective land use rights. Furthermore, we have also assumed that all consents, approvals and licences from relevant PRC government authorities for development of the property interest were granted without any onerous conditions or undue delay.

We have not caused title searches to be made for the property interest at the relevant government bureau in the PRC. We have been provided with certain extracts of title documents relating to the property interest. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interest in the PRC, we have relied on the legal opinion ("the PRC legal opinion") provided by the Group's PRC legal adviser, Zhong Lun Law Firm.

Having perused all relevant documentation, we relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, construction costs, site and floor areas and in the identification of the property in which the Group has valid interests and other relevant matter. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and we have not independently verified the information so provided. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the building services.

No allowance has been made in our valuation neither for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Our valuation is prepared in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors ("HKIS") and the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

We enclose herewith the valuation certificate.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong
Registered Professional Surveyor(GP)
MRICS MHKIS MSc(e-com)
China Real Estate Appraiser
Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty seven years' experiences in undertaking valuations of properties in Hong Kong and has over twenty years' experiences in valuations of properties in the PRC.

VALUATION CERTIFICATE

Property interest held by the Group for disposal in the PRC

Property	**Description and Tenure**	**Particulars of occupancy**	**Market Value in existing state as at 31 July 2014**	**Market Value on redevelopment basis on the assumption that the property has obtained all relevant approval from the government, obtained all relevant legal title documents and paid all the land premium of the property as at 31 July 2014**
The industrial complex located at Longcheng Street, Longgang District, Shenzhen City, the PRC (the "Argent Land")	The property comprises 2 parcels of land with a total site area of approximately 59,701.30 sq.m., together with 43 buildings completed in between 1986 and 2003 erected thereon. The details of the land parcels are detailed in the notes below.	The property was occupied by the Group for mainly industrial use.	RMB1,238,000,000 (Refer to Notes 2-7 below)	RMB2,097,000,000 (Refer to Notes 2-7 below)

Notes:

1. The land portion of the property comprises 2 parcels of land having a total site area of approximately 59,701.30 sq.m.. The particulars of these 2 parcels of land are summarized as follows:

Site No.	Site Area (sq.m.)	Usage	Real Estate Ownership Certificate (Document No.)	Owner	Date of Term Expiry
G01049-1	31,206.60	Industrial	Shen Fang De Zi No. 6000012683 Shen Fang De Zi No. 6000012684 Shen Fang De Zi No. 6000012686 Shen Fang De Zi No. 6000012736 Shen Fang De Zi No. 6000012662 Shen Fang De Zi No. 6000012673 Shen Fang De Zi No. 6000012674 Shen Fang De Zi No. 6000012678 Shen Fang De Zi No. 6000012664 Shen Fang De Zi No. 6000012666 Shen Fang De Zi No. 6000012680 Shen Fang De Zi No. 6000013063 Shen Fang De Zi No. 6000012667 Shen Fang De Zi No. 6000012690	Argent	31 December 2041
G01049-7	28,494.70	Industrial	Shen Fang De Zi No. 6000040992 Shen Fang De Zi No. 6000037279 Shen Fang De Zi No. 6000034972 Shen Fang De Zi No. 6000034969 Shen Fang De Zi No. 6000131432	Argent	10 September 2045

2. According to a letter in respect of the Argent Urban Renewal Project (Document No.: Shen Gui Tu (2014) No. 51 (深規土(2014) 51號)) dated 24 January 2014 issued by Urban Planning Land and Resources Commission of Shenzhen Municipality in favour of Argent, the property has been permitted for redevelopment for residential, office and commercial uses. The property will be accompanied by certain adjoining land parcels to form the above redevelopment and will be redivided into 4 land parcels (Land Plot Nos. 01-01, 01-02, 01-03 and 01-04) comprising a total developable site area of approximately 48,770.80 sq.m. and is permitted to develop a total gross floor area of approximately 260,000 sq.m.. The breakdown of the nature of land, site area, gross floor area and plot ratio of the property are as follows:

Land Plot No.	Nature of land	Developable Site Area (sq.m.)	Gross Floor Area (sq.m.)	Plot Ratio
01-01	Residential use (II)	10,115.70	51,660	5.11
01-02	Residential use (II)	18,874.80	88,790	4.70
01-03	Business apartment use	9,934.80	57,490	5.79
01-04	Business apartment and office uses	9,845.50	62,060	6.30
Total:		**48,770.80**	**260,000**	

3. According to a letter in respect of the Argent Urban Renewal Project (Document No.: Shen Gui Tu (2014) No. 51 (深規土(2014) 51號)) dated 24 January 2014 issued by Urban Planning Land and Resources Commission of Shenzhen Municipality in favour of Argent, the property is permitted to develop a total gross floor area of approximately 260,000 sq.m.. The breakdown of gross floor area of each component is as follows:

Land Plot No.	Use		Gross Floor Area (sq.m.)
01-01	Residential		30,240
	Affordable Housing		16,120
	Commercial		1,800
	Public Facilities	Kindergarten	3,200
		Community Management Room	300
Sub-total			**51,660**
01-02	Residential		80,340
	Commercial		8,000
	Public Facilities	Community Elderly Day Care Centre	450
Sub-total			**88,790**
01-03	Commercial		10,000
	Business Apartment		45,990
	Public Facilities	Post Office Branch	1,500
Sub-total			**57,490**
01-04	Commercial		14,000
	Office		28,000
	Business Apartment		20,000
	Public Facilities	Public Toilet	60
Sub-total			**62,060**
Total			**260,000**
	2,090 Car Parking Spaces		

4. In the course of our valuation of the property on redevelopment basis, we have made the following assumptions:

(i) All the land premium in respect of the property has been paid;

(ii) The Real Estate Ownership Certificates in respect of the property has been obtained;

(iii) The property (Land Plot Nos. 01-01 and 01-02) is redeveloped for residential use and the property (Land Plot No. 01-03) is redeveloped for business apartment use and the property (Land Plot No. 01-04) is redeveloped for business apartment and office uses;

(iv) The maximum gross floor area of the proposed development that can be built on the property is approximately 260,000 sq.m.;

(v) The property is freely transferable in the open market;

(vi) On redevelopment basis with 4 land parcels for residential, commercial and office uses, the redevelopment value of the property as at the date of valuation is RMB2,097,000,000, land premium required to be paid in respect of the property is RMB859,000,000 and the market value of the property after deducting the land premium is RMB1,238,000,000. In calculating the land premium, we have made reference to the latest government regulations. But the actual amount to be paid will be based on an agreement between relevant government authorities and the property owner. The land premium is for reference only; and

(vii) Should there exist any difference in the property upon issuance of the relevant Real Estate Ownership Certificate and change in the permitted plot ratio and permitted usage, we reserve our rights to amend our valuation.

5. The property is not subject to any investigations, notices, pending litigation, breaches of law or title defects.

6. The property is situated near the town centre of Longgang District of Shenzhen City where is an area undergoing renewal for residential and commercial developments. It has been witnessed that the overall transaction volume of residential units in Longgang District has gone through a period of consolidation in the second quarter of 2014 while the price level is stabilizing without obvious downward adjustment. The residential market of Longgang District was stabilizing in the third quarter of 2014 and the general price level of newly developed residential units in the region was about RMB20,000 – RMB25,000/sq.m.

7. The PRC legal opinion provided by the Group's PRC legal adviser, Zhong Lun Law Firm, states, inter alia, the following:

   (i) Argent is the legal land user of the property and has obtained the relevant real estate ownership certificates and approvals for the redevelopment of the property.

   (ii) The property is free from any mortgages, charges and third party encumbrances.

8. The property was inspected by Mr. Tam Siu Kee, Chartered Surveyor, on 14 May 2014.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

At the Latest Practicable Date, the interests and short positions of the Directors or the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to Section 352 of the SFO, to be entered on the register maintained by the Company referred to therein, or which were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

	Number of issued ordinary shares held				Approximate percentage of the issued share capital of the Company
Name of Director	**Personal interests**	**Family interests**	**Other interests**	**Total**	
Ng Hoi Ying, Michael	2,856,000	5,656,000	151,000,000 *(Note a)*	159,512,000	41.58%
Ng Kim Ying	1,150,000	5,000,000	15,500,000 *(Note b)*	21,650,000	5.64%
Lee Wai Chung	2,750,000	–	–	2,750,000	0.72%

Notes:

(a) These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

(b) These shares were directly held by Universal Honour Developments Limited which was wholly-owned by Mr. Ng Kim Ying.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position 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 were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial shareholders

Other than the interests disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, as at the Latest Practicable Date, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of the issued share capital of the Company
HSBC International Trustee Limited	Trustee	169,862,000	*(Note a)*	44.28%
Maritime Overseas Assets Limited	Held by controlled corporation	151,000,000	*(Note a)*	39.36%
Ratagan International Company Limited	Beneficial owner	151,000,000	*(Note a)*	39.36%
FMR LLC	Investment manager	38,365,000	*(Note b)*	10.00%
David Michael Webb	Beneficial owner	6,889,000		1.80%
	Held by controlled corporation	23,877,000	*(Note c)*	6.22%
Preferable Situation Assets Limited	Beneficial owner	23,877,000	*(Note c)*	6.22%

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust and the beneficiaries of which included Mr. Ng Hoi Ying, Michael. Under The Arts 2007 Trust, 151,000,000 shares of the Company were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL.

(b) FMR LLC was deemed to be interested in 38,365,000 shares of the Company through its controlled corporations, Fidelity Management & Research Company which was interested in 33,970,640 shares of the Company, and Fidelity Management Trust Company and Pyramis Global Advisors LLC, which were interested in 4,394,360 shares of the Company.

(c) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 23,877,000 shares of the Company held by PSAL under Part XV of the SFO.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed no other person as having notifiable interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

(c) Directors' interests in assets and contracts of the Group

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2013 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (ii) leased to; or (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to any member of the Group.

(d) Directors' service contracts

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

(e) Competing interests

As at the Latest Practicable Date, none of the Directors or their respective associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

3. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the issue of this circular:

(a) a supplemental deed dated 20 December 2012 entered into between Allied Power Inc. ("Allied Power"), a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability, and Mr. Ng Hoi Ying, Michael ("Mr. Ng"), a Director and the Chairman of the Company, pursuant to which Mr. Ng agreed to extend the duration of the undertaking and indemnity given to Allied Power to 31 December 2015 in connection with acquisition of the entire issued share capital of Art Talent Industrial Limited ("Art Talent"), a company incorporated in Hong Kong with limited liability, from Mr. Ng and the assignment of the benefits of the shareholders loans owed to Mr. Ng by Arts Talent and Hongmao Metal Products (Shenzhen) Co. Ltd., a wholly foreign-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of Art Talent, in the total amount of approximately HK$62,332,143 for a total consideration of HK$55,000,000 on 2 July 2010;

(b) the equity transfer agreement dated 21 August 2013 between Arts Optical (Heyuan) Company Limited ("Arts Heyuan"), a wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability, and an Independent Third Party (the "Purchaser") pursuant to which Arts Heyuan agreed to sell and the Purchaser agreed to purchase the entire equity interests in 滙聯眼鏡製造廠(河源)有限公司 (Huilian Optical Manufactory (Heyuan) Limited) for a consideration of HK$6,600,000;

(c) the equity transfer agreement dated 21 August 2013 between Arts Heyuan and the Purchaser pursuant to which Arts Heyuan agreed to sell and the Purchaser agreed to purchase the entire equity interests in 滙龍眼鏡五金配件(河源)有限公司 (Huilong Optical Manufactory (Heyuan) Limited) for a consideration of HK$15,400,000;

(d) the agreement dated 23 June 2014 for subscription of the newly issued quotas of €55,560 (the "Subscription Quotas") in the share capital of Trenti Industria Occhiali S.r.l. ("Trenti"), a company incorporated in Italy with limited liability entered into between Trenti and Allied Power pursuant to which Allied Power agreed to subscribe for and Trenit agreed to issue the Subscription Quotas for an aggregate consideration of €984,615 (equivalent to approximately HK$10,372,000);

(e) the agreement dated 23 June 2014 for the sale and purchase of quotas of €64,720 (the "Sale Quotas") in the share capital of Trenti held by Mr. Valter Da Rin Pagnetto ("Mr. Da Rin") entered into between Mr. Da Rin and Allied Power pursuant to which Mr. Da Rin agreed to sell and Allied Power agreed to purchase the Sale Quotas for an aggregate consideration of €1,042,718 (equivalent to approximately HK$10,984,000);

(f) the agreement dated 30 June 2014 entered into between Sin Dak Industrial Limited ("Sin Dak"), a wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability and an Independent Third Party (the "Seller") pursuant to which Sin Dak agreed to acquire and the Seller agreed to sell Unit 301, 3rd Floor, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong at the purchase price of HK$32,787,300;

(g) the agreement dated 16 July 2014 entered into between Rayner & Keeler Limited ("R&K"), a company incorporated in England and Wales with limited liability and Stepper Eyewear Limited ("Stepper HK"), a non-wholly owned subsidiary of the Company incorporated in Hong Kong with limited liability pursuant to which R&K agreed to sell and Stepper HK agreed to purchase the entire issued share capital of Stepper (UK) Limited ("Stepper UK"), a company incorporated in England and Wales with limited liability, for the consideration of £2,517,230 (equivalent to approximately HK$33,436,000);

(h) the debt assignment deed dated 16 July 2014 entered into between R&K and Stepper HK pursuant to which R&K irrevocably assigned the benefit of the intercompany balance of £214,490 (equivalent to approximately HK$2,849,000) due from Stepper UK to R&K at par value to Stepper HK for the consideration of £214,490 (equivalent to approximately HK$2,849,000);

(i) the agreement regulating the rights and obligations of the quotaholders of Trenti dated 29 August 2014 entered into between Allied Power, Mr. Da Rin, Ms. Silvana Alvera', Ms. Francesca Da Rin Pagnetto and Mr. Roberto Cabras;

(j) the Relocation Agreement; and

(k) the Service Agreement.

4. EXPERTS AND CONSENT

The following are the qualifications of the experts who have given an opinion or advice to the contents of this circular:

Name	**Qualification**
Crosby Securities	a licenced corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Vigers	Professional surveyors and valuers

Each of the above experts has given and has not withdrawn its written 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.

As at the Latest Practicable Date, none of the experts has any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the experts has any direct or indirect interest in any asset which has been, since 31 December 2013 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

5. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance were known to the Directors to be pending or threatened against any members of the Group.

6. GENERAL

(a) The company secretary of the Company is Mr. Lee Wai Chung. He is a Certified Public Accountant (Practising) and Certified Public Accountant in Hong Kong and the United States respectively as well as an overseas non-practising member of the Chinese Institute of Certified Public Accountants. He is also an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a fellow member of the Association of Chartered Certified Accountants. He is an executive Director.

(b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(c) The head office and principal place of business of the Company is Unit 308, 3rd Floor, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

(d) The Hong Kong branch share registrar of the Company is Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours (i.e. from 9:30 a.m. to 5:00 p.m. on Monday to Friday except public holidays) on any business day at the principal place of business in Hong Kong of the Company at Unit 308, 3rd Floor, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "3. MATERIAL CONTRACTS" in this appendix;

(c) the Individual Relocation Agreements;

(d) the written consents of the experts referred to in the paragraph headed "4. EXPERTS AND CONSENT" in this appendix;

(e) the annual reports of the Company for the three years ended 31 December 2013 and the interim report of the Company for the six months ended 30 June 2014;

(f) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 21 of this circular;

(g) the letter from Crosby Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 22 to 33 of this circular; and

(h) the property valuation report issued by Vigers, as set out in Appendix 2 to this circular.

ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1120)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting of Arts Optical International Holdings Limited (雅視光學集團有限公司*) (the "Company") will be held at Garden Room A-B, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 8 October 2014 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications the following resolution as an ordinary resolution of the Company.

ORDINARY RESOLUTION

1. "**THAT:**

(a) the transactions comprising:

(i) the relocation agreement entered into between Argent Optical Manufactory Limited ("Argent"), 深圳市橫崗佳兆業投資諮詢有限公司 (Shenzhen Henggang Kaisa Investment Consulting Co., Ltd.) and 佳兆業集團（深圳）有限公司 (Kaisa Group (Shenzhen) Co., Ltd.) dated 15 August 2014 (the "Relocation Agreement") (copy of the Relocation Agreement has been produced to this meeting marked "A" and initialed by the chairman of this meeting for the purpose of identification);

(ii) the service agreement entered into between Argent and 深圳市全聯行地產顧問有限公司 (Shenzhen Quanlianhang Property Consulting Co., Ltd.) dated 15 August 2014 (the "Service Agreement") (copy of the Service Agreement has been produced to this meeting marked "B" and initialed by the chairman of this meeting for the purpose of identification),

and the transactions contemplated thereunder (the details of which are set out in the Company's circular dated 19 September 2014) be and are hereby approved, confirmed and ratified; and

* *For identification purpose only*

(b) any one director of the Company be and is hereby authorized to, on behalf of the Company, do all such acts and sign, seal, execute, deliver all such documents and take all such actions as he or she may consider necessary or desirable for the purpose of or in connection with or to give effect to the Relocation Agreement, the Service Agreement, and the transactions contemplated thereunder."

By Order of the Board
Arts Optical International Holdings Limited

Ng Hoi Ying, Michael
Chairman

Hong Kong, 19 September 2014

Notes:

(1) At the special general meeting, the Chairman of the meeting will exercise his power under Bye-law 66 of the Company's bye-laws to put the above resolution to the vote by way of poll.

(2) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.

(3) To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting, or any adjournment thereof (as the case may be).

(4) The register of members of the Company will be closed from 7 October 2014 to 8 October 2014, both days inclusive, during which period no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 6 October 2014 in order to be eligible to attend and vote at the special general meeting.