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ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

**DISCLOSEABLE TRANSACTION
EQUITY TRANSFER AGREEMENT IN RELATION TO
THE ACQUISITION OF 55% ISSUED SHARE CAPITAL OF
THE TARGET COMPANY AND INJECTION OF CAPITAL**

INTRODUCTION

The Board is pleased to announce that on 24th March, 2021 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, the Sellers and the Target Company entered into the Equity Transfer Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Sellers have conditionally agreed to sell an aggregate of 55% equity interest in the Target Company at the total consideration of RMB46.5 million (equivalent to approximately HK\$55.4 million), subject to adjustment.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition are greater than 5% but all are less than 25%, as calculated under Rule 14.07 of the Listing Rules, the Acquisition constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

* *For identification purpose only*

INTRODUCTION

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THE EQUITY TRANSFER AGREEMENT

Parties

- (i) the Purchaser
- (ii) the Sellers
- (iii) the Target Company

The Consideration and payment terms

The Consideration of RMB46.5 million (equivalent to approximately HK\$55.4 million) will be satisfied in cash in three instalments. The first instalment of RMB4.65 million (equivalent to approximately HK\$5.5 million), representing 10% of the Consideration, will be paid upon signing of the Equity Transfer Agreement. The second instalment of RMB18.6 million (equivalent to approximately HK\$22.2 million), representing 40% of the Consideration, will be paid upon transfer of 55% equity interest to the Purchaser. The remaining balance of 50% of the Consideration, which is RMB23.25 million (equivalent to approximately HK\$27.7 million), will be settled within 180 days after Completion.

The Purchaser and the Sellers further agreed to inject an aggregate of RMB10 million (equivalent to approximately HK\$11.9 million) to the Target Company in cash based on the percentage of their respective equity holding in the Target Company. Accordingly, the Purchaser will inject its portion of RMB5.5 million (equivalent to approximately HK\$6.5 million) in cash after completion of the transfer of the 55% equity to the Purchaser; and the Sellers will inject its portion of RMB4.5 million (equivalent to approximately HK\$5.4 million) after receipt of the balance payment of the Consideration from the Purchaser.

The Consideration was determined after arm's length negotiations between the Sellers and the Purchaser on normal commercial terms with reference to, among other things, (i) Valuation; (ii) the Profit Guarantee; (iii) the adjustment mechanism as set out under the paragraph headed "Profit Guarantee and adjustment mechanism in relation to the Consideration"; and (iv) other reasons and benefits of as set out under the paragraph headed "Reasons for and benefits of the Acquisition" below.

Profit Guarantee and adjustment mechanism in relation to the Consideration

Pursuant to the Equity Transfer Agreement, the Sellers, irrevocably warrant and guarantee to the Purchaser that the Average Audited Net Profit for the three years ending on 31st December, 2021, 2022 and 2023 will not be less than RMB7.17 million (equivalent to approximately HK\$8.54 million).

In the event that the Average Audited Net Profit is less than RMB7.17 million but more than 70% of the Profit Guarantee, the Consideration shall be adjusted as per the following formula:

$$\begin{aligned}\text{Adjusted Consideration} &= \text{Consideration} - (\text{Profit Guarantee} - \text{Average Audited Net Profit}) \times \text{Implied PE ratio}^{\#} \times \% \text{ of Equity Purchase} \\ &= \text{RMB46.5 million} - (\text{RMB7.17 million} - \text{Average Audited Net Profit}) \times 11.8 \times 55\%\end{aligned}$$

In the event that the Average Audited Net Profit is less than 70% of the Profit Guarantee (i.e. RMB5.019 million), the Consideration shall be adjusted as per the following formula:

$$\begin{aligned}\text{Adjusted Consideration} &= (\text{Profit Guarantee} \times 70\%) \times \text{Implied PE ratio}^{\#} \times \% \text{ of Equity Purchase} \\ &= \text{RMB5.019 million} \times 11.8 \times 55\% \\ &= \text{RMB32.57 million}\end{aligned}$$

$$\begin{aligned}\# \text{ Implied PE ratio} &= \text{the Target Company valuation as a whole} \div \text{Profit Guarantee} \\ &= \text{RMB46.5 million} \div 55\% \div \text{RMB7.17 million} = 11.8\end{aligned}$$

The net profit of 2021 will be calculated by using the audited net profit of the year of 2021 divided by the number of days left after the Completion in 2021, then times 365 days.

In case the Average Audited Net Profit of the Target Company does not meet the Profit Guarantee, the Sellers are required to return the difference between the Consideration and the Adjusted Consideration to the Purchaser in cash or in shares of the Target Company as set out in the Equity Transfer Agreement.

The Directors consider that the Consideration (including the price to earnings ratio and the adjustment mechanism) and other terms of the Acquisition are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion is conditional upon each of the following conditions being satisfied or waived by the Purchaser in writing:

- (i) the Target Company having obtained and maintained all necessary approval, license, registration or certificate for carrying on its business;
- (ii) the Sellers having transferred all their business, key personnel and assets (including but not limited to machines and equipment, factory interiors, intellectual properties and inventories) to the Target Company. A valuation report issued by an independent third-party professional valuer on the fair value of the transferred assets is required;
- (iii) the Purchaser having received the valuation report issued by an independent third-party professional valuer with respect to the fair value of the Sellers. The valuation of the Sellers shall not be less than RMB84.5 million (equivalent to approximately HK\$100.7 million) and shall remain so until Completion;
- (iv) the employees and key personnel of the Sellers having established employment relationships with the Target Company and the Sellers having settled any economic compensation to their employees and key personnel beforehand;
- (v) the Sellers have paid in the registered capital of the Target Company;
- (vi) the Target Company having passed a shareholders' resolution regarding the transfer of 55% of the equity in the Target Company to the Purchaser; and the Sellers having passed a shareholders' resolution to sell the 55% equity of the Target Company; and the shareholders holding 45% of equity of the Target Company having passed a written shareholders' resolution to waive their right of first refusal in the Acquisition;
- (vii) the Purchaser being reasonably satisfied with the results of its due diligence conducted by an independent third-party professional firm on the Target Company, including but not limited to legal, accounting, financial or other aspects deemed material by the Purchaser;
- (viii) the Target Company having no other dealings outside the ordinary course of its principal business, no material adverse change have occurred in relation to the business conditions, operations, and assets (including but not limited to guarantee, mortgage and other contingent liabilities) of the Target Company and there being no material risk not previously disclosed before the date of signing the Equity Transfer Agreement; and
- (ix) there are no applicable laws or regulations that will or can reasonably be expected to prohibit or restrict the completion of the transactions under the Equity Transfer Agreement, and the contents of the Equity Transfer Agreement are true and accurate at all times between the date of the Equity Transfer Agreement and the Completion.

If the conditions are not fulfilled (or waived, as the case may be) on or before 31st March, 2021, the Purchaser may unilaterally terminate the Equity Transfer Agreement.

Completion

Completion shall take place when the Target Company has completed the relevant transfer and business registration reflecting the Acquisition took place and the Purchaser becomes the holder of 55% equity interest in the Target Company. Target Company will become an indirect non-wholly owned subsidiary of the Company and will result in control over the Target Company by the Group.

INFORMATION ABOUT THE PARTIES TO THE EQUITY TRANSFER AGREEMENT

The Purchaser

The Purchaser is a company established in the PRC with limited liability and is principally engaged in the design, manufacture and sale of optical frames.

The Sellers

The Sellers are companies incorporated in the PRC with limited liability and operates in the same factory building located at Danyang City, Jiangsu Province of the PRC. As at the date of this announcement, the Seller I principally engaged in the design, manufacture, and sales of optical lens. Both the Seller II and Seller III specialized in the coating process of optical lens with focus on different customers.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of this announcement, Seller I is owned as to 51% equity interest by Yuan Jianwei (袁建偉) and 49% equity interest by Sun Cheng (孫程), Seller II is wholly-owned by Yuan Shunbing (袁順炳), and Seller III is owned as to 99.9% equity interest by Yuan Jianwei (袁建偉) and 0.1% equity interest by Yuan Shunbing (袁順炳).

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Seller I, Seller II and Seller III and their respective ultimate beneficial owners are third parties independent of the Company and their respective connected persons.

The financial information of the Sellers for the two financial years immediately preceding the Acquisition, as extracted from its audited financial statements prepared in accordance with the PRC Generally Accepted Accounting Principles.

**For the financial year ended
31st December,**

	2019	2020
	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>

Seller I

Revenue	12,593	18,527
Net profit after taxation	623	989

Seller II

Revenue	2,564	2,960
Net loss after taxation	(1,987)	(2,038)

Seller III

Revenue	5,191	5,384
Net loss after taxation	(1,390)	(422)

The Target Company

The Target Company is a company established in the PRC with limited liability. Upon signing of the Equity Transfer Agreement, the Sellers will transfer all the Sellers' factory renovation, machines and equipment, inventories and intellectual properties to the Target Company and the Target Company will take over all the businesses of the Sellers after Completion.

As at the date of this announcement, the Target Company has no material assets and liabilities, has no business activities and has not generated any revenue and profit since its incorporation.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is a world leader in design, manufacture and distribution of various types of optical frames. With the growth of e-commerce, change of the times, consumers can easily order a completed set of eyewear through the internet without the hassle to go to a retail store. With the rise of mobile-friendly websites and applications, it is easier for people to order and receive eyewear with prescription lens without making a trip to a professional optical shop. Through online channels, all consumers need to do is to upload their prescription and they can choose from hundreds of different brands and styles. Consumers are driven to buy more eyewear products from online and thus driving the growth of the overall market. With the Acquisition, the Group will be able to provide a one-stop solution to support our customers and thus generate more revenue.

Taking into account of the above, the Directors consider that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition are greater than 5% but all are less than 25%, as calculated under Rule 14.07 of the Listing Rules, the Acquisition constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors of the Company should note that Completion is subject to the fulfilment (or, as the case may be, waiver) of the conditions precedent under the Equity Transfer Agreement. The Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings, unless the context requires otherwise:

“Acquisition”	the acquisition of 55% equity interest in the Target Company by the Purchaser from the Sellers pursuant to the Equity Transfer Agreement
“Average Audited Net Profit”	average audited net profit for the years ending on 31st December, 2021, 2022 and 2023 as determined under the PRC Generally Accepted Accounting Principles prepared by a firm of auditor mutually agreed by the Sellers and the Purchaser
“Board”	the board of Directors of the Company
“Company”	Arts Optical International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1120)
“Completion”	completion of the Acquisition
“Consideration”	the aggregate consideration of RMB46.5 million for the Acquisition
“Directors”	the directors of the Company

“Equity Transfer Agreement”	the equity transfer agreement dated 24th March, 2021 entered into by and among the Purchaser, the Sellers and the Target Company in relation to the Acquisition, capital increase and Profit Guarantee relating to the Target Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Profit Guarantee”	the amount of profit guaranteed by the Sellers to the Purchaser, being RMB7.17 million, pursuant to the Equity Transfer Agreement
“Purchaser”	Arts Opti Lab (Shenzhen) Company Limited^ (雅視司徠柏光學科技（深圳）有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Seller I”	Danyang Colorful Optical Glass Company Limited^ (丹陽市五彩光學眼鏡有限公司), a company established in the PRC with limited liability, one of the registered shareholders of the Target Company
“Seller II”	Danyang Zhongjiang Glasses Company Limited^ (丹陽市中江光學眼鏡有限公司), a company established in the PRC with limited liability, one of the registered shareholders of the Target Company
“Seller III”	Danyang Zhongyang Glasses Company Limited^ (丹陽中洋光學眼鏡有限公司), a company established in the PRC with limited liability, one of the registered shareholders of the Target Company
“Sellers”	collectively, Seller I, Seller II and Seller III
“Shareholders(s)”	the registered holder(s) of the issued ordinary share(s) in the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Stepper & Colors Opti Technology (Jiangsu) Company Limited [^] (五彩司徠柏光學科技 (江蘇) 有限公司), a company established in the PRC with limited liability
“Valuation”	the valuation of the Sellers as at 31st December, 2020 as assessed by an independent third-party professional valuer
“%”	per cent

In this announcement, unless otherwise stated, amounts denominated in RMB are translated, for the purpose of illustration only, into HK\$ at the exchange rate of HK\$1.1917 to RMB1.

[^] *The English translation of the Chinese name of the relevant entity included in this announcement is for identification and reference only, and such translation may not be accurate and such entity may not have an official English translation/version of its Chinese name.*

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 24th March, 2021

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