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ELEGANCE OPTICAL INTERNATIONAL HOLDINGS LIMITED
高雅光學國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 907)

**DISCLOSEABLE AND EXEMPTED CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
55% EQUITY INTEREST IN A SUBSIDIARY**

Financial adviser to the Company



建泉融資有限公司

VBG Capital Limited

THE DISPOSAL

The Board is pleased to announce that on 28 September 2022 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company) entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing 55% of the entire issued share capital of the Target Company, at a consideration of HK\$21,000,000 to be paid and settled in cash.

Pursuant to the Sale and Purchase Agreement, the Vendor, the Purchaser and each of the Target Company and its subsidiaries have entered into the Deed of Indemnity on 28 September 2022 (after trading hours) pursuant to which the Vendor undertakes to fully indemnify and at all times keep the Purchaser and each of the Target Company and its subsidiaries fully indemnified against up to an aggregate of 55% of any liabilities directly or indirectly connected to all taxation and contingent liabilities incurred by the Purchaser and/or the Target Company in connection with each of the Target Company and its subsidiaries up to and including the date of Completion.

Upon Completion, the Target Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated with the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) of the Disposal is 5% or more but all of them are less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements but exempted from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

In view of the fact that (i) the Purchaser is a connected person of the Company at the subsidiary level; (ii) the Board (including the independent non-executive Directors) has approved the Disposal; and (iii) the independent non-executive Directors have confirmed that the Disposal is on normal commercial terms and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, and is exempted from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

None of the Directors have any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and hence no Director was required to abstain from voting on the relevant resolutions of the Board approving the same.

INTRODUCTION

The Board is pleased to announce that on 28 September 2022 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company) entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing 55% of the entire issued share capital of the Target Company, at a consideration of HK\$21,000,000 to be paid and settled in cash.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are as follows:

Date:

28 September 2022

Parties:

- (a) the Vendor, a wholly-owned subsidiary of the Company; and
- (b) the Purchaser

The Purchaser being Mr. Hui Leung Wah is a director of a subsidiary of the Group and subsidiaries of the Target Company.

Assets to be disposed of

The Sale Shares representing 55% of the entire issued share capital of the Target Company. As at the date of this announcement, the Target Company is owned as to 55% by the Vendor and the remaining 45% by an Independent Third Party.

Consideration

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to, among other things, (i) the audited financial information of the Target Company as at 31 March 2022; (ii) the latest management account of the Target Company as at 31 July 2022; (iii) the valuation report of the relevant equity interest conducted by an independent valuer at the valuation value of HK\$18.6 million as at 31 July 2022; (iv) the liabilities of the Group as a result of the cessation of operation of the Target Company; and (v) the assignment of certain inventories of the Target Company in the aggregate amount of approximately HK\$2.2 million pursuant to the amounts due to the Group.

Pursuant to the Sale and Purchase Agreement, the Consideration for the Sale Shares payable by the Purchaser to the Vendor shall be the sum of HK\$21,000,000 and will be settled in the manner as follows:–

- (i) HK\$10,000,000 of the Consideration shall be paid by the Purchaser to the Vendor in cash within 7 Business Days of the date of the Sale and Purchase Agreement;
- (ii) HK\$5,000,000 of the Consideration shall be paid by the Purchaser to the Vendor in cash within 7 Business Days of the first anniversary of the date of the Sale and Purchase Agreement or earlier; and
- (iii) the remaining balance of HK\$6,000,000 of the Consideration shall be paid by the Purchaser to the Vendor in cash on the second anniversary of the date of the Sale and Purchase Agreement or earlier.

Conditions Precedent

Completion is subject to the following conditions being satisfied:

- (a) there does not exist any material adverse changes to the Target Company, or events or circumstances that would prevent the transactions contemplated under the Sale and Purchase Agreement from being continued or proceed; and
- (b) compliance with all other applicable laws, rules and regulations including but not limiting to the Listing Rules for the transactions contemplated under the Sale and Purchase Agreement.

The Purchaser may waive condition (a) as referred to above by giving notice in writing to the Vendor.

In the event any of the conditions precedent set out above is not fulfilled or otherwise waived prior to Long Stop Date (or such other date as the parties may agree in writing), then the Purchaser may, at his option, elect to proceed with or delay the transactions, or not to proceed with the transactions contemplated thereunder and in such case the Sale and Purchase Agreement shall cease to be of any effect.

Completion

Subject to the fulfilment of the conditions precedents, the completion of the Disposal is expected to take place on or before 31 October 2022 or such other date as the Vendor and the Purchaser may agree in writing.

Upon Completion, the Group will no longer hold any equity interest in the Target Company. The Target Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the financial statements of the Group.

DEED OF INDEMNITY

Pursuant to the Sale and Purchase Agreement, the Vendor, the Purchaser and each of the Target Company and its subsidiaries have entered into the Deed of Indemnity on 28 September 2022 (after trading hours) pursuant to which the Vendor undertakes to fully indemnify and at all times keep the Purchaser and each of the Target Company and its subsidiaries fully indemnified against up to an aggregate of 55% of any liabilities directly or indirectly connected to all taxation and contingent liabilities incurred by the Purchaser and/or the Target Company in connection with each of the Target Company and its subsidiaries up to and including the date of Completion.

INFORMATION ON THE PURCHASER

The Purchaser is an individual and a Hong Kong resident. As at the date of this announcement, the Purchaser is a director of a subsidiary of the Group and subsidiaries of the Target Company, being a non-wholly owned subsidiary of the Group. Therefore, the Purchaser is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated under the laws of Hong Kong and is principally engaged in the manufacturing of optical frames and investment holding. The Target Company's principal asset is its indirect equity interest in properties located in Dongguan City.

All sales made by the Target Company for the three years ended 31 March 2022 had been made entirely out of intra-group transactions, the Target Company recorded no revenue and profit or loss for the three years ended 31 March 2022 after its elimination in full on consolidation. Based on the unaudited consolidated management accounts of the Target Company, the unaudited net asset value of the Target Company as at 31 July 2022 was approximately HK\$33.8 million.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sales of optical frames and sunglasses, property investment, investment in debts and securities, film investment and distribution business and energy business.

As the Target Company acts solely as the manufacturing plant of optical frames for the Group's relevant business segment where the optical frames are internally sold to the Group's fellow subsidiaries, the Target Company's source of business had been derived entirely from the Group's fellow subsidiaries for the three years ended 31 March 2022.

Considering the current financial position and business operation of the Company, the Directors believe the Company had been loss-making for the past 5 years due in particular to the high operation cost and heavy financial burden as an effect of the Target Company's manufacturing plant. As a result of increasing regulatory and compliance demands, especially in environmental protection and labor for business operations in the PRC, the Directors believe the Target Company had proven to be cost inefficient and have been creating negative impacts to the Group's overall business operation. Pursuant to the Company's ongoing development strategies, the Directors believe the Company would result a better financial performance if the cost in production can be mitigated altogether, and where the Company can retain its distribution network as an ODM manufacturer with optical frames sourced directly from suppliers situated in other countries manufacturing at a lower cost than the Target Company.

Following the disposal of the 55% equity interest in the Target Company, the Group will be released of its financial burden associated with the Target Company. Furthermore, the Directors believe the shift from production to solely sourcing finished goods directly from more competitive suppliers would allow the Group to minimize unnecessary production cost, turn around from its current loss-making operations and improve the Group's financial position in the long run.

In view of the above, the Board considered that the Consideration represents a fair and reasonable value for the Target Company and allow the Company to avoid future loss arising from the continued operation of the Target Company. The Company intends to use the net proceeds from the Disposal for general working capital of the Group. Accordingly, the Board concluded that the terms and conditions of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

Upon Completion, the Target Company will cease to be a subsidiary of the Group, and the profit and loss, as well as the assets and liabilities of the Target Company will no longer be consolidated into the consolidated financial statements of the Group.

Based on the audited financial information of the Target Company as at 31 March 2022, it is estimated that the Group will record a loss on disposal of approximately HK\$3.0 million from the Disposal. Such loss is calculated as the difference between the consideration of the Disposal and audited consolidated net asset value of the Target Company. Shareholders should note that the actual amount of loss on the Disposal to be recorded by the Company will be subject to review and audit by the auditors of the Company.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under the Listing Rules) of the Disposal is 5% or more but all of them are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but exempted from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

As at the date of the Sale and Purchase Agreement, the Purchaser of the Sale Shares is a director of a subsidiary of the Group and subsidiaries of the Target Company, being a non-wholly owned subsidiary of the Company, and hence a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

In view of the fact that (i) the Purchaser is a connected person of the Company at the subsidiary level; (ii) the Board (including the independent non-executive Directors) has approved the Disposal; and (iii) the independent non-executive Directors have confirmed that the Disposal is on normal commercial terms and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, and is exempted from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

None of the Directors have any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and hence no Director was required to abstain from voting on the relevant resolutions of the Board approving the same.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings as respectively ascribed below:

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| “Board” | the board of Directors of the Company |
| “Business Day” | a day (other than a Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are open for business throughout their normal business hours |
| “Company” | Elegance Optical International Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange (Stock Code: 907) |
| “Completion” | the completion of the Disposal in accordance with the Sale and Purchase Agreement |
| “Consideration” | the consideration of HK\$21,000,000 for the Sale Shares payable by the Purchaser to the Vendor under the Sale and Purchase Agreement |

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| “Deed of Indemnity” | the deed of indemnity dated 28 September 2022 entered into by the Vendor, the Purchaser and each of the Target Company and its subsidiaries |
| “Director(s)” | the director(s) of the Company |
| “Disposal” | the disposal of the Sale Shares by the Vendor to the Purchaser pursuant to the terms of the Sale and Purchase Agreement |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong Dollar, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Third Party(ies)” | third parties independent of the Company and its connected persons |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Long Stop Date” | 31 October 2022 |
| “PRC” | the People’s Republic of China |
| “Properties” | the properties located in Dongguan City |
| “Purchaser” | Hui Leung Wah, a director of a subsidiary of the Group and subsidiaries of the Target Company |
| “Sale and Purchase Agreement” | the sale and purchase agreement dated 28 September 2022 entered into between the Vendor and the Purchaser in relation to the Disposal |
| “Sale Shares” | 55 ordinary shares held by the Vendor, representing 55% of the issued share capital of the Target Company as at the date of this announcement |
| “Shareholder(s)” | shareholder(s) of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Target Company” | Gold Strong Industrial Limited, a company incorporated under the laws of Hong Kong with limited liability |

“Vendor”

YIELDLY (INTERNATIONAL) INVESTMENT LIMITED,
a company incorporated under the laws of Hong Kong with
limited liability and a wholly-owned subsidiary of the Company

“%”

per cent

By order of the Board
Elegance Optical International Holdings Limited
Wong Chong Fai
Executive Director

Hong Kong, 28 September 2022

As at the date of this announcement, the executive Directors are Mr. Yu Baodong, Mr. Chung Yuk Lun and Mr. Wong Chong Fai; and the independent non-executive Directors are Mr. Man Wai Lun, Mr. Cheng Chun Man and Mr. Hui Man Ho, Ivan.