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If you have sold or transferred all of your shares in Swank International Manufacturing Company Limited, you should at once hand this circular 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.

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Swank International Manufacturing Company Limited

恒光行實業有限公司

(incorporated in Hong Kong with limited liability)

MAJOR AND CONNECTED TRANSACTIONS, CAPITAL REORGANISATION AND CHANGE IN BOARD LOT SIZE OF SHARES

Independent financial adviser to the Independent Board Committee

CHATERON
CORPORATE FINANCE LIMITED
華夏 融資有限公司

A letter from the independent board committee of Swank International Manufacturing Company Limited containing its recommendation in respect of the Transactions (as defined in this circular) is set out on page 22 of this circular. A letter from Chateron Corporate Finance Limited containing its advice to the independent board committee of Swank International Manufacturing Company Limited in respect of the Transactions (as defined in this circular) is set out on pages 23 to 38 of this circular.

A notice convening an extraordinary general meeting of Swank International Manufacturing Company Limited to be held at Unit 3301, Level 33, Metroplaza Tower I, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong on Friday, 2nd May, 2003 at 11:00 a.m. is set out on pages 43 to 46 of this circular. There is a form of proxy for use at the extraordinary general meeting of Swank International Manufacturing Company Limited accompanying this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy to the share registrar and transfer office of Swank International Manufacturing Company Limited, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

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DEFINITIONS

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

“Asset Disposal Agreement”	the conditional agreement dated 4th March, 2003 entered into between Swank, Probest and Tomorrow relating to the disposal by Swank of 30% equity interest in BVI Holdco and 30% of the BVI Loan owing on Completion to Probest
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	board of Directors
“BVI Holdco”	Profitown Investment Corporation, a company incorporated in the British Virgin Islands with limited liability on 19th November, 2002 and a wholly-owned subsidiary of Swank prior to Completion
“BVI Loan”	the shareholder’s loan which may from time to time be owing by BVI Holdco to Swank after completion of the Reorganisation and which shall be unsecured, interest free and has no fixed repayment terms
“Capital Increase”	the creation of an additional 2,985,000,000,000 Reduced Shares to restore the authorised share capital of Swank after the Capital Reduction to the original amount of HK\$3,000,000,000
“Capital Reduction”	the proposed reduction of capital of Swank by way of the cancellation of the paid-up capital to the extent of HK\$0.199 on each existing issued Shares and the reduction of the nominal value of all the issued and unissued Shares from HK\$0.20 each to HK\$0.001 each
“Capital Reorganisation”	the capital reorganisation of Swank involving the Capital Reduction, the Capital Increase and the Share Consolidation
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chateron”	Chateron Corporate Finance Limited, an investment adviser registered under the SFO and the independent financial adviser to the Independent Board Committee
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Completion”	completion of the Asset Disposal Agreement
“Consolidated Share(s)”	share(s) of HK\$0.01 each in the share capital of Swank upon the Capital Reorganisation taking effect
“Conversion Shares”	the ordinary shares of Swank to be issued by Swank upon the exercise of conversion rights attaching to the Convertible Note by the holder(s) thereof
“Convertible Note”	the convertible note with face value of HK\$200 million to be issued by Swank to Probest pursuant to the terms of the Loan Restructuring Agreement
“Court”	the High Court of Hong Kong

DEFINITIONS

“Directors”	the directors of Swank
“Effective Date”	the date upon which the Capital Reorganisation becomes effective, which is expected to be 24th June, 2003
“EGM”	the extraordinary general meeting of Swank convened to be held on 2nd May, 2003 to consider and, if thought fit, approve the Capital Reorganisation and the Transactions
“Group”	Swank and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of Swank comprising Messrs. Kwong Wai Tim, William and Hahn Ka Fai, Mark, both being independent non-executive Directors
“Independent Shareholders”	shareholders of Swank other than Probest and its associates
“Latest Practicable Date”	4th April, 2003, the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the unsecured loan with an aggregate principal amount of HK\$250 million owing by Swank to Probest as at the date of the Asset Disposal Agreement and the Loan Restructuring Agreement
“Loan Restructuring Agreement”	the conditional agreement dated 4th March, 2003 entered into between Swank and Probest relating to the restructuring of the remaining principal of the Loan of HK\$247 million after Completion
“Long Stop Date”	5:00 p.m. on 9th May, 2003, (being extended from 30th April, 2003 as stipulated in the Asset Disposal Agreement and the Loan Restructuring Agreement as agreed in writing by Swank and Probest) or such later date as Swank and Probest may agree in writing
“PRC”	the People’s Republic of China
“Probest”	Probest Holdings Inc., a company incorporated in the British Virgin Islands which is interested in approximately 57.9% of the existing issued shares of Swank and a wholly-owned subsidiary of Tomorrow
“Reduced Share(s)”	new share(s) of HK\$0.001 each in the share capital of Swank immediately after the Capital Reduction

DEFINITIONS

“Reorganisation”	the reorganisation pursuant to which (i) BVI Holdco will become the intermediate holding company of all the existing subsidiaries and associated companies of Swank engaging in the design, manufacture and marketing of optical products; and (ii) all intra-company indebtedness between Swank and its subsidiaries and associated companies will be transferred to BVI Holdco
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.20 each in the existing capital of Swank
“Share Consolidation”	the proposed consolidation of ten Reduced Shares of HK\$0.001 each created from the Capital Reduction into one Consolidated Share of HK\$0.01 each
“Share Mortgage”	the deed to be executed by Swank in favour of Probest incorporating a charge over 70% of the equity interest in BVI Holdco and the BVI Loan from time to time held by Swank after Completion
“Share Option Scheme”	the share option scheme of the Company adopted on 28th May, 2002
“Shareholder(s)”	holder(s) of the Shares before the Capital Reorganisation or, upon the Capital Reorganisation becoming effective, holder(s) of the Consolidated Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Swank” or “Company”	Swank International Manufacturing Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Tomorrow”	Tomorrow 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
“Tomorrow Group”	Tomorrow and its subsidiaries other than the Group
“Transactions”	together, (i) the sale by Swank of the 30% equity interest in BVI Holdco and 30% of the BVI Loan under the Asset Disposal Agreement; and (ii) the debt restructuring pursuant to the Loan Restructuring Agreement, including, among others, the issue of the Convertible Note and the execution of the Share Mortgage by Swank in favour of Probest, under which Probest, as mortgagee, has the right to dispose of or foreclose the 70% interest in BVI Holdco and the BVI Loan if an event of default under the Convertible Note shall occur
“Winspark”	Winspark Venture Limited, a company incorporated in the British Virgin Islands with limited liability and the controlling shareholder of Tomorrow holding approximately 58.0% of the issued shares of Tomorrow
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“%”	per cent.

EXPECTED TIMETABLE

The following expected timetable for the Capital Reorganisation and the change in board lot size of shares in Swank is indicative only and is subject to change due to factors including the availability of the Court and outcome of the Court hearings. Shareholders will be informed of any changes to the expected timetable by press announcement(s) in due course.

2003

Forms of proxy in respect of the EGM to be returned by	11:00 a.m. on Wednesday, 30th April
EGM	11:00 a.m. on Friday, 2nd May
Hearing of petition for confirmation of the Capital Reduction by the Court	Monday, 23rd June
Effective Date	Tuesday, 24th June
Dealings in the Consolidated Shares commence	Tuesday, 24th June
Closure of original counter for trading in the Shares (represented by existing pink share certificates) in board lot of 2,000 Shares	9:30 a.m. on Tuesday, 24th June
Opening of temporary counter for trading in the Consolidated Shares (represented by existing pink share certificates) in board lot of 200 Consolidated Shares	9:30 a.m. on Tuesday, 24th June
First day for free exchange of existing pink share certificates for the Shares for new purple share certificates for the Consolidated Shares	Tuesday, 24th June
Re-opening of original counter for trading in the Consolidated Shares (represented by new purple share certificates) in board lot of 8,000 Consolidated Shares	9:30 a.m. on Wednesday, 9th July
Parallel trading commences	9:30 a.m. on Wednesday, 9th July
First day of provision of matching service for the sale and purchase of odd lots of the Consolidated Shares	Wednesday, 9th July
Closure of temporary counter for trading in the Consolidated Shares (represented by existing pink share certificates) in board lot of 200 Consolidated Shares	4:00 p.m. on Wednesday, 30th July
Parallel trading ends	4:00 p.m. on Wednesday, 30th July
Last day of matching service for the sale and purchase of odd lots of the Consolidated Shares	Wednesday, 30th July
Last day for free exchange of existing pink share certificates for the Shares for new purple share certificates for the Consolidated Shares	Monday, 4th August



Swank International Manufacturing Company Limited

恒光行實業有限公司

(incorporated in Hong Kong with limited liability)

Executive Directors:

Mr. Yau Tak Wah, Paul
Ms. Louie Mei Po
Ms. Wong Shin Ling, Irene
Mr. Tam Wing Kin
Mr. Tam Ping Wah
Mr. Lau Tai Ming, Eddy
Mr. Lim Huat Joo

Independent Non-executive Directors:

Mr. Kwong Wai Tim, William
Mr. Hahn Ka Fai, Mark

Registered Office:

27th Floor
Henley Building
5 Queen's Road Central
Hong Kong

Principal office:

Unit 3301
Level 33
Metroplaza Tower I
223 Hing Fong Road
Kwai Fong
New Territories
Hong Kong

7th April, 2003

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTIONS,
CAPITAL REORGANISATION AND
CHANGE IN BOARD LOT SIZE OF SHARES**

INTRODUCTION

On 4th March, 2003, Swank and Tomorrow jointly announced that they and Probest entered into the conditional Asset Disposal Agreement under which Swank conditionally agreed to sell to Probest 30% equity interest in BVI Holdco and 30% of the BVI Loan at an aggregate consideration of HK\$3 million. Such consideration will be satisfied by Probest upon Completion by offsetting an equivalent amount of HK\$3 million outstanding principal of the Loan of HK\$250 million due from Swank to Probest.

LETTER FROM THE BOARD

On 4th March, 2003, Swank and Probest also entered into the conditional Loan Restructuring Agreement relating to the remaining principal of the Loan of HK\$247 million after Completion, pursuant to which:

- (1) Probest agrees to waive the repayment of the outstanding principal of HK\$47 million of the Loan and the normal and default interest accrued on the Loan since 1st March, 2002 up to the effective date of the Loan Restructuring Agreement (which amounted to approximately HK\$17.1 million up to the Latest Practicable Date);
- (2) the remaining principal balance of HK\$200 million of the Loan outstanding shall be restructured on terms to be governed by the Convertible Note; and
- (3) Swank shall execute the Share Mortgage in favour of Probest over the remaining 70% equity interest in the BVI Holdco and the BVI Loan held by Swank from time to time after Completion as security for the performance by Swank of its obligations under the Convertible Note.

As at the date of the Asset Disposal Agreement and the Loan Restructuring Agreement, Probest is interested in approximately 57.9% of the issued shares in Swank. Accordingly, the Transactions (including, among others, the disposal by Swank of a 30% interest in BVI Holdco and the BVI Loan to Probest, the issue of the Convertible Note and the execution of the Share Mortgage by Swank in favour of Probest, under which Probest, as mortgagee, has the right to dispose of or foreclose the remaining 70% interest in BVI Holdco and the BVI Loan if an event of default under the Convertible Note shall occur) constitute connected transactions for Swank under the Listing Rules, which will be subject to the approval by the Independent Shareholders. The Independent Board Committee has been formed to consider the terms of the Transactions and to make recommendation to the Independent Shareholders as regards voting on the Transactions at the EGM. Chateron has been appointed as the independent financial adviser to advise the Independent Board Committee on the terms of the Transactions. The Transactions also constitute major transactions for Swank under the Listing Rules.

The Directors also announced on 4th March, 2003 that they intended to put forward to the Shareholders a proposal for the Capital Reorganisation and the change in board lot size from 2,000 Shares to 8,000 Consolidated Shares upon the Capital Reorganisation becoming effective.

The purpose of this circular is to provide you with further information regarding the Asset Disposal Agreement, the Loan Restructuring Agreement, the Capital Reorganisation and the change in board lot size, to set out the recommendation of the Independent Board Committee and the advice of Chateron on the terms of the Asset Disposal Agreement and the Loan Restructuring Agreement, and to give you notice of the EGM convened for the purpose of considering, and if thought fit, approving the Capital Reorganisation and the Transactions.

THE ASSET DISPOSAL AGREEMENT

Date

4th March, 2003

Parties

Vendor	:	Swank
Purchaser	:	Probest
Guarantor for the obligations of Probest as purchaser	:	Tomorrow

LETTER FROM THE BOARD

Principal terms of the Asset Disposal Agreement

Pursuant to the Asset Disposal Agreement, Swank conditionally agreed to sell to Probest 30% equity interest in BVI Holdco and 30% of the BVI Loan owing on Completion at an aggregate consideration of HK\$3 million. Such consideration shall be satisfied by Probest upon Completion by offsetting an equivalent amount of HK\$3 million outstanding principal of the Loan due from Swank to Probest.

Under the Asset Disposal Agreement, Swank has undertaken to Probest to implement the Reorganisation pursuant to which BVI Holdco, a wholly-owned subsidiary of Swank, will become the intermediate holding company of all the existing operating subsidiaries and associated companies of Swank. After implementation of the Reorganisation and upon Completion and the Loan Restructuring Agreement taking effect, the principal assets of Swank would be its 70% interest in the issued shares of BVI Holdco and the BVI Loan, and the principal liabilities of Swank would be the debt of HK\$200 million owed to Probest pursuant to the Convertible Note. There will be no principal assets or liabilities held by Swank other than the aforesaid. The 70% attributable value of the sum of the proforma unaudited consolidated net tangible liabilities of BVI Holdco and the BVI Loan amounted to approximately HK\$116.8 million as at 30th June, 2002. The BVI Loan is unsecured, interest free and has no fixed repayment terms.

The consideration under the Asset Disposal Agreement of HK\$3 million was determined after arm's length negotiations among the parties taking into account the waiver of the Loan principal of HK\$47 million by Probest pursuant to the Loan Restructuring Agreement (as described in the paragraph headed "The Loan Restructuring Agreement" below) and with reference to the 30% attributable value of the sum of the proforma unaudited consolidated net tangible liabilities of BVI Holdco and the BVI Loan of approximately HK\$50 million as at 30th June, 2002.

Conditions of the Asset Disposal Agreement

Completion of the Asset Disposal Agreement is conditional upon:

- (1) the approval by the Independent Shareholders of the Asset Disposal Agreement by way of an ordinary resolution to be passed at the EGM, and all other consents and acts required under the Listing Rules having been obtained;
- (2) the approval by the shareholders of Tomorrow of the Asset Disposal Agreement by way of an ordinary resolution to be passed at a special general meeting of Tomorrow or, if permitted by the Stock Exchange, by way of a written certificate of approval from Winspark given in lieu of a special general meeting, and all other consents and acts required under the Listing Rules having been obtained;
- (3) the Reorganisation having been implemented;
- (4) all governmental or other necessary authorisations, approvals and consents in connection with the implementation of the Reorganisation in the PRC and other applicable jurisdictions having been obtained; and
- (5) the Loan Restructuring Agreement becoming unconditional, save for any condition therein requiring the Asset Disposal Agreement to become unconditional or having been completed.

Probest may at its discretion waive conditions (3) and (4) stated above. If any of these conditions are not fulfilled or waived on or before the Long Stop Date, the Asset Disposal Agreement shall lapse and be of no further effect, and no party to the Asset Disposal Agreement shall have any claim against or liability to the other parties thereunder, save in respect of any antecedent breaches thereof.

LETTER FROM THE BOARD

Completion shall take place on the first business day after the fulfilment or waiver of the above conditions (which is expected to be in or around May 2003), or such other date as the parties may agree in writing. An announcement will be made by Tomorrow and Swank on Completion.

Information on BVI Holdco

Pursuant to the Reorganisation, all the interest of Swank in its operating subsidiaries and associated companies and all intra-company indebtedness between Swank and its operating subsidiaries and associated companies will be transferred to BVI Holdco. If any such transfers has not been completed before the Long Stop Date, Swank shall hold such interests in the operating subsidiaries and associated companies in trust in favour of BVI Holdco. As a result, all the businesses currently carried on by the Group, namely, the design, manufacture and marketing of optical products, will be conducted by BVI Holdco and its subsidiaries and associated companies. The Board confirms that there will be no material change to the management and employees of Swank's subsidiaries by reason only of the Transactions. The Board also expects that there will be no material adverse effect on the operation of these subsidiaries of Swank as a result of the Transactions.

Swank and Tomorrow have undertaken to each other that following Completion, to the extent that no external borrowing or funding is obtained, any further funding which may be required to be provided to BVI Holdco shall be made in the form of shareholders' loans in proportion to their respective percentage holding in BVI Holdco.

The composition of the board of directors of BVI Holdco currently comprises seven members, all of whom are appointed by Swank and are members of the Board. Five out of the seven members are also the existing directors of Tomorrow. Tomorrow and Swank have undertaken to each other that the composition of the board of directors of BVI Holdco shall remain unchanged after Completion, except with the prior written consent of both Swank and Tomorrow. BVI Holdco has also undertaken to Swank that surplus cash, if any, generated from the businesses carried out by the subsidiaries and associated companies of BVI Holdco shall, after appropriating a sum for operating expenses, be applied to repay the BVI Loan or to make advances to Swank on the same terms as the BVI Loan for the purposes of facilitating Swank to repay the amounts due under the Convertible Note.

The proforma unaudited consolidated net tangible liabilities of BVI Holdco and the BVI Loan as at 30th June, 2002 were HK\$12.0 million and HK\$178.8 million respectively. The proforma unaudited consolidated net losses before and after taxation of the BVI Holdco (prepared on the basis of the respective audited accounts of the subsidiaries and associated companies to be transferred to BVI Holdco upon the Reorganisation taking effect for the years ended 31st December, 2000 and 2001 and the unaudited management accounts of the subsidiaries and associated companies to be transferred to BVI Holdco upon the Reorganisation taking effect for the six months ended 30th June, 2002 and on the assumption that the Reorganisation has taken place as at 30th June, 2002) are summarised below:

	Six months ended 30th June, 2002 <i>HK\$ million</i> <i>(unaudited)</i>	Year ended 31st December, 2001 2000 <i>HK\$ million</i> <i>(unaudited)</i>	
		<i>HK\$ million</i> <i>(unaudited)</i>	<i>HK\$ million</i> <i>(unaudited)</i>
Profit/(Loss) before taxation and minority interests	9.2	(58.8)	(102.3)
Profit/(Loss) after taxation but before minority interests	9.2	(59.1)	(102.5)
Profit/(Loss) attributable to shareholders	9.2	(58.9)	(102.3)

LETTER FROM THE BOARD

Note: Included in the above figures were finance costs of approximately HK\$25.5 million and HK\$21.5 million for each of the years ended 31st December, 2000 and 2001 respectively and HK\$8.4 million for the six months ended 30th June, 2002, which had been written back during the six months period ended 30th June, 2002 to the extent of approximately HK\$16.9 million as a result of the completion of a debt restructuring of the Group which was announced by Swank on 31st January, 2002 and completed on 1st March 2002.

THE LOAN RESTRUCTURING AGREEMENT

Date

4th March, 2003

Parties

Lender : Probest
Borrower : Swank

Principal terms of the Loan Restructuring Agreement

Pursuant to the Loan Restructuring Agreement, Probest conditionally agreed that the remaining principal of the Loan of HK\$247 million due from Swank to Probest after Completion will be settled and restructured in the following manner:

- (1) Probest agrees to waive the repayment of the outstanding principal of HK\$47 million of the Loan and the normal and default interest accrued on the Loan since 1st March, 2002 up to the date of the Loan Restructuring Agreement taking effect (which is expected to be in or around May 2003);
- (2) the balance of principal sum of HK\$200 million of the Loan shall be restructured on terms to be governed solely by the Convertible Note; and
- (3) Swank will execute the Share Mortgage as security for the performance by Swank of its obligations under the Convertible Note.

The accrued interest amounted to approximately HK\$17.1 million since 1st March, 2002 up to the Latest Practicable Date.

Principal terms of the Convertible Note

Principal amount: HK\$200 million.
Issue price: 100% of the principal amount of the Convertible Note.
Conversion price: Average closing price of the shares of Swank as quoted on the Stock Exchange over the five trading days immediately prior to the date of the delivery of the conversion notice to the registered office of Swank, which shall, in any event, be not lower than the par value of the shares at the time of conversion.
Final maturity date: 30th June, 2006.
Interest: The Convertible Note will bear normal interest which is calculated at 3% per annum on the principal balance outstanding and is payable in full on maturity. Default interest is calculated at 2% above normal interest rate.

LETTER FROM THE BOARD

- Repayment of principal:** Swank is required to repay the principal due under the Convertible Note by installments as set out below.
- Prepayment:** In addition to the repayment by installments as described below, Swank is entitled to prepay at any time before the maturity date in whole or in part (in amount of not less than HK\$1 million or a whole multiple thereof) the principal due under the Convertible Note. The principal balance so prepaid shall be applied towards reduction of the outstanding principal due under the installments in order of priority of their respective repayment dates.
- Conversion:** Holder(s) of the Convertible Note will have the right to convert the outstanding principal balance due under the Convertible Note in whole or in part (in amount of not less than HK\$1 million or a whole multiple thereof) into shares of Swank at any time from the date of issue of the Convertible Note until the business day (excluding Saturdays) immediately prior to the final maturity date at the conversion price described above. The principal balance so converted shall be applied towards reduction of the outstanding principal due under the installments in order of priority of their respective repayment dates.
- The Conversion Shares shall, when issued, rank *pari passu* in all respects with all other shares of Swank then in issue on the date of issue and allotment of such Conversion Shares, including the right to any dividends or distributions, the record date of which falls on a date on or after the date of issue and allotment of such Conversion Shares.
- Transferability:** The Convertible Note may be transferable in whole or in part from the date of issue.
- Voting:** Holder(s) of the Convertible Note will not be entitled to attend or vote at any meetings of Swank by reason of it being a holder of the Convertible Note.
- Listing:** The Convertible Note will not be listed on the Stock Exchange or any other stock exchange. An application has been made to the Stock Exchange for the listing of and permission to deal in the Conversion Shares, subject to the Shareholders having approved the issue and allotment of the Conversion Shares.
- Events of default:** Events of default include, among others, failure to repay any portion of the principal due under the Convertible Note, default in performance of covenants or undertakings, or material adverse change in the financial condition of the Group.

The Convertible Note shall replace the existing loan agreement governing the Loan. The effect of the Transactions on the Loan is as follows:

	<i>HK\$' million</i>
Outstanding principal of the Loan	250.0
Set off against the consideration under the Asset Disposal Agreement	(3.0)
Waived by Probest pursuant to the Loan Restructuring Agreement	<u>(47.0)</u>
Principal balance due under the Convertible Note	<u><u>200.0</u></u>

LETTER FROM THE BOARD

The Loan is unsecured and currently bears normal interest at 1% above prime rate per annum and default interest at 2% above normal rate. The principal repayment schedules of the Loan and that of the Convertible Note are as follows:

The Loan		The Convertible Note	
Principal amount	Repayment date	Principal amount	Repayment date
<i>HK\$' million</i>		<i>HK\$' million</i>	
25.0	1st June, 2002	12.5	31st December, 2003
37.5	1st June, 2003	25.0	1st June, 2004
50.0	1st June, 2004	25.0	31st December, 2004
62.5	1st June, 2005	62.5	1st June, 2005
<u>75.0</u>	1st June, 2006	<u>75.0</u>	30th June, 2006
<u>250.0</u>		<u>200.0</u>	

The Board expects that the financial obligations of Swank pursuant to the Convertible Note shall be settled by the internal resources of BVI Holdco generated from the operating activities of its subsidiaries and associates and distributed to Swank by way of repayment of the BVI Loan or advances by BVI Holdco to Swank.

The Share Mortgage

If an event of default under the Convertible Note shall occur, Probest may exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the 70% interest in BVI Holdco and the BVI Loan held by Swank from time to time after Completion. In case of a sale of the security created by the Share Mortgage, Probest may at its sole discretion apply the proceeds of such sale towards the discharge of the costs incurred and the amount then due by Swank under the Convertible Note. Swank shall be required to make up the shortfall, if any, between the sale proceeds of the security and the amount then due to Probest. If there exists any surplus of the sale proceeds over the amount then due to Probest, Swank shall be entitled to receive such surplus from Probest. In case of a foreclosure of the security, the foreclosure shall be a full and final settlement of all amounts then due by Swank to Probest under the Convertible Note irrespective of the amount thereof.

Conditions of the Loan Restructuring Agreement

The Loan Restructuring Agreement shall take effect on the date when the last of the following conditions shall have been satisfied:

- (1) the approval by the Independent Shareholders of the Loan Restructuring Agreement (including the Convertible Note and the issue and allotment of the Conversion Shares and the Share Mortgage) having been obtained;
- (2) the approval by the shareholders of Tomorrow of the Loan Restructuring Agreement (including the Convertible Note and the Share Mortgage) by way of an ordinary resolution to be passed at a special general meeting of Tomorrow or, if permitted by the Stock Exchange, by way of a written certificate of approval from Winspark given in lieu of a special general meeting having been obtained;

LETTER FROM THE BOARD

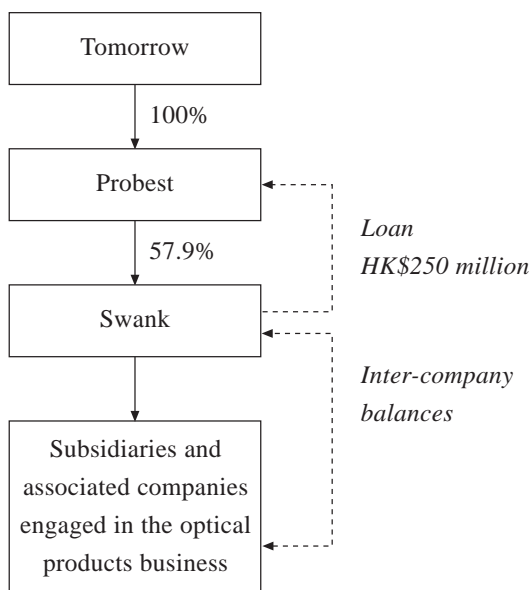
- (3) all other consents and acts, if any, required of Swank/Tomorrow in connection with the Loan Restructuring Agreement, the Convertible Note and the Share Mortgage under the Listing Rules having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange, including the grant by the Stock Exchange of listing of and permission to deal in the Conversion Shares;
- (4) completion of the Reorganisation;
- (5) the Asset Disposal Agreement becoming unconditional, save for any condition therein requiring the Loan Restructuring Agreement to become unconditional or having taken effect, and having been completed; and
- (6) Probest having received the following documents in form and substance satisfactory to it: (a) the Convertible Note and the Share Mortgage contemplated under the Loan Restructuring Agreement duly executed by Swank; and (b) the certified true copies of resolutions of the Board approving the aforesaid documents.

Probest may at its discretion waive conditions (4) and (6) stated above. If any of these conditions are not waived or fulfilled on or before the Long Stop Date, unless an extension of time has been granted by Probest, the Loan Restructuring Agreement shall lapse and be of no further effect, and no party to the Loan Restructuring Agreement shall have any claim against or liability to the other parties thereunder, save in respect of any antecedent breaches thereof.

SHAREHOLDING AND GROUP STRUCTURES

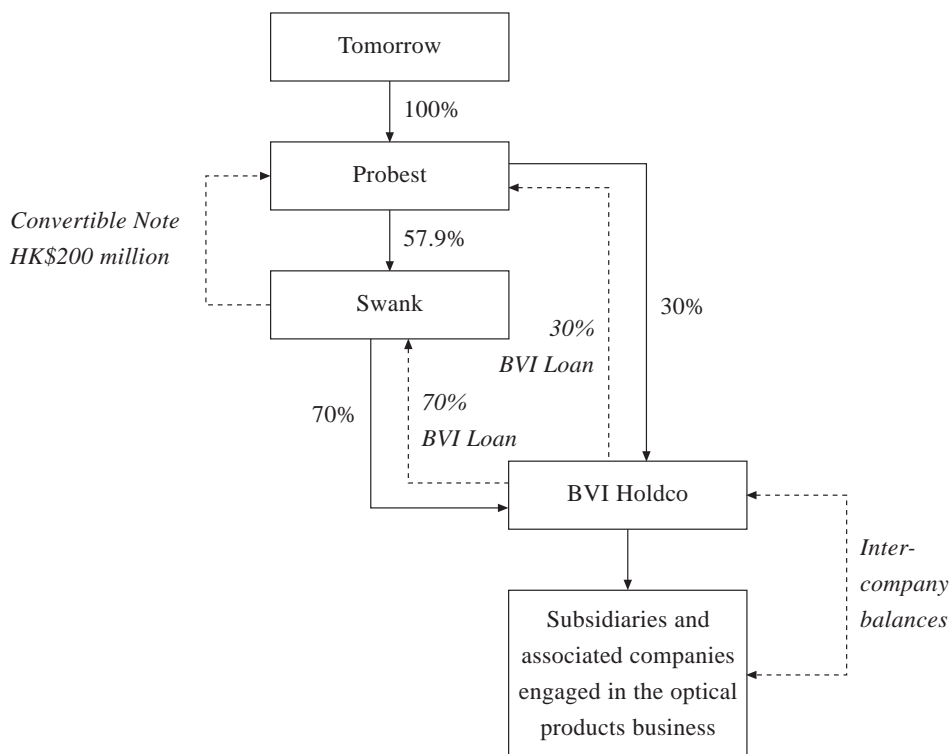
Set out below are the group structures of the Tomorrow Group and the Group before and after completion of the Transactions:

Before completion of the Transactions



LETTER FROM THE BOARD

After completion of the Transactions



On the basis of the existing shareholding structure of Swank and the average closing price per Share of HK\$0.01 (the “Average Price”) for the five trading days up to and including the Latest Practicable Date, and on the assumption that the Capital Reorganisation has taken effect, the shareholding structures of Swank before and after the exercise in full of the conversion rights attaching to the Convertible Note by Probest are set out below for illustration purposes only:

	Before issue of Conversion Shares		After issue of Conversion Shares assuming conversion at Average Price		After issue of Conversion Shares assuming conversion at par	
	No. of Consolidated Shares (in million)	%	No. of Consolidated Shares (in million)	%	No. of Consolidated Shares (in million)	%
Probest	129.2	57.9	129.2	5.8	129.2	0.6
Conversion Shares	—	—	2,000.0	90.0	20,000.0	98.9
Public	129.2	57.9	2,129.2	95.8	20,129.2	99.5
	94.0	42.1	94.0	4.2	94.0	0.5
	<u>223.2</u>	<u>100.0</u>	<u>2,223.2</u>	<u>100.0</u>	<u>20,223.2</u>	<u>100.0</u>

LETTER FROM THE BOARD

It should be noted that the actual shareholding structure of Swank after the exercise of the conversion rights attaching to the Convertible Note may be different from that set out above, as the conversion price and accordingly the number of Conversion Shares to be issued upon conversion of the Convertible Note cannot be ascertained at present. The board of directors of Tomorrow confirmed that it has no intention to apply the provisions of section 168 of the Companies Ordinance to acquire compulsorily any shares of Swank if, after conversion of the Convertible Note, Probest's shareholding in Swank exceeds 90%.

Upon conversion by Probest of the Convertible Note, Probest's percentage holding in Swank will increase, which percentage depends on the conversion price and is not ascertainable at present. The Stock Exchange has stated that if, after completion of the Transactions and the conversion of all or part of the Convertible Note, less than 25% of the shares of Swank are held by the public, or if the Stock Exchange believes that a false market exists or may exist in the shares of Swank, or there are too few shares of Swank in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the shares of Swank. Swank and Probest have undertaken to the Stock Exchange to use its best endeavours to take appropriate steps (which may include further issue of new shares in Swank or arrange for sale of shares in Swank by Probest) to ensure that as soon as possible following conversion of the Convertible Note, not less than 25% of Swank's issued share capital will be held by the public.

REASONS FOR THE ASSET DISPOSAL AGREEMENT AND THE LOAN RESTRUCTURING AGREEMENT

The Group is primarily engaged in the design, manufacture and marketing of optical products. Its production facilities are located in Dongguan and Shenzhen of the PRC. Products of the Group are mainly exported to the United States, Europe and Australia.

The Group had made a turnaround in its financial results following Tomorrow's acquisition of a controlling interest in Swank in early 2002. For the six months ended 30th June, 2002, the Group recorded unaudited consolidated profit attributable to shareholders of approximately HK\$9.2 million, as opposed to the audited consolidated loss attributable to shareholders of approximately HK\$58.9 million for the year ended 31st December, 2001. Notwithstanding the turnaround in its financial results, the Group is under a tight cashflow position to make principal repayments and interest payments for the Loan. Swank has not been able to make repayment of the first installment due under the Loan on 30th June, 2002 of HK\$25 million and payment of accrued interests from 1st March, 2002 up to the date of the Loan Restructuring Agreement of approximately HK\$15.6 million. The second principal installment of the Loan of HK\$37.5 million will be due on 1st June, 2003. Having considered that Swank was not able to make principal repayment and interest payment as aforesaid, and that it would be difficult for the Group to raise equity financing in light of the weak market sentiment, or arrange other debt financing on terms more favourable than the Convertible Note (in terms of, among others, interest cost and requirement for security) in place of the Loan, the Directors are of the view that it would be in the interest of the Company to arrive at a restructuring plan for the Loan on terms which are mutually agreed between Swank and Tomorrow. The entering into of the Asset Disposal Agreement and the Loan Restructuring Agreement by Swank is intended to partially settle the Loan (to the extent of an aggregate principal sum of HK\$50 million) in kind and not in cash. Taking into account factors including (i) the Tomorrow Group will waive interest accrued on the Loan from March 2002 up to the completion of the debt restructuring pursuant to the Loan Restructuring Agreement; (ii) Probest agrees to reduce the interest rate on the Loan from 1% over prime (current prime rate is 5%) to 3% per annum; (iii) the principal repayment schedule of the Convertible Note allows more financial flexibility for Swank; and (iv) the net deficits in assets of the Group would be improved in the event that Probest exercises the conversion rights under the Convertible Note, the Directors are of the view

LETTER FROM THE BOARD

that the Asset Disposal Agreement and the Loan Restructuring Agreement, including the Convertible Note and the giving of the Share Mortgage, represent the most appropriate restructuring plan available to the Group.

After implementation of the Reorganisation and upon Completion and the Loan Restructuring Agreement taking effect, all the interest of Swank in its subsidiaries and associated companies, including all the businesses currently carried on by the Group, together with all intra-company indebtedness between Swank and its subsidiaries and associated companies will be transferred to BVI Holdco. The principal assets of Swank would be its 70% interest in the issued shares of BVI Holdco and the BVI Loan, and the principal liabilities of Swank would be the debt of HK\$200 million owed to Probest pursuant to the Convertible Note. Swank intends to maintain its existing business. If an event of default under the Convertible Note shall occur, Probest may exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the 70% interest in BVI Holdco and the BVI Loan held by Swank from time to time after Completion. In such case, there will be no asset or business remaining in Swank unless acquisition of assets or businesses are made by Swank prior thereto. The Stock Exchange may review whether Swank is able to comply with the requirements of paragraph 38 of the Listing Agreement which requires Swank to have sufficient level of operations or tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant the continued listing of the shares of Swank. In the event that Swank is not able to demonstrate compliance with the requirements of paragraph 38 of the Listing Agreement, trading in the shares of Swank will be suspended immediately and the delisting procedures as set out in Practice Note 17 of the Listing Rules will then commence accordingly.

The Stock Exchange has stated that, if Swank remains a public company listed on the Stock Exchange, any acquisitions or disposals of assets by Swank will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require Swank to issue a circular to its shareholders where acquisition or disposal by Swank is proposed, irrespective of the size of such acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of Swank. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by Swank and any such acquisitions or disposals may, in any event, result in Swank being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

FINANCIAL EFFECTS OF THE TRANSACTIONS ON THE GROUP

On the basis of the proforma unaudited consolidated net tangible liabilities of BVI Holdco and the BVI Loan of HK\$12.0 million and HK\$178.8 million respectively as at 30th June, 2002, the 30% attributable value of the sum of the proforma unaudited consolidated net tangible liabilities of BVI Holdco and the BVI Loan of approximately HK\$50 million equals to the sum of the consideration of HK\$3 million under the Asset Disposal Agreement and the waiver of HK\$47 million of the principal of the Loan pursuant to the Loan Restructuring Agreement. Accordingly, the Transactions are expected to have neutral effect on the net deficiencies in assets of the Group.

The Transactions are expected to have positive effect on the profit and loss accounts of the Group in the financial year in which the Loan Restructuring Agreement takes effect principally due to the waiver of accrued interest on the Loan, which amounted to approximately HK\$17.1 million up to the Latest Practicable Date.

LETTER FROM THE BOARD

CAPITAL REORGANISATION

The Board also intends to put forward a proposal to the Shareholders to reorganise the capital structure of Swank as follows.

Capital Reduction

As at the Latest Practicable Date, the authorised share capital of Swank is HK\$3,000,000,000 divided into 15,000,000,000 Shares of HK\$0.2 each, of which 2,232,044,805 Shares are in issue and paid or credited as fully paid. The proposed Capital Reduction will be effected by cancelling paid up capital to the extent of HK\$0.199 upon each of the 2,232,044,805 Shares in issue as at the Latest Practicable Date and any further Shares which may be issued prior to the date on which the petition for the confirmation of the Capital Reduction is heard by the Court and by reducing the nominal value of all the Shares from HK\$0.20 to HK\$0.001 each. On the assumption that no further Shares will be issued after the Latest Practicable Date, a credit of HK\$444,176,916.195 will arise as a result of the Capital Reduction. The credit will be set off, to the extent permitted and subject to such conditions as may be imposed by the Court, against the accumulated losses of Swank. Any remaining credit will be transferred to a special capital reserve account to be created by Swank, the application of which will be subject to such conditions as may be imposed by the Court.

Capital Increase

The Board further proposes that conditional upon the Capital Reduction becoming effective, the authorised capital of Swank will immediately be restored to the original amount of HK\$3,000,000,000 by the creation of an additional 2,985,000,000,000 Reduced Shares.

Share Consolidation

Upon the Capital Reduction and the Capital Increase becoming effective, Swank will implement the Share Consolidation by consolidating every ten Reduced Shares of HK\$0.001 each after the Capital Reduction and the Capital Increase into one Consolidated Share of HK\$0.01. Accordingly, every ten existing Shares held by a Shareholder whose name appears on the register of members of Swank at the opening of business on the Effective Date will constitute one Consolidated Share. Fractional entitlements to a Consolidated Share will not be issued to Shareholders, but will be aggregated and sold for the benefit of Swank. Fractional entitlement will only arise in respect of a Shareholder's entire shareholding.

On the basis of the 2,232,044,805 existing issued Shares, the authorised share capital of Swank after the Capital Reorganisation will be HK\$3,000,000,000 comprising 300,000,000,000 Consolidated Shares, of which 223,204,480 Consolidated Shares will be in issue and fully paid or credited as fully paid.

Conditions of the Capital Reorganisation

The Capital Reduction is conditional upon:

- (1) the passing of a special resolution by the Shareholders to approve the Capital Reduction at the EGM; and
- (2) the confirmation of the Capital Reduction by the Court and the registration by the Registrar of Companies in Hong Kong of an office copy of the order of the Court and the minute containing the particulars required by Section 61 of the Companies Ordinance.

LETTER FROM THE BOARD

The Capital Increase is conditional upon:

- (1) the Capital Reduction taking effect; and
- (2) the passing of an ordinary resolution by the Shareholders at the EGM.

The Share Consolidation is conditional upon:

- (1) the Capital Reduction and the Capital Increase taking effect; and
- (2) the passing of an ordinary resolution by the Shareholders to approve the Share Consolidation at the EGM.

The Capital Reorganisation is also subject to the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Consolidated Shares in issue and the Consolidated Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

Assuming that all the above conditions are fulfilled, it is expected that the Capital Reduction will become effective immediately following the registration of the order of the Court and the minute containing the particulars required by Section 61 of the Companies Ordinance. An application will be made to the Court in respect of the Capital Reduction. Further announcement(s) will be made by Swank to timely inform the Shareholders of the Effective Date and, if necessary or where appropriate, the progress and results of application to the Court and the status of the Capital Reorganisation.

REASONS FOR THE CAPITAL REORGANISATION

Since 5th April, 2000, the Shares have been traded below their nominal value of HK\$0.20. The closing price of the Shares on the Stock Exchange on 20th February, 2003 (being the last trading day of the Shares prior to the announcement made by the Company of the proposal for the Capital Reorganisation) and on the Latest Practicable Date was HK\$0.031 and HK\$0.01 per Share respectively. The closing price of the Shares on the Stock Exchange during 5th April, 2000 up to and including the Latest Practicable Date ranged from HK\$0.188 to HK\$0.01 per Share. Under the Companies Ordinance, a company may not issue shares at a discount to the nominal value of such shares unless, among other things, the issue is authorised by a resolution of the shareholders and is sanctioned by the Court. The Board considers that such an exercise will be costly and time consuming, and that it would therefore be desirable in any event to reduce the nominal value of the Shares so as to avoid the necessity for such an exercise to be undertaken each time Swank wishes to raise funds. In view of this, the Board proposes the Capital Reduction which is intended to facilitate and give greater flexibility for Swank to raise funds through the issue of new shares in future when market opportunities arises. The Board confirmed that it does not have present intention to raise funds through the issue of new shares in Swank.

As set out in the latest annual report and accounts of Swank, Swank recorded audited accumulated losses of HK\$1,238,983,162 (on an unconsolidated basis) as at 31st December, 2001. The Board believes that in light of such accumulated losses, Swank's capital represented by its share capital had been lost, and it would be in the interests of Swank to reduce its capital in order to eliminate so far as possible such accumulated losses (subject to any conditions that may be imposed by the Court), as this would likely bring forward the date upon which Swank is in a position to declare dividends and in turn improve the prospects of raising funds.

LETTER FROM THE BOARD

The Share Consolidation is intended to reduce the transaction costs for dealing in the Reduced Shares after the Capital Reduction as well as to increase the market value per share of Swank.

CHANGE IN BOARD LOT SIZE

In order to increase the board lot value of the shares of Swank, the Board has resolved to change the board lot size for trading in the shares of Swank from the existing board lot of 2,000 Shares to 8,000 Consolidated Shares upon the Capital Reorganisation becoming effective.

On the basis of the closing price per Share of HK\$0.031 on 20th February, 2003 (being the last trading day of the Shares prior to the announcement made by the Company of the proposal for the change in board lot size), the theoretical market value per Share upon the Capital Reorganisation taking effect shall be HK\$0.31 and the board lot value shall be HK\$2,480.

EFFECT OF THE CAPITAL REORGANISATION

Implementation of the Capital Reorganisation will not, of itself, alter the underlying assets, business operations, management or financial position of Swank, save for the payment of related expenses; nor will the proportionate interests of the Shareholders in Swank be changed as a result thereof (other than as a result of the sale for the benefit of Swank of any fractional Consolidated Shares to which the Shareholders may otherwise be entitled). The Board believes that the Capital Reorganisation will not have any material adverse effect on the financial position of Swank and its subsidiaries.

LISTING AND DEALINGS

The Consolidated Shares will rank *pari passu* in all respects with each other.

An application has been made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission in deal in, the Consolidated Shares in issue upon the Capital Reorganisation becoming effective and the Consolidated Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Consolidated Shares may be settled through CCASS. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect your rights and interests.

LETTER FROM THE BOARD

TRADING ARRANGEMENTS AND FREE EXCHANGE OF NEW SHARE CERTIFICATES

The Consolidated Shares will be traded in board lots of 8,000 each. Subject to the Capital Reorganisation becoming effective on 24th June, 2003, dealings in the Consolidated Shares are expected to commence on the same day. Parallel trading arrangements will be established with the Stock Exchange and parallel trading will be permitted from Wednesday, 9th July, 2003 to Wednesday, 30th July, 2003, both days inclusive, at the counters mentioned in (a) and (b) below:

- (a) with effect from 9:30 a.m. on Tuesday, 24th June, 2003, a temporary counter for trading in the Consolidated Shares (represented by pink share certificates for the existing Shares in board lot of 200 Consolidated Shares) will be established and only pink share certificates for existing Shares can be traded at this counter. Each pink share certificate for existing Shares will be valid for settlement and delivery for trading transacted at this counter on the basis of ten Shares for one Consolidated Share. The original counter for trading in the existing Shares in board lot of 2,000 Shares will be temporarily closed with effect from 9:30 a.m. on Tuesday, 24th June, 2003;
- (b) with effect from 9:30 a.m. on Wednesday, 9th July, 2003, the original counter will be re-opened and will become a counter for trading in the Consolidated Shares in board lot of 8,000 Consolidated Shares. Only new purple share certificates for the Consolidated Shares can be traded at this counter; and

the temporary counter for trading in the Consolidated Shares (represented by pink share certificates for the existing Shares in board lot of 200 Consolidated Shares) will be removed after the close of business on Wednesday, 30th July, 2003. The pink share certificates for the existing Shares will continue to be good evidence of legal title on the basis of ten Shares for one Consolidated Share, but will not be acceptable for trading and settlement purposes thereafter.

Subject to the Capital Reorganisation becoming effective on 24th June, 2003, Shareholders may, during 24th June, 2003 to 4th August, 2003, submit certificates for the existing Shares to the share registrar and transfer office of Swank, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for exchange, at the expense of the Company, for certificates for the Consolidated Shares. Thereafter, certificates for the existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for the Consolidated Shares. Nevertheless, certificates for the Shares will continue to be good evidence of legal title and may be exchanged for certificates for the Consolidated Shares at any time.

It is expected that new certificates for the Consolidated Shares will be available for collection within a period of ten business days after the submission of certificates for the existing Shares to the share registrar and transfer office of Swank for exchange. Unless otherwise instructed, new share certificates will be issued in board lots of 8,000 Consolidated Shares each.

The Company will appoint a broker as an agent to match the sale and purchase of odd lots of the Consolidated Shares arising from the Share Consolidation from 9th July, 2003 up to and including 30th July, 2003. Such arrangement is to facilitate Shareholders who wish to dispose of or top up their odd lots of Consolidated Shares. Shareholders who wish to take advantage of the facility should contact Ms. Selina Lam of the Company (Tel: 2615 6668). Such Shareholders are reminded that in order to effect the transactions, they will have to lodge with such broker the relevant Share certificate(s) and duly signed and completed transfer form(s) and, if any, other documents of title. Shareholders should note that the matching of the sale and purchase of odd lots of Consolidated Shares are not guaranteed.

LETTER FROM THE BOARD

SHARE OPTION SCHEME

The number of shares subject to the share options granted under the Share Option Scheme, the exercise price of such share options and/or the various maximum number of shares provided under the Share Option Scheme shall be adjusted in accordance with the rules of the Share Option Scheme as a result of the Capital Reorganisation becoming effective. As at the Latest Practicable Date, there were no share options granted under the Share Option Scheme. If the Company shall issue any share options under the Share Option Scheme prior to the Effective Date, the Company will request the auditors of the Company to provide a certificate as to the adjustment (if any) required to be made in accordance with such rules once the Capital Reorganisation becomes effective.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at Unit 3301, Level 33, Metroplaza Tower I, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong on Friday, 2nd May, 2003 at 11:00 a.m. is set out on pages 43 to 46 of this circular.

There is a form of proxy for use at the EGM accompanying this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy accompanying this circular to the Company's share registrar and transfer office, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you wish to do so.

As at the Latest Practicable Date, Probest held 1,291,638,651 Shares representing approximately 57.9% of the existing issued share capital of the Company. Probest will abstain from voting on the resolutions to approve the Transactions.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 22 of this circular. The Independent Board Committee, having taken into account the merits of the Transactions to the Group and the advice from Chateron, whose letter is set out on pages 23 to 38 of this circular, considers that the terms and conditions of the Transactions are fair and reasonable and in the overall interests of the Company and the Independent Shareholders. Nevertheless, there are uncertainties arising from the Loan Restructuring Agreement in respect of potential dilution in the Independent Shareholders' interests in the Company and the possible loss of the entire business operations to Probest. The Independent Board Committee, having taken into account the advice from Chateron, considers such uncertainties, by themselves, are not fair and reasonable and not in the interests of the Independent Shareholders. Having weighed between the immediate merits and the uncertainties associated with the Transactions, and taking account that the transactions contemplated under the Asset Disposal Agreement and the Loan Restructuring Agreement constitute the only immediate available restructuring package for the Loan in the circumstances, the Independent Board Committee is of the overall view that the Transactions are fair and reasonable and are in the interests of the Company and the Independent Shareholders and accordingly recommends the Independent Shareholders to vote in favour of the resolutions set out in the notice of the EGM in relation to the Transactions.

Shareholders are advised to read the whole circular carefully before making their decisions on the votes for the Transactions.

LETTER FROM THE BOARD

The Board believes the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Capital Reorganisation.

FURTHER INFORMATION

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

Yours faithfully,
For and on behalf of
Swank International Manufacturing Company Limited
Yau Tak Wah, Paul
Executive Director



Swank International Manufacturing Company Limited

恒光行實業有限公司

(incorporated in Hong Kong with limited liability)

7th April, 2003

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 7th April, 2003 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise you on whether or not the terms of the Transactions are fair and reasonable so far as the Independent Shareholders are concerned. Chateron has been appointed to advise the Independent Board Committee in relation to the Transactions.

We wish to draw your attention to the letter from the Board set out on pages 5 to 21 of the Circular and to the letter of advice from Chateron to the Independent Board Committee as set out on pages 23 to 38 of the Circular.

Having considered the terms and conditions of the Transactions, the advice of Chateron and the other principal factors contained in the letter from the Board, we are of the opinion that the terms and conditions of the Transactions are fair and reasonable and are in the overall interests of the Company and the Independent Shareholders. Nevertheless, there are uncertainties arising from the Loan Restructuring Agreement in respect of potential dilution in the Independent Shareholders’ interests in the Company and the possible loss of the entire business operations to Probest, which are, by themselves, not fair and reasonable and not in the interests of the Independent Shareholders. Having weighed between the immediate merits and the uncertainties associated with the Transactions, and taking account that the transactions contemplated under the Asset Disposal Agreement and the Loan Restructuring Agreement constitute the only immediate available restructuring package for the Loan in the circumstances, the Independent Board Committee is of the overall view that the Transactions are fair and reasonable and in the interests of the Company and the Independent Shareholders and accordingly recommends the Independent Shareholders to vote in favour of the resolutions in relation to the Transactions as set out in the notice convening the EGM on pages 43 to 46 of the Circular.

Yours faithfully,

Kwong Wai Tim, William
and

Hahn Ka Fai, Mark

Independent Board Committee

LETTER FROM CHATERON

Set out below is the text of a letter of advice from Chateron, the independent financial adviser to the Independent Board Committee, prepared for the purpose of inclusion in this circular.

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CHATERON **CORPORATE FINANCE LIMITED**

SUITE 20B, 20TH FLOOR,
9 QUEEN'S ROAD CENTRAL, HONG KONG
TEL: (852) 2868 2828 FAX: (852) 2868 0390

7th April, 2003

The Independent Board Committee
Swank International Manufacturing Company Limited
27th Floor
Henley Building
5 Queen's Road Central
Hong Kong

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to the joint announcement (the “**Announcement**”) issued by Tomorrow International Holdings Limited and Swank International Manufacturing Company Limited (the “**Company**”) dated 4th March, 2003 in respect of, inter alia, the Transactions (as such term is defined in the Announcement) which were entered into by the Company. Details of, inter alia, the terms and conditions of the Transactions are set out in a circular (the “**Circular**”) issued by the Company to its shareholders dated 7th April, 2003, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

As referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, the Transactions comprise those contemplated under the Asset Disposal Agreement, the Loan Restructuring Agreement and the Share Mortgage which were executed between the Company and its controlling shareholder, Probest. Accordingly, the Transactions constitute connected transactions for the Company under Rule 14.26 of the Listing Rules and will be subject to the approval by the Independent Shareholders at the EGM.

The Independent Board Committee comprising Messrs Kwong Wai Tim, William and Hahn Ka Fai, Mark, being independent non-executive Directors, has been established by the Company to advise the Independent Shareholders in relation to the Transactions. We, Chateron, have been appointed by the Company to advise the Independent Board Committee in relation to the Transactions. This letter contains our advice to the Independent Board Committee as to whether or not (i) the terms and conditions of the Transactions are fair and reasonable and are in the overall interests of the Company and the Independent Shareholders; and (ii) the Independent Board Committee should recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in relation to the Transactions.

LETTER FROM CHATERON

In formulating our opinion and recommendation to the Independent Board Committee in relation to the Transactions, we have relied on the accuracy of the information and representations contained in the Circular which have been provided to us by the Directors and which the Directors consider to be complete and relevant. We have assumed that all statements, information and representations made or referred to in the Circular, for which the Directors are solely responsible, were true and correct in all respects at the time they were made and continued to be so as at the date of despatch of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular. We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our opinion and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent verification of the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the affairs of any member of the Group.

In formulating our opinion and recommendation, we have not considered the tax consequences on the Shareholders as a result of the approval (or otherwise) of the Transactions by the Independent Shareholders, since these are particular to the individual circumstances of any Shareholder. It is emphasized that we will not accept responsibility for any tax effects on or liabilities of any person resulting from the approval (or otherwise) of the Transactions by the Independent Shareholders. In particular, any Shareholder who is in any doubt about his/her own tax position in connection with the Transactions should consult his/her own professional adviser(s).

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the Transactions, we have considered the principal factors and reasons set out below:

1. The Asset Disposal Agreement

1.1 *Reasons for entering into the Asset Disposal Agreement*

As referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, the Group recorded unaudited consolidated net profit attributable to Shareholders of approximately HK\$9.2 million for the six months ended 30th June, 2002 which represents a turnaround from the Group's reported audited consolidated net loss attributable to Shareholders of approximately HK\$58.9 million for the year ended 31st December, 2001. Notwithstanding the abovementioned turnaround in the Group's financial results, the Group continues to operate under a tight cashflow position in making principal repayments and interest payments for the Loan as the Company was unable to service its first principal installment under the Loan of HK\$25 million which was due for repayment on 30th June, 2002 as well as the Group's accrued interest payment of approximately HK\$15.6 million since 1st March, 2002 up to the date of the Loan Restructuring Agreement. We were informed by the Directors that the Company entered into the Asset Disposal Agreement with Probest for the purpose of enabling the Company to repay part of the Loan, to the extent of an aggregate principal amount of HK\$50 million, in kind and not in cash. Completion of the Asset Disposal Agreement is conditional upon the Loan Restructuring Agreement becoming unconditional, pursuant to which Probest agrees to waive the Company's repayment obligations of the outstanding principal of the Loan in the amount of HK\$47 million.

We noted that since the Company is a subsidiary of Probest, the Asset Disposal Agreement and the Loan Restructuring Agreement constitute a restructuring plan of the Loan for the Company based on terms and conditions which are mutually agreed between the Company and Probest. In this regard, we consider that as an alternative to the Asset Disposal Agreement and the Loan Restructuring Agreement, the Company may consider refinancing the Loan by way of equity financing or debt financing. Nevertheless, we are of the view that given the Group's recent completion of its debt restructuring programme on 1st March, 2002 and the recent turnaround of the Group's financial results performance for the six months ended 30th June, 2002, it would be difficult for the Group to seek external equity financing (for instance, by way of rights issues or share placements) under the prevailing weak stock market sentiment, or debt financing for an amount which is of a magnitude as significant as the entire amount of the Loan of HK\$250 million. Therefore, we consider the Asset Disposal Agreement and the Loan Restructuring Agreement to be the most appropriate restructuring package available to the Company which, if implemented in accordance with their respective terms, would help alleviate the financial pressure of the Group in meeting its continuing obligations in servicing the Loan.

1.2 Determination of the Net Consideration (as defined hereunder) for the Asset Disposal Agreement

As referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, under the Asset Disposal Agreement:

- (i) the Company has undertaken to Probest to implement the Reorganisation pursuant to which BVI Holdco, a wholly owned subsidiary of the Company, will become the intermediate holding company of all the Company's existing operating subsidiaries and associated companies which are engaged in the design, manufacture and marketing of optical products; and
- (ii) the Company conditionally agreed to sell to Probest a 30% equity interest in BVI Holdco and 30% of the BVI Loan held by the Company on Completion for an aggregate consideration of HK\$3 million.

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After the completion of the Asset Disposal Agreement, the Company's principal assets would be its 70% equity interest in BVI Holdco and the balance of the BVI Loan. Furthermore, as referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, the aggregate consideration payable by Probest to the Company pursuant to the Asset Disposal Agreement of HK\$3 million was determined and agreed between the parties on the following basis:

	<i>HK\$ million</i>
Proforma unaudited consolidated net tangible liabilities of BVI Holdco as at 30th June, 2002	(12.0)
Add: BVI Loan as at 30th June, 2002	<u>178.8</u>
Aggregate sum of the unaudited net tangible liabilities of BVI Holdco and the BVI Loan as at 30th June, 2002	<u>166.8</u>
30% thereof, which shall be acquired by Probest from the Company under the Asset Disposal Agreement (the “ Consideration ”)	50.0
Less: Waiver of part of the Loan principal by Probest under the Loan Restructuring Agreement	<u>(47.0)</u>
Net aggregate consideration payable by Probest to the Company under the Asset Disposal Agreement (the “ Net Consideration ”)	<u><u>3.0</u></u>

In evaluating the amount of the Consideration of approximately HK\$50 million as referred to above, we consider that it would be appropriate to make reference to the unaudited consolidated financial statements of BVI Holdco as at 30th June, 2002 for reason that (i) under the Reorganisation, BVI Holdco would accommodate all the Group's existing business operations; and (ii) the Group last announced and published its unaudited interim results for the six months ended 30th June, 2002. Furthermore, in determining the Net Consideration payable by Probest to the Company under the Asset Disposal Agreement of HK\$3 million as referred to above, we consider that it is appropriate to offset against the Consideration the amount of the Loan principal of HK\$47 million which is agreed to be waived by Probest in favour of the Company under the Loan Restructuring Agreement, for reason that completion of the Asset Disposal Agreement and the Loan Restructuring Agreement are inter-conditional on each other.

We noted that in determining the Consideration of approximately HK\$50 million as referred to above, the Company and Probest have given regard only to the proforma unaudited consolidated net tangible liabilities of BVI Holdco and the amount of BVI Loan as at 30th June, 2002, but not on a price/earnings multiple basis with reference to the proforma unaudited consolidated financial results of BVI Holdco during the past financial years/periods. In this regard, we noted that as referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, BVI Holdco reported proforma unaudited consolidated net losses attributable to shareholders (assuming the Reorganisation became effective) of approximately HK\$102.3 million and HK\$58.9 million for the two financial years ended 31st December, 2000 and 2001, respectively, which turnarounds to a proforma unaudited consolidated net profit attributable to shareholders (assuming the Reorganisation became effective) of approximately HK\$9.2 million

for the six months ended 30th June, 2002. We consider that it would be inappropriate to evaluate BVI Holdco on a price/earnings multiple basis in view of its full year losses for the last two financial years ended 31st December, 2001, and the fact that BVI Holdco has not yet demonstrated a full profitable year in order to justify the adoption of a price/earnings multiple basis in evaluating BVI Holdco. Based on the foregoing, we are of the view that it would be fair and reasonable for the Company and Probest to determine the Consideration based on the proforma unaudited consolidated net tangible liabilities of BVI Holdco and the amount of BVI Loan as at 30th June, 2002.

1.3 *Effect of the Asset Disposal Agreement*

After completion of the Asset Disposal Agreement (and hence completion of the Loan Restructuring Agreement), the Company shall continue to have a remaining 70% beneficial equity interest in BVI Holdco and the balance of the BVI Loan. Therefore, we are of the view that unless the Company defaults under the Convertible Note (upon which Probest may exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the Company's remaining 70% beneficial equity interest in BVI Holdco and the balance of the BVI Loan, as discussed in the paragraph headed "The Share Mortgage" below), the Company shall continue to have a controlling interest in BVI Holdco and hence the Group shall continue to be able to consolidate the financial results contributions to be generated from its business operations in the design, manufacture and marketing of optical products. Furthermore, as referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, BVI Holdco has also undertaken to the Company that any surplus cash generated from the businesses carried out by the subsidiaries and associated companies of BVI Holdco shall, after appropriating a sum for operating expenses, be applied to repay the BVI Loan or for BVI Holdco to make advances to the Company on the same terms as the BVI Loan for the purposes of facilitating the Company in repaying the amount due under the Convertible Note.

We consider the abovementioned arrangement to be fair and reasonable and are in the overall interests of the Company and the Independent Shareholders, for reason that such an arrangement would (i) enable BVI Holdco to reduce and settle its outstanding obligations to the Company under the BVI Loan upon completion of the Reorganisation; or (ii) facilitate the Company to reduce and settle its outstanding obligations to Probest under the Convertible Loan, as quickly as possible under such terms which are no worse off than those prevailing under the BVI Loan. In this regard, we have enquired with the Directors and were informed by them that the Company shall constantly review the financial position and working capital requirements of BVI Holdco to ensure that the financial resources of BVI Holdco are appropriately allocated and applied for working capital requirements or for repayment of the BVI Loan or for making advances to the Company.

2. The Loan Restructuring Agreement

2.1 *Waiver of part of the Loan principal and interest*

As referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, Probest agrees to waive (i) the Company's repayment obligations of the outstanding principal of the Loan in the amount of HK\$47 million; and (ii) the normal interest and default interest accrued on the Loan since 1st March, 2002 (being the date of completion of the Group's debt restructuring programme) up to the effective date of the Loan Restructuring Agreement (which is

expected to be in or around May 2003). For the purpose of illustration, the Company's accrued interest on the Loan since 1st March, 2002 up to the Latest Practicable Date amounted to approximately HK\$17.1 million.

We have reviewed the Company's interim report for the six months ended 30th June, 2002 from which we noted that as at 30th June, 2002, the Group had (i) unaudited Shareholders' deficit of approximately HK\$89 million; (ii) unaudited net current liabilities of approximately HK\$20 million; and (iii) aggregate cash balances of approximately HK\$12 million. The Loan is unsecured with an aggregate principal amount of HK\$250 million, of which HK\$62.5 million is repayable by the Company to Probest within one year from 30th June, 2002 and the remaining HK\$187.5 million is repayable by the Company to Probest after more than one year from 30th June, 2002. Nevertheless, we noted that the Group was unable to service its first principal installment under the Loan of HK\$25 million which was due for repayment on 30th June, 2002 as well as the Group's accrued interest payment of approximately HK\$17.1 million since 1st March, 2002 up to the Latest Practicable Date as referred to above. Therefore, based on the foregoing, we consider that it would be in the interest of the Company to seek to agree with Probest on an arrangement to waive part of the Loan principal as a result of which the pressure on the Group's repayment obligations under the Loan shall be relieved. In this regard, the amount of the Loan principal of HK\$47 million which was agreed to be waived by Probest in favour of the Company represents approximately 75% of such part of the Loan principal of HK\$62.5 million which is repayable by the Company to Probest within one year from 30th June, 2002 as referred to above. Therefore, we are of the view that the waiver arrangement in respect of part of the Loan principal in the amount of HK\$47 million would significantly relieve the Group's pressure over its short term repayment obligations of the Loan, which we consider is in the overall interest of the Company and is fair and reasonable insofar as the interests of the Independent Shareholders are concerned.

Furthermore, as referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, Probest shall write off the interest receivable from the Company on the Loan during the period from 1st March, 2002 up to the effective date of the Loan Restructuring Agreement. We consider that such waiver arrangement on the Company's accrued interest would have a positive effect on the Group's profit and loss account as a whole.

2.2 The issue of the Convertible Note

As referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, the balance of the principal amount of the Loan of HK\$200 million (being determined after set-off against the Net Consideration of HK\$3 million which amount is otherwise payable by Probest to the Company pursuant to the Asset Disposal Agreement, and the waiver of part of the Loan principal of HK\$47 million pursuant to the Loan Restructuring Agreement as referred to above) shall be restructured on terms to be governed solely by the Convertible Note to be issued by the Company to Probest pursuant to the Loan Restructuring Agreement. Details of the terms and conditions of the Convertible Note are referred to in the letter from the Board as set out on pages 5 to 21 of the Circular.

We have evaluated the terms and conditions of the Convertible Note, both based on its own merits as well as in comparison with other unlisted convertible loan note issues by companies listed on the Stock Exchange which were announced during the period commencing from 1st March, 2002 up to and including the Latest Practicable Date (the "**Comparable Convertible Bonds**"), a list of which is set out below:

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Issuer	Issue date	Security	Principal amount <i>HK\$ million</i>	Coupon rate (per annum) <i>%</i>	Term	Conversion period	Conversion price per share <i>HK\$</i>	Closing price	Conversion premium/ (discount) <i>%</i>
								per share prior to the issue of convertible loan note <i>HK\$</i>	
The Cross-Harbour (Holdings) Limited	April 2002	None	250	3.5%	3 years	At any time during its term	3.5	3.375	4%
Hikari Tsuchin International Limited	May 2002	None	175	5%	2 years	At any time during its term	0.2	0.179	12%
Tingyi (Cayman Islands) Holding Corp.	June 2002	None	702	3.5%	3 years	At any time during its term	2.5875	2.25	15%
401 Holdings Limited	June 2002	None	5	4%	3 years	At any time during its term	0.01	0.01	0%
CCT Technology Holdings Limited	June 2002	None	20	5%	2 years	At any time from the issue date up to 5 business days prior to maturity	0.01	0.01	0%
401 Holdings Limited	July 2002	None	12.6	7%	2 years	At any time during its term	0.01	0.01	0%
Rexcapital International Holdings Limited	July 2002	None	80	2%	2 years	At any time during its term	0.018	0.013	38%
ehealthcareasia Limited	August 2002	None	7	8%	2 years	At any time during the period from 12 months after the issue date up to maturity	0.05	0.09	(44)%
Regal Hotels International Holdings Limited	September 2002	None	50	5%	1.5 years	At any time during its term	0.1	0.08	25%
ITC Corporation Limited	September 2002	None	580	8%	3 years	At any time during the period from 3 months after the issue date up to maturity	0.3	0.262	15%
Tem Fat Hing Fung (Holdings) Limited	November 2002	None	20	2%	3 years	At any time during its term	0.05	2.6	(98)%
Simsen International Corporation Limited	December 2002	None	150	4.25%	3 years	At any time during its term	0.25	0.18	39%
Asia Standard Hotel Group Limited	March 2003	None	50	5% <i>(Note)</i>	1.5 years	At any time during its term	0.25	0.208	20%
Average				4.8%	2.4 years				2.0%

Note: Being Hong Kong dollar prime rate, which is equivalent to approximately 5% per annum as at the Latest Practicable Date.

As regards repayment

The Company is required to repay the principal amount due under the Convertible Note of HK\$200 million by five installments as to HK\$12.5 million on 31st December, 2003, HK\$25 million on 1st June, 2004, HK\$25 million on 31st December, 2004, HK\$62.5 million on 1st June, 2005 and HK\$75 million on 30th June, 2006. By comparison, under the current terms of the Loan, the principal amount of HK\$250 million shall be repayable by the Company by five installments as to HK\$25 million on 1st June, 2002, HK\$37.5 million on 1st June, 2003, HK\$50 million on 1st June, 2004, HK\$62.5 million on 1st June, 2005 and HK\$75 million on 1st June, 2006.

In other words, under the Convertible Note, (i) the Group shall be required to repay principal for an aggregate amount of HK\$50 million less than what it would otherwise be liable to repay under the Loan; and (ii) the Company's repayment obligations under the first three installments of the Convertible Note would be of lesser amounts falling on due dates which are later than the original due dates of the corresponding first three installments of the Loan. We consider that the above arrangements offer the Group with enhanced financial flexibility in planning its working capital requirements, particularly in view of the Group's recent turnaround in its financial results performance from a loss-making to a profitable position during the six months ended 30th June, 2002 as discussed above. Furthermore, as referred to in the sub-paragraph headed "Effect of the Asset Disposal Agreement" of the paragraph headed "The Asset Disposal Agreement" above, BVI Holdco (in which the Company shall have a remaining 70% equity interest after completion of the Asset Disposal Agreement) has also undertaken to the Company that any surplus cash generated from the businesses carried out by the subsidiaries and associated companies of BVI Holdco shall, after appropriating a sum for operating expenses, be applied to repay the BVI Loan or for BVI Holdco to make advances to the Company on the same terms as the BVI Loan for the purposes of facilitating the Company in repaying the amount due under the Convertible Note.

As regards interest

The Convertible Note will bear normal interest at the rate of 3% per annum on the outstanding principal amount, with an additional default interest at the rate of 2% per annum over and above the normal interest rate. By comparison, the Loan currently bears normal interest at the rate of 1% above prime interest rate per annum, with an additional default interest at the rate of 2% per annum over and above the normal interest rate. Based on the Hong Kong dollar prime interest rate of about 5% per annum as at the Latest Practicable Date, this means that the Loan currently bears normal interest rate at the rate of about 6% per annum. Therefore, we consider that the Company shall bear a lower interest cost under the Convertible Note when compared with the interest cost of the Loan.

By comparison, we noted that the average interest rate of the Comparable Convertible Bonds is approximately 4.8% per annum. Therefore, excluding any default interest rate, the normal interest rate of the Convertible Note is 3% which is favourable to the Company when compared with the average interest rate of the Comparable Convertible Bonds.

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As regards conversion price

The conversion price of the Convertible Note will be determined as the average closing price of the Shares as quoted on the Stock Exchange during the period of five trading days prior to the delivery of the conversion notice to the Company which, in any event, will not be lower than the par value of the Shares at the time of conversion. We therefore consider that the conversion price of the Convertible Note has not factored into it any pre-determined premium over and above the market price of the Shares prior to the announcement of the issue of the Convertible Note, and the fact that the minimum conversion price shall in any event be not less than the par value of the Shares at the time of conversion would facilitate the issue of Conversion Shares under the Companies Ordinance.

By comparison, we noted that the Comparable Convertible Bonds demonstrate an average conversion premium of approximately 2.0% over and above the underlying market prices of the shares of the listed issuers prior to the announcements of the issues of the Comparable Convertible Bonds. In this regard, we noted that the conversion prices of the Comparable Convertible Bonds were determined at levels representing a wide range of conversion premiums/discounts when compared with the underlying market prices of the shares of the listed issuers prior to the announcements of the issues of the Comparable Convertible Bonds. Nevertheless, all of these Comparable Convertible Bonds share the common feature that their conversion prices were stated at pre-determined levels, and were not determined on a basis which leveraged on the market prices of the shares of the issuers prior to the conversion of the Comparable Convertible Bonds. Therefore, we do not consider that it would be appropriate for us to evaluate the conversion price of the Convertible Note by comparing it with the average conversion premium demonstrated by the Comparable Convertible Bonds. Based on the existing terms of the Convertible Note, the conversion price will be determined on a basis which leverages on the market price performance of the Shares prior to conversion which we consider to be a fair and reasonable basis.

As regards conversion rights

The holder(s) of the Convertible Note will have the right to convert the outstanding principal balance of the Convertible Note into Shares at any time commencing from the date of issue until the business day immediately prior to the maturity date. By comparison, we noted that such a conversion feature is generally comparable with the conversion features of the majority of the Comparable Convertible Bonds (as represented by 11 out of the 13 Comparable Convertible Bonds under comparison) which offer the holders thereof conversion rights at any time commencing from the date of issue.

The principal balance of the Convertible Note so converted shall be applied towards reducing the outstanding principal of the Convertible Note due under the five installments in order of priority of their respective repayment dates. We consider this to be a fair and reasonable arrangement for the Company for reason that the Company would be relieved from its repayment obligations to Probest in respect of the amount of the Convertible Note for which conversion rights shall be exercised. Furthermore, assuming the full conversion of the entire amount of the Convertible Note of HK\$200 million, the Company's unaudited consolidated net Shareholders' deficit of approximately HK\$89.4 million as at 30th June, 2002 would turnaround to proforma adjusted unaudited consolidated net assets of approximately HK\$111 million or thereabouts.

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As regards term to maturity

The Convertible Note is of a term which is due for final maturity on 30th June, 2006, which is slightly over three years commencing from the Latest Practicable Date. By comparison, we noted that the average term to maturity of the Comparable Convertible Bonds is approximately 2.4 years and we therefore consider that the term to maturity of the Convertible Note is generally comparable with the average term to maturity of the Comparable Convertible Bonds.

General

Based on our foregoing evaluation of the principal terms of the Convertible Note by comparison with those of the Comparable Convertible Bonds, we are of the view that the terms of the Convertible Note are generally comparable with market statistics and are therefore fair and reasonable insofar as the interests of the Company and the Independent Shareholders are concerned.

As regards the potential dilution effect on the Independent Shareholders' interests in the Company upon full exercise by Probest of the conversion rights attaching to the Convertible Note

As referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, upon Probest's full exercise of the conversion rights attaching to the Convertible Note, then:

- (i) assuming the issue by the Company to Probest of an aggregate of 2,000,000,000 Conversion Shares at a conversion price which is equal to the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.10 for the five trading days immediately prior to the Latest Practicable Date as a reference (after adjusting for the effect of the Capital Reorganisation), then the Independent Shareholders' beneficial interests in the Company would be significantly diluted by approximately 90% from approximately 42.1% as at the Latest Practicable Date to approximately 4.2% on a fully diluted basis; and
- (ii) assuming the issue by the Company to Probest of an aggregate of 20,000,000,000 Conversion Shares at a conversion price which is equal to the revised par value of the Consolidated Shares of HK\$0.01 (after adjusting for the effect of the Capital Reorganisation), then the Independent Shareholders' beneficial interests in the Company would be significantly diluted by approximately 99% from approximately 42.1% as at the Latest Practicable Date to approximately 0.5% on a fully diluted basis.

Probest shall have the discretion to exercise the conversion rights in respect of any part of the Convertible Note, in lieu of the Company being required to satisfy its repayment obligations to Probest in relation to such part of the Convertible Note for which conversion rights shall be exercised. Nevertheless, we consider that although the Group shall be relieved entirely of its repayment obligations to Probest under the Convertible Note in the event where Probest fully exercises the conversion rights attaching to the Convertible Note, there will be a significant potential dilution effect on the Independent Shareholders' beneficial interests in the Company which we consider is not in the interests of the Independent Shareholders.

3. The Share Mortgage

As referred to in the letter from the Board as set out on pages 5 to 21 of the Circular, the Company shall execute a deed in favour of Probest which incorporates a charge over the Company's remaining 70% equity interest in BVI Holdco and the balance of the BVI Loan (the "Pledged Asset") after completion of the Asset Disposal Agreement and the Loan Restructuring Agreement. If an event of default under the Convertible Note shall occur, Probest may exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the Pledged Asset. In case of a sale by Probest of the Pledged Asset, Probest may at its sole discretion apply the proceeds of such sale towards discharging the costs incurred by Probest and the amount then owing by the Company to Probest under the Convertible Note, such that (i) if the sale proceeds are less than the amount then owing by the Company to Probest under the Convertible Note, then the Company shall be required to make up the shortfall amount to Probest; and (ii) if the sale proceeds exceed the amount then owing by the Company to Probest under the Convertible Note, then the Company shall be entitled to receive such surplus amount from Probest. On the other hand, in case of a foreclosure by Probest on the Pledged Asset, such foreclosure shall constitute a full and final settlement of all amounts then owing by the Company to Probest under the Convertible Note regardless of the amount thereof.

We consider that the Share Mortgage essentially imposes on the Company (as the issuer of the Convertible Note) a security arrangement over the Pledged Asset, which is an unusual feature when compared with the Comparable Convertible Bonds (as referred to in the sub-paragraph headed "The issue of the Convertible Note" of the paragraph headed "The Loan Restructuring Agreement" above) in respect of which all of the Comparable Convertible Bonds are unsecured. Furthermore, in the event of the Company's default on its obligations under the Convertible Note as a result of which Probest may exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the Pledged Asset, then technically speaking the Group would lose to Probest its beneficial ownership in BVI Holdco and hence essentially the Group's entire existing business operations in the design, manufacture and marketing of optical products. This means that, unless the Company shall have acquired other assets or businesses (where none of which is held through BVI Holdco) prior to Probest exercising its rights to enforce the security created by the Share Mortgage to sell or foreclose the Pledged Asset, **there exists a possibility where the Company might not be able to comply with the requirements of paragraph 38 of the Listing Agreement under which the Company has a continuing obligation to maintain a sufficient level of operations or tangible assets of sufficient value and/or intangible assets of a sufficient potential value to warrant the continued listing of the Shares.** In this regard, we noted that the Company has a consolidated net tangible Shareholders' deficit of approximately HK\$89.4 million as at 30th June, 2002 (being the latest accounts reporting date to which the Group's consolidated accounts were prepared and published). We are of the view that any proposed acquisition of new assets or businesses by the Group, in the absence of any concessions from the Stock Exchange, constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. In such circumstances, any proposed acquisitions of assets or businesses will result in the Shares being suspended from trading on the Stock Exchange and that any application for a lifting of the suspension in the trading of the Shares on the Stock Exchange will be treated as if it were an application for listing from a new applicant for all purposes. In this regard, we were informed by the Directors that the Stock Exchange has issued a letter to the Company's financial adviser in relation to the Transactions dated 7th March, 2003 in which the Stock Exchange expressed its concerns over (i) the structure of the Transactions; (ii) the future of the Company; and (iii) whether or not the Company can at all times in the future satisfy the requirements of paragraph 38 of the Listing Agreement, and in which the Stock Exchange had made it abundantly clear that it may exercise its discretionary powers under the Listing Rules to deem any future asset injection into the Company a very substantial acquisition and a new listing application for the Company if the Stock

Exchange considers circumstances to be appropriate. Accordingly, we consider that any proposed acquisition of new assets or businesses by the Group is likely to result in a lengthy new listing procedure for the Company, which we consider would not be in the interests of the Company and the Shareholders as a whole. Therefore, we are of the view that it would be impracticable to expect the Group to acquire any new assets or businesses in the interim. On the other hand, should the Company be required to sell its remaining 70% interest in BVI Holdco for reason of the enforcement of the Share Mortgage or otherwise, then it is highly likely that the Company will not be able to demonstrate its continuing compliance with the requirements of paragraph 38 of the Listing Agreement and thereby securing the Company's continuing listing status on the Stock Exchange, as a result of which the trading in the Shares on the Stock Exchange will be suspended immediately and the Company will face delisting procedures in accordance with Practice Note 17 of the Listing Rules which **we consider would not be in the interests of the Company and the Independent Shareholders.**

Furthermore, under the terms of the Share Mortgage, Probest shall have the discretion to sell or foreclose the Pledged Asset. In this regard, we noted that there exists the possibility for Probest to foreclose the Pledged Asset in full and final settlement for the outstanding balance due by the Company to Probest under the Convertible Note, regardless of the actual amount of repayment serviced by the Company to Probest before an event of default occurs in accordance with the terms of the Convertible Note. We consider that, under such circumstances, the Company would lose its principal business operations to Probest as a result of which it would be difficult for the Company to be able to satisfy the requirements of paragraph 38 of the Listing Agreement and hence a continuing listing status on the Stock Exchange, **which we consider not to be in the interests of the Company and the Independent Shareholders.** Furthermore, we consider that whilst any decision by Probest to foreclose the Pledged Asset would constitute a full and final settlement of all the amounts then owing by the Company to Probest under the Convertible Note, the alternative decision by Probest to sell the Pledged Asset might otherwise result in the Company's obligation to make up any shortfall payments to Probest in the event where the sale proceeds are less than the amount then owing by the Company to Probest under the Convertible Note. In this regard and for reference purpose, based on the aggregate sum of the unaudited net tangible liabilities of BVI Holdco and the BVI Loan of approximately HK\$166.8 million as at 30th June, 2002 as referred to in the paragraph headed "The Asset Disposal Agreement" above, the value of the Pledged Asset is approximately HK\$117 million which represents a discount of approximately 41% to the principal amount of the Convertible Note of HK\$200 million. Notwithstanding the actual amounts of the Company's repayment of the Convertible Note in accordance with its terms and/or the actual amounts of the sale proceeds which may be realized by Probest upon the sale of the Pledged Asset, we consider that there exists a possibility whereby the Company may be required to make up any shortfall payments to Probest which would therefore generate financial burden for the Group as a whole and which **we consider would not be in the interests of the Company and the Independent Shareholders.**

4. The Group's business plans and financial resources

For the purpose of our evaluation of the Group's capabilities in honouring its repayment obligations for the Convertible Note after completion of the Loan Restructuring Agreement, we have enquired with and were made available from the Directors (i) a business plan for the Group for the year ending 31st December, 2003; and (ii) the Group's cashflow projections for the year ending 31st December, 2003 and for the first quarter of 2004.

We have reviewed the Group's business plan as referred to above from which we noted that the Group plans to (i) outsource its design, product development and manufacturing facilities in order to control operating costs; (ii) increase its product penetration to the higher-end consumer market in order to increase profit margin; and (iii) control its production lead-time in order to enhance

operational efficiency and delivery schedule to customers. However, we are unable to identify any particular plans or strategies which have been formulated by the Group in the interim to acquire any businesses or assets that would support the Group with either a sufficient level of operations, tangible assets of sufficient value and/or intangible assets of sufficient potential value for the Company's continuing compliance with the requirements of paragraph 38 of the Listing Agreement, in the event where Probest may exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the Pledged Asset. In this regard, as explained in the paragraph headed "The Share Mortgage" above, we consider that any proposed acquisition of new assets or businesses by the Group, in the absence of any concessions from the Stock Exchange, constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is accordingly likely to result in a lengthy new listing procedure for the Company, which would not be in the interests of the Company and the Shareholders as a whole. Therefore, we are of the view that it would be impracticable to expect the Group to acquire any new assets or businesses in the interim, which means that the Company may not be able to demonstrate its continuing compliance with the requirements of paragraph 38 of the Listing Agreement and thereby securing the Company's continuing listing status on the Stock Exchange. Furthermore, we have reviewed the Group's cashflow projections as referred to above from which we noted the Directors' estimate that barring unforeseen circumstances, the Group would have sufficient financial resources by the end of the first quarter of 2004 (after meeting the Group's administrative and operating costs for the year ending 31st December, 2003 and the first quarter of 2004) in satisfying the Company's repayment obligations under the first two installments of the Convertible Note in the aggregate amount of HK\$37.5 million (with the second installment of which being due on 1st June, 2004), representing approximately 19% of the full amount of the Convertible Note of HK\$200 million. In the absence of any further cashflow projections of the Group beyond the first quarter of 2004 which may be provided to us by the Directors, **we are unable to express our view as to whether or not the Group may have adequate financial resources in satisfying its repayment obligations of the remaining three installments of the Convertible Note in the aggregate amount of HK\$162.5 million (with the last one of which being due on 30th June, 2006), representing approximately 81% of the full amount of the Convertible Note of HK\$200 million.**

RECOMMENDATION

Having considered the principal factors and reasons as referred to above, we noted the following immediate merits arising from the terms of the Asset Disposal Agreement and the Loan Restructuring Agreement:

- The Asset Disposal Agreement enables the Company to repay part of the Loan, to the extent of an aggregate principal amount of HK\$3 million, in kind and not in cash. Furthermore, completion of the Asset Disposal Agreement is conditional upon the Loan Restructuring Agreement becoming unconditional, pursuant to which Probest agrees to waive the Company's repayment obligations in respect of the outstanding principal of the Loan in the amount of HK\$47 million with the remaining HK\$200 million of the Loan to be restructured in form of the Convertible Note. Therefore, the Asset Disposal Agreement and the Loan Restructuring Agreement constitute a restructuring plan of the Loan for the Company which would help alleviate the financial pressure of the Group in meeting its continuing obligations in servicing the Loan. We also consider the Asset Disposal Agreement and the Loan Restructuring Agreement to be the most appropriate restructuring package available to the Company, instead of the Company's attempt in seeking refinancing for the Loan by way of equity financing or debt financing which we consider would be difficult given the Group's recent completion of its debt restructuring programme on 1st March, 2002, the recent turnaround of the Group's financial results performance for the six months ended 30th June, 2002 as well as the prevailing weak stock market sentiment;

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- After completion of the Asset Disposal Agreement, the Company shall continue to own the Pledged Asset which is the Company's remaining 70% controlling interest in BVI Holdco and hence the Group shall continue to be able to consolidate the financial results contributions to be generated from its business operations in the design, manufacture and marketing of optical products, unless the Company defaults under the Convertible Note whereupon Probest may exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the Pledged Asset;
- Under the Loan Restructuring Agreement, the agreement by Probest to waive (i) part of the Loan principal in the amount of HK\$47 million would significantly relieve the Group's pressure over its short term repayment obligations of the Loan; and (ii) the Company's interest accrued on the Loan since 1st March, 2002 up to the effective date of the Loan Restructuring Agreement (which is expected to be in or around May 2003) would have a positive effect on the Group's profit and loss account as a whole;
- Under the Loan Restructuring Agreement, the remaining balance of the principal amount of the Loan of HK\$200 million shall be restructured on terms to be governed solely by the Convertible Note pursuant to which (i) the Group shall be required to repay principal for an aggregate amount of HK\$50 million less than what it would otherwise be liable to repay under the Loan; and (ii) the Company's repayment obligations under the first three installments of the Convertible Note would be of lesser amounts falling on due dates which are later than the original due dates of the corresponding first three installments of the Loan. We consider such repayment terms of the Convertible Note offer the Group with enhanced financial flexibility in planning its working capital requirements, particularly in view of the Group's recent turnaround in its financial results performance from a loss-making to a profitable position during the six months ended 30th June, 2002 as discussed above; and
- The terms of the Convertible Note are generally comparable with the parameters of the Comparable Convertible Bonds which were announced during the period commencing from 1st March, 2002 up to and including the Latest Practicable Date, which we therefore consider to be fair and reasonable insofar as the interests of the Company and the Independent Shareholders are concerned.

Therefore, based on the foregoing merits, we are of the view that despite (as discussed above):

- (i) the possibility where upon the foreclosure of the Pledged Asset by Probest, the Company may not be able to demonstrate its continuing compliance with the requirements of paragraph 38 of the Listing Agreement and hence the possibility for the Company to lose its listing status on the Stock Exchange;
- (ii) the possibility where upon the sale by Probest of the Pledged Asset, the Company may be required to make up any shortfall payments to Probest (in the event where the sale proceeds of the Pledged Asset to Probest are less than the amount then owing by the Company to Probest under the Convertible Note) which would therefore generate financial burden for the Group as a whole; and
- (iii) the fact that based on our review of the Group's cashflow projections for the year ending 31st December, 2003 and for the first quarter of 2004, we are unable to express our view as to whether or not the Group may have adequate financial resources in satisfying its repayment

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obligations of the remaining three installments of the Convertible Note in the aggregate amount of HK\$162.5 million (representing approximately 81% of the full amount of the Convertible Note of HK\$200 million),

the terms and conditions of the Transactions are fair and reasonable and are in the overall interests of the Company and the Independent Shareholders.

On the other hand, we consider that although the Group shall be relieved entirely of its repayment obligations to Probest under the Convertible Note in the event where Probest fully exercises the conversion rights attaching to the Convertible Note, there will be a significant potential dilution effect on the beneficial interests of the Independent Shareholders in the Company by (i) approximately 90% assuming a conversion price which is equal to the average closing price of the Shares as quoted on the Stock Exchange of approximately HK\$0.10 for the five trading days immediately prior to the Latest Practicable Date as a reference (after adjusting for the effect of the Capital Reorganisation); or (ii) approximately 99% assuming a conversion price which is equal to the revised par value of the Consolidated Shares of HK\$0.01 (after adjusting for the effect of the Capital Reorganisation). Furthermore, we consider that in the event the Company defaults under the Convertible Note and therefore Probest may exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the Pledged Asset, then the Group shall lose to Probest its beneficial ownership in BVI Holdco and hence essentially the Group's entire existing business operations in the design, manufacturing and marketing of optical products. In this regard, we have evaluated above that, in view of the latest net Shareholders' deficit position of the Group, it would be impracticable to expect the Group to acquire any new assets or businesses in the interim for reason that any such acquisition, in the absence of any concessions from the Stock Exchange, constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and hence results in a lengthy new listing procedure for the Company. Therefore, if the Company were unable to demonstrate its continuing compliance with the requirements of paragraph 38 of the Listing Agreement in terms of maintaining a sufficient level of operations or tangible assets of sufficient value and/or intangible assets of sufficient potential value to warrant the continued listing of the Shares, then trading in the Shares on the Stock Exchange will be suspended immediately and the Company will face delisting procedures in accordance with Practice Note 17 of the Listing Rules. We consider that the ramification to the Independent Shareholders of a delisting of the Company from the Stock Exchange is that the Shareholders (including the Independent Shareholders) may lose their entire investments in the Company. Nevertheless, we consider that any significant potential dilution in the Independent Shareholders' interests in the Company would only arise if Probest were to elect to exercise its conversion rights attaching to the Convertible Note in full, and the Group's possible loss of its entire business operations to Probest would only arise if Probest were to elect to exercise its rights to enforce the security created by the Share Mortgage to sell or foreclose the Pledged Asset if an event of default under the Convertible Note occurs. Therefore, any significant potential dilution in the Independent Shareholders' interests in the Company or the Group's possible loss of its entire business operations to Probest are only possibilities which may or may not take place and remain to be uncertainties arising from the terms of the Loan Restructuring Agreement. We are of the view that **such uncertainties arising from the Loan Restructuring Agreement, by themselves, are not fair and reasonable and are not in the interests of the Independent Shareholders.**

Nevertheless, in view of (i) the Group's recent completion of its debt restructuring programme in March 2002; (ii) the fact that the Group only demonstrated a turnaround in its unaudited financial results performance for the six months ended 30th June, 2002, for which the Group's audited financial results for the full financial year ended 31st December, 2002 have yet to be seen; and (iii) the prevailing weak stock market sentiment and the prudent approach adopted by the majority of banks in formulating and advancing commercial loans, we consider that it would be difficult for the Company to seek external financing sources, such as by way of equity and/or debt financing, for the purpose of refinancing the Loan or servicing the Company's repayment obligations under the Loan. Therefore, in the present circumstances, it would appear

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to us that the Loan Restructuring Agreement is the only loan restructuring package which is immediately available to the Company in respect of the Loan, whose merits to the Group are referred to in our discussion above. We further consider that in the absence of the Loan Restructuring Agreement, the Group would continue to suffer from financial risks attributable to an adverse development in its financial results performance and financial position by virtue of a continuing high level of interest costs and a continuing high gearing level, respectively, which we consider are not in the interests of the Company and the Independent Shareholders. Based on the foregoing and weighing between the immediate merits of the Loan Restructuring Agreement which we have identified above versus the uncertainties arising from the terms of the Loan Restructuring Agreement as discussed above which may or may not take place, we are of the overall view that the Loan Restructuring Agreement is fair and reasonable and is in the interests of the Company and the Independent Shareholders. Therefore, we would advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in relation to the Transactions.

Yours faithfully,
For and on behalf of
Chateron Corporate Finance Limited
Christopher Wong
Director

INDEBTEDNESS

At the close of business on 28th February, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had amount due to Probest, the shareholder of the Company, of HK\$265 million, which comprised the loan principal of HK\$250 million and interest payable of HK\$15 million.

Pursuant to the Asset Disposal Agreement and the Loan Restructuring Agreement dated 4th March, 2003, out of the amount due to Probest of HK\$265 million, HK\$3 million will be capitalised, HK\$62 million will be waived and the remaining balance of HK\$200 million will be restructured into the Convertible Note.

Save as referred to above or as otherwise disclosed herein and apart from intra-group liabilities, the Group did not have, as at the close of business on 28th February, 2003, any mortgages, charges, debentures or other loan capital or bank overdraft, loans or other similar indebtedness or hire purchase commitments or any guarantees or other material contingent liabilities.

Save as referred to above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 28th February, 2003.

FINANCIAL AND TRADING PROSPECTS

The external market conditions have been extremely competitive in the past few months due to unstable economy in the United States and competition intensity. This situation is likely to persist in the near future. In the meantime, the eyewear industry is undergoing big evolution, with branding and distribution becoming extremely important.

As a re-emerged competitor, the Group has been repositioning itself internally. Much of the ground work in turning around the Group has been done in the past few months. In the next few months, the Group shall focus on completing the key initiatives in manufacturing to support the new alignment in sales organisation. When completed, the Group shall have a very focused manufacturing organisation capable of achieving competitive delivery lead time, and short time-to-market on product launches. Many of the product development and engineering documentation, and real-time tracking of products moving through the production lines, will be tracked on the Group's digital systems. These initiatives, when combined with the Group's new marketing focus on providing high value-added services to customers, will enable the Group to compete even more successfully in the market place.

MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2001 (being the date to which the latest audited consolidated financial statements of the Group were made up).

WORKING CAPITAL

Taking into account the Group's internal resources and present available banking facilities, the Directors are of the opinion that upon Completion and the Loan Restructuring Agreement taking effect and barring unforeseen circumstances, the Group will have sufficient working capital for its present requirements.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Swank. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interest in securities of Swank and its associated corporations

As at the Latest Practicable Date, none of the Directors was interested in any shares in or debenture of, or has a short position in shares in the relevant share capital of, Swank or any of its associated corporations (within the meaning of the SFO) which had been notified to Swank and the Stock Exchange pursuant to Section 347 of the SFO (including interests which they were deemed or taken to have under Sections 344 and 345 of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies established by the Stock Exchange.

As at the Latest Practicable Date, Chateron was not interested in the securities of any member of the Group and had no right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(b) Others

As at the Latest Practicable Date, none of the Directors or Chateron had any direct or indirect interest in any assets acquired, disposed of or leased to or by, or proposed to be acquired, disposed of or leased to or by, any member of the Group since 31st December, 2001, the date to which the latest audited consolidated financial statements of the Group were made up.

None of the Directors has any existing or proposed service contract with any member of the Group which does not expire or is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

There are no contract or arrangement subsisting at the date of this circular in which any Director is materially interested and which are significant in relation to the business of the Group taken as whole.

3. SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date, the following interests (whether direct or indirect) of 5% or more of shares comprised in the share capital of Swank were recorded in the register of interests in shares and short positions required to be kept by Swank pursuant to Section 336 of the SFO:

Name of shareholder	Number of Shares held	Approximate percentage of existing issued share capital of Swank
Probest Holdings Inc.	1,291,638,651	57.9%

According to the register of interests in shares and short positions kept by Swank under Section 336 of the SFO and so far as was known to the Directors, other than the interests disclosed above and the conversion rights attached to the Convertible Note, there was no other person (other than a director or chief executive of Swank) who, as at the Latest Practicable Date, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of Swank or in any options in respect of such capital.

4. CONSENT

Chateron has given and has not withdrawn its written consent to the issue of this circular, with the inclusion herein of its letter and references to its name, in the form and context in which they respectively appear in this circular.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within two years preceding the date of this circular and which are or may be material:

- (a) the sale and purchase agreement dated 31st January, 2002 made between Optiset Limited, Probest, Tomorrow, Swank and certain members of the Group, the Hongkong and Shanghai Banking Corporation Limited and 26 banks and financial creditors of the Group (together, the “Creditor Banks”), pursuant to which Probest agreed to acquire from Optiset Limited a total of 1,605,000,000 Shares at a consideration of HK\$10,000,000 and the Creditor Banks agreed to transfer to Probest the bank debts with an aggregate principal of HK\$250,000,000 owed by the Group to the Creditor Banks at a sum of HK\$58,000,000;
- (b) the service agreement entered into between Swank and Mr. Lim Huat Joo dated 14th July, 2001, pursuant to which Mr. Lim was appointed as Executive Director – Manufacturing. The service agreement will thereafter continue unless terminated by the Company giving Mr. Lim 12 months’ notice or by Mr. Lim giving the Company 6 months’ notice. The service agreement is not for a fixed term. Mr. Lim’s annual salary is approximately HK\$1.2 million and he is entitled to a discretionary bonus;
- (c) the Asset Disposal Agreement; and

- (d) the Loan Restructuring Agreement (including the Convertible Note and the Share Mortgage attached thereto).

6. LITIGATION

Save as disclosed below, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group:

(a) Hanmy (Holding) Limited and its related companies (collectively “Hanmy”)

The Group commenced legal proceedings against Hanmy in 1999 to recover the amounts owed by Hanmy to the Group of approximately HK\$96 million, which included issuance of writ and petitions for winding-up. The Group has not yet obtained a judgement due to Hanmy’s defence. Legal proceedings are still in progress.

(b) Litigation against Mr. Lam Yin Sang and Ms. Chan Hoi Wo

The Group instigated legal proceedings against Mr. Lam Yin Sang and Ms. Chan Hoi Wo for the losses of HK\$385,800,000 sustained as a result of various alleged breaches of fiduciary and other duties while acting formerly as executive directors of the Group. In October 1999, the Group filed a claim to the court. Legal proceedings are still in progress.

7. MISCELLANEOUS

- (a) The secretary of Swank is Mr. Tam Wing Kin, *FCCA*.
- (b) The English language text of this circular shall prevail over the Chinese language text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of Swank up to and including 2nd May, 2003:

- (a) the memorandum and articles of association of Swank;
- (b) the annual report of the Group for each of the two years ended 31st December, 2000 and 2001 and the unaudited interim report of the Group for the six months ended 30th June, 2002;
- (c) the letter of advice from Chateron to the Independent Board Committee, the text of which is set out on pages 23 to 38 of this circular;
- (d) the letter addressed to the Independent Shareholders from the Independent Board Committee, the text of which is set out on page 22 of this circular;
- (e) the letter of consent from Chateron referred to in the section headed “Consent” in this Appendix; and
- (f) the contracts referred to in the section headed “Material Contracts” in this Appendix.



Swank International Manufacturing Company Limited

恒光行實業有限公司

(incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Swank International Manufacturing Company Limited (the “Company”) will be held at 11:00 a.m. on Friday, 2nd May, 2003 at Unit 3301, Level 33, Metroplaza Tower I, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions of the Company:

ORDINARY RESOLUTION

1. **“THAT:**

- (a) the Asset Disposal Agreement dated 4th March, 2003 (the “Asset Disposal Agreement”, a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked “A”) made between the Company, Probest Holdings Inc. (“Probest”) and Tomorrow International Holdings Limited whereby the Company conditionally agreed to sell to Probest 30% equity interest in Profitown Investment Corporation (“Profitown”) and 30% of the shareholder’s loan owed by Profitown to the Company at an aggregate consideration of HK\$3 million, and the transactions contemplated thereunder be and are hereby approved; and
- (b) the Directors be and are hereby authorised for and on behalf of the Company to execute any documents and instruments as may be necessary or incidental to completion of the Asset Disposal Agreement and to do all such acts and things as they consider necessary or expedient or desirable in connection with or to give effect to the Asset Disposal Agreement.”

ORDINARY RESOLUTION

2. **“THAT:**

- (a) the Loan Restructuring Agreement dated 4th March, 2003 (the “Loan Restructuring Agreement”, a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked “B”) made between the Company and Probest in respect of the restructuring of the loan in the principal sum of HK\$247 million due from the Company to Probest, including the issue to Probest of a HK\$200 million convertible note (the “Convertible Note”, the form of which is annexed as Schedule 1 to the Loan Restructuring Agreement) and a share mortgage (the “Share Mortgage”, the form of which is annexed as Schedule 2 to the Loan Restructuring Agreement) and the transactions contemplated thereunder, be and are hereby approved;
- (b) the proposed issue by the Company of the Convertible Note and the transactions contemplated thereunder be and are hereby approved;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) the issue and allotment to the holder(s) of the Convertible Note, upon due exercise of the conversion rights attached to the Convertible Note, of shares in the capital of the Company, pursuant to and in accordance with the terms and conditions of the Convertible Note, be and is hereby approved;
- (d) the Directors be and are hereby authorised (i) to execute the Convertible Note pursuant to the Loan Restructuring Agreement; (ii) to execute any documents and instruments and to do all such acts and things as they may consider necessary or expedient or desirable in order to give effect to the issue of the Convertible Note; and (iii) to allot and issue new shares in the capital of the Company upon exercise of the conversion rights attaching to the Convertible Note;
- (e) the proposed execution of the Share Mortgage by the Company and the transactions contemplated thereunder, be and are hereby approved; and
- (f) the Directors be and are hereby authorised (i) to execute the Share Mortgage and any documents and instruments and to do all such acts and things as they may consider necessary or expedient or desirable in connection with or to give effect to the Share Mortgage; (ii) to execute any other documents and instruments as may be required or incidental to the Loan Restructuring Agreement and to do all such acts and things as they consider necessary or expedient or desirable in connection with or to give effect to the Loan Restructuring Agreement and the transactions contemplated thereunder.”

SPECIAL RESOLUTION

3. “**THAT:**

- (a) the authorised share capital of the Company be reduced from HK\$3,000,000,000 divided into 15,000,000,000 shares of HK\$0.20 each to HK\$15,000,000 divided into 15,000,000,000 shares of HK\$0.001 (“Reduced Shares”) each (the “Capital Reduction”) and that such reduction be effected by cancelling paid-up capital to the extent of HK\$0.199 upon each of the shares in issue on the date on which the petition for the confirmation of the reduction is heard by the High Court of the Hong Kong Special Administrative Region and by reducing the nominal amount of all the issued and unissued shares in the share capital of the Company from HK\$0.20 to HK\$0.001;
- (b) the credit arising as a result of the capital reduction contemplated in paragraph (a) above be, subject to the extent permitted by the High Court, applied towards the elimination of the accumulated losses of the Company and any remaining credit be transferred to a special capital reserve account to be created by the Company, both shall be subject to any conditions imposed by the High Court; and
- (c) the Directors be authorised generally to do all things appropriate to effect and implement any of the foregoing.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

ORDINARY RESOLUTION

4. “**THAT:**

- (a) subject to and forthwith upon the Capital Reduction taking effect, the authorised share capital of the Company be increased to its former amount of HK\$3,000,000,000 by the creation of such number of new Reduced Shares of HK\$0.001 each which aggregate nominal amount is equal to the amount of the capital of the Company reduced pursuant to Resolution 3 of this notice taking effect, such new Reduced Shares to rank pari passu in all respects with the then existing shares of the Company; and
- (b) the Directors be authorised generally to do all things appropriate to effect and implement any of the foregoing.”

ORDINARY RESOLUTION

5. “**THAT:**

- (a) subject to and forthwith upon the reduction of capital contemplated in Resolution 3 and increase of share capital contemplated in Resolution 4 of this notice taking effect, the share capital of the Company, comprising 3,000,000,000,000 shares of HK\$0.001 each, be consolidated into 300,000,000,000 shares of HK\$0.01 each (the “Consolidated Shares”) by consolidating every 10 shares of HK\$0.001 each into one Consolidated Share of HK\$0.01;
- (b) all fractions of the Consolidated Shares to which holders of issued shares of HK\$0.001 each would otherwise be entitled be aggregated and sold for the benefit of the Company; and
- (c) the Directors be authorised generally to do all things appropriate to effect and implement any of the foregoing.”

By Order of the Board
Swank International Manufacturing Company Limited
Yau Tak Wah, Paul
Executive Director

Hong Kong, 7th April, 2003

Registered Office:

27th Floor
Henley Building
5 Queen’s Road Central
Hong Kong

Notes:

- 1. A form of proxy for use at the extraordinary general meeting is enclosed herewith.
- 2. Any member entitle to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised.
5. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney must be lodged with the Company's share registrar and transfer office, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be).
6. Where there are joint holders of any shares of the Company, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of them so present whose name stands first in the register of members of the Company in respect of the joint holding shall alone be entitled to vote in respect thereof.