1. Overview

As the Chief Operating Officer newly appointed in March 2002, I am pleased to report on the key activities of the Group since the last annual report. Besides commenting on the results for the fiscal year 2001, I would also highlight important post balance sheet events that have taken place. These events which I believe will fundamentally change the outlook of the Group for the future, are summarized below and further elaborated in paragraphs 6 and 7:

- The Corporate Finance Restructuring was completed in March 2002, which resulted in Tomorrow acquiring the majority stake of Swank and the related bank loans from the bankers.

- The strategic initiatives which have been launched in the past two months to improve the Group's competitive position.

2. Results For The Fiscal Year 2001

The Group's consolidated turnover was HK$241.7 million, representing a decrease of 10% compared with last year. The loss attributable to shareholders amounted to HK$58.9 million compared with HK$102.3 million in 2000.

Of the reduction in turnover of HK$26.3 million, approximately HK$13 million was due to Swank China Retail being spun off by the Group in March this year, resulted in only three months' sales being recorded in 2001 as opposed to a full year in 2000. Turnover for 2001 was also affected by worldwide economic recessions and consolidation of eyewear industry, particularly in the USA and Europe. Mergers and acquisitions of certain customers have also impacted negatively on the Group's sales as the Group continued to experience changes in its customer base.

Despite difficult market conditions, the Group managed to maintain the gross profit margin at the same level as last year, at 25%.

Other revenue has dropped from last year due to lower interest income as a result of lower cash position compared with last year.

Substantial savings in selling and administrative expenses were mainly due to discontinuance of Swank China Retail since its disposal in March 2001. Other savings, which amounted to approximately HK$2 million, included salaries and other overhead expenses as a result of tight cost control exercised by the Group.

Loss from operations in 2001 amounted to HK$11.0 million, decreased by 23% as compared with HK$14.3 million last year. Lower operational loss was mainly due to disposal of non-profitable China Retail operations, coupled with a reduction in overhead costs. However, this positive effect was partially offset by lower turnover for the year.

2. *Results For The Fiscal Year 2001 (Cont'd)*

The Group's 50 percent-owned associate, Yueheng has made a good profit this year. Sales were particularly encouraging for the Group's proprietary LYX lens due to increased market demand for LYX lens. In addition, Yueheng also achieved a significant growth in the sales of polycarbonate plastic lens as a result of worldwide shortage of supply. Good market demand for these lenses has contributed to a good profit for Yueheng during the year. It is expected that Yueheng will continue to grow in view of the continuous good market demand for polycarbonate plastic lens, as well as its efforts to develop new products to take advantage of potential market opportunities.

Finance costs were lower than last year due to low interest rates in 2001. During the year, on several occasions, the Group was unable to make interest payments that were due as a result of financial constraints. Waivers of default have been received by the Group from the bankers until completion of the deal with potential new investors. In the meantime, the Group continued to accrue the interest according to the terms as stipulated in the loan agreements. As at 31 December 2001, finance costs comprised HK$14.2 million of interest due to the bankers but were not paid. The accrued interest was subsequently released and discharged by the bankers following the acquisition of the Group by Tomorrow in March 2002 and will be reversed as income in year 2002.

In 2001, the Group continued to record significant exceptional and non-recurring items, which were reasonable in light of circumstances. Among others, certain associates had ceased production and for which proper titles of the properties could not be obtained. Accordingly, impairment losses on interest in these associates of HK$24.1 million were recognized in the consolidated income statement.

The Group also considered the non-recoverable value in respect of a plot of land located in the PRC for which a land use right certificate has not been obtained and is not occupied by the Group. The carrying value of this plot of land is considered to be fully impaired and the impairment loss recognized in the consolidated income statement amounted to HK$4.8 million.

Other exceptional and non-recurring items recognized in the consolidated income statement included portion of revaluation deficit of land and buildings of HK$1.9 million and provision for closure of an overseas subsidiary of HK$1.0 million. These provisions are offset by reversal of impairment loss on interest in associate of HK$2.1 million, which arises from disposal of the investments held by the Group's associate, Framecorp, Inc., during the year.

The loss attributable to shareholders amounted to HK$58.9 million, declined by 42% as compared with last year. Although the Group continued to incur losses in 2001, from an operational perspective, the Group has managed to streamline its operations by focusing on its core business. Disposal of non-profitable China Retail operations was one of the measures taken by the Group during the year to reduce the operational loss. Although the impact of this measure was not so apparent in 2001 due to the adverse economic situation that affected the Group's sales, the Group believes that the benefits arising from consolidating the operations, coupled with new strategic initiatives from new management should enable the Group to report improved results in the coming years.

Finally, the Group has also fully provided for amounts due from Hanmy as the Group considered the recovery of the debts is remote. Notwithstanding this, the Group will continue to vigorously pursue its proceedings to recover this amount.

3. *Liquidity and Financial Review*

The Group mainly finances its operations with internally generated cash flow. As at 31 December 2001, the current ratio of the Group was 1.1:1.

During the year, the Group recorded a net cash inflow from operating activities of HK$4.6 million.

The Group conducts its business transactions mainly in Hong Kong Dollars, US Dollars and RMB. The Group did not arrange any forward currency contracts for hedging purposes. Whilst over 96 percent of the Group's cash is denominated in currencies directly and indirectly linked to the US Dollars, the exposure to exchange fluctuation is minimal. The Group's bank loans bear interest at a rate per annum equivalent to 1% over prime payable quarterly in arrears. The Group's borrowings are mainly denominated in Hong Kong Dollars. As at 31 December 2001, the gearing ratio (long term debts/(long term debts + shareholders fund of the Group)) was 4.15.

Subsequent to the balance sheet date, on 1 March 2002, Tomorrow acquired from the bankers approximately 71.9% of the enlarged issued share capital of the Company following the conversion of the HK$300 million convertible notes and the HK$250 million bank loans due to the bankers was also transferred to Tomorrow. With this change, the Group considers that financial assistance to the Group to meet its future capital expenditure and working capital requirements is essential.

4. *Charges On Group Assets*

The Group executed several debentures incorporating fixed and floating charges over all of the undertaking, property and assets of certain Group companies (the "Debentures") as security for the HK$250 million bank loans and the HK$300 million convertible notes. As at 31 December 2001, charges on the Group's total assets amounted to approximately HK$114.9 million (at 31 December 2000: approximately HK$181.6 million). Out of the HK$114.9 million, HK$21.4 million was on fixed assets and HK$1.2 million was on inventories and the balance was a floating charge on other assets.

Following the acquisition of the HK$250 million bank loans by Tomorrow, the Debentures were released and discharged by the bankers on 1 March 2002.

5. Human Resources

As at 31 December 2001, the Company and its subsidiaries had 2,321 employees.

Pursuant to the Company's share option scheme adopted on 28 June 1996 for a period of 10 years, the Company may offer to full time employees (including executive directors) of the Company and its subsidiaries options to subscribe for shares in the Company, subject to a maximum limit of 10 per cent. of the issued share capital of the Company from time to time. No share options have been granted during the year.

The remuneration policy and package of the Group's employees are based on their performance, experience, prevailing industry practice and market rates. In addition to the basic salaries and contributions to the provident fund, the Group also provides staff benefits including discretionary bonus to senior staff and medical insurance scheme. The Group also provides appropriate training for the employees' better personal development and growth.

6. The Corporate Finance Restructuring

Shareholders have been fully informed through announcements and circulars concerning the acquisition by Tomorrow of the majority stakes in Swank and the related loans from the bankers, which was announced in January 2002 and completed in March 2002.

Probest Holdings Inc., ("Probest"), a wholly-owned subsidiary of Tomorrow, entered into a sale and purchase agreement ("Agreement") dated 31 January 2002 to acquire from Optiset Limited a total of 1,605,000,000 shares, comprising 373,342,850 shares and 1,231,657,150 conversion shares at a consideration of HK$10.0 million. The 1,605,000,000 shares represented approximately 71.9 per cent. of the issued share capital of the Company as enlarged by the issue of the conversion shares. The bankers also agreed to transfer the HK$250 million bank loans to Probest in accordance with the terms and conditions of the Agreement at a total sum of HK$58.0 million. Further, following a Mandatory Unconditional Cash Offer made by Tomorrow in compliance with The Hong Kong Code on Takeovers and Mergers, which was completed in early April, Tomorrow acquired a further 1.6 per cent. of shares in Swank.

This restructuring has many benefits. Firstly, on the corporate side, this transaction has resulted in HK$300 million convertible notes being eliminated as a result of this being converted into shares. Secondly, with financial backing from Tomorrow, the new management team is now highly motivated to develop plans to improve the Group's long-term competitive advantage, rather than adopting compromise plans which only focus on short-term results.

7. New Strategic Initiatives

Following Tomorrow's acquisition of Swank, the Group took the opportunity to restructure the entire organization, by launching a number of key strategic initiatives to improve its competitive strengths. In March, the Group implemented a major step to reorganize its executive management and staff organization. With this initiative, the Group has rebuilt the executive management and leadership of the Group by reorganizing the reporting structure to focus on functional expertise and increase the transparency, while giving the team a more focused direction, and creating better linkages between sales, manufacturing and the support functions.

Other strategic initiatives which have been launched for completion in the near future included the following:

– Repositioning the Group's product design function by embracing the Group's engineering strengths, and explicitly considering the current customer portfolio and product manufacturability in the new product life cycle.

– Improving all aspects of operations that involve customer interface, including sales calls and customer visits, design concept development, sample making and dispatch, and all other aspects of order fulfillment cycle.

– Improving the lead-time on delivery to customers while cutting down the lead-time expected of suppliers and improving supply chain management.

– Improving the Group's product quality through better product engineering and pragmatic quality control programs.

While these new strategic initiatives will enable Swank to improve its operating capability and repackage its corporate image in the market place, the effect on profits will not be fully realised in the short term, due to the length of our product development cycle which can last up to a year. We are however attempting to review all other critical items as well so as to boost short term performance. Our aim is to improve operating profit, before financing, in both the short and long term.

8. Future Prospect

Swank is known in the eyewear industry today as a strong competitor, with well-known products covering a full range from metal, plastics to handmade, including sunglasses, optical frames and readers. To make a major comeback to the market place, Swank needed the full restructuring undertaken in March this year. Swank's future going forward will be remarkably different from the past five years, during which Swank had to generate cash from operations to repay interest, while not being able to make significant improvements to the company's profitability.

8. *Future Prospect (Cont'd)*

We believe we are on the right track in terms of creating a new vision and strategy for the Group, while developing a new executive management to deliver the results. Our principal markets in the United States, Europe and Australia will remain competitive, but we believe our new strategic initiatives will enable Swank to distinct itself in the market place:

- A shorter product development cycle to enable faster time-to-market
- A broad range of products covering the mass market as well as designer brands which require more turn-key design
- A reliable order fulfillment cycle which enables fast delivery particularly products which come in as re-orders.

To close the year 2001, I would like to take this opportunity to express my appreciation to our many business partners for their continued support that they have shown to Swank during our difficult time, not the least to our bankers who have run the extra mile to seek an investor for Swank. Lastly, I would like to thank all our staff for their great efforts and patience that they have put in to help us put together a sound business plan. I believe their efforts will pay off.

By Order of the Board
Eddy Lau
Chief Operating Officer

Hong Kong, 19 April 2002