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MAN SANG INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Directors:

Executive Directors

Mr. Cheng Chung Hing (*Chairman*)

Mr. Cheng Tai Po

Miss Yan Sau Man, Amy

Mr. Ng Hak Yee

Mr. Hung Kwok Wing

Independent Non-executive Directors

Mr. Alexander Reid Hamilton

Mr. Yuen Ka Lok, Ernest

Non-executive Director

Mr. Sio Kam Seng

Registered Office

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Bermuda

Principal Place of Business in Hong Kong

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Hong Kong

29th June, 1998

To Shareholders and, for information only, to Warrantholders

Dear Sir or Madam,

GENERAL MANDATES TO REPURCHASE SHARES AND WARRANTS AND TO ISSUE SHARES

INTRODUCTION

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") contain provisions regulating the repurchase by companies with primary listings on the Stock Exchange of their own securities on the Stock Exchange (the "Share Buyback Rules").

The purpose of this circular is to seek your approval of the Ordinary Resolutions to be proposed at the forthcoming Annual General Meeting to be held on 12th August, 1998 to enable the Directors to exercise the powers of the Company to undertake repurchases of the Company's fully paid up shares representing up to a maximum of 10% of the existing issued share capital of the Company at the date of passing the Ordinary Resolutions and warrants issued by the Company to subscribe such shares representing up to a maximum of 10% of such warrants currently outstanding at the date of passing the Ordinary Resolutions, to grant a general mandate to the Directors to issue new shares and to increase the number of shares which the Directors may issue under their general mandate by the number of shares repurchased.

In accordance with the Share Buyback Rules, this circular also serves as an explanatory statement to provide you with requisite information necessary to enable you to make a decision on whether to vote for or against Resolution 5(A) to (C) to be proposed at the Annual General Meeting of the Company.

SHARE BUYBACK RULES

Under the Share Buyback Rules, any share buyback by a company with a primary listing on the Stock Exchange has to comply with the following provisions:-

(The restrictions on on-market share repurchases contained in the Listing Rules and hereunder are also applicable to on-market repurchases of warrants.)

(a) Shareholders' Approval

All on-market share repurchases by a company must be approved in advance by an ordinary resolution, either by way of a general mandate or by a specific approval in relation to specific transactions.

(b) Source of Funds

Repurchase must be funded out of the funds which are legally available for such purpose in accordance with the Memorandum of Association and Bye-laws of the Company and the laws of Bermuda.

(c) Trading Restrictions

A maximum of 10% of the outstanding share capital as at the date of passing the relevant resolution may be repurchased on the Stock Exchange and a company may not issue new shares or announce a proposed issue of new shares for a period of 30 days immediately following a share repurchase other than on exercise of warrants, share options or subscription rights granted or existing prior to the date of the repurchase. In addition, the number of shares repurchased on the Stock Exchange in any given calendar month are limited to a maximum of 25% of the total number of the Company's shares that were traded on the Stock Exchange in the immediately preceding calendar month. The Share Buyback Rules also prohibit a company from making share repurchases on the Stock Exchange if such repurchases would result in less than 25% of the issued share capital of the Company being in the public hands. The Stock Exchange has power to waive compliance with restrictions under the Share Buyback Rules. The Stock Exchange has informed the company that such waiver would not normally be granted except in exceptional circumstances. The company may not purchase its own shares on the Stock Exchange for a consideration other than in cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(d) Status of Repurchased Shares and Warrants

The Share Buyback Rules provide that the listing of all repurchased shares is automatically cancelled and the share certificates must be cancelled and destroyed accordingly. Under Bermuda law, the repurchased shares will be treated as cancelled and the amount of the company's issued, but not its authorised, capital shall be diminished accordingly. In accordance with the terms and conditions of the warrants of the company, all repurchased warrants will also be cancelled upon repurchase.

(e) Suspension of Repurchases

The Share Buyback Rules require that shares cannot be repurchased at any time after a price sensitive development has occurred or has been the subject of a decision until the price sensitive information has been publicly announced. In particular, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or publication of the company's interim report, the company may not purchase its own securities on the Stock Exchange. In addition, the Stock Exchange reserves the right to suspend a share repurchase programme on the Stock Exchange if a company breaches the Listing Rules.

(f) Reporting Requirements

Under the Share Buyback Rules, a company which has made a purchase of shares must report to the Stock Exchange not later than 9:30 a.m. on the following business day the total number of shares purchased, the purchase price per share or the highest and lowest prices paid for such purchases. In addition, the company's annual report is required to disclose information regarding share repurchases made during the year on a monthly basis, including the number of shares repurchased and the aggregate price paid.

The company shall procure that any broker appointed by the company to effect the purchase of shares shall disclose to the Stock Exchange such information with respect to any such purchases made on behalf of the company as the Stock Exchange may request.

(g) Connected Parties

The Share Buyback Rules prohibit a company from knowingly purchasing shares on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules) and a connected person is prohibited from knowingly selling his shares to the listed company.

BUYBACK MANDATE TO DIRECTORS TO MAKE ON-MARKET SHARES AND WARRANTS REPURCHASES AND GENERAL MANDATE TO ISSUE NEW SHARES

The Ordinary Resolution 5(A) to be proposed at the Annual General Meeting relates to the granting of a general mandate to the Directors to issue new shares up to a maximum of 20% of the issued share capital of the Company at the date of passing the resolution; in addition, subject to a separate approval of Shareholders of Ordinary Resolution 5(C), the number of shares purchased by the Company under the Repurchase Proposal of the Ordinary Resolution 5(B) will also be added to the 20% general mandate as mentioned above.

The Ordinary Resolution 5(B) to be proposed at the Annual General Meeting relates to the granting of a buyback mandate to the Directors of the Company to repurchase, on the Stock Exchange, shares up to a maximum of 10% of the issued share capital of the Company and the warrants of the Company with subscription rights not exceeding 10% of the total subscription rights attached to all warrants outstanding at the date of passing the resolution (the "Repurchase Proposal").

The Ordinary Resolution 5(C) relates to the extension of the general mandate to be granted to the Directors to issue new shares during the relevant period by adding to it the number of shares purchased under the Repurchase Proposal, if any.

REASONS FOR SHARE BUYBACK

Although the Directors have no present intention of repurchasing any shares or warrants, they believe that the flexibility afforded by the Repurchase Proposal would be beneficial to the Company and its shareholders. Repurchases will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders. Such repurchases may, depending on market conditions and funding arrangement at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per share.

SHARE CAPITAL AND WARRANTS

As at 29th June, 1998, the latest practicable date prior to the printing of this circular, the issued share capital of the Company comprised 472,500,050 shares of HK\$0.10 each ("Shares") and the warrants to subscribe for shares outstanding at such date with total subscription rights of HK\$122,849,935 equivalent to the aggregate subscription price for a total of 94,499,950 shares on the basis of subscription price of HK\$1.30 per share ("Warrants").

Subject to the passing of the Ordinary Resolution 5(B), the Company would be allowed under the buyback mandate to repurchase a maximum of 47,250,005 Shares and Warrants with subscription rights of HK\$12,284,993 on the basis that no further shares will be issued or warrants will be exercised prior to the date of the forthcoming Annual General Meeting.

FUNDING OF REPURCHASES

As noted above, the Listing Rules restrict shares and warrants repurchases on the Stock Exchange in any calendar month to a maximum of 25% of the trading volume of the relevant securities that were traded on the Stock Exchange in the immediately preceding calendar month.

A company may only repurchase fully paid up shares. In repurchasing shares and warrants, the Company may only apply funds legally available for such purpose in accordance with the Memorandum of Association and Bye-laws of the Company and the laws of Bermuda, including capital paid up on the shares to be repurchased, funds of the Company otherwise available for dividend or distribution or proceeds of a fresh issue of shares made for the purposes and, in the case of any premium payable on the repurchase, funds of the Company otherwise available for dividend or distribution or sums standing to the credit of the share premium account of the Company.

There might be material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the Annual Report for the year ended 31st March, 1998) in the event that the Repurchase Proposal were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the buyback mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

MARKET PRICES

The highest and lowest market prices at which the Shares and Warrants of the Company were traded on the Stock Exchange during each of the previous 9 months from 26th September, 1997 (first date of trading) to 31st May, 1998 are as follows:—

	Shares		Warrants	
	Highest HK\$	Lowest HK\$	Highest HK\$	Lowest HK\$
1997				
September	1.650	1.210	0.900	0.305
October	1.350	0.450	0.560	0.180
November	0.700	0.520	0.192	0.172
December	0.690	0.540	—	—
1998				
January	0.650	0.300	—	—
February	0.490	0.340	—	—
March	0.510	0.415	—	—
April	0.490	0.380	—	—
May	0.440	0.320	0.110	0.096

DISCLOSURE OF INTERESTS

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make purchases under the Repurchase Proposal in accordance with the Listing Rules and laws of Bermuda. The Directors are not aware of any consequences which will arise under the Hong Kong Code on Takeovers and Mergers (“Takeover Code”) as a result of any purchases to be made under the Repurchase Proposal.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates presently intend to sell shares or warrants to the Company under the Repurchase Proposal in the event that the Repurchase Proposal is approved by Shareholders.

The Company has not been notified by any connected persons of the Company that they have a present intention to sell any shares or warrants, or that they have undertaken not to sell any shares or warrants held by them to the Company in the event that the Repurchase Proposal is approved by its Shareholders.

SHARES AND WARRANTS PURCHASES MADE BY THE COMPANY

No purchase of shares or warrants has been made by the Company during the last six months (whether on the Stock Exchange or otherwise).

TAKEOVER CODE

If as a result of a repurchase of shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeover Code. As a result a shareholder, or group of shareholders acting in concert, depending on the level of increase of the shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code.

As at 29th June, 1998, the date of the Report of the Directors, the equity interest of the major shareholder, Man Sang International (B.V. I.) Limited, was and is 73.02%. Any repurchases by the Company on the Stock Exchange up to the maximum of 10% of the issued share capital of the Company made pursuant to the buyback mandate granted to the Directors of the Company to repurchase mean that the aggregate amount of the share capital of the Company in public hands could be reduced to less than 25%. The Directors have no present intention to exercise the Repurchase Proposal to such an extent as would result in the amount of shares held by the public being reduced to less than 25%.

PROXY ARRANGEMENT

A form of proxy for use at the Annual General Meeting is enclosed with the Annual Report for the year ended 31st March, 1998. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority at the Company's branch registrar, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and delivery of the form of proxy will not prevent you from attending and voting at the Annual General Meeting.

RECOMMENDATION

Your Directors consider that the Repurchase Proposal and the granting of general mandate to issue new shares are in the best interests of the Company and its shareholders, and accordingly recommend that all shareholders should vote in favour of the Resolution 5(A) to (C) to be proposed at the Annual General Meeting as they intend to do themselves in respect of their own holdings.

Yours faithfully,
Cheng Chung Hing
Chairman