OPERATIONAL UPDATE

FISCAL 2007 – 1ST QUARTER

In continuation of our efforts to enhance the transparency of the Group, the Board of Directors of Top Form International Limited announce certain selected operational data for the first quarter of fiscal 2007.

Fiscal 2006

In our fiscal 2006 annual report we noted that the disruptive effects of the China quota issues that we experienced in fiscal 2006 would no longer be a major factor affecting our performance in fiscal 2007 and that the efficiency of our plants had returned to an acceptable level.

Quota

In early calendar 2006 we secured sufficient quota to satisfy our needs for both the U.S. and E.U. markets. The cost of this was HK$20 million of which HK$12 million was booked in the second half of fiscal 2006, leaving HK$8 million as the charge to our profit and loss account for the first half of fiscal 2007.

The low utilisation rate of quota by China as a whole continues. As of 21 November, 2006, 62.2% of the U.S. quota (cat. 349) had been utilised while the utilisation of the E.U. quota (cat. 31) was 64.65% as of 23 November, 2006.

For calendar 2007, the China quota limits in the relevant categories have been increased by 12.5% in the case of the U.S. and 12.9% for exports to the E.U.

In 2006 China distributed the quota for both markets, 70% by allocation at no cost, based on the value of export performance, and 30% by auction.

For 2007 the mechanism has changed to a system of "compromised bidding." Under this mechanism 100% of the quota will be allocated. The maximum amount of the allocation is based on 2006 export performance and 50% of the allocation will be based on the performance for the period January to July 2006 (inclusive). The bidding period for this is 15-24 November, 2006.

There is a cost to the allocation. In the case of the U.S. it is RMB2.3 per dozen and for the E.U. RMB0.33 per piece.

We are comfortable that we will obtain sufficient quota for our needs in China and that quota spending for calendar 2007 will not reach the level experienced in calendar 2006.

Manufacturing

In our first quarter we produced 16.7 million units of brassieres, compared to 16.0 million units in the fourth quarter of fiscal 2006. This reflects the return to an acceptable level of efficiency by our plants following the disruption experienced in 2006.

	PRODUCTION TREND				
	FISCAL 2006				FISCAL 2007
Period	1Q	2Q	3Q	4Q	1Q
Units (Million)	14.0	11.9	14.8	16.0	16.7

In Thailand, the military coup that took place in September had virtually no impact on the operations of our plants in that country. .

Despite the improvement in unit output, selling and distribution costs were higher than expected due to the need to air-ship some shipments delayed from the last fiscal year to the beginning of this first quarter. Our shipping performance has since returned to normal and such excessive selling and distribution costs are not expected to recur in the coming quarters.

Brands Operation

Following the downsizing of this business unit's operation in Hong Kong to only two Marguerite Lee shops, we have focused our resources to expanding the distribution network for the Meritlux brand in China. During the quarter we have initiated our China strategy by opening sales counters in four department stores in Shenzhen. Despite the start up costs and the fact that the new counters have yet to attain the sales targets, we are encourage by the overall performance of the business unit in that it has trimmed the loss and attained modest increase in sales for the quarter.

Financial Position

The financial position of the Group remains strong. The unusually high levels of inventory and receivables experienced at 30 June, 2006 have returned to a normalised level as a result of the recovered efficiency of our manufacturing plants and the subsequent clearance of the order backlog .Our healthy cash position at 30 September reflects this.

Outlook for the Year

Our view of the outlook for the year has not changed significantly since the publication of our annual report in September, 2006. In summary, material prices remain stable and average selling prices are likely to show modest increases due to changes in product mix towards more novelty features such as the "sew-free" bras. We are, however, faced with unprecedent cost pressures primarily due to the steep surge in wages in China and gaining strength of Thai Baht against U.S. Dollar. The likely reduction in export tax rebate on textile and garment products and the revaluation of the Rmb in China in the near future could exacerbate the already difficult situation.

We are also mindful of the lack luster retail environment in the U.S. which may affect our sales in that market. Our business plan remains prudent, with an emphasis on securing production orders and cost control.

As for our brands business, we will continue to invest in our own distribution network in China in addition to the arrangements with wholesale agents in regional markets, and to continue looking for acquisition targets and joint-venture partners. We expect to increase the number of own department counters in Shenzhen to about ten before the end of this fiscal year. While the start up costs of the new counters and the expansion could negatively affect the bottom line performance of the business in the initial stage, we envisage that the loss for the year, if any, would be improved on the results of previous years.

The Board wishes to remind investors that the above operational data for the first quarter of fiscal 2007 is based on the Group's unaudited management accounts. Investors are cautioned not to unduly rely on such data.

In the meantime, investors are advised to exercise caution in dealing in the securities of the Company.