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## TOP FORM INTERNATIONAL LIMITED

黛麗斯國際有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 333)

### ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 30 JUNE 2020

#### RESULTS

The board of directors (the “Board” or “Directors”) of Top Form International Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, “Top Form” or the “Group”) for the year ended 30 June 2020 as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 30 June 2020

		2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>		<i>(Note)</i>
<b>Revenue</b>	3	<b>1,236,659</b>	1,225,402
Cost of sales		<u>(1,056,311)</u>	<u>(1,027,319)</u>
<b>Gross profit</b>		<b>180,348</b>	198,083
Other net income		<b>8,766</b>	14,125
Selling and distribution expenses		<b>(39,685)</b>	(35,669)
General and administrative expenses		<u>(225,317)</u>	<u>(238,739)</u>
<b>Loss from operations</b>		<b>(75,888)</b>	(62,200)
Finance costs	4(a)	<b>(5,459)</b>	(487)
Share of profits of a joint venture		<u>2,041</u>	<u>3,278</u>
<b>Loss before taxation</b>	4	<b>(79,306)</b>	(59,409)
Income tax	5	<u>1,780</u>	<u>(3,382)</u>
<b>Loss for the year</b>		<u><b>(77,526)</b></u>	<u>(62,791)</u>

\* For identification purpose only

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the year ended 30 June 2020

		<b>2020</b>	2019
	<i>Note</i>	<b>HK\$'000</b>	<i>(Note)</i> HK\$'000
<b>Attributable to:</b>			
Equity shareholders of the Company		(77,235)	(61,224)
Non-controlling interests		<u>(291)</u>	<u>(1,567)</u>
<b>Loss for the year</b>		<b><u>(77,526)</u></b>	<b><u>(62,791)</u></b>
<b>Loss per share</b>	7		
Basic and diluted		<b><u>HK\$(0.359)</u></b>	<b><u>HK\$(0.285)</u></b>

*Note:* The Group has initially applied HKFRS 16 at 1 July 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 30 June 2020*

	2020	2019
	<i>HK\$'000</i>	<i>(Note)</i> <i>HK\$'000</i>
<b>Loss for the year</b>	<b>(77,526)</b>	<b>(62,791)</b>
<b>Other comprehensive income</b>		
<i>Items that will not be subsequently reclassified to profit or loss:</i>		
Surplus on revaluation of land and buildings upon change of use to investment properties	–	57,501
Deferred tax liability arising on revaluation gain on investment properties	–	(14,376)
Equity investments at fair value through other comprehensive income - movement in the investment revaluation reserve (non-recycling)	<b>(5,883)</b>	–
	<b>(5,883)</b>	43,125
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of operations outside Hong Kong		
– subsidiaries	<b>(6,074)</b>	1,706
– a joint venture	<b>(949)</b>	(568)
<b>Other comprehensive income for the year, net of income tax</b>	<b>(12,906)</b>	44,263
<b>Total comprehensive income for the year</b>	<b>(90,432)</b>	<b>(18,528)</b>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(90,165)</b>	(16,733)
Non-controlling interests	<b>(267)</b>	(1,795)
<b>Total comprehensive income for the year</b>	<b>(90,432)</b>	<b>(18,528)</b>

*Note:* The Group has initially applied HKFRS 16 at 1 July 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>(Note)</i> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		231,709	137,642
Prepaid land lease payments		–	1,384
Investment properties		132,467	143,017
Interest in a joint venture		22,159	21,066
Other financial assets		2,838	–
Derivative financial instrument		1,403	2,015
Deferred tax assets		986	–
Prepayments and deposits		5,682	1,773
		<u>397,244</u>	<u>306,897</u>
		-----	-----
<b>Current assets</b>			
Inventories		180,389	174,099
Trade and other receivables	8	143,369	243,073
Prepaid land lease payments		–	48
Current tax recoverable		157	82
Bank balances and cash		122,903	95,269
		<u>446,818</u>	<u>512,571</u>
		-----	-----
<b>Current liabilities</b>			
Trade payables and accrued charges	9	211,736	216,236
Unsecured bank loans	10	97,442	40,375
Lease liabilities		14,396	66
Current tax payable		2,005	490
		<u>325,579</u>	<u>257,167</u>
		-----	-----
<b>Net current assets</b>		<u>121,239</u>	<u>255,404</u>
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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2020

	2020	2019
	<i>HK\$'000</i>	<i>(Note)</i> <i>HK\$'000</i>
<b>Total assets less current liabilities</b>	<b>518,483</b>	562,301
<b>Non-current liabilities</b>		
Lease liabilities	21,526	–
Retirement benefit obligations	3,110	1,954
Deferred tax liabilities	32,485	37,165
Other payables	12,692	–
	<u>69,813</u>	<u>39,119</u>
<b>Net assets</b>	<b>448,670</b>	523,182
<b>Capital and reserves</b>		
Share capital	107,519	107,519
Reserves	318,228	408,013
<b>Equity attributable to equity shareholders of the Company</b>	<b>425,747</b>	515,532
<b>Non-controlling interests</b>	<b>22,923</b>	7,650
<b>Total equity</b>	<b>448,670</b>	523,182

*Note:* The Group has initially applied HKFRS 16 at 1 July 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

## NOTES TO THE ANNUAL FINANCIAL RESULTS

### 1. BASIS OF PREPARATION

The annual results set out in the announcement do not constitute the Group's financial statements for the year ended 30 June 2020 but are extracted from those financial statements.

The Group's financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### **HKFRS 16, *Leases***

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 July 2019. The Group has elected to use the modified retrospective approach. Comparative information has not been restated and continues to be reported under HKAS 17.

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 July 2019. For contracts entered into before 1 July 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition to HKFRS 16 (i.e. 1 July 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 July 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 30 June 2020; and
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 30 June 2019 to the opening balance for lease liabilities recognised as at 1 July 2019:

	1 July 2019 <i>HK\$'000</i>
Operating lease commitments at 30 June 2019	49,674
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 30 June 2020	(9,288)
– leases of low-value assets	<u>(433)</u>
	39,953
Less: total future interest expenses	<u>(2,723)</u>
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 July 2019	37,230
Add: finance lease liabilities recognised as at 30 June 2019	<u>66</u>
Total lease liabilities recognised at 1 July 2019	<u><u>37,296</u></u>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 30 June 2019. As such, there is no adjustment to the opening balance of equity at 1 July 2019.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 30 June 2019 <i>HK\$'000</i>	Capitalisation of operating lease contracts <i>HK\$'000</i>	Carrying amount at 1 July 2019 <i>HK\$'000</i>
<b>Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:</b>			
Property, plant and equipment	137,642	38,662	176,304
Prepaid land lease payments (non-current)	1,384	(1,384)	–
<b>Total non-current assets</b>	<b>306,897</b>	<b>37,278</b>	<b>344,175</b>
Prepaid land lease payments (current)	48	(48)	–
<b>Current assets</b>	<b>512,571</b>	<b>(48)</b>	<b>512,523</b>
Lease liabilities (current)	66	10,814	10,880
<b>Current liabilities</b>	<b>257,167</b>	<b>10,814</b>	<b>267,981</b>
<b>Net current assets</b>	<b>255,404</b>	<b>(10,862)</b>	<b>244,542</b>
<b>Total assets less current liabilities</b>	<b>562,301</b>	<b>26,416</b>	<b>588,717</b>
Lease liabilities (non-current)	–	26,416	26,416
<b>Total non-current liabilities</b>	<b>39,119</b>	<b>26,416</b>	<b>65,535</b>
<b>Net assets</b>	<b>523,182</b>	<b>–</b>	<b>523,182</b>

### 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the sale value of goods and is within the scope of HKFRS 15, *Revenue from contracts with customers*. The Group manages its business as a single unit and, accordingly, the manufacturing and sale of ladies' intimate apparel is the only reportable segment and virtually all of the revenue and operating profits is derived from this business segment. The consolidated financial statements are already presented in a manner consistent with the way in which information is reported internally to the Company's executive directors, being the chief operating decision maker, for the purposes of resources allocation and operating performance review.

The chief operating decision maker regularly assesses available production capacity on a plant by plant basis, however, no discrete financial information is available for each plant for the purpose of resources allocation and operating performance review. The chief operating decision maker reviews financial information on a consolidated basis. Accordingly, no separate business segment information is disclosed.

The accounting policies adopted for the preparation of the financial information reviewed by the executive directors are the same as those adopted in preparing the Group's financial statements. Segment revenue is the consolidated revenue of the Group. Segment profit or loss is the consolidated profit or loss after taxation.

All the Group's segment assets and liabilities are under the only reportable segment as at 30 June 2020 and 2019.

### 3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### (a) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, prepaid land lease payments, investment properties, interest in a joint venture and prepayments and deposits ("specified non-current assets"). The geographical location of customers is based on the location to which the goods are delivered.

	Revenue from external customers		Specified non-current assets	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note)
Hong Kong	9,454	16,408	29,261	9,026
USA	919,610	823,054	–	–
Belgium	77,603	102,807	–	–
The Netherlands	34,316	38,403	–	–
Spain	43,200	33,705	–	–
France	32,520	40,773	–	–
Sri Lanka	34,173	45,042	3,885	–
Canada	14,112	45,712	–	–
The People's Republic of China ("PRC")	28,334	20,230	201,030	215,783
Germany	16,704	25,826	–	–
Italy	3,267	3,376	–	–
Mexico	7,027	9,588	–	–
Thailand	–	–	144,637	76,578
Cambodia	–	–	5,781	3,495
Myanmar	–	–	7,423	–
Others	16,339	20,478	–	–
	<u>1,236,659</u>	<u>1,225,402</u>	<u>392,017</u>	<u>304,882</u>

*Note:* The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

#### (b) Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group are as follows:

	2020	2019
	HK\$'000	HK\$'000
Customer A	408,469	217,345
Customer B	382,500	548,364
Customer C*	124,587	N/A
	<u>                    </u>	<u>                    </u>

\* Revenue from this customer was less than 10% of the Group's total revenue for the year ended 30 June 2019.

#### 4. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting):

	2020	2019
	<i>HK\$'000</i>	<i>(Note)</i> <i>HK\$'000</i>
<b>(a) Finance costs</b>		
Interest expense on bank borrowings	1,919	248
Interest on lease liabilities	1,363	16
Other bank charges	2,177	223
	<u>5,459</u>	<u>487</u>
	<u><u>5,459</u></u>	<u><u>487</u></u>
 <i>Note:</i> The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.		
<b>(b) Staff costs (note (i))</b>		
Staff costs, including directors' emoluments (note (i))	458,309	516,052
Equity-settled share-based payment expense	380	–
Provision for retirement benefits obligations	1,156	1,122
Severance payments	2,284	15,566
(Reversal of over-provision)/provision for social security contributions	(149)	8,041
	<u>461,980</u>	<u>540,781</u>
	<u><u>461,980</u></u>	<u><u>540,781</u></u>
<b>(c) Other items</b>		
Auditors' remuneration	1,929	2,075
Depreciation charge		
– owned property, plant and equipment	27,858	28,147
– right-of-use assets (note (ii))	16,880	–
Impairment loss on trade receivables	3,140	–
Allowance for obsolete inventories (included in cost of sales)	13,254	8,050
Release of prepaid land lease payments (note (ii))	–	48
Loss on disposal of property, plant and equipment	1,063	140
Total minimum lease payments for leases previously classified as operating lease under HKAS 17 (note (ii))	–	20,819
Cost of inventories recognised as an expense	1,043,057	1,019,269
Net exchange loss/(gain)	3,807	(6,150)
Expense relating to short-term leases and other leases with remaining lease term ending on or before 30 June 2020	6,391	–
Expense relating to lease of low-value assets	159	–
Gross rental income from investment properties	(8,123)	(7,019)
Government grants	(2,196)	(398)
Fair value loss/(gain) on investment properties	5,319	(1,125)
Fair value loss on derivative financial instrument	612	785
Interest income	(470)	(1,291)
	<u><u>(470)</u></u>	<u><u>(1,291)</u></u>

*Notes:*

- (i) Staff costs included amounts in respect of defined contribution retirement benefit schemes contributions of HK\$29,309,000 (2019: HK\$32,966,000).
- (ii) The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 July 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 July 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

**5. INCOME TAX**

	<b>2020</b>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current tax:</b>		
Hong Kong	<b>2,001</b>	92
Other jurisdictions	<b>101</b>	1,261
	<b>2,102</b>	1,353
<b>Withholding tax on dividend income:</b>		
Other jurisdictions	–	357
<b>Under/(over) provision of current tax in prior years:</b>		
Hong Kong	–	(289)
Other jurisdictions	<b>477</b>	(297)
	<b>477</b>	(586)
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	<b>(4,359)</b>	2,258
	<b>(1,780)</b>	3,382

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 6. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<i>Dividends recognised as distribution during the year:</i>		
2018 final dividend of HK\$0.05 per share	—	10,752

The Board has resolved not to declare a final dividend for the year ended 30 June 2020 and 2019.

## 7. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share attributable to equity shareholders of the Company is based on the following data:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss attributable to equity shareholders of the Company for the purpose of computing basic loss per share	<u>(77,235)</u>	<u>(61,224)</u>
	<b>Number of shares</b>	
	2020	2019
Number of ordinary shares for the purpose of computing basic loss per share	<u>215,037,625</u>	<u>215,037,625</u>

### Diluted loss per share

Diluted loss per share for the year ended 30 June 2020 is same as the basic loss per share as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share. There are no dilutive potential ordinary shares for the year ended 30 June 2019.

## 8. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables at amortised cost, net of loss allowance	78,937	208,369
Trade receivables to be factored at fair value through other comprehensive income (“FVOCI”) (recycling)	33,695	–
Other receivables	30,737	34,704
	<u>143,369</u>	<u>243,073</u>

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

As part of the Group’s cash flow management, the Group has the practice of factoring some of the trade receivables to financial institutions before the trade receivables are due for repayment and derecognises factored trade receivables on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties.

As at 30 June 2020, the effective interest rates of the factored trade receivables at FVOCI (recycling) ranged from 2.82% to 3.45% per annum. As at 30 June 2020, the fair value changes on trade receivables at FVOCI (recycling) are insignificant and accordingly, no fair value changes are recognised in equity as FVOCI reserve.

### Ageing analysis

At the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
1 – 90 days	80,085	192,189
91 – 180 days	32,547	16,180
	<u>112,632</u>	<u>208,369</u>

## 9. TRADE PAYABLES AND ACCRUED CHARGES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	<b>119,760</b>	123,350
Other payables and accrued charges	<b>91,976</b>	92,886
	<b>211,736</b>	216,236

An ageing analysis of trade payables based on the payment due date at the end of the reporting period is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current	<b>86,780</b>	105,355
1 – 30 days past due	<b>28,342</b>	13,796
31 – 60 days past due	<b>1,118</b>	1,863
Over 60 days past due	<b>3,520</b>	2,336
	<b>119,760</b>	123,350

As the average credit period on purchases of goods is ranged from 30 to 60 days, a majority of the balances which as disclosed above are within 90 days from the invoice date.

Other payables and accrued charges mainly represented accrued freight charges, salaries and other operating expenses. Included in other payables and accrued charges is a provision for social security contributions of HK\$7,892,000 (2019: HK\$8,041,000).

## 10. UNSECURED BANK LOANS

At 30 June 2020 and 2019, the unsecured bank loans were repayable follows:

	<b>2020</b>	2019
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Within one year or on demand	<b><u>97,442</u></b>	<u>40,375</u>

At 30 June 2020, the Company provided guarantee for bank loans of certain subsidiaries. Such banking facilities amounted to HK\$110,000,000 (2019: HK\$110,000,000). The facilities were utilised to the extent of HK\$97,442,000 (2019: HK\$40,375,000).

All of the Group's bank loans are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. During the year ended 30 June 2020, the Group did not fulfil one of the covenants required in the agreement of which the Group has currently drawn an amount of HK\$79,984,000. The bank was informed and had neither requested early repayment of the loan nor changed the terms of the banking facilities as of the date of this announcement. Management is in the process of renegotiating the terms of the loan agreement with the bank.

At 30 June 2020, the Group's effective interest rate per annum was 1.35% (2019: 3.11%).

## 11. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 July 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

Fiscal 2020 will be marked as a year of extreme challenges and change.

At the start of this financial year, Top Form accelerated our planned shift of capacity out of China and into South East Asia as the Sino-US trade war escalated and tariff were levied on our products. While the import tariff and the associated costs of moving capacity out of China eroded our margins, we achieved a modest growth in the first half through servicing our customers and adding sales through our non-U.S. markets.

Some traces of relief came on January 15th, 2020, with the signing of “Phase 1” of the Sino-US trade deal when the additional import tariff was halved from the original 15% to 7.5% for our brassiere products. Yet, this relief proved to be ephemeral, as the world was quickly thrown into unprecedented chaos by the outbreak of COVID-19. Countries around the world began implementing stringent measures to contain the spread of the Coronavirus and virtually suspended all daily activities, including shopping, dining, traveling, and almost all forms of gathering, leading to the most severe contraction of the global economy in recent memory.

The pandemic has greatly impacted the Group during the second half of the fiscal year as we faced not only escalating costs to cope with the supply chain disruptions, factory shutdowns, and additional measures to protect all of our workers and their families, but followed by a significant drop in customer demand when major economies such as United States and Europe initiated complete lockdowns. Closer to home, the pandemic has also impacted our operations by disrupting much of the planned ramp up of our new seamless plant and our Myanmar plant as workers, engineers and technicians were prohibited from traveling to and within these sites for operation, set up and support.

During the year, in monetary terms, 74% of our sales were to the U.S. market whilst the sales to the EU represented 17% and the rest of the world accounted for 9%. From the supply side, the overseas manufacturing facilities in Southeast Asia accounted for 78% of the global production output whilst China accounted for the remaining 22% during the year. In view of the geopolitical tension and the increased labour cost in China, the Group has accelerated the shifting of capacity from China to Southeast Asian countries in the last two years. The production output from China facilities was reduced from 35% of global production output in fiscal 2018 to 22% in fiscal 2020. We expect the China capacity to remain at similar level in the future.

### **FINANCIAL REVIEW**

#### **Revenue**

For the year ended 30 June 2020, the revenue of the Group increased by 1% to HK\$1,237 million from HK\$1,225 million of sales in fiscal 2019. This was due to a favorable product mix and contribution from new customers on boarded during the year as compared with that of fiscal 2019.

## **Gross Profit**

Gross profit decreased from HK\$198.1 million to HK\$180.3 million during the year with gross profit margin decreased from 16% to 15%. The decrease in gross profit was mainly due to the Sino-US trade war and the outbreak of COVID-19 pandemic where the Group has incurred additional tariff and operating costs to cope with the supply chain disruption and meeting customer demand. Additionally, the ramp up of the new seamless and Myanmar factories were behind schedule which also contributed to the lower gross profit.

## **Selling and Distribution Expenses**

Selling and distribution expenses primarily comprised of freight and transportation costs, employee benefits of sales and sales support personnel, and customer sample costs. The Group's selling and distribution expenses amounted to HK\$39.7 million for the year ended 30 June 2020, against HK\$35.7 million for the year ended 30 June 2019. The increase in selling and distribution expenses was caused by the additional air shipment costs incurred during the pandemic in order to cope with the supply chain disruption and meeting customer demand.

## **General and Administrative Expenses**

The Group's general and administrative expenses amounted to HK\$225.3 million for the year ended 30 June 2020, against HK\$238.7 million for the year ended 30 June 2019. The decrease in general and administrative expenses was mainly attributable to the proactive measures taken by the Group amidst the pandemic which included streamlining operation and headcount, suspending all non-essential projects and expenditures, and also instituting salary cut on all associates that are managerial grade and above.

## **Finance Costs**

The Group's finance costs mainly represent interest expenses on borrowings and lease liabilities. The finance costs increased from HK\$0.5 million for the year ended 30 June 2019 to HK\$5.5 million for the year ended 30 June 2020. The increase in finance costs was primarily due to (i) the increase in borrowings as a result of continuous investment by the Group and also to increase the Group's liquidity amidst the pandemic; and (ii) the relevant finance costs on lease liabilities recorded upon the adoption of HKFRS 16, *Leases*.

## **Loss for the year**

The Group recorded a net loss of HK\$77.5 million for the year ended 30 June 2020 as compared with a net loss of HK\$62.8 million for the year ended 30 June 2019.

## FINANCIAL POSITION

The Group's bank balances and cash was HK\$122.9 million as at 30 June 2020 whilst total borrowing from banks was HK\$97.4 million and gearing ratio was 31.3%. As at 30 June 2019 and 30 June 2020, the Group did not have assets pledged for bank borrowings.

The Group strives to improve the working capital management and focus on the overall cash conversion cycle days which are calculated by adding the inventory turnover days and receivables turnover days and subtracting the payables turnover days. For the year ended 30 June 2020, the cash conversion cycle days were 37 days as compared to 57 days in previous year.

	As at 30 June 2020 (Days)	As at 30 June 2019 (Days)
Inventory turnover days	61	57
Receivables turnover days	47	60
Payables turnover days	71	60
Cash conversion cycle days	37	57

Capital expenditure during the year amounted to HK\$92.7 million of which the majority was for the establishment of seamless manufacturing facility and also the expansion of overseas factory capacity.

## FOREIGN EXCHANGE RISK

The Group is mainly exposed to fluctuations in exchange rates of Euro, HK dollars, RMB, US dollars and Thai Baht. Majority of the sales revenue are denominated in US dollars, the foreign exchange exposure in respect of US dollars against HK dollars is considered minimal as HK dollars pegged with US dollars. The Group manages its foreign exchange exposure by performing regular review and by taking prudent measures to minimize the currency translation risk.

## CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

## REMUNERATION POLICY

As at 30 June 2020, the Group had employed approximately 7,406 employees (30 June 2019: approximately 8,853 employees).

The remuneration policy and package of the Group's employees are structured with reference to the prevailing market conditions and statutory requirements as appropriate. The Group also provides other staff benefits such as medical insurance, mandatory provident fund contributions and a share option scheme to its employees.

## **EVENTS AFTER THE REPORTING PERIOD**

The Group has no significant events after the reporting period and up to the date of this announcement.

## **OUTLOOK AND FUTURE DEVELOPMENT**

At the time of writing, with governments around the world once again battling with a new resurgence of COVID-19 cases, and an unabated ratcheting up of tension between the U.S. and China, there is an expectation that a high level of volatility will remain in the marketplace while fundamental changes in the global economy continue to accelerate.

Top Form took some drastic and painful actions during the early days of the pandemic to steer through the depth of the crisis. Our ability to navigate these challenges has highlighted the important direction we took over the past years of continual investments, to build our capabilities — our people, manufacturing network, systems and products, which enabled us to manage through major and abrupt challenges while remaining nimble, healthy and strong.

This year, with the foundation that Top Form has built and as the transformative nature of COVID-19 continues to drive changes in business, we are finding some sense of confidence as we execute on our strategy of diversifying our footprint and product offerings, while delivering innovation, raising service level, driving efficiency and controlling costs. We remain committed to the long term prospect of the Group and believe that over time disciplined and continual investments will drive the future prospects of our company and position us to grow and prosper for decades to come.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 30 June 2020.

## **CORPORATE GOVERNANCE**

The Group continues to commit itself to maintaining high standards of corporate governance principles and practices with an emphasis on enhancing transparency and accountability. The Group is also committed to ensuring the application of these principles and practices within the Group and thereby, enhancing shareholder value and benefiting our stakeholders at large.

The Company has, throughout the year under review, complied with the code provisions as set out in the Corporate Governance Code, Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the following deviations:

## **Code Provisions A.4.1 and A.4.2**

Code Provision A.4.1 provides, inter alia, that non-executive Directors should be appointed for a specific term and subject to re-election.

Non-executive Directors of the Company are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company at least once every three years in accordance with the Company's Bye-laws.

Code Provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Chairman shall not, while holding such office, be subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in the role of Chairman and, in consequence, the Board is of the view that the Chairman should not be subject to retirement by rotation or hold office for a limited term at the present time.

## **CONFIRMATION OF INDEPENDENCE ON INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange. The Company has assessed their independence and concluded that all the independent non-executive Directors are independent.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules of the Stock Exchange as its own code for dealing in the securities of the Company by the Directors. Based on specific enquiry made with all Directors, the Company considers that the Directors complied with the required standard as set out in the Model Code throughout the year under review.

Employees who are likely to be in possession of inside information of the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code.

## **AUDIT COMMITTEE**

The Audit Committee comprises Ms. Leung Churk Yin, Jeanny, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy, all of whom are independent non-executive Directors of the Company.

The Audit Committee, together with the management and the Company's external auditors, KPMG, have reviewed the accounting principles and practices adopted by the Group and discussed risk management and internal controls and financial reporting matters.

The financial figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 30 June 2020 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor.

## **DIVIDEND**

The Board has resolved not to declare a final dividend for the year ended 30 June 2020 (for the year ended 30 June 2019: nil).

No interim dividend for the six months ended 31 December 2019 has been paid to the shareholders of the Company (the "Shareholders") during the year ended 30 June 2020 (for the six months ended 31 December 2018: nil).

## **CLOSURE OF REGISTERS OF MEMBERS**

### **Entitlement to attend and vote at the 2020 AGM**

The main and branch registers of members of the Company will be closed from 12 November 2020 to 17 November 2020 for the purpose of determining the shareholders' entitlement to attend and vote at the forthcoming annual general meeting on 17 November 2020 ("AGM"). During that period, no transfer of shares will be registered. In order to qualify for the shareholders' entitlement to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 11 November 2020.

By order of the Board  
**Top Form International Limited**  
**Wong Chung Chong**  
*Chairman*

Hong Kong, 15 September 2020

*As at the date of this announcement, the Board comprises Mr. Wong Chung Chong, Mr. Wong Kai Chung, Kevin and Mr. Wong Kai Chi, Kenneth as executive Directors; Mr. Fung Wai Yiu, Mr. Lucas A.M. Laureys and Mr. Herman Van de Velde as non-executive Directors; and Ms. Leung Churk Yin, Jeanny, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy as independent non-executive Directors.*