THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Top Form International Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or another agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

TOP FORM INTERNATIONAL LIMITED

黛麗斯國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00333)

MAJOR AND CONNECTED TRANSACTIONS
AND
CONTINUING CONNECTED TRANSACTIONS

Independent financial adviser to
the Independent Board Committee and the Independent Shareholders

Access Capital

A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 39 to 41 of this circular. A letter from Access Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 42 to 76 of this circular.

The notice convening the special general meeting (the "SGM") is set out on pages 236 to 240 of this circular. The SGM is to be held at Harbour View Ballroom, Level 4, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong on Friday, 5 September 2008 at 10:00 a.m. to approve matters referred to in this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event, not later than 48 hours before the respective time appointed for holding the SGM or any adjournment thereof (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof should you so wish.

19 August 2008

* *for identification purpose only*

CONTENTS

DEFINITIONS

In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

"Access Capital" or "Independent Financial Adviser"	Access Capital Limited, a licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased
"Acquisition"	the proposed acquisition of the Sale Shares on the terms and conditions in the Share Acquisition Agreement
"ACE Style Group"	ASIL and its Subsidiaries (save and except the Sale Group Companies)
"Allotted Shares"	up to a maximum of 69,887,228 Shares, credited as fully paid up, to be issued and allotted by the Company to Mr. Sia under the Service Agreement
"ASIAL"	Ace Style Intimate Apparel Limited, a company incorporated in Hong Kong and beneficially owned by ASIL
"ASIAL Factory"	Ace Style Underwear Factory (益德內衣廠)
"ASIAL Shares"	8,000,000 shares of HK$1.00 each in the share capital of ASIAL, representing the entire issued share capital of ASIAL

"ASIL"	Ace Style International Limited, a company incorporated in the British Virgin Islands and beneficially owned by a family trust of which the family members of Mr. Sia are beneficiaries
"associates"	has the same meaning ascribed to it under the Listing Rules
"AS(UK)"	Ace Style Intimate Apparel (UK) Limited, a limited liability company incorporated in the United Kingdom and beneficially owned by Mr. Sia
"AS(US)"	Ace Style Intimate Apparel Inc., a limited liability company incorporated in New York, the United Sates of America and beneficially owned by Mr. Sia
"AUS"	Pink Martini Design Studio, a limited liability company incorporated in the United States of America whose shares are controlled by the sister of Mr. Sia's wife
"AUS Service Contract"	the service contract to be executed between AUS and Marguerite Lee for the provision of services by AUS to the Group
"Bank Group"	the bank creditors of the Sale Group Companies
"Board"	board of the Directors
"Business Day"	a day (other than Saturday and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong and for general banking business
"Bye-laws"	the New Bye-laws of the Company
"Carina"	Carina Apparel Inc., a company incorporated in the Philippines and beneficially owned by ASIL as to 99.99% and Mr. Sia, Wong May May Carina and Tina Sia collectively as to 0.01%

"Carina Shares"	66,340 shares of Php1,000 each in the share capital of Carina, representing the entire issued share capital of Carina
"Company"	Top Form International Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Share Acquisition Agreement
"Completion Accounts"	the unaudited financial statements of each of the Sale Group Companies made up to the Completion Accounts Date
"Completion Accounts Date"	a date falling on the latest practicable date prior to Completion as agreed by the Vendors and the Purchaser
"Completion Date"	the fifth Business Day from the Condition Date or such other date as determined by the Purchaser
"Condition Date"	the date on which all conditions precedent (other than the conditions (g), (h) and (y) set out in the section headed "Conditions precedent" in this circular) have been fulfilled or waived (as the case may be) in accordance with the Share Acquisition Agreement which in any event shall not be later than a date falling 120 days after the date of the Share Acquisition Agreement or such other date as the Vendors and the Purchaser shall agree
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration for the sale and purchase of the Sale Shares pursuant to the Share Acquisition Agreement
"Consideration Shares"	26,879,703 Shares (subject to adjustment pursuant to the terms and conditions of the Share Acquisition Agreement) to be allotted and issued to Mr. Sia, and credited as fully paid, with each Share being priced at approximately HK$0.682
"Director(s)"	director(s) of the Company

"Elkhorn"	Elkhorn Enterprises Limited, a company incorporated in Hong Kong and beneficially owned by ASIL
"Elkhorn Lease"	a lease dated 27 December 2002 made between 深圳市寶安區公明鎮薯田埔經濟發展公司 (Shenzhen Baoan District Gongming Town Shutianpu Economic Development Corporation), an Independent Third Party, and Elkhorn for a term of thirty (30) years commencing from 1 December 2002 to 30 November 2032
"Elkhorn Shares"	500,000 shares of HK$10.00 each in the share capital of Elkhorn, representing the entire issued share capital of Elkhorn
"Enlarged Group"	the Group as enlarged by the Acquisition
"Financial Statements"	the unaudited financial statements of each of the Sale Group Companies as of the year ended on 31 March 2008
"Fiori Contract"	the supply agreement to be executed between Fiori Textiles Limited and the Purchaser for the supply of accessories, fabric and raw materials by the Fiori Group to the Group
"Fiori Group"	Fiori Textiles Limited, a company beneficially owned by Mr. Sia, together with its Subsidiaries from time to time
"Group"	the Company and its Subsidiaries from time to time
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"HSBC"	The HongKong and Shanghai Banking Corporation Limited

"Independent Board Committee"	the committee of the Board, comprising the Independent Non-executive Directors to make recommendation to the Independent Shareholders in respect of the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Services Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased
"Independent Non-executive Directors"	the independent non-executive directors of the Company, namely, Mr. Marvin Bienenfeld, Mr. Chow Yu Chun, Alexander, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy
"Independent Shareholders"	Shareholders other than Mr. Sia and his associates
"Independent Third Party"	person who himself is, and (in the case of corporate entity) its ultimate beneficial owners are, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, third parties independent of the Company and the connected person (as defined in the Listing Rules) of the Company
"Latest Practicable Date"	15 August 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Last Trading Date"	25 July 2008, being the date immediately prior to the date of the Share Acquisition Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Marguerite Lee"	Marguerite Lee Limited, an indirect wholly-owned Subsidiary of the Purchaser

"Marguerite Lee Group Companies"	Marguerite Lee, its holding companies, fellow Subsidiaries and Subsidiaries from time to time
"Materials"	all accessories, fabric and raw materials for manufacturing purposes of the Group which are to be ordered by the Group from Fiori Group from time to time as set forth in the Purchase Order
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
"Mr. Sia"	Mr. Andrew Sia
"Net Asset Value"	the total assets less the total liabilities of the Sale Group Companies computed on a combined basis based on the figures in the relevant financial statements of each of the Sale Group Companies and after incorporating the following adjustments: (a) releasing all loans and liabilities due and owing to the Bank Group under any loan or security documents of the Sale Group Companies; (b) releasing all loans and liabilities due and owing to any director of ACE Style Group or Sale Group Companies; (c) adding back total trade receivables due from third party customers as recorded in the financial statements of AS(US) and AS (UK) which should have been paid back to ASIAL; (d) releasing all the intercompany loans and liabilities between the Sale Group Companies and the Vendors or the ACE Style Group except for the trade receivables recorded in AS(US) and AS(UK) which should have been paid back to ASIAL as mentioned in paragraph (c) above; and (e) transferring the real property owned by ASIAL to a third party
"PRC"	the People's Republic of China
"Processing Contract"	the processing contract dated 15 October 1997 and entered into among Elkhorn, 深圳市寶安區外經發展總公司 (Shenzhen Baoan District Foreign Economic Development Corporation) and 益康內衣廠 (Elkhorn Underwear Factory) for a term of fifteen (15) years from 15 October 1997 to 15 October 2012

"Purchaser"	Top Form (B.V.I.) Limited, a direct wholly-owned Subsidiary of the Company
"Purchase Order"	the purchase order in respect of the Materials to be placed by the Group with Fiori Group from time to time under Fiori Contract
"Sale Group Companies"	collectively ASIAL, Elkhorn, Tavistock and Carina and their respective Subsidiaries (if any) as at the date of the Share Acquisition Agreement
"Sale Shares"	collectively ASIAL Shares, Elkhorn Shares, Tavistock Shares and Carina Shares, which are upon Completion, to be sold by the Vendors to the Purchaser pursuant to the Share Acquisition Agreement
"Service Agreement"	the service agreement to be executed between Mr. Sia and the Company, pursuant to which Mr. Sia will be appointed as an Executive Director
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened at Harbour View Ballroom, Level 4, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong on Friday, 5 September 2008 at 10:00 a.m. to consider and, if thought fit, approve the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased together with all transactions contemplated thereunder

"Share Acquisition Agreement"	the conditional sale and purchase agreement dated 26 July 2008 entered into among the Vendors and the Purchaser relating to the sale and purchase of the Sale Shares
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Service Fees"	the fees payable by Marguerite Lee to AUS for the provision of the services by AUS to Marguerite Lee Group Companies under the AUS Service Contract
"Signing Fee"	a fee of US$120,000 (approximately HK$936,000) to be paid by Marguerite Lee to AUS under AUS Service Contract
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary"	has the meaning as ascribed to it in the Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
"Tavistock"	Tavistock Springs (HK) Limited, a company incorporated in Hong Kong and beneficially owned by ASIL
"Tavistock Shares"	2 shares of HK$10.00 each in the share capital of Tavistock, representing the entire issued share capital of Tavistock
"Vendors"	collectively ASIL, Mr. Sia, Wong May May Carina, Tina Sia, Pearl Soriaga, Marileen Silvestre and Rowena Tence
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Php"	Pesos, the lawful currency of Philippines
"RMB"	Renminbi, the lawful currency of PRC
"US$"	United States of America dollars
"%"	per cent.

TOP FORM INTERNATIONAL LIMITED
黛麗斯國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00333)

Board of Directors

Executive Directors:
Mr. Fung Wai Yiu *(Chairman)*
Mr. Wong Chung Chong, Eddie *(Group Managing Director)*

Non-executive Directors:
Mr. Lucas A.M. Laureys
Ms. Leung Churk Yin, Jeanny
Mr. Herman Van de Velde

Independent non-executive Directors:
Mr. Marvin Bienenfeld
Mr. Chow Yu Chun, Alexander
Mr. Leung Ying Wah, Lambert
Mr. Lin Sun Mo, Willy

Registered office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong
Room 1813, 18th Floor
Tower 1, Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

19 August 2008

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

On 30 July 2008, the Board announced that on 26 July 2008, the Purchaser, a wholly-owned Subsidiary of the Company, entered into the Share Acquisition Agreement to acquire from the Vendors the Sale Shares, being the entire issued share capital of the Sale Group Companies, for a total Consideration of HK$303,331,957 (subject to adjustment).

* *for identification purpose only*

Under the Share Acquisition Agreement, the Consideration shall be satisfied by the Purchaser (1) paying HK$285,000,000 in cash upon Completion; and (2) procuring the Company to allot and issue the Consideration Shares, credited as fully paid, to Mr. Sia upon Completion.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors and its ultimate beneficial owners (in the case of ASIL) is an Independent Third Party.

As the relevant percentage ratios as referred to in Chapter 14 of the Listing Rules for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. As Mr. Sia will become a Director immediately upon Completion, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules. Accordingly, the Acquisition and the issue and allotment of the Consideration Shares contemplated under the Share Acquisition Agreement is subject to, among other things, the approval by the Independent Shareholders at the SGM.

On Completion, Mr. Sia will enter into the Service Agreement with the Company whereby the Company will appoint Mr. Sia and Mr. Sia will agree to act as an executive Director. Under the Service Agreement, the Company will subject to, among other things, Mr. Sia having met the performance criteria pursuant to the Service Agreement, issue and allot to Mr. Sia the Allotted Shares. As Mr. Sia will become a connected person of the Company by reason of his being a Director immediately upon Completion, the issue and allotment of the Allotted Shares to Mr. Sia constitute a connected transaction for the Company under the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

On Completion, Marguerite Lee, an indirect wholly-owned Subsidiary of the Purchaser, will enter into the AUS Service Contract with AUS pursuant to which AUS will provide design and development and related technical advice and solutions in relation to intimate apparel and all related products to Marguerite Lee Group Companies in return for the payment of the Signing Fee and Service Fees. Immediately upon Completion, Mr. Sia will become a Director. As AUS is a company whose shares are to be controlled by the sister of Mr. Sia's wife, AUS is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

On Completion, the Purchaser and Fiori Textiles Limited will enter into the Fiori Contract whereby the Purchaser will appoint Fiori Group and Fiori Textiles Limited will agree to act and procure Fiori Group to act as non-exclusive suppliers of the Materials for the Group. As Fiori Textiles Limited is beneficially owned by Mr. Sia, upon Completion, Fiori Textiles Limited will become a connected person of the Company under Chapter 14A of the Listing Rules.

As the aggregate annual amounts of the transactions contemplated under each of the AUS Service Contract and the Fiori Contract will exceed the 2.5% threshold as provided in Rule 14A.34 of the Listing Rules and the total annual consideration exceeds HK$10,000,000, the entering into of the AUS Service Contract and the Fiori Contract constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules. Accordingly, the continuing connected transactions contemplated under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased are subject to Independent Shareholders' approval at the SGM.

An Independent Board Committee comprising the Independent Non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transaction under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS under the AUS Service Contract and the continuing connected transaction under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased under the Fiori Contract. None of the Independent Non-executive Directors has a material interest in the Acquisition under the Share Acquisition Agreement, the connected transaction contemplated under the Service Agreement and the continuing connected transactions under the AUS Service Contract and the Fiori Contract. Access Capital, the Independent Financial Adviser, has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased.

The purpose of this circular is to provide you with, among other things, (a) details of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased; (b) an accountants' report on the Sale Group Companies; (c) a letter from the Independent Board Committee to the Independent Shareholders in connection with the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased; (d) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in connection with the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased; and (e) a notice of the SGM.

SHARE ACQUISITION AGREEMENT

Date: 26 July 2008

Parties:

Purchaser: Top Form (B.V.I.) Limited

Vendors: ASIL, Mr. Sia, Wong May May Carina, Tina Sia, Pearl Soriaga, Marileen Silvestre and Rowena Tence

The Purchaser is a wholly-owned Subsidiary of the Company and is principally engaged in investment holding.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors and its ultimate beneficial owners (in case of ASIL) is an Independent Third Party. The Company has no transaction (other than the Acquisition) with the Vendors and its ultimate beneficial owners, which are required to be aggregated with the Acquisition under Rule 14.22 and Rule 14A.25 of the Listing Rules.

Assets to be acquired

Pursuant to the Share Acquisition Agreement, the Purchaser has agreed to acquire and the Vendors have agreed to sell or procure the sale of, as legal and beneficial owners, the Sale Shares comprising of ASIAL Shares, Elkhorn Shares, Tavistock Shares and Carina Shares free from any option, charge, lien, equity, encumbrance, rights of pre-emption or any other third party rights whatsoever and together with all rights attached to them at the date of Completion or subsequently becoming attached to them.

Consideration

The total Consideration for the Sale Shares is HK$303,331,957 (subject to adjustment set out below) and shall be settled by the Purchaser:

(a) paying HK$285,000,000 in cash from internal resources of the Group and borrowings from the bank upon Completion; and

(b) procuring the Company to allot and issue the Consideration Shares, credited as fully paid, to Mr. Sia on Completion (subject to adjustment set out below). Such adjustment shall be effected by a reduction in the number of the Consideration Shares to be issued and allotted to Mr. Sia.

Under the Share Acquisition Agreement, in the event that the Net Asset Value of the Sale Group Companies as shown in the Completion Accounts is less than the Net Asset Value of the Sale Group Companies as shown in the Financial Statements as at 31 March 2008 which is HK$228,000,000, the Consideration shall be adjusted by reducing the number of the Consideration Shares to be issued, calculated according to the formula below:–

$$A = \frac{\text{HK\$228,000,000} - B}{C}$$

where

A = Number of Consideration Shares to be reduced

B = Net Asset Value of the Sale Group Companies as at the Completion Accounts Date

C = HK$0.682 being the average closing price per Share for the trading days from 17 January 2008 to 29 February 2008 (both days inclusive)

provided that if the total number of Consideration Shares to be reduced exceeds 26,879,703 Consideration Shares contemplated to be issued to Mr. Sia on Completion, then no Consideration Shares shall be issued to Mr. Sia on Completion.

The Consideration was determined after arm's length negotiation between the Purchaser and the Vendors by reference to the Net Asset Value of the Sale Group Companies as shown in the Financial Statements as at 31 March 2008 being HK$228,000,000 and by taking into account the factors set out in the section headed "Reasons for the Acquisition" in this circular.

The Directors, including the Independent Non-executive Directors having considered the advice from the Independent Financial Adviser, are of the view that the Consideration for the Acquisition is fair and reasonable and is in the interests of the Shareholders and the Group as a whole.

To protect the interest of the Company, the Vendors and the Purchaser have agreed that a sum of HK$20,000,000 in cash out of the Consideration shall be held in escrow by HSBC as escrow agent for a period of one (1) year from the Completion Date for the purpose of covering any potential liabilities or indemnifications arising from, inter alia, the breach of the warranties by the Vendors under the Share Acquisition Agreement, subject to and upon the terms and conditions set out in the escrow agreement to be executed among each of the Vendors, the Purchaser and HSBC.

Conditions precedent

Completion is subject to the following conditions having been fulfilled (or waived):

(a) the Purchaser having completed due diligence investigations (including but not limited to legal, financial and business due diligence investigations) on the Sale Group Companies and being satisfied with the results thereof in its reasonable discretion;

(b) the clearance of all announcement(s) and circular(s) required to be issued by the Company under the Listing Rules and granting of all approvals, if necessary, by the Stock Exchange in respect of all transactions contemplated by the Share Acquisition Agreement;

(c) the passing by the Independent Shareholders in the SGM of a resolution to approve the Share Acquisition Agreement and the transactions contemplated under the Share Acquisition Agreement in accordance with the Listing Rules;

(d) all consents of the directors and shareholders of each of the Sale Group Companies having been obtained;

(e) the board of directors and shareholders of the Purchaser having approved (i) the execution and delivery of the Share Acquisition Agreement and the purchase of the Sale Shares on the terms of the Share Acquisition Agreement and (ii) the performance by the Purchaser of its obligations under the Share Acquisition Agreement;

(f) consent from the Bank Group to the sale and purchase of the Sale Shares under the terms and conditions of the Share Acquisition Agreement having been received;

(g) the Bank Group having released the charge or other security created over (i) the shares of the Sale Group Companies and (ii) all the assets and business undertakings of the Sale Group Companies with effect from the Completion Date, such that the Bank Group will have no security interest in any shares or any assets or business undertakings of any Sale Group Companies immediately after Completion;

(h) the Bank Group having released all the Sale Group Companies from all their obligations of whatever nature to the Bank Group under any loan or security documents with effect from the Completion Date such that immediately after Completion, none of the Sale Group Companies will owe the Bank Group any obligations;

(i) confirmation in writing by the Vendors, personally or through their respective authorised representatives, that as from the Completion Date, the Sale Group Companies will not owe any loan or any other financial liabilities to the Vendors, ACE Style Group or any director of ACE Style Group or of Sale Group Companies having been received by the Purchaser;

(j) the real property owned by ASIAL having been sold, assigned or transferred by ASIAL to a third party on or before Completion such that upon Completion this real property will no longer be owned by ASIAL;

(k) approval having been obtained from the directors and shareholders of the Company and the Stock Exchange (if applicable) in order for Mr. Sia to (i) assume executive management roles in the Company and (ii) be allotted and issued the Consideration Shares;

(l) approval having been obtained from Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares;

(m) consent from the Bermuda Monetary Authority in relation to the issue of the Consideration Shares having been received by the Company;

(n) Mr. Sia and the Company having duly executed the Service Agreement;

(o) AUS having duly executed the AUS Service Contract with Marguerite Lee and all relevant approvals, consents and permits having been obtained;

(p) Fiori Textiles Limited and the Purchaser having duly executed the Fiori Contract and all relevant approvals, consents and permits having been obtained;

(q) Mr. Sia (on behalf of the Vendors) having resolved with the landlord of the Elkhorn Leases regarding the termination of the Elkhorn Lease on the date of determination of the Processing Contract;

(r) completion of the restructuring of loans or other indebtedness due or owing by ASIL or ACE Style Group to the Sale Group Companies such that with effect from the Completion Date there are no outstanding loans or any other liabilities due and owing from ASIL or ACE Style Group to the Sale Group Companies;

(s) the Vendors and the Purchaser having performed or complied with in all material respects all covenants, obligations and agreements as provided for under the Share Acquisition Agreement to the extent they are to be performed or complied with by it at or prior to Completion;

(t) the Vendors having obtained all the relevant government approvals, consents and permits in respect of the deregistration of ASIAL Factory;

(u) between the date of the Share Acquisition Agreement and the Completion Date, (i) no litigation, arbitration proceedings, prosecution or other legal proceedings to which any Vendor is a defendant and (ii) no investigation or enquiry by, or complaint or reference to, any governmental authority against or in respect of the Vendors which could have a material adverse effect on the ability of the Vendors to perform their obligations under the Share Acquisition Agreement, having been instituted, announced or threatened or remaining outstanding;

(v) the warranties contained in the Share Acquisition Agreement remaining true and accurate and not misleading in all material respects and at all times between the date of the Share Acquisition Agreement and the Completion Date;

(w) between the date of the Share Acquisition Agreement and the Completion Date, no material adverse change to the composition, structure, financial condition, operation, performance and prospect of the Sale Group Companies having occurred;

(x) no force majeure in the Sale Group Companies and/or the business shall have occurred since signing of the Share Acquisition Agreement;

(y) none of the assets, business and undertakings of the Sale Group Companies is or will be subject to disposal by the Bank Group under any loan or security documents entered into between the Sale Group Companies and the Bank Group;

(z) AUS having been duly incorporated in the United States of America;

(aa) Carina having revoked all resolutions relating to the merger with Blue Horizon Sourcing and Logistics, Inc.;

(bb) Blue Horizon Sourcing and Logistics, Inc. having revoked all resolutions relating to the merger with Carina;

(cc) the prior written consent of the Laguna Lake Development Authority having been obtained before the Carina Shares can be transferred; and

(dd) the escrow agreement being in a form approved by the Vendors, the Purchaser and HSBC.

The Purchaser and the Vendors shall use all reasonable endeavours (so far as lie within their respective power) to procure that the conditions precedent set out above are satisfied as soon as practicable and in any event no later than the Condition Date save that the conditions precedent set out in conditions (g), (h) and (y) must have been satisfied on or before the Completion Date. If any of the conditions precedent is not complied with or waived in part or in whole (except conditions (b), (c), (d), (f), (g), (h), (k), (l), (m), (q) and (y) which may not be waived and conditions (g) and (h) and (y) which must have been satisfied on or before the Completion Date) by the Condition Date, the Share Acquisition Agreement shall lapse and be of no further effect and no party to the Share Acquisition Agreement shall have any claim, obligation or liability against the other parties save for any antecedent breaches of the terms of the Share Acquisition Agreement.

As at the Latest Practicable Date, conditions (e), (m) and (z) have been fulfilled.

Specific event of termination

In addition to the usual clauses regarding the events of termination of the Share Acquisition Agreement, if at any time prior to Completion, the Net Asset Value of the Sale Group Companies as shown in the Financial Statements shall exceed the Net Asset Value of the Sale Group Companies as shown in the Completion Accounts by a sum more than HK$18,331,957, then the Purchaser may in its absolute discretion without any liability on its part, by notice in writing to the Vendors, terminate the Share Acquisition Agreement.

Completion

Completion shall take place on the fifth Business Day from the Condition Date or such other date as determined by the Purchaser.

CONSIDERATION SHARES

26,879,703 Consideration Shares subject to adjustment as detailed herein will be allotted and issued at an issue price of HK$0.682 per Consideration Share, credited as fully paid upon Completion. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The Consideration Shares represent: (i) approximately 2.5 % of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 2.44 % of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The issue price of HK$0.682 per Consideration Share represents (i) a premium of approximately 21.79% to the closing price of HK$0.56 per Share as quoted on the Stock Exchange on the Last Trading Date; (ii) a premium of approximately 21.79% to the average of the closing prices of approximately HK$0.56 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date; (iii) a premium of approximately 24% to the average of the closing prices of HK$0.55 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date; and (iv) a premium of approximately 11.80% to the closing price of HK$0.61 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Consideration Shares will be issued and allotted to Mr. Sia upon obtaining the approval by Independent Shareholders at the SGM.

Under the Share Acquisition Agreement, Mr. Sia represents and warrants to and undertakes with the Purchaser that he shall not transfer, sell, assign or dispose of any Consideration Shares within five (5) years from the date of allotment and issue of such Consideration Shares, save with the prior written consent of the Board.

Application for listing

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The issue and allotment of the Consideration Shares will not result in a change of control of the Company.

SERVICE AGREEMENT

Mr. Sia will enter into the Service Agreement with the Company whereby the Company will appoint Mr. Sia and Mr. Sia will agree to act as an executive Director. The scope of his work includes performing executive duties in the business performance of the Group with a specific responsibility in directing and managing all marketing and sales functions of the Group. The Directors consider employing him as an executive Director is beneficial to the Group based on, inter alia, the following factors:

(a) Mr. Sia's prominent standing in the apparel business community;

(b) Mr. Sia's extensive knowledge and experience, particularly in the sales and marketing of the intimate apparel; and

(c) Mr. Sia has been the chairman of the Sale Group Companies and has successfully achieved the Sale Group Companies' proven track record as an original design manufacturer of intimate apparel with a worldwide market presence.

The Service Agreement will also contain terms to the effect that:

(1) The appointment shall be for an initial term of three years subject to renewal every three (3) years thereafter, unless terminated pursuant to the terms of the Service Agreement or by not less than six months' notice in writing served by either party.

(2) The Company shall pay to Mr. Sia a basic salary (which shall accrue from day to day) at the rate of HK$250,000 per calendar month payable in arrears on the last day of every month. The basic salary shall be reviewed by the Board each year.

(3) Subject to the Group attaining satisfactory performance and meeting its financial goals, the Company may in its absolute discretion pay to Mr. Sia a discretionary management bonus of such amount (if any) as it considers appropriate.

(4) Subject to: (a) Mr. Sia having met the performance criteria pursuant to the Service Agreement; (b) the passing by the Independent Shareholders of the Company in the SGM of a resolution to approve the Service Agreement including the issue and allotment of the Allotted Shares; and (c) the Stock Exchange having granted the listing of, and permission to deal in, the Allotted Shares, the Company shall issue and allot to Mr. Sia up to a maximum number of the Allotted Shares during the term of the Service Agreement in the following manner:

    (i) such number of the Allotted Shares as the Board shall deem appropriate being issued and allotted within three (3) months from the issue of the audited financial statements of the Group for the year ending 30 June 2009;

    (ii) such number of the Allotted Shares as the Board shall deem appropriate being issued and allotted within three (3) months from the issue of the audited financial statements of the Group for the year ending 30 June 2010; and

    (iii) such number of the Allotted Shares as the Board shall deem appropriate shall being issued and allotted within three (3) months from the issue of the audited financial statements of the Group for the year ending 30 June 2011;

    provided that the total number of the Allotted Shares issued and allotted to Mr. Sia under the Service Agreement shall not exceed 69,887,228 Allotted Shares.

The Allotted Shares represent (i) approximately 6.5% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 6.34% of the Company's issued share capital as enlarged by the Consideration Shares; and (iii) approximately 5.96% of the Company's issued share capital as enlarged by the Consideration Shares and the Allotted Shares.

The terms of the Service Agreement were negotiated on an arm's length commercial basis between Mr. Sia and the Company by reference to Mr. Sia's extensive experience in the brassiere related industry particularly in the areas of sales and marketing. The Company believes it is beneficial for the Company to have Mr. Sia's service. The Allotted Shares will be issued and allotted to Mr. Sia upon obtaining the approval by Independent Shareholders at the SGM.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Allotted Shares.

The issue and allotment of the Allotted Shares will not result in a change of control of the Company.

Under the Service Agreement, Mr. Sia represents and warrants to and undertakes with the Company that unless with the prior written consent of the Board, he shall not transfer, sell, assign or dispose of any Allotted Shares within five (5) years from the date of issue and allotment of the relevant Allotted Shares.

The Directors (including the Independent Non-executive Directors having considered the advice from the Independent Financial Adviser) are of the view that the terms of the Service Agreement including the issue and allotment of the Allotted Shares are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company: (i) as at the Latest Practicable Date; (ii) immediately after the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares), and (iii) after the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares) and the Allotted Shares (assuming the maximum number of Allotted Shares were issued and allotted to Mr. Sia):

	As at the Latest Practicable Date		**Immediately after the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares)**		**After the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares) and the Allotted Shares (assuming maximum number of Allotted Shares were issued)**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Van De Velde N.V. (“VDV”) *(Note 1)*	250,599,544	23.31	250,599,544	22.74	250,599,544	21.38
Wong Chung Chong, Eddie (“Mr. Wong”) *(Note 2)*	178,172,118	16.57	178,172,118	16.17	178,172,118	15.20
Fung Wai Yiu (“Mr. Fung”) *(Note 3)*	41,952,521	3.90	41,952,521	3.81	41,952,521	3.58
Marvin Bienenfeld *(Note 4)*	870,521	0.08	870,521	0.08	870,521	0.07
Chow Yu Chun, Alexander *(Note 4)*	3,400,521	0.32	3,400,521	0.31	3,400,521	0.29
Leung Churk Yin, Jeanny *(Note 5)*	70,521	0.01	70,521	0.01	70,521	0.01
Leung Ying Wah, Lambert *(Note 4)*	400,000	0.04	400,000	0.04	400,000	0.03
Mr. Sia	–	–	26,879,703	2.44	96,766,931	8.26
Public Shareholders	599,722,379	55.77	599,722,379	54.41	599,722,379	51.18
Total:	1,075,188,125	100.00	1,102,067,828	100.00	1,171,955,056	100.00

Notes:

1. VDV is beneficially owned by Mr. Lucas A.M. Laureys and Mr. Herman Van de Velde, non-executive Directors.

2. 1,480,521 Shares were beneficially owned by Mr. Wong, executive Director, and 1,100,000 Shares were held by the spouse of Mr. Wong. 175,591,597 Shares were registered in the name of High Union Holdings Inc., a trustee of a unit trust whereas the unit trust was held by a family trust of which the family members of Mr. Wong were eligible beneficiaries.

3. 770,521 Shares were beneficially owned by Mr. Fung, executive Director, and 216,000 Shares were held by the spouse of Mr. Fung. 40,966,000 Shares were held by Fung On Holdings Limited, a family trust of which Mr. Fung and his family members were eligible beneficiaries.

4. Marvin Bienenfeld, Chow Yu Chun, Alexander and Leung Ying Wah, Lambert are independent non-executive Directors.

5. Leung Churk Yin, Jeanny is non-executive Director.

Given that the number of Shares held by the Directors are disclosed separately in the above shareholding table and not included in the number of Shares held by the public Shareholders, the first column of the above shareholding table is different from that disclosed in the Company's announcement dated 30 July 2008. In addition, during the period from 30 July 2008 to the Latest Practicable Date, the number of Shares held by VDV has been increased from 176,181,544 to 250,599,544 by acquiring a further 74,418,000 Shares and the number of Shares held by the spouse of Mr. Wong has been increased from 100,000 to 1,100,000 by acquiring a further 1,000,000 Shares.

INFORMATION ON THE VENDORS

Each of the Vendors' shareholding interest in the Sale Group Companies is illustrated in the following table:

Vendor	Shareholding interest in the Sale Group Companies
ASIL	(a) 7,999,999 shares in ASIAL, representing 99.99% of ASIAL Shares; (b) 499,997 shares in Elkhorn, representing 99.99% of Elkhorn Shares; (c) 1 share in Tavistock, representing 50% of Tavistock Shares; and (d) 66,334 shares in Carina, representing 99.99% of Carina Share.
Mr. Sia *(Notes 1 & 2)*	(a) 1 share in ASIAL, representing 0.01% of ASIAL Shares; (b) 3 shares in Elkhorn, representing 0.01% of Elkhorn Shares; (c) 1 share in Tavistock, representing 50% of Tavistock Shares; and (d) 1 share in Carina, representing 0.0017% of Carina Shares
Wong May May Carina *(Note 2)*	1 share in Carina, representing 0.0017% of Carina Shares
Tina Sia *(Note 2)*	1 share in Carina, representing 0.0017% of Carina Shares
Pearl Soriaga	1 share in Carina, representing 0.0017% of Carina Shares, holding in trust for ASIL
Marileen Silvestre	1 share in Carina, representing 0.0017% of Carina Shares, holding in trust for Mr. Sia
Rowena Tence	1 share in Carina, representing 0.0017% of Carina Shares, holding in trust for Mr. Sia

Notes:

1. Mr. Sia is holding the shares in ASIAL, Elkhorn and Tavistock in trust for ASIL.

2. Mr. Sia, Wong May May Carina and Tina Sia are of the same family.

INFORMATION ON THE SALE GROUP COMPANIES

ASIAL is a company incorporated in Hong Kong and is beneficially owned by ASIL. ASIAL is principally engaged in the sale and manufacture of ladies' intimate apparel and accessories. ASIAL operates manufacturing facilities in the PRC and the Philippines.

Elkhorn is a company incorporated in Hong Kong and is beneficially owned by ASIL. Elkhorn has signed the Processing Contract and Elkhorn Lease for and on behalf of ASIAL. However, Elkhorn is currently an inactive company and does not carry on any business in Hong Kong and the PRC.

Tavistock is a company incorporated in Hong Kong and is beneficially owned by ASIL. Tavistock is principally engaged in the sale and manufacture of brassiere cup wires and moulds. Tavistock operates manufacturing facilities in the PRC.

Carina is a company incorporated in the Philippines and is benefically owned by ASIL as to 99.99% and Mr. Sia, Wong May May Carina and Tina Sia collectively as to 0.01%. Carina is principally engaged in the sale and manufacture of intimate apparel and accessories. Carina operates manufacturing facilities in the Philippines.

FINANCIAL INFORMATION ON THE SALE GROUP COMPANIES

The combined financial information of the Sale Group Companies for the two years ended 31 March 2008 extracted from the audited financial statements of the Sale Group Companies and computed on a combined basis and prepared in accordance with the Hong Kong Financial Reporting Standards as set out in Appendix II to this circular are as follows:

	For the year ended 31 March 2008 (Audited) *(HK$'000)*	**For the year ended 31 March 2007 (Audited)** *(HK$'000)*
Turnover	1,123,772	1,110,754
Net loss before taxation	(111,237)	(362,256)
Net loss after taxation *(Note)*	(115,839)	(363,434)
Net liabilities	(527,421)	(414,308)
Note:		
Analysed as:		
– Operating loss	(2,471)	(64,097)
– Provision for amount due from ACE Style Group	(113,368)	(299,337)
Total	(115,839)	(363,434)

INFORMATION ON THE COMPANY AND THE GROUP

The Company was incorporated in Bermuda with limited liability and its Shares are listed on the Stock Exchange. The Company is an investment holding company. The Group is principally engaged in the design, manufacture, distribution, wholesale and retail of ladies' intimate apparel, principally brassieres.

REASONS FOR THE ACQUISITION

In order to maintain the Group's leading role in the intimate apparel industry and be sustainable in the increasingly competitive market and changing market dynamics, the Group has continuously been searching for growth opportunities by expanding into new distribution channels and the development of new customers. Such approach requires the transformation of the core business from one of OEM to ODM and the support of experienced customer manpower especially in the marketing and enhanced product development functions.

As noted below, ASIAL is one of the leading intimate apparel manufacturers, founded in Hong Kong over 20 years ago under the leadership of Mr. Sia. Over the years, its manufacturing facilities, like those of the Group, migrated to the PRC and the Philippines. As at the Latest Practicable Date, the Sale Group Companies' set up is similar to the Group and with a total production capacity of about 50% of the Group. ASIAL is generally recognised in the market as the second major player after the Group in the supply chain of brassiere products. In addition, apart from production of brassiere products, the Sale Group Companies have more comprehensive capabilities including their own moulding operation and cup wire operation (a key component for most intimate apparel), and swimwear production.

Presently, the Group's customers are predominantly medium to high-end brands distributors in North America (mainly US), Europe, and Australia and its success has been built on 40 years of skills in manufacturing, knowledge in sourcing, and expertise in production management. The Group has also developed its own brand "mx" with in-house design for medium to high-end market distribution in the PRC, Hong Kong and other countries in Asia.

Over the years, the Group has established a robust presence in the OEM business; whilst Mr. Sia together with his wife have led the Sale Group Companies to concentrate on direct sales to retailers and brand owners with the support of professional design/product development teams in the US and Asia. Accordingly, their distribution channels and customer base can be differentiated from the Group. This is evidenced by the fact that there is virtually no overlap between the customers lists of the two entities. The physical presence of their design and product development teams in New York, US enables the Sale Group Companies to have direct access to retailer business whereas the Group gains its strength from manufacturing management and continues to be a leading supplier in the OEM business.

As described in Appendix III to this circular, it is noted that in July 2005, Mr. Sia completed the plan to produce fabric for the intimate apparel production, primarily to support anticipated growth. Due to various reasons, including but not limited to the knock-on-effect of the chaotic implementation of the trade agreement between the PRC and the EU and the disappointing performance of the textile business, Mr. Sia and the Sale Group Companies were faced with severe cashflow issues and initiated a debt restructuring exercise with the Bank Group in 2006. Despite the Sale Group Companies' tight cashflow, the Sale Group Companies continued to engage in their business as normal.

Given that (i) the Group has been searching for growth opportunities; (ii) the business nature, the production capacity and design capability, the distribution channels and customers of the Sale Group Companies and last but not least, the addition of Mr. Sia's knowledge and proven success in the ODM business; (iii) the close resemblance of the functionality within each of the Group and the Sale Group Companies will enable effective and efficient cost management through streamlining and integration of resources in the future following Completion; (iv) the Enlarged Group following Completion is expected to further enjoy economies of scale from various aspects including lowering purchase cost through consolidated purchase of raw materials; (v) the cost of investment (i.e. the Consideration payable) will be significantly lower than setting up the Sale Group Companies on such a scale today; and (vi) the time cost saved to build the Sale Group Companies with such scale and accumulate the experience of its management team, the Board is of the view that the Acquisition represents a unique business expansion opportunity for the Group, and would considerably further strengthen the Group's overall competitiveness and product offerings going forward.

Notwithstanding the issues noted earlier, the audited combined turnover of the Sale Group Companies increased from approximately HK$1,033.7 million for the year ended 31 March 2006 to approximately HK$1,110.8 million for the year ended 31 March 2007 (representing an increase of 7.5%) and further increased to approximately HK$1,123.8 million for the year ended 31 March 2008 (representing approximately an increase of 1.2%). There was no major loss of customers by the Sale Group Companies led by Mr. Sia.

Over the past three financial years, the Sale Group Companies have reported audited combined gross profit of approximately HK$148.9 million for the year ended 31 March 2006, approximately HK$174.7 million for the year ended 31 March 2007 and approximately HK$212.7 million for the year ended 31 March 2008 respectively. During the same period, due to, in particular, the costs/expenses/provisions related to the debt restructuring exercise and the provisions for impairment of amounts due from ASIL and ACE Style Group, representing approximately HK$341.8 million for the year ended 31 March 2006, approximately HK$348.7 million for the year ended 31 March 2007 and approximately HK$159.1 million for the year ended 31 March 2008 respectively, the Sale Group Companies have incurred audited combined net losses of approximately HK$432.8 million for the year ended 31 March 2006, approximately HK$363.4 million for the year ended 31 March 2007 and approximately HK$115.8 million for the year ended 31 March 2008 respectively.

As a consequence of the above, the Sale Group Companies recorded audited net liabilities of approximately HK$52.3 million as at 31 March 2006, approximately HK$414.3 million as at 31 March 2007 and approximately HK$527.4 million as at 31 March 2008 respectively. Notwithstanding the audited net liabilities position of the Sale Group Companies of approximately HK$527.4 million as at 31 March 2008, the Bank Group have to release all the Sale Group Companies' liabilities as part of the conditions precedent pursuant to the Share Acquisition Agreement upon Completion. As a result, the Sale Group Companies will not owe the Bank Group any obligations after Completion. For illustration purpose, with the release of all the Sales Group Companies' liabilities upon Completion and by adjusting back the costs/expenses/provisions relating to the debt restructuring exercise and the provisions for impairment of amounts due from ASIL and ACE Style Group, it is noted that the Sale Group Companies would have recorded a net loss of approximately HK$91.0 million for the year ended 31 March 2006, a net loss of approximately HK$14.7 million for the year ended 31 March 2007 and a net profit of approximately HK$43.3 million for the year ended 31 March 2008 respectively.

Taking into account the reasons and factors described above, the Board believes that the Acquisition would substantially augment the operational capacities, capabilities and the market presence of the Group. The Sale Group Companies have an established and proven track record as an original design manufacturer (ODM) and this core competence complements well with the Group's traditional and successful original equipment manufacturer (OEM) strengths in ladies' intimate apparel products. Through the Acquisition, the Group would gain considerable product know-how and technologies residing with the Sale Group Companies, as well as capture a considerable international network of new customers. Accordingly, the Directors (including the Independent Non-executive Directors having considered the advice from the Independent Financial Adviser) are of the view that the Acquisition is in the interest of the Group and the terms and conditions of the Acquisition are in normal commercial terms, which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

POSSIBLE FINANCIAL IMPACT OF THE ACQUISITION ON THE GROUP

Upon Completion, the Sale Group Companies will become indirect wholly owned subsidiaries of the Company and its results will be consolidated into the financial statements of the Group.

As at 31 December 2007, the unaudited consolidated total assets of the Group was approximately HK$839.2 million. Upon Completion of the Acquisition, and based on the Consideration being satisfied by cash and assuming no adjustment to the Consideration Shares, the pro forma adjusted combined total assets of the Enlarged Group will be approximately HK$1,249.9 million. As at 31 December 2007, the unaudited consolidated total liabilities of the Group was approximately HK$270.6 million. Upon Completion of the Acquisition, and on the same assumption, the pro forma adjusted combined total liabilities of the Enlarged Group will be approximately HK$663.0 million.

Upon Completion of the Acquisition and on the basis of the aforesaid assumption (details of which are set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular), the pro forma adjusted net asset value of the Enlarged Group will be approximately HK$586.9 million, representing an increase of approximately 3.2% over the unaudited consolidated net asset value of the Group as at 31 December 2007.

Given that the consideration for the Acquisition will be satisfied by (i) HK$85 million from internal resources; (ii) HK$200 million from bank borrowing and (iii) issuing Consideration Shares (assuming no adjustment to the number of Consideration Shares), Mr. Sia will be interested in 26,879,703 Shares, representing approximately 2.44% of the enlarged issued share capital of the Company), the pro forma adjusted net asset value per Share of the Enlarged Group will be approximately HK$0.533, representing a slight increase of approximately 0.76% to the unaudited consolidated net asset value per Share of the Group as at 31 December 2007 of approximately HK$0.529. There is no dilution impact to the net asset value per Share upon Completion.

Since the Consideration for the Acquisition will be satisfied by (i) HK$85 million from internal resources; (ii) HK$200 million from bank borrowing and (iii) issuing Consideration Shares, hence, the "Bank balances and cash" classified under the current assets of the consolidated balance sheet of the Group will be reduced by HK$85 million.

Prior to completion of the Acquisition, the gearing ratio (defined as total interest-bearing borrowings to net assets) of the Group as at 31 December 2007 was approximately 1%. Following completion of the Acquisition and by reference to the pro forma statement of assets and liabilities of the Enlarged Group, the gearing ratio will be approximately 35%.

The Directors are satisfied that the working capital available to the Enlarged Group is sufficient to satisfy its present requirements, that is for at least the next twelve months from the date of this circular.

Although following Completion, the gearing of the Group will be increased from 1% to 35%, such level of gearing is acceptable and affordable by the Enlarged Group. Also taking into account the reasons for and benefits of the Acquisition as mentioned above, the Group can deploy its relatively free cash resources to such a unique project and thereafter there is sufficient liquidity for the Enlarged Group to operate, the Directors are of the view that the Consideration payable by means of a combination of cash, bank borrowings and Consideration Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The effect of the Acquisition on the future earnings of the Enlarged Group will depend on, among other things, integrating the future business operation of both the Group and the Sale Group Companies. In addition, it is expected that the Group will work closely with the Sale Group Companies to actively explore and extract business synergistic benefits, including but not limited to streamlining and re-deployment of resources and marketing strategies for the Enlarged Group.

CONTINUING CONNECTED TRANSACTIONS

On Completion, AUS and Marguerite Lee will enter into the AUS Service Contract and Fiori Textiles Limited and the Purchaser will enter into the Fiori Contract. As all the terms and conditions of the AUS Service Contract and the Fiori Contract have been agreed upon by the parties under the Share Acquisition Agreement, the Company is required to disclose the details of the AUS Service Contract and the Fiori Contract in accordance with Rule 14A.47 of the Listing Rules. Details of the terms and conditions of the AUS Service Contract and Fiori Contract are set out below.

AUS SERVICE CONTRACT

Parties: Marguerite Lee and AUS

Services: Pursuant to the AUS Service Contract, AUS has agreed to provide design and development and related technical advice and solutions in relation to intimate apparel and all related products to Marguerite Lee Group Companies in return for the payment of the Signing Fee and the Service Fees.

Term: Subject to approval from Independent Shareholders, AUS Service Contract has a fixed term of two years commencing from the date of the AUS Service Contract with an option to be exercisable by Marguerite Lee in its sole discretion to renew thereafter for a further term of 1 year, unless terminated pursuant to the terms of the AUS Service Contract or by not less than ninety (90) days' notice in writing served by either party.

Payment: Marguerite Lee agrees and covenants to pay AUS: (a) the Signing Fee of US$120,000 (approximately HK$936,000) upon signing of the AUS Service Contract; and (b) in advance on the first day of each successive period of three months the Service Fees in the amount of US$530,000 (approximately HK$4,134,000) every three months with the first payment of the same to be made by Marguerite Lee on the date of the AUS Service Contract.

Pursuant to the AUS Service Contract, the annual Service Fees payable by Marguerite Lee to AUS under the AUS Service Contract including the renewal term of 1 year and the annual cap for that year will not exceed US$2.12 million (approximately HK$16.536 million), which represents the annual caps under the AUS Service Contract.

The annual Service Fees were determined by arms' length negotiations between Marguerite Lee and AUS primarily by reference to the services to be provided by AUS to Marguerite Lee Group Companies under the AUS Service Contract and the design skill and innovation, complicated new product development and research, the in-depth knowledge of technological know-how and related information on the intimate apparel products possessed by AUS.

REASONS FOR ENTERING INTO OF AUS SERVICE CONTRACT

AUS will be involved in the provision of design and development and related technical advice and solutions in relation to intimate apparel and all related products.

With the support from the services provided by AUS, the Company believes that the provision of the services under the AUS Service Contract will compliment the existing business of Marguerite Lee Group Companies in the future.

FIORI CONTRACT

Parties: The Purchaser and Fiori Textiles Limited

Services: Pursuant to Fiori Contract, the Purchaser will appoint Fiori Group and Fiori Group will agree to act and procure Fiori Group to act as non-exclusive suppliers of the Materials for the Group during the continuance of Fiori Contract.

Term: Subject to approval from Independent Shareholders, Fiori Contract shall become effective upon the date of its signing and shall continue in existence until 30 June 2011, unless terminated pursuant to the terms of the Fiori Contract or by not less than 30 days' notice in writing served by either party.

Price: The price and the terms of each purchase order for the Materials shall be arrived at after arm's length negotiations, be comparable to those offered to independent third parties and be on terms comparable to the prevailing market rate and practice. The Group shall place the Purchase Order with Fiori Group in respect of the purchase of the Materials under Fiori Contract.

Annual Caps

For the purpose of Rule 14A.35(2) of the Listing Rules, the Directors propose that the aggregate amount in respect of the Materials to be purchased by the Group from Fiori Group under the Fiori Contract during the relevant financial years shall not exceed the annual caps set out below:

From the date of the Fiori Contract up to and including 30 June 2009 *(HK$ million)*	Year ending 30 June 2010 *(HK$ million)*	Year ending 30 June 2011 *(HK$ million)*
150	165	182

The cap amounts are determined by arms' length negotiations between the Purchaser and Fiori Textiles Limited primarily by reference to: (a) the costs of the Materials to be provided by Fiori Textiles Limited to the Purchaser at a price comparable to the prevailing market rate and practice; (b) the results of the discussions between managements of the Company and Fiori Textiles Limited with respect to the estimated annual growth in the sales of the Group in the coming years; and (c) the estimated increase in the costs of the Materials to be priced by Fiori Textiles Limited in the coming years.

REASONS FOR ENTERING INTO OF FIORI CONTRACT

Fiori Group has been supplying the Materials to the Sale Group Companies for the sale and manufacture of ladies' intimate apparel and accessories.

Upon Completion, the Enlarged Group are expected to source the Materials from Fiori Group on a recurring basis.

LISTING RULES IMPLICATIONS

As the relevant percentage ratios as referred to in Chapter 14 of the Listing Rules for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. As Mr. Sia will become a Director immediately upon Completion, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules. Accordingly, the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares is subject to, among other things, the approval by the Independent Shareholders at the SGM.

As Mr. Sia will become a connected person of the Company by reason of his being a Director immediately upon Completion, the issue and allotment of the Allotted Shares under the Service Agreement constitute a connected transaction for the Company under the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors (including the Independent Non-executive Directors having considered the advice from the Independent Financial Adviser) are of the view that as far as the Independent Shareholders are concerned, the terms of the Acquisition under the Share Acquisition Agreement and the connected transaction under the Service Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Immediately after completion of the Acquisition, Mr. Sia will become a Director. As AUS is a company whose shares are to be controlled by the sister of Mr. Sia's wife, AUS is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

As Fiori Textiles Limited is beneficially owned by Mr. Sia, Fiori Textiles Limited is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

As the aggregate annual amounts of the transactions contemplated under each of the AUS Service Contract and Fiori Contract will exceed the 2.5% threshold as provided in Rule 14A.34 of the Listing Rules and the total annual consideration exceeds HK$10,000,000, the entering into of the AUS Service Contract and the Fiori Contract will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules. Accordingly, the continuing connected transactions contemplated under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased are subject to Independent Shareholders' approval at the SGM.

The Directors (including the Independent Non-executive Directors having considered the advice from the Independent Financial Adviser) consider that the entering into of the AUS Service Contract and Fiori Contract is in the usual and ordinary course of businesses of the Group and the terms of the AUS Service Contract and Fiori Contract have been negotiated and will be conducted on an arm's length basis and on normal commercial terms.

The Directors (including the Independent Non-executive Directors having considered the advice from the Independent Financial Adviser) are of the view that as far as the Independent Shareholders are concerned, the terms of the AUS Service Contract, Fiori Contract and the annual caps under the Fiori Contract and the AUS Service Contract are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The Company will therefore seek the approval by the Independent Shareholders of the AUS Service Contract, the Fiori Contract, the annual caps under the AUS Service Contract including the renewal term of 1 year and the annual cap for that year and the annual caps under the Fiori Contract on terms in compliance with Rules 14A.37 to 14A.41 of the Listing Rules.

As no Shareholder has a material interest in the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the Service Agreement including the issue and allotment of the Allotted Shares and the continuing connected transactions under the AUS Service Contract and the Fiori Contract, none of the Shareholders is required to abstain from voting at the SGM to approve the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased.

The connected transaction contemplated under the Service Agreement and the continuing connected transactions contemplated under the AUS Service Contract and the Fiori Contract are conditional upon the completion of the Acquisition under the Share Acquisition Agreement. The completion of the Acquisition is not conditional upon the entering into of the connected transaction contemplated under the Service Agreement and the continuing connected transactions contemplated under the AUS Service Contract and the Fiori Contract as they are conditions precedent for completion of the Acquisition which can be waived by the Purchaser.

As completion of the Share Acquisition Agreement is subject to the satisfaction of the conditions precedent set out in the section headed "Conditions precedent" above, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

SPECIAL GENERAL MEETING

A notice of the SGM to be held at Harbour View Ballroom, Level 4, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong on Friday, 5 September 2008 at 10:00 a.m., to consider and, if thought fit, approve the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased together with all transactions contemplated thereunder. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event, not later than 48 hours before the respective time appointed for holding the meeting or any adjournment thereof (as the case may be).

PROCEDURE FOR DEMANDING A POLL

Pursuant to bye-law 66 of the Bye-laws, a resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(a) the chairman of such meeting; or

(b) at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or

(e) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of the Shares representing five per cent. or more of the total voting rights at such meeting.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Shareholder.

Pursuant to Rule 14A.52 of the Listing Rules, the votes of the Independent Shareholders at the SGM will be taken by poll. The results of the poll will be published on the Company's and the Stock Exchange's websites as soon as practicable but in any event no later than the business day following the SGM.

ACTION TO BE TAKEN

A form of proxy for use at the SGM is enclosed. Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, whether or not they are able to attend and vote at the SGM in person, to the office of the Hong Kong branch share registrar of the Company as soon as practicable but in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting thereof.

Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the SGM should he or she wish. In that event, his or her form of proxy for the SGM will be deemed to have been revoked.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 39 to 41 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased.

Your attention is also drawn to the letter of advice received from Access Capital which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased. The letter from Access Capital is set out on pages 42 to 76 of this circular.

The Directors (including the independent non-executive Directors having considered the advice from the Independent Financial Adviser) are of the opinion that the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased are in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors (including the Independent Non-executive Directors having considered the advice from the Independent Financial Adviser) recommend that all Independent Shareholders should vote in favour of the ordinary resolutions proposed at the SGM.

ADDITIONAL 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
Top Form International Limited
Fung Wai Yiu
Chairman

TOP FORM INTERNATIONAL LIMITED
黛麗斯國際有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00333)

To the Independent Shareholders

19 August 2008

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 19 August 2008 of the Company of which this letter forms part. Terms defined in this circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased, to advise the Independent Shareholders whether, in our opinion, the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased are fair and reasonable so far as the Independent Shareholders are concerned. Access Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement

* *For identification purpose only*

including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased.

We wish to draw your attention to the "Letter from the Board" set out on pages 9 to 38 of this circular which contains, inter alia, information about the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased, and the "Letter from Access Capital" set out on pages 42 to 76 of this circular which contains its advice in respect of the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased.

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of, Access Capital as stated in its aforementioned letter of advice, we are of the opinion that the terms of the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the SGM to approve the Acquisition under the Share Acquisition Agreement including the issue and allotment of the

Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased.

Yours faithfully,
The Independent Board Committee

Marvin Bienenfeld	**Chow Yu Chun, Alexander**	**Leung Ying Wah, Lambert**	**Lin Sun Mo, Willy**

The following is the text of the letter of advice from Access Capital to the Independent Board Committee and the Independent Shareholders in relation to the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased prepared for the purpose of incorporation in this circular.

Access Capital
Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

19 August 2008

To the Independent Board Committee and
the Independent Shareholders of Top Form International Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the Acquisition under the Share Acquisition Agreement; (ii) the Service Agreement including the issue and allotment of the Allotted Shares; and (iii) the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased, details of which have been set out in the circular to the Shareholders dated 19 August 2008 (the "Circular"), of which this letter forms part.

This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the abovementioned matters. Unless the context otherwise requires, terms used in this letter have the same meanings as those defined in the Circular.

The Acquisition

The Board announced that on 30 July 2008, the Purchaser, a wholly-owned Subsidiary of the Company, entered into the Share Acquisition Agreement to acquire from the Vendors the Sale Shares, being the entire issued share capital of the Sale Group Companies, for a total Consideration of HK$303,331,957 (subject to adjustment).

Under the Share Acquisition Agreement, the Consideration for the Acquisition shall be satisfied by the Purchaser (1) paying HK$285,000,000 in cash upon Completion; and (2) procuring the Company to allot and issue the Consideration Shares, credited as fully paid, to Mr. Sia upon Completion (subject to adjustment).

As the relevant percentage ratios as referred to in Chapter 14 of the Listing Rules for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. As Mr. Sia will become a Director immediately upon Completion, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules. Accordingly, the Acquisition contemplated under the Share Acquisition Agreement and the issue and allotment of the Consideration Shares is subject to, among other things, the approval by the Independent Shareholders at the SGM.

The Service Agreement

On Completion, Mr. Sia will enter into the Service Agreement with the Company whereby the Company will appoint Mr. Sia and Mr. Sia will agree to act as executive Director. Under the Service Agreement, the Company will subject to, among other things, Mr. Sia having met the performance criteria pursuant to the Service Agreement issue and allot to Mr. Sia the Allotted Shares. As Mr. Sia will become a connected person of the Company by reason of him being a Director immediately upon Completion, the Service Agreement including the issue and allotment of the Allotted Shares to Mr. Sia constitute a connected transaction for the Company under the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The AUS Service Contract and the Fiori Contract

On Completion, Marguerite Lee, an indirect wholly-owned Subsidiary of the Purchaser, will enter into the AUS Service Contract with AUS pursuant to which AUS will provide design and development and related technical advice and solutions in relation to intimate apparel and all related products to Marguerite Lee Group Companies in return for the payment of the Signing Fee and Service Fees. Immediately upon Completion, Mr. Sia will become a connected person of the Company by reason of him being a Director immediately upon Completion. As AUS is a company whose shares are controlled by the sister of Mr. Sia's wife, Wong May May Carina, AUS is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

On Completion, the Purchaser and Fiori Textiles Limited will enter into the Fiori Contract whereby the Purchaser will appoint Fiori Group and Fiori Textiles Limited will agree to act and procure Fiori Group to act as non-exclusive suppliers of the Materials for the Group. As Fiori Textiles Limited is beneficially owned by Mr. Sia, and Mr. Sia will become a connected person of the Company by reason of him being a Director immediately upon Completion, Fiori Textiles Limited will become a connected person of the Company under Chapter 14A of the Listing Rules.

As the aggregate annual amounts of the transactions contemplated under each of the AUS Service Contract and the Fiori Contract will exceed the 2.5% threshold as provided in Rule 14A.34 of the Listing Rules and the total annual consideration exceeds HK$10,000,000, the entering into of the AUS Service Contract and the Fiori Contract constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules. Accordingly, the continuing connected transactions contemplated under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased are subject to the Independent Shareholders' approval at the SGM.

As no Shareholder has a material interest in the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the Service Agreement including the issue and allotment of the Allotted Shares and the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under the Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased, none of the Shareholders is required to abstain from voting at the SGM to approve the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the Service Agreement including the issue and allotment of the Allotted Shares, the continuing connected transactions under the AUS Service Contract including the annual caps in respect of the annual Service Fees payable by Marguerite Lee to AUS and the continuing connected transactions under Fiori Contract including the annual caps in respect of the aggregate amount of the Materials to be purchased.

THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of two executive Directors, namely Mr. Fung Wai Yiu and Mr. Wong Chung Chong, Eddie; three non-executive Directors, namely Mr. Lucas A.M. Laureys, Mr. Herman Van de Velde and Ms. Leung Churk Yin, Jeanny; and four independent non-executive Directors, namely Mr. Marvin Bienenfeld, Mr. Chow Yu Chun, Alexander, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Marvin Bienenfeld, Mr. Chow Yu Chun, Alexander, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy, has been established to consider the terms of (i) the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares (ii) the Service Agreement including the issue and allotment of the Allotted Shares; (iii) the AUS Service Contract (including the renewal term of one year) and the Fiori Contract and their respective annual caps and to advise the Independent Shareholders as to whether the terms of (i) the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares; (ii) the Service Agreement including the issue and allotment of Allotted Shares; and (iii) the AUS Service Contract (including the renewal term of one year) and the Fiori Contract and their respective annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the relevant resolutions at the SGM.

We have been appointed to advise the Independent Shareholders as to whether the terms of (i) the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares; (ii) the Service Agreement including the issue and allotment of the Allotted Shares; and (iii) the AUS Service Contract (including the renewal term of one year) and the Fiori Contract and their respective annual caps are in the ordinary and usual course of the Group's business and agreed on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and to give our opinion to the Independent Board Committee in relation to the terms of (i) the Acquisition under the Share Acquisition Agreement including the issue and allotment of the Consideration Shares; (ii) the Service Agreement including the issue and allotment of the Allotted Shares, and (iii) the AUS Service Contract (including the renewal term of one year) and the Fiori Contract and their respective annual caps for their consideration when making their recommendation to the Independent Shareholders and as to how the Independent Shareholders should vote on the relevant resolutions at the SGM.

BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the senior management staff of the Group contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Group and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

PRINCIPAL FACTORS CONSIDERED

In formulating our recommendations, we have taken into consideration the following principal factors:

1. Background information and reasons for the Acquisition

1.1 Information on the Group

The Group is principally engaged in the design, manufacture, distribution, wholesale and retail of ladies' intimate apparel, principally brassieres. As set out in the Company's annual reports for the past three financial years ended 30 June 2007, the Group's operations can be categorised into two segments, namely manufacturing business and branded business.

The following is the breakdown in turnover of the Group by the two business segments for each of the three financial years ended 30 June 2007, which is extracted from the Company's respective published annual reports.

	For the year ended 30 June		
	2005	**2006**	**2007**
	(Audited)	**(Audited)**	**(Audited)**
	HK$'000	*HK$'000*	*HK$'000*
Manufacturing business	1,442,897	1,403,798	1,448,348
Branded business	20,918	21,693	19,148
Total turnover	1,463,815	1,425,491	1,467,496

As indicated in the above table, the manufacturing business has been the core business of the Group and such business segment accounted for approximately 98.6%, 98.5% and 98.7% of the Group's total turnover for each of the three financial years ended 30 June 2007, respectively.

In addition, the Group recorded a growth of approximately HK$42.0 million in its turnover from approximately HK$1,425.5 million for the financial year ended 30 June 2006 to approximately HK$1,467.5 million for the financial year ended 30 June 2007. Particularly, turnover in respect of the manufacturing business increased from approximately HK$1,403.8 million for the financial year ended 30 June 2006 to approximately HK$1,448.3 million for the financial year ended 30 June 2007.

As stated in the Company's interim report for the six month period ended 31 December 2007, the strategy of the Group is to shift its focus from original equipment manufacturer (OEM) to original design manufacturer (ODM) to enable itself to develop direct sales to retail customers, particularly in the European market where the Group has previously established relationships. As noted, this shift of focus will be a continuous learning experience for the Group and requires investment, among other things, in product development and sales support functions and, whilst growth and profitability may be compromised in the short term, the Group is confident that the impact of these changes will be positively reflected in the business performance of the Company in the medium term. Also stated therein, the Group will continue its search for mergers and acquisitions opportunities and is of the view that the expansion of the ODM business is an important cornerstone to the Group's overall business strategy.

1.2 Information on the Sale Group Companies

The Sales Group Companies comprises of ASIAL, Elkhorn, Tavistock and Carina and their respective Subsidiaries (if any).

ASIAL is a company incorporated in Hong Kong and is beneficially owned by ASIL. ASIAL is principally engaged in the sale and manufacture of ladies' intimate apparel and accessories. ASIAL operates manufacturing facilities in the PRC and the Philippines.

Elkhorn is a company incorporated in Hong Kong and is beneficially owned by ASIL. Elkhorn has signed the Processing Contract and Elkhorn Lease for and on behalf of ASIAL. However, Elkhorn is currently an inactive company and does not carry on any business in Hong Kong and the PRC.

Tavistock is a company incorporated in Hong Kong and is beneficially owned by ASIL. Tavistock is principally engaged in the sale and manufacture of brassiere cup wires and moulds. Tavistock operates manufacturing facilities in the PRC.

Carina is a company incorporated in the Philippines and is beneficially owned by ASIL as to 99.99% and Mr. Sia, Wong May May Carina and Tina Sia collectively as to 0.01%. Carina is principally engaged in the sale and manufacture of intimate apparel and accessories. Carina operates manufacturing facilities in the Philippines.

The following is the audited financial performance of the Sale Group Companies for each of the three financial years ended 31 March 2008 extracted from the audited financial statements of the Sale Group Companies.

	For the year ended 31 March		
	2006	**2007**	**2008**
	(Audited)	**(Audited)**	**(Audited)**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Turnover	1,033,748	1,110,754	1,123,772
Net loss before taxation	(427,466)	(362,256)	(111,237)
Net loss after taxation	(432,847)	(363,434)	(115,839)
Net liabilities	(52,280)	(414,308)	(527,421)

1.3 Reasons for the Acquisition

As stated in the "Letter from the Board", in order to maintain the Group's leading role in the intimate apparel industry and be sustainable in the increasingly competitive market and changing market dynamics, the Group has continuously been searching for growth opportunities by expanding into new distribution channels and the development of new customers. Such approach requires the transformation of the core business from one of OEM to ODM and the support of experienced customer manpower especially in the marketing and enhanced product development functions.

As stated in the "Letter from the Board", ASIAL is one of the leading intimate apparel manufacturers, founded in Hong Kong over 20 years ago under the leadership of Mr. Sia. Over the years, its manufacturing facilities, like those of the Group, migrated to the PRC and the Philippines. As at the Latest Practicable Date, the Sale Group Companies' set up is similar to that of the Group with a total production capacity of about 50% of the Group. ASIAL is generally recognised in the market as the second major player after the Group in the supply chain of brassiere products. In addition, apart from production of brassiere products, the Sale Group Companies have more comprehensive capabilities including their own moulding operation and cup wire operation (a key component for most intimate apparel), and swimwear production.

Presently, the Group's customers are predominantly medium to high-end brands distributors in North America (mainly US), Europe, and Australia and its success has been built on 40 years of skills in manufacturing, knowledge in sourcing, and expertise in production management. The Group has also developed its own brands "mx" with in-house design for medium to high-end market distributing in the PRC, Hong Kong and other countries in Asia.

Over the years, the Group has established a robust presence in the OEM business. On the other hand, Mr. Sia together with his wife have led the Sale Group Companies to concentrate on direct sales to retailers and brand owners with the support of professional design/product development teams in the US and Asia. Accordingly, their distribution channels and customer base are differentiated from the Group. This is evidenced by the fact that there is virtually no overlap between the customer lists of the two entities. The physical presence of their design and product development teams in New York, US enables the Sale Group Companies to have direct access to retailer business, whereas the Group gains its strength from manufacturing and continues to be a leading supplier in the OEM business.

As described in Appendix III to the Circular, it is noted that in July 2005, Mr. Sia completed the plan to produce fabric for the intimate apparel production, primarily to support anticipated growth. Due to various reasons, including but not limited to the knock-on-effect of the chaotic implementation of the trade agreement between the PRC and the EU and the disappointing performance of the textile business, Mr. Sia and the Sale Group Companies were faced with severe cashflow issues and initiated a debt restructuring exercise with the Bank Group in 2006. Despite the Sale Group Companies' tight cashflow, the Sale Group Companies continued to engage in their business as normal.

Given that (i) the Group has been searching for growth opportunities; (ii) the business nature, the production capacity and design capability, the distribution channels and customers of the Sale Group Companies and last but not least, the addition of Mr. Sia's knowledge and proven success in the ODM business; (iii) the close resemblance of the functionality within each of the Group and the Sale Group Companies will enable effective and efficient cost management through streamlining and integration of resources in the future following Completion; (iv) the Enlarged Group following Completion is expected to further enjoy economies of scale from various aspects including lowering purchase cost through consolidated purchase of raw materials; (v) the cost of investment (i.e. the Consideration payable) will be significantly lower than the alternative for the Group to build up a business platform comparable to the present scale of the Sale Group Companies; and (vi) the time cost saved to build the Sale Group Companies with such scale and accumulate the experience of its management team, the Board is of the view that the Acquisition represents a unique business expansion opportunity for the Group, and would considerably further strengthen the Group's overall competitiveness and product offerings going forward.

Notwithstanding the issues noted earlier, the audited combined turnover of the Sale Group Companies increased from approximately HK$1,033.7 million for the year ended 31 March 2006 to approximately HK$1,110.8 million for the year ended 31 March 2007 (representing an increase of approximately 7.5%) and further increased to approximately HK$1,123.8 million for the year ended 31 March 2008 (representing an increase of approximately 1.2%). There was no major loss of customers by the Sale Group Companies led by Mr. Sia.

Over the past three financial years, the Sale Group Companies have reported audited combined gross profit of approximately HK$148.9 million for the year ended 31 March 2006, approximately HK$174.7 million for the year ended 31 March 2007 and approximately HK$212.7 million for the year ended 31 March 2008 respectively. During the same period, due to, in particular, the costs/expenses/provisions related to the debt restructuring exercise and the provisions for impairment of amounts due from ASIL and ACE Style Group, representing approximately HK$341.8 million for the year ended 31 March 2006, approximately HK$348.7 million for the year ended 31 March 2007 and approximately HK$159.1 million for the year ended 31 March 2008 respectively, the Sale Group Companies have incurred audited combined net losses of approximately HK$432.8 million for the year ended 31 March 2006, approximately HK$363.4 million for the year ended 31 March 2007 and approximately HK$115.8 million for the year ended 31 March 2008 respectively.

As a consequence of the above, the Sale Group Companies recorded audited net liabilities of approximately HK$52.3 million as at 31 March 2006, approximately HK$414.3 million as at 31 March 2007 and approximately HK$527.4 million as at 31 March 2008 respectively. Notwithstanding the audited net liabilities position of the Sale Group Companies of approximately HK$527.4 million as at 31 March 2008, the Bank Group have to release all the Sale Group Companies' liabilities as part of the conditions precedent pursuant to the Share Acquisition Agreement upon Completion. As a result, the Sale Group Companies will not owe the Bank Group any obligations after Completion. For illustration purpose, with the release of all the Sales Group Companies' liabilities upon Completion and by adjusting back the costs/expenses/provisions relating to the debt restructuring exercise and the provisions for impairment of amounts due to ASIL and ACE Style Group, it is noted that the Sale Group Companies would have recorded a net loss of approximately HK$91.0 million for the year ended 31 March 2006, a net loss of approximately HK$14.7 million for the year ended 31 March 2007 and a net profit of approximately HK$43.3 million for the year ended 31 March 2008 respectively.

Taking into account the reasons and factors described above, the Board believes that the Acquisition would substantially augment the operational capacities, capabilities and the market presence of the Group. The Sale Group Companies have an established and proven track record as an ODM and this core competence complements well with the Group's traditional and successful OEM strengths in ladies' intimate apparel products. Through the Acquisition, the Group would gain considerable product know-how and technologies residing with the Sale Group Companies, as well as capture a considerable international network of new customers.

In addition, the Directors believe that with the Acquisition of the Sale Group Companies and the employment of a key management of the Sale Group Companies, namely, Mr. Sia, the Group will also benefit from the following factors:

- Given that Sale Group Companies are engaged in a similar business of the Group with its core competence as ODM, the Acquisition is in line with the Group's long term strategy to expand its market coverage and product range as a result of the Acquisition.

- By utilising the Sale Group Companies' technologies know-how and the additional international network of the Sale Group Companies, the Acquisition would allow the Group to grow and expand its market share in a competitive business environment.

- There exists considerable room for operational enhancement of the combined operation through streamlining and re-deployment of resources and lowering purchase cost through bulk purchase of raw materials, thus achieving greater economies of scale.

- The product variety of the Group will be enhanced, thus reducing the lead time to launch new products.

Taking into account (i) the reasons and factors mentioned above; and (ii) the background to, and reasons for, the Acquisition are consistent with the Group's corporate strategy to shift to ODM for the Group to capture a larger share in the intimate ladies' apparel market in the future, we concur with the view of the Directors that the Acquisition under the Share Acquisition Agreement is consistent with the Group's business strategy with potential synergies and commercial benefits to the Group and hence, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

2. Terms of the Acquisition under the Share Acquisition Agreement, Service Agreement, the issue and allotment of the Consideration Shares and Allotted Shares

2.1 The Share Acquisition Agreement

The Consideration for the Sale Shares is HK$303,331,957 (subject to the adjustment set out below) and shall be settled by the Purchaser in the form of cash of HK$285,000,000 and Consideration Shares (subject to adjustment set out below).

Under the Share Acquisition Agreement, in the event that the Net Asset Value of the Sale Group Companies as shown in the Completion Accounts is less than the Net Asset Value of the Sale Group Companies as shown in the Financial Statements as at 31 March 2008 which is HK$228,000,000, the Consideration shall be adjusted by reducing the number of the Consideration Shares to be issued, calculated according to the formula below:

$$A = \frac{\text{HK\$228,000,000} - B}{C}$$

where

A = Number of Consideration Shares to be reduced

B = Net Asset Value of the Sale Group Companies as at the Completion Accounts Date

C = HK$0.682 being the average closing price per Share for the trading days from 17 January 2008 to 29 February 2008 (both days inclusive)

provided that if the total number of Consideration Shares to be reduced exceeds 26,879,703 Consideration Shares contemplated to be issued to Mr. Sia on Completion, then no Consideration Shares shall be issued to Mr. Sia on Completion.

2.1.1 Specific event of termination

In addition to the usual clauses regarding the events of termination of the Share Acquisition Agreement, if at any time prior to Completion, the Net Asset Value of the Sale Group Companies as shown in the Financial Statements shall exceed the Net Asset Value of the Sale Group Companies as shown in the Completion Accounts by a sum of more than HK$18,331,957, then the Purchaser may in its absolute discretion without any liability on its part, by notice in writing to the Vendors, terminate the Share Acquisition Agreement.

We concur with the intention of the Directors that this additional clause of termination would safeguard the interest of the Purchaser should the Net Asset Value of the Sale Group Companies decreases by more than HK$18,331,957 from the date of the Financial Statements to the Completion Accounts.

2.1.2 Consideration Shares

26,879,703 Consideration Shares (subject to adjustment as detailed above) will be allotted and issued at an issue price of HK$0.682 per Consideration Share, credited as fully paid upon Completion. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The Consideration Shares represent: (i) approximately 2.5 % of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 2.44 % of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The issue price of HK$0.682 per Consideration Share represents (i) a premium of approximately 11.80% over the closing price of HK$0.61 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (ii) a premium of approximately 21.79% to the closing price of HK$0.56 per Share as quoted on the Stock Exchange on the Last Trading Date; (iii) a premium of approximately 21.79% to the average of the closing prices of approximately HK$0.56 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date; and (iv) a premium of approximately 24.00% to the average of the closing prices of HK$0.55 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date.

The Consideration Shares will be issued and allotted to Mr. Sia upon obtaining the approval by Independent Shareholders at the SGM.

Under the Share Acquisition Agreement, Mr. Sia represents and warrants to and undertakes with the Purchaser that he shall not transfer, sell, assign or dispose of any Consideration Shares within five (5) years from the date of allotment and issue of such Consideration Shares, save with the prior written consent of the Board. The restriction on subsequent sales of the Allotted Shares for a period of five (5) years should align the interests of Mr. Sia with other Shareholders' interest and also provide additional incentive for Mr. Sia to contribute to the future growth and development of the Group as Mr. Sia would be able to share such growth in his capacity as a Shareholder, which in turn, would be beneficial to the Company and the Shareholders as a whole. In addition, the above mentioned restriction on subsequent sales of the Allotted Shares should support the long term development of the Group.

Taking into account (i) the reasons and factors mentioned above; and (ii) the Acquisition is consistent with the Group's corporate strategy to shift to ODM for the Group, we concur with the view of the Directors and are of the view that the terms of the Share Acquisition Agreement, in particular, the specific event of termination under "2.1.1 Specific event of termination" and the restriction on subsequent sales of the Consideration Shares, are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

2.2 Service Agreement

Mr. Sia will enter into the Service Agreement with the Company whereby the Company will appoint Mr. Sia and Mr. Sia will agree to act as executive Director. The scope of his work includes performing executive duties in the business performance of the Group with a specific responsibility in directing and managing all marketing and sales functions of the Group. The Service Agreement will contain terms to the effect that:

(1) The appointment shall be for an initial term of three years subject to renewal every three (3) years thereafter, unless terminated pursuant to the terms of the Service Agreement or by not less than six months' notice in writing served by either party.

(2) The Company shall pay to Mr. Sia a basic salary (which shall accrue from day to day) at the rate of HK$250,000 per calendar month payable in arrears on the last day of every month. The basic salary shall be reviewed by the Board each year.

(3) Subject to the Group attaining satisfactory performance and meeting its financial goals, the Company may in its absolute discretion pay to Mr. Sia a discretionary management bonus of such amount (if any) as it considers appropriate.

(4) Subject to: (a) Mr. Sia having met the performance criteria pursuant to the Service Agreement; (b) the passing by the Independent Shareholders in the SGM of a resolution to approve the Service Agreement including the issue and allotment of the Allotted Shares; and (c) the Stock Exchange having granted the listing of, and permission to deal in, the Allotted Shares, the Company shall issue and allot to Mr. Sia up to a maximum number of the Allotted Shares during the term of the Service Agreement in the following manner:

(i) such number of the Allotted Shares as the Board shall deem appropriate being issued and allotted within three (3) months from the issue of the audited financial statements of the Group for the year ending 30 June 2009;

(ii) such number of the Allotted Shares as the Board shall deem appropriate being issued and allotted within three (3) months from the issue of the audited financial statements of the Group for the year ending 30 June 2010; and

(iii) such number of the Allotted Shares as the Board shall deem appropriate being issued and allotted within three (3) months from the issue of the audited financial statements of the Group for the year ending 30 June 2011;

provided that the total number of the Allotted Shares issued and allotted to Mr. Sia under the Service Agreement shall not exceed 69,887,228 Allotted Shares.

The Allotted Shares represent (i) approximately 6.5% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 6.34% of the Company's issued share capital as enlarged by the Consideration Shares (assuming no adjustment to the number of Consideration Shares); and (iii) approximately 5.96% of the Company's issued share capital as enlarged by the Consideration Shares and the Allotted Shares (assuming no adjustment to the number of Consideration Shares and the maximum number of Allotted Shares were issued).

Under the Service Agreement, Mr. Sia represents and warrants to and undertakes with the Company that unless with the prior written consent of the Board, he shall not transfer, sell, assign or dispose of any Allotted Shares within five (5) years from the date of issue and allotment of the relevant Allotted Shares.

Taking into account (i) Mr. Sia's extensive experience in the intimate apparel business, in particular, his proven success in leading the Sale Group Companies as an ODM of intimate apparel with a worldwide market presence; (ii) the structure of the remuneration under the Service Agreement, including the basic salary at the rate of HK$250,000 per calendar month is in line with the remuneration packages for existing executive Directors (as disclosed in the 2007 annual report of the Company) and the issue and allotment of the Allotted Shares (provided certain performance criteria are met and over a period of three years); and (iii) the restriction on subsequent sales of the Allotted Shares should align the interests of Mr. Sia with other Shareholders and would be able to share growth of the Company in his capacity as a Shareholder, we concur with the Directors that the terms of the Service Agreement, in particular, the issue and allotment of the Allotted Shares, will provided additional incentive for Mr. Sia to contribute to the future growth and development of the Group. Accordingly, we concur with the Directors that the terms and conditions of the Service Agreement are in normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Details of our analysis on the fairness and reasonableness of the issue of the Allotted Shares under the Service Agreement are set out under the heading "Compare with historical price earnings ratio ("PER")" and "Compare with historical price to book ratio ("PBR")" below.

2.3 Factors taking into account when considering the consideration payable for the Acquisition under the Share Acquisition Agreement and the Allotted Shares under the Service Agreement

2.3.1 Comparison with market prices of the Shares

Under the Share Acquisition Agreement, the issue price per Consideration Share of HK$0.682 represents:

(i) a premium of approximately 11.80% to the closing price of HK$0.61 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a premium of approximately 21.79% to the closing price of HK$0.56 per Share as quoted on the Stock Exchange on the Last Trading Date;

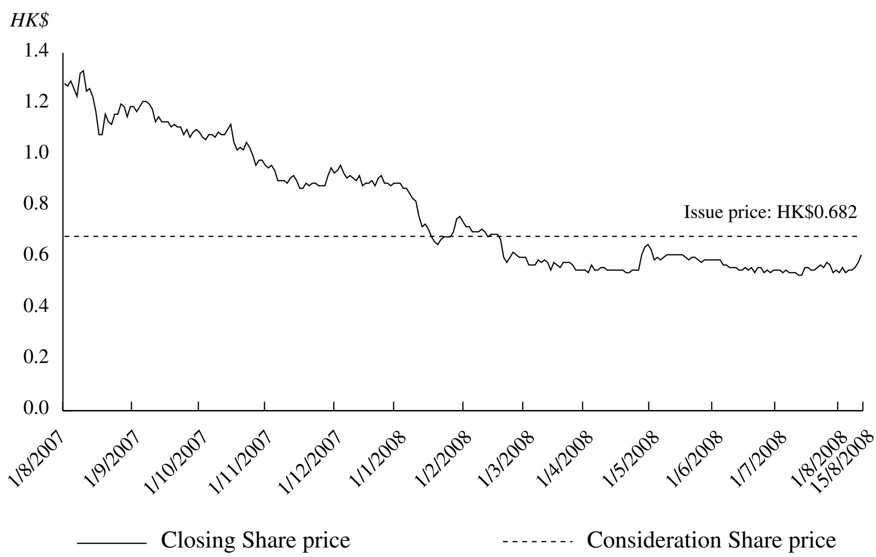
(iii) a premium of approximately 21.79% to the average closing price of approximately HK$0.56 for the last five trading days up to and including the Last Trading Date;

(iv) a premium of approximately 24.00% to the average closing price of approximately HK$0.55 for the last ten trading days up to and including the Last Trading Date; and

(v) a premium of approximately 28.92% to the latest published net asset value of approximately HK$0.529 per Share as at 31 December 2007 as set out in the interim report of the Company, based on the net assets of approximately HK$568.6 million and 1,075,188,125 Shares in issue as at 31 December 2007.

We would also like to draw Shareholder's attention to the following chart, which sets out the historical closing price performance of the Shares for the preceding year since 1 August 2007 as quoted on the Stock Exchange up to the Latest Practicable Date ("Review Period").

Historical daily closing price



Source: Bloomberg

During the Review Period, Shares have been trading on a declining trend. The highest price of the Shares during the Review Period was noted in early August 2007 at HK$1.33 and the lowest price of the Shares was recorded at mid-July 2008 at HK$0.53. The price of the Shares first dropped below the issue price of the Consideration Shares of HK$0.682 in late-January 2008 before it rose above the issue price of the Consideration Shares briefly in late-January 2008, then dropped below the issue price of the Consideration Shares in late-February 2008 and have since been trading below the issue price of the Consideration Shares.

2.3.2 Trading volume

The below table sets out the highest and the lowest closing prices of the Shares as quoted on the Stock Exchange during the Review Period:

	Highest closing price *(HK$)*	Lowest closing price *(HK$)*	Average closing price *(HK$)*	Average daily trading volume for the period/month *(Shares)*	Percentage of average daily trading volume to total no. of issued shares
2007					
August	1.33	1.08	1.20	1,265,465	0.12%
September	1.21	1.07	1.14	1,089,158	0.10%
October	1.12	0.96	1.06	4,177,238	0.39%
November	0.98	0.87	0.91	633,227	0.06%
December	0.96	0.88	0.91	365,368	0.03%
2008					
January	0.89	0.65	0.77	2,177,727	0.20%
February	0.76	0.58	0.68	1,435,272	0.13%
March	0.60	0.55	0.58	646,947	0.06%
April	0.61	0.54	0.55	3,476,286	0.32%
May	0.65	0.58	0.61	2,781,800	0.26%
June	0.59	0.54	0.56	727,300	0.07%
July	0.58	0.53	0.55	565,300	0.05%
August (up to the Latest Practicable Date)	0.61	0.54	0.56	8,047,400	0.75%

As indicated from the above table, Shares have been thinly traded and rather illiquid during the Review Period. Taking into account the historical price performance and the thin trading volume of the Shares during the Review Period, we are of the view that the issue price per Consideration Share of HK$0.682 as part of the consideration for the Acquisition is fair and reasonable, in particular, the issue price per Consideration Share represents a premium over the unaudited consolidated net assets value per Share as at 31 December 2007.

2.3.3 Peer group comparison

In our analysis of the consideration of the Acquisition, to the best of our knowledge and findings, we have identified a population of 9 companies listed on the Stock Exchange as set out in the table below which are engaged in the manufacturing of apparels and accessories (including headwear, footwear and handbags) on OEM and ODM basis (together the "Peer Companies").

Company Name	**Closing price as at Last Trading Date** *(HK$)*	**Historical earnings per share** *(HK$)*	**Historical price earnings ratio ("PER")** *(Times)*	**Historical price to book ratio ("PBR")** *(Times)*
Chanco International Group Limited	0.90	0.1620	5.56	1.29
Tack Fat Group International Limited	0.46	0.1764	2.61	0.55
Mainland Headwear Holdings Limited	1.09	0.1310	8.32	0.68
Yue Yuen Industrial (Holdings) Limited *(Note 1)*	20.05	1.6848	11.90	1.76
Stella International Holdings Limited *(Note 1)*	13.66	1.2870	10.61	1.66
Shenzhou International Group Holdings Limited *(Note 1)*	1.75	0.3775	4.64	0.77
Lee & Man Holding Limited	1.29	0.1290	10.00	1.66
Le Saunda Holdings Limited	0.91	0.1230	7.40	0.73
Kingmaker Footwear Holdings Limited	0.90	0.0769	11.70	0.80
		Maximum	11.90	1.76
		Minimum	2.61	0.55
		Average	8.08	1.10
Sale Group Companies	N/A	N/A	7.00 *(Note 2)*	1.33 *(Note 3)*
	N/A	N/A	7.91 *(Note 4)*	1.50 *(Note 5)*

Notes:

1. Exchange rate used: RMB1 to HK$1.1438; US$1 to HK$7.8

2. Based on the total consideration of approximately HK$303.3 million and the Adjusted Profit (as defined below) (further details are set out under the paragraph headed "Compare with historical price earnings ratio ("PER")" below).

3. Based on the total consideration of approximately HK$303.3 million and the Net Asset Value of not less than HK$228 million (further details are set out under the paragraph headed "Compare with historical price to book ratio ("PBR")" below).

4. Based on the Combined Consideration (as defined below) of approximately HK$342.4 million and the Adjusted Profit (further details are set out under the paragraph headed "Compare with historical price earnings ratio ("PER")" below).

5. Based on the Combined Consideration of approximately HK$342.4 million and the Net Asset Value of not less than HK$228 million (further details are set out under the paragraph headed "Compare with historical price to book ratio ("PBR")" below).

As shown in the above table, the PER of the Peer Companies ranges from approximately 2.61 times to 11.90 times with an average PER of approximately 8.08 times and the PBR of the Peer Companies ranges from approximately 0.55 to 1.76 with an average PBR of approximately 1.10 times.

Compare with historical price earnings ratio ("PER")

As the Sale Group Companies returned an audited loss after taxation of approximately HK$115.8 million for the year ended 31 March 2008 (details of combined income statement of the Sale Group Companies are set out in the "Accountants' report on Sale Group Companies" as set out in Appendix II to the Circular), we are not able to directly compare the PER of the Sale Group Companies with the Peer Companies as mentioned above.

Pursuant to the Share Acquisition Agreement, as part of the conditions precedent, (i) the Bank Group have to release all the Sale Group Companies' liabilities and the Sale Group Companies' liabilities and the Sale Group Companies will not owe the Bank Group any obligations after Completion; and (ii) the Sale Group Companies will not owe any loan or any other financial liabilities to the Vendors, ACE Style Group or any director of ACE Style group or of Sale Group Companies as from the Completion Date.

For illustration purpose only and not to be taken as an indication of actual profit and loss of the Sale Group Companies, and assuming other factors remain the same, the Sale Group Companies would have recorded a profit after taxation of approximately HK$43.3 million ("Adjusted Profits"), being the audited loss after taxation of approximately HK$115.8 million and adjusted by the provisions for impairment of amounts due from ASIL and ACE Style Group of approximately HK$113.4 million and the costs/expenses/provisions relating to the debt restructuring exercise of approximately HK$45.7 million.

On the basis of the aforesaid assumption, the Consideration of approximately HK$303.3 million and the Adjusted Profits would result in an implied PER of approximately 7.00 times. This implied PER of the Sale Group Companies of approximately 7.00 times falls within the relevant range of the PER as stated in the aforesaid table of approximately 2.61 times to 11.90 times and below the average of the range.

Given that Mr. Sia will be appointed as executive Director upon Completion, the Allotted Shares forms part of the incentive provided by the Company for Mr. Sia to contribute to the future growth and development of the Group. On this basis, in assessing the consideration payable under the Acquisition, we have, on a conservative and prudent basis, included the current market value of the Allotted Shares (notwithstanding the fact that the issuance of the Allotted Shares will be subject to fulfilment of certain performance criteria) to be an additional part of the consideration under the Acquisition. Based on the average closing price of HK$0.56 per Share for the last five trading days up to and including the Last Trading Date and the maximum number of 69,887,228 Allotted Shares issuable under the Service Agreement, the market value of the Allotted Shares will be approximately HK$39.1 million. As a result of combining the consideration of the Acquisition and the market value of the Allotted Shares, the combined consideration would become approximately HK$342.4 million ("Combined Consideration").

Accordingly, on the basis of the aforesaid assumption, the Combined Consideration of approximately HK$342.4 million and the Adjusted Profits would result in an implied PER of approximately 7.91 times which falls within the relevant range of the PER as stated in the aforesaid table of approximately 2.61 times to 11.90 times and below the average of the range.

Compare with historical price to book ratio ("PBR")

As stated in the "Accountants' report on the Sale Group Companies" as set out in Appendix II to the Circular, the Sale Group Companies recorded net liabilities of approximately HK$527.4 million as at 31 March 2008, we are not able to directly compare the PBR of the Sale Group Companies with the Peer Companies as mentioned above.

Pursuant to the Share Acquisition Agreement, in the event that the Net Asset Value of the Sale Group Companies as shown in the Completion Accounts is less than the Net Asset Value of the Sale Group Companies which is HK$228,000,000, adjustments will be made to the consideration based on the formula as stated under the section "2.1 The Share Acquisition Agreement" above.

For illustration purpose only and not to be taken as an indication of actual net asset value of the Sale Group Companies, on the basis of the assumption that no adjustment would be made under the Share Acquisition Agreement, the Consideration and the Net Asset Value of HK$228,000,000 would result in an implied PBR of approximately 1.33 times. This implied PBR of the Sale Group Companies of approximately 1.33 times is within the relevant range of the PBR as stated in the aforesaid table of approximately 0.55 times to 1.76 times and higher than the average of the range of 1.10 times.

On the above basis, the Combined Consideration and the Net Asset Value of HK$228,000,000 would result in an implied PBR of approximately 1.50 times which is within the relevant range of the PBR as stated in the aforesaid table of approximately 0.55 times to 1.76 times and higher than the average of the range of 1.10 times.

Despite the implied PBRs based on the Consideration under the Acquisition and the Combined Consideration exceed the average of the PBR of the Peer Companies as mentioned above, we note that the Directors are of the view that the calculation have not taken into account the value of the synergies of the Enlarged Group in terms of capacities and cost savings, which has immense strategic value to the Group. In particular, the Directors consider that it would be time consuming and costly for the Group to penetrate market on an ODM basis which the Sale Group Companies already has presence.

Having considered the factors outlined above, we concur the view of the Directors that (i) the Consideration payable under the Acquisition; and (ii) the amount payable under the Combined Consideration to be fair and reasonable, and in the interests to the Company and its Shareholders.

3. Other effects on the Group and the Shareholders

3.1 Result on consolidation

Upon Completion, the Sale Group Companies will become indirect wholly owned subsidiary of the Company and its results will be consolidated into the financial statements of the Group.

3.2 Total assets, total liabilities and total equity

As at 31 December 2007, the unaudited consolidated total assets of the Group was approximately HK$839.2 million. Upon Completion of the Acquisition, and based on the Consideration being satisfied by cash and assuming no adjustment to the Consideration Shares, the pro forma adjusted combined total assets of the Enlarged Group will be approximately HK$1,249.9 million. As at 31 December 2007, the unaudited combined total liabilities of the Group was approximately HK$270.6 million. Upon Completion, and on the aforesaid assumption, the pro forma adjusted combined total liabilities of the Enlarged Group will be approximately HK$663.0 million.

Upon Completion and on the basis of the aforesaid assumption (details of which are set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to the Circular), the pro forma adjusted combined net asset value of the Group will increase from approximately HK$568.6 million to approximately HK$586.9 million, representing an increase of approximately 3.2% over the unaudited consolidated net asset value of the Group as at 31 December 2007.

Given that the consideration for the Acquisition will be satisfied by (i) HK$85 million from internal resources; (ii) HK$200 million from bank borrowing; and (iii) the issuance of the Consideration Shares (assuming no adjustment to the number of Consideration Shares), the pro forma adjusted net asset value per Share of the Enlarged Group will be approximately HK$0.533, representing a slight increase of approximately 0.76% to the unaudited consolidated net asset value per Share of the Group as at 31 December 2007 of approximately HK$0.529. There is no dilution impact to the net asset value per Share upon Completion.

We are of the view that the increase in net asset value of the Group, on the basis of the aforesaid assumptions, upon Completion of the Acquisition is in the interests of the Company and the Shareholders as a whole.

3.3 Cash position and gearing

As stated in the "Letter from the Board", upon the Completion of the Acquisition, the Consideration for the Acquisition will be satisfied by (i) HK$85 million from internal resources; (ii) HK$200 million from bank borrowing and (iii) issuing Consideration Shares, hence, the "Bank balances and cash" classified under the current assets of the consolidated balance sheet of the Group will be reduced by HK$85 million.

Prior to the completion of the Acquisition, the gearing ratio (defined as total interest-bearing borrowings to total assets) of the Group as at 31 December 2007 was approximately 1%. Following the Completion of the Acquisition and by reference to the pro forma adjusted combined balance sheet of the Enlarged Group, the gearing ratio will be approximately 35%.

Taking into account (i) the reasons for and benefits of the Acquisition as mentioned above; (ii) the issue of Consideration Shares will save the Group's internal resources for future deployment; and (iii) the Group has sufficient internal resources upon Completion (based on the unaudited pro forma financial information of the Enlarged Group, the Group has a "bank balances and cash" of approximately HK$140.8 million upon Completion), we concur with the Director's view that the Consideration payable by means of a combination of cash, bank borrowings and Consideration Shares, including the increase in gearing ratio from 1% to 35% following the Completion, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.4 Changes in shareholding structure

The following table sets out the shareholding structure of the Company: (i) as at the Latest Practicable Date; (ii) immediately after the issue of the Consideration Shares (assuming no adjustment to the number of the Consideration Shares); and (iii) after the issue of the Consideration Shares (assuming no adjustment to the number of the Consideration Shares) and Allotted Shares (assuming the maximum number of the Allotted Shares were issued and allotted to Mr. Sia):

	As at the Latest Practicable Date		**Immediately after the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares)**		**After the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares) and the Allotted Shares (assuming maximum number of Allotted Shares were issued)**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Van De Velde N.V. ("VDV") *(Note 1)*	250,599,544	23.31	250,599,544	22.74	250,599,544	21.38
Wong Chung Chong, Eddie ("Mr. Wong") *(Note 2)*	178,172,118	16.57	178,172,118	16.17	178,172,118	15.20
Other Directors *(Note 3)*	46,694,084	4.35	46,694,084	4.24	46,694,084	3.98
Mr. Sia	–	–	26,879,703	2.44	96,766,931	8.26
Public Shareholders	599,722,379	55.77	599,722,379	54.41	599,722,379	51.18
Total:	1,075,188,125	100.00	1,102,067,828	100.00	1,171,955,056	100.00

Notes:

1. VDV is beneficially owned by Mr. Lucas A.M. Laureys and Mr. Herman Van de Velde, non-executive Directors.

2. 1,480,521 Shares were beneficially owned by Mr. Wong, executive Director and 1,100,000 Shares were held by the spouse of Mr. Wong. 175,591,597 Shares were registered in the name of High Union Holdings Inc., the trustee of a unit trust whereas the unit trust was held by a family trust of which the family members of Mr. Wong were eligible beneficiaries.

3. Other Directors include Mr. Fung Wai Yiu, Mr. Marvin Bienenfeld, Mr. Chow Yu Chun, Alexander, Ms. Leung Churk Yin, Jeanny and Mr. Leung Ying Wah, Lambert.

Immediately after the Completion and assuming no adjustment to the number of the Consideration Shares, Mr. Sia will be interested in 26,879,703 Shares, representing approximately 2.44% of the enlarged issued share capital of the Company. On this basis, the interest of the public Shareholders will be diluted from approximately 55.77% (as at the Latest Practicable Date) to approximately 54.41% of the enlarged issued share capital of the Company.

Assuming the performance criteria are met by Mr. Sia pursuant to the Service Agreement, a maximum number of 69,887,228 Allotted Shares will be issue to Mr. Sia and Mr. Sia will be interested in 96,766,931 Shares, representing approximately 8.26% of the enlarged issued share capital of the Company. The shareholding interest of the public Shareholders, will as a result of the issue of the additional Allotted Shares be diluted by a further from approximately 54.41% to approximately 51.18%.

Taking into account the reasons to and benefit of the Acquisition set out in this letter, in particular, (i) the issue price for the Consideration Shares represents a premium to recent average closing prices to and including the Last Trading Date; (ii) the liquidity of the Shares on the Stock Exchange; (iii) the issue and allotment of the Allotted Shares to Mr. Sia provides additional incentive for Mr. Sia to contribute to the Group; and (iv) the possible effects on the Group and the Shareholders as a result of the Acquisition, we are of the view that the dilution effect to the public Shareholders as a result of issuing Consideration Shares and Allotted Shares is acceptable.

4. Background to and reasons for the continuing connected transactions

On Completion, AUS and Marguerite Lee will enter into the AUS Service Contract and the Fiori Textiles Limited and the Purchaser will enter into the Fiori Contract. As all the terms and conditions of the AUS Service Contract and the Fiori Contract have been agreed upon by the parties under the Share Acquisition Agreement, the Company is required to disclose the details of the AUS Service Contract and the Fiori Contract in accordance with Rule 14A.47 of the Listing Rules. Details of the terms and conditions of the AUS Service Contract and the Fiori Contract are set out below.

4.1 AUS Service Contract

Parties: Marguerite Lee and AUS

Services: Pursuant to the AUS Service Contract, AUS has agreed to provide design and development and related technical advice and solutions in relation to intimate apparel and all related products to Marguerite Lee Group Companies in return for the payment of the Signing Fee and the Service Fees.

Term: Subject to approval from Independent Shareholders, AUS Service Contract has a fixed term of two years commencing from the date of the AUS Service Contract with an option to be exercisable by Marguerite Lee in its sole discretion to renew thereafter for a further term of 1 year, unless terminated pursuant to the terms of the AUS Service Contract or by not less than ninety (90) days' notice in writing served by either party.

Payment: Marguerite Lee agrees and covenants to pay AUS: (a) the Signing Fee of US$120,000 (approximately HK$936,000) upon signing of the AUS Service Contract; and (b) in advance on the first day of each successive period of three months the Service Fees in the amount of US$530,000 (approximately HK$4,134,000) every three months with the first payment of the same to be made by Marguerite Lee on the date of the AUS Service Contract.

Pursuant to the AUS Service Contract, the annual Service Fees payable by Marguerite Lee to AUS under the AUS Service Contract will not exceed US$2.12 million (approximately HK$16.536 million), which represents the annual caps under the AUS Service Contract.

The annual Service Fees are determined by arms' length negotiations between Marguerite Lee and AUS primarily by reference to the services to be provided by AUS to Marguerite Lee Group Companies under the AUS Service Contract and the design skill and innovation, complicated new product development and research, the in-deep knowledge of technological know-how and related information on the intimate apparel products possessed by AUS.

Reasons for the AUS Service Contract

AUS will principally engage in the provision of design and development and related technical advice and solutions in relation to intimate apparel and all related products.

With the support from the services provided by AUS, the Company believes that the provision of the services under the AUS Service Contract will complement the existing business of Marguerite Lee Group Companies in the future.

AUS is made up of a team of seasoned professionals (majority of which are ex-employees of AS(US)) who have in depth expertise in the provision of design and development and related technical advice and solutions in relation to intimate apparel and related products.

Leverage on the expertise of the AUS team and its established working relationship with the Sales Group Companies' ODM customers, the absence of initial set up costs of establishing a team of professionals in New York, we concur with the Directors' view that the outsourcing of the services under the AUS Service Contract (including the renewal term of one year) is in the interests of the Company and the Shareholders as a whole. Furthermore, we understand from the management of the Company that the AUS team of professionals will principally engaged in the provision of the services contemplated under the AUS Service Contract upon Completion.

Since the principal businesses of the Group are related to design, manufacture, distribution, wholesale and retail of ladies' intimate apparel, principally brassieres and AUS will be involved in the provision of, amongst others, design and development of intimate apparel, we concur with the Directors' view that the entering into of the AUS Service Contract and the transactions contemplated thereunder fall within the ordinary and usual course of business of the Group.

In addition, we have reviewed the terms of the relevant historical transactions with regard to the development of samples for independent third parties by AS(US) and discussed with the management of the Company on the basis and assumptions behind the projected number of samples per annum to be developed by AUS team as well as the estimate annual expenses of AUS. Pursuant to the AUS Service Contract, Marguerite Lee agrees to pay AUS the Signing Fee of US$120,000, representing approximately 5.7% of the annual cap under the AUS Service Contract. We have also discussed with the management of the Company in respect of the arrangement for Signing Fee under the AUS Service Contract and understand that it is acceptable to pay upfront fee, i.e. Signing Fee in this case, to secure the professional service in such a competitive industry.

Having considered that the bases and assumptions are made by reference to (i) the historical (in particular, the average price per sample to independent third parties) and estimated number of samples to be developed by AUS team; and (ii) the estimate annual expenses of AUS, we believe that the AUS Service Contract, including the Signing Fee, is based on normal commercial terms and it is fair and reasonable for the Directors to make reference to the aforesaid factors as the basis to determine the annual services fees, including the Signing Fee, payable to AUS shall not exceed US$2.12 million (approximately HK$16.536 million), which represents the annual caps under the AUS Service Contract.

4.2 Fiori Contract

Parties: The Purchaser and Fiori Textiles Limited

Services: Pursuant to Fiori Contract, the Purchaser will appoint Fiori Group and Fiori Group will agree to act and procure Fiori Group to act as non exclusive suppliers of the Materials for the Group during the continuance of Fiori Contract.

Term: Subject to approval from Independent Shareholders, Fiori Contract shall become effective upon the date of its signing and shall continue in existence until 30 June 2011, unless terminated pursuant to the terms of the Fiori Contract or by not less than 30 days' notice in writing served by either party.

Price: The price and the terms of each purchase order for the Materials shall be arrived at after arm's length negotiations, be comparable to those offered to independent third parties and be on terms comparable to the prevailing market rate and practice. The Group shall place the Purchase Order with Fiori Group in respect of the purchase of the Materials under Fiori Contract.

Annual Caps

For the purpose of Rule 14A.35(2) of the Listing Rules, the Directors propose that the aggregate amount in respect of the Materials to be purchased by the Group from Fiori Group under the Fiori Contract during the relevant financial years shall not exceed the annual caps set out below:

From the date of the Fiori Contract up to and including 30 June 2009 *(HK$ million)*	Year ending 30 June 2010 *(HK$ million)*	Year ending 30 June 2011 *(HK$ million)*
150	165	182

The cap amounts are determined by arms' length negotiations between the Purchaser and Fiori Textiles Limited primarily by reference to: (a) the costs of the Materials to be provided by Fiori Textiles Limited to the Purchaser at a price comparable to the prevailing market rate and practice; (b) the results of the discussions between managements of the Company and Fiori Textiles Limited with respect to the estimated annual growth in the sales of the Group in the coming years; and (c) the estimated increase in the costs of the Materials to be priced by Fiori Textiles Limited in the coming years.

Reasons for the Fiori Contract

Fiori Group has been supplying the Materials to the Sale Group Companies for the sale and manufacture of ladies' intimate apparel and accessories.

Upon Completion, the Enlarged Group are expected to source the Materials from Fiori Group on a recurring basis.

We understand from the management of the Group that if the price and terms of the purchase orders are not commercially acceptable by the Group, the Group may choose not to place order with Fiori Group in order to ensure that the terms of Purchase Order to Fiori are not more favourable than those offered by independent suppliers.

On the basis that the continuing connected transactions with Fiori will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms that are no less favourable to the Group than those offered to the Group by independent third party, we concur with the view of the Directors that the Fiori Contract is in the interests of the Company and the Shareholders as a whole and its terms are fair and reasonable so far as the Independent Shareholders are concerned.

In assessing the fairness and reasonableness of the proposed annual caps under the Fiori Contract, we have discussed the information provided by the Company's senior management, namely the projected cost of material price, the historical/projected purchase volume between the Sale Group Companies and the Fiori Group, the estimate of the purchase volume from the Group and the buffer. In addition, we have discussed the basis and assumptions made in this respect for the year ending 30 June 2009 and noted that (i) the appreciation of Renminbi and the increase in labour cost in the PRC (given the production base of Fiori Group is located in the PRC); and (ii) the increase in material costs would likely to increase in cost of production. On this basis, we consider that it is reasonable for the Directors to make reference to the aforesaid factors as the basis to determine the proposed annual cap of HK$150 million for the year ending 30 June 2009.

The proposed annual caps for the financial years ending 30 June 2010 and 30 June 2011 represent a respective annual growth of approximately 10.0% and 10.3% from the preceding year.

Coupled with the above factors and owing to the potential synergies of the Enlarged Group such as cost saving through bulk purchase as a result of the Acquisition, we consider that the estimation of a modest annual increase of approximately 10.0% and 10.3%, respectively, for the financial years ending 30 June 2010 and 30 June 2011 to be fair and reasonable.

RECOMMENDATION

In considering the terms of the Acquisition and the Service Agreement, we have taken into account the following factors:

– the principal activities and the financial performance of the Group as described in paragraph 1.1 above;

– the reasons for and benefits of the Acquisition as described in paragraph 1.3 above;

– the terms of the Share Acquisition Agreement and the basis of the consideration;

– the other factors (namely the price performance and trading volume of the Shares, and the Peer Companies) in considering for the Share Acquisition Agreement and the Service Agreement; and

– the expected financial and/or other impact to the Group as described in paragraph 3 above.

In considering the AUS Service Contract and the Fiori Contract and their respective annual caps, we have taken into account the following factors:

- the principal business of the Company and its subsidiaries as described in paragraph 1.1 above;

- the background to and reasons for the continuing connected transactions as described in paragraph 4 above;

- the terms of the continuing connected transactions as described in paragraphs 4.1 and 4.2 above;

- the bases in deriving the respective caps under the AUS Services Contract and the Fiori Contract.

After having considered the above principal factors and based on the information provided and the representations made to us, we consider the terms of the Share Acquisition Agreement including the issue and allotment of the Consideration Shares, the terms of the Service Agreement including the issue and allotment of the Allotted Shares, the AUS Service Contract (including the renewal term of one year) and the Fiori Contract and their respective caps and the transactions contemplated thereunder to be fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned; the Acquisition, the Service Agreement, the AUS Service Contract (including the renewal term of one year) and the Fiori Contract and their respective caps are in the interests of the Company and the Shareholders as a whole; and that the continuing connected transaction as contemplated under the AUS Service Contract and the Fiori Contract are carried on in the ordinary and usual course of business of the Group. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolution(s) which will be proposed at the SGM to approve the Acquisition including the issue and allotment of the Consideration Shares, the Service Agreement including the issue and allotment of the Allotted Shares, the AUS Service Contract (including the renewal term of one year) and the Fiori Contract and their respective annual caps.

Yours faithfully,
For and on behalf of
ACCESS CAPITAL LIMITED
Jimmy Chung
Principal Director

1. FINANCIAL SUMMARY

The following is a summary of the published consolidated income statements and consolidated balance sheets of the Group as extracted from the respective annual reports and interim reports of the Company.

The Company's auditors, Messrs Deloitte Touche Tohmatsu, issued an unqualified auditor's report on the annual financial statements of the Group for each of the three financial years up to and including 30 June 2007.

(I) CONSOLIDATED INCOME STATEMENT

For the three years ended 30 June 2007 and six months ended 31 December 2007

	For the six months ended 31 December	Year ended 30 June		
	2007 (Unaudited)	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	682,566	1,467,496	1,425,491	1,463,815
Cost of sales	(532,200)	(1,115,867)	(1,057,771)	(1,020,695)
Gross profit	150,366	351,629	367,720	443,120
Other income	8,400	26,108	7,629	3,964
Selling and distribution expenses	(29,915)	(45,545)	(68,529)	(40,484)
General and administrative expenses	(87,809)	(164,992)	(163,011)	(176,320)
Finance costs	(231)	(362)	(601)	(630)
Gain on winding up of subsidiaries	–	–	–	469
Profit before taxation	40,811	166,838	143,208	230,119
Taxation	(7,458)	(30,743)	(24,131)	(45,853)
Profit for the year	33,353	136,095	119,077	184,266
Attributable to:				
Equity holders of the Company	36,134	132,967	114,876	183,090
Minority interests	(2,781)	3,128	4,201	1,176
	33,353	136,095	119,077	184,266
Dividends paid	32,289	–	91,558	80,736
Final dividend proposed	16,128	–	32,289	64,651
Earnings per share				
Basic	3.4 cents	12.4 cents	10.7 cents	17.0 cents
Diluted	N/A	N/A	10.7 cents	17.0 cents

(II) CONSOLIDATED BALANCE SHEET

At 30 June 2005, 2006, 2007 and 31 December 2007

	At 31 December 2007 (Unaudited)	At 30 June 2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	170,619	177,268	170,842	166,253
Prepaid lease payments	2,021	2,077	2,189	2,301
Prepaid rental payments	6,499	3,134	–	–
Interests in associates	–	–	–	–
Deferred tax assets	5,033	–	–	–
	184,172	182,479	173,031	168,554
Current assets				
Inventories	231,829	197,462	245,993	188,039
Debtors, deposits and prepayments	188,310	166,394	254,741	143,227
Bills receivable	25,677	12,818	9,649	6,845
Prepaid lease payments	112	112	112	112
Bank balances and cash	209,091	256,435	65,253	184,084
	655,019	633,221	575,748	522,307
Current liabilities				
Creditors and accrued charges	144,066	130,447	169,087	139,852
Taxation	107,759	96,744	78,384	72,483
Bank borrowings and other liabilities – due within one year	5,591	4,700	6,032	8,639
Obligations under finance leases – due within one year	192	211	358	1,503
	257,608	232,102	253,861	222,477
Net current assets	397,411	401,119	321,887	299,830
Total assets less current liabilities	581,583	583,598	494,918	468,384

	At 31 December 2007 (Unaudited) *HK$'000*	At 30 June 2007 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*
Non-current liabilities				
Bank borrowings and other liabilities				
– due after one year	21	224	203	1,150
Obligations under finance leases				
– due after one year	361	41	359	693
Retirement benefit obligations	4,464	4,263	4,345	4,989
Deferred taxation	8,168	10,416	9,659	6,197
	13,014	14,944	14,566	13,029
	568,569	568,654	480,352	455,355
Capital and reserves				
Share capital	107,519	107,630	107,630	107,752
Reserves	441,545	438,640	353,562	326,544
Equity attributable to equity holders of the Company	549,064	546,270	461,192	434,296
Minority interests	19,505	22,384	19,160	21,059
	568,569	568,654	480,352	455,355

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Set out below are the audited financial statements of the Group as extracted from the annual report of the Company for the year ended 30 June 2007.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Revenue		1,467,496	1,425,491
Cost of sales		(1,115,867)	(1,057,771)
Gross profit		351,629	367,720
Other income		26,108	7,629
Selling and distribution expenses		(45,545)	(68,529)
General and administrative expenses		(164,992)	(163,011)
Finance costs	*7*	(362)	(601)
Profit before taxation	*8*	166,838	143,208
Taxation	*10*	(30,743)	(24,131)
Profit for the year		136,095	119,077
Attributable to:			
Equity holders of the Company		132,967	114,876
Minority interests		3,128	4,201
		136,095	119,077
Earnings per share	*12*		
Basic		12.4 cents	10.7 cents

CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	*13*	177,268	170,842
Prepaid lease payments	*14*	2,077	2,189
Prepaid rental payments	*15*	3,134	–
Interests in associates	*16*	–	–
		182,479	173,031
Current assets			
Inventories	*17*	197,462	245,993
Debtors, deposits and prepayments	*18*	166,394	254,741
Bills receivable	*19*	12,818	9,649
Prepaid lease payments	*14*	112	112
Bank balances and cash	*19*	256,435	65,253
		633,221	575,748
Current liabilities			
Creditors and accrued charges	*20*	130,447	169,087
Taxation		96,744	78,384
Bank borrowings and other liabilities – due within one year	*21*	4,700	6,032
Obligations under finance leases – due within one year	*22*	211	358
		232,102	253,861
Net current assets		401,119	321,887
Total assets less current liabilities		583,598	494,918

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Bank borrowings and other liabilities			
– due after one year	21	224	203
Obligations under finance leases			
– due after one year	22	41	359
Retirement benefit obligations	23	4,263	4,345
Deferred taxation	24	10,416	9,659
		14,944	14,566
		568,654	480,352
Capital and reserves			
Share capital	25	107,630	107,630
Reserves		438,640	353,562
Equity attributable to equity holders of the Company		546,270	461,192
Minority interests		22,384	19,160
		568,654	480,352

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital redemption reserve	Special reserve *(note)*	Translation reserve	Retained profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2005	107,752	1,499	–	7,139	(6,161)	324,067	434,296	21,059	455,355
Exchange difference arising on translation of overseas operations recognised directly in equity	–	–	–	–	5,655	–	5,655	–	5,655
Profit for the year	–	–	–	–	–	114,876	114,876	4,201	119,077
Total recognised income for the year	–	–	–	–	5,655	114,876	120,531	4,201	124,732
Repurchase of shares	(122)	–	122	–	–	(2,077)	(2,077)	–	(2,077)
Dividend paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	(900)	(900)
Dividend paid	–	–	–	–	–	(91,558)	(91,558)	–	(91,558)
Capital interest acquired from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	(5,200)	(5,200)
At 30 June 2006 and 1 July 2006	107,630	1,499	122	7,139	(506)	345,308	461,192	19,160	480,352
Exchange difference arising on translation of overseas operations recognised directly in equity	–	–	–	–	11,307	–	11,307	1,131	12,438
Profit for the year	–	–	–	–	–	132,967	132,967	3,128	136,095
Total recognised income for the year	–	–	–	–	11,307	132,967	144,274	4,259	148,533
Dividend paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	(1,035)	(1,035)
Dividend paid	–	–	–	–	–	(59,196)	(59,196)	–	(59,196)
At 30 June 2007	107,630	1,499	122	7,139	10,801	419,079	546,270	22,384	568,654

Note: Special reserve represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal amount of share capital of companies forming the Group, pursuant to the group reorganisation in 1991.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2007

	2007	2006
	HK$'000	*HK$'000*
Operating activities		
Profit before taxation	166,838	143,208
Adjustments for:		
Write back of long services payments	(716)	(1,061)
Increase in defined benefit obligation	381	1,399
Interest income	(5,390)	(3,621)
Finance costs	362	601
Depreciation of property, plant and equipment	31,644	28,934
Amortisation of prepaid lease payments	112	112
Loss on disposal of property, plant and equipment	313	964
Impairment loss recognised in respect of property, plant and equipment	949	–
Effect of foreign exchange rate changes	4,732	(108)
Operating cash flows before movements in working capital	199,225	170,428
Increase in prepaid rental payments	(3,134)	–
Decrease (increase) in inventories	48,531	(54,296)
Decrease (increase) in debtors, deposits and prepayments	88,347	(111,514)
Increase in bills receivable	(3,169)	(2,804)
(Decrease) increase in creditors and accrued charges	(38,640)	24,035
Benefit paid for long services payments	–	(982)
Cash generated from operations	291,160	24,867
Interest income	5,390	3,621
Interest paid	(312)	(510)
Hong Kong Profits Tax paid	(8,713)	(8,649)
Taxation paid in other jurisdictions	(3,115)	(6,119)
Net cash from operating activities	284,410	13,210
Investing activities		
Purchase of property, plant and equipment	(31,260)	(32,733)
Proceeds on disposal of property, plant and equipment	89	351
Net cash used in investing activities	(31,171)	(32,382)

	2007	2006
	HK$'000	*HK$'000*
Financing activities		
Dividend paid	(59,196)	(91,558)
Repayment of bank borrowings	(1,311)	(3,554)
Dividend paid to minority shareholders of a subsidiary	(1,035)	(900)
Repayments of obligations under finance leases	(465)	(1,479)
Finance lease charges paid	(50)	(91)
Payment for redemption of shares	–	(2,077)
Net cash used in financing activities	(62,057)	(99,659)
Net increase (decrease) in cash and cash equivalents	191,182	(118,831)
Cash and cash equivalents at beginning of the year	65,253	184,084
Cash and cash equivalents at end of the year, represented by bank balances and cash	256,435	65,253

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2007

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the section of corporate information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is different from the functional currency of the Company, United States dollars ("USD") as the Company is a public company with the shares listed on the Hong Kong Stock Exchange with most of its investors locating in Hong Kong and therefore, the directors consider that Hong Kong dollars is preferable in presenting the operating result and financial position of the Company and the Group.

The Company is an investment holding company. Its principal subsidiaries are engaged in the design, manufacture, distribution, wholesale and retail of ladies' intimate apparel, principally brassieres.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC) – INT 12	Service Concession Arrangements[5]

[1] *Effective for annual periods beginning on or after 1 January 2007*

[2] *Effective for annual periods beginning on or after 1 January 2009*

[3] *Effective for annual periods beginning on or after 1 November 2006*

[4] *Effective for annual periods beginning on or after 1 March 2007*

[5] *Effective for annual periods beginning on or after 1 January 2008*

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related costs.

Sales of goods are recognised when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress represents property in the course of construction for its own use proposes is stated at cost less any identified impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments for leasehold land

Prepaid lease payments represent upfront premium paid for use of land. Prepaid lease payments are released to the consolidated income statement over the lease term on a straight-line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all cost of purchase and cost of conversion, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded in respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Textile quota entitlements

The cost of textile quota entitlements is charged to the consolidated income statement at the time of utilisation or expiration.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, bills receivable, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities

The Group's financial liabilities (including creditors and accrued charges, bank borrowings and other liabilities, obligations under finance leases and retirement benefit obligations) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Allowance of doubtful debts

The Group recognises an allowance for doubtful debts based on assessment of recoverability of trade debtors. The Group has a concentration of risk with the top five customers comprising HK$121 million of total trade debtors. Any change in circumstances pertaining to one of these customers would have a material effect to the carrying amount of trade debtors. Allowances are applied to trade debtors where events or changes in circumstances provide objective evidence that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the actual cash flows are less than expectations such difference will impact the carrying value of trade and other debtors and doubtful debts expenses.

Allowance of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories or that the inventories have no further use. The Group has a concentration of risk with the top five customers domiciled in the United States of America ("USA") comprising 84% of the Group's total revenue. Any adverse changes in the economic environment of the USA may impact demand for the Group's products and the net realisable value of the inventory. The allowance also depends on management's assessment of the condition and usefulness of the inventories. Where the expectation of the net realisable value or use of inventories is different from the original estimate, such difference will impact the carrying value of inventories.

Depreciation of property, plant and equipment

The Group's carrying amount of property, plant and equipment (other than construction in progress) as at 30 June 2007 was approximately HK$177,268,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life, commencing from the date the property, plant and equipment is available for use. The estimated useful life of the property, plant and equipment for productive use reflects the Directors' estimate of the numbers of years that the Group intends to derive future economic benefits from the use of the property, plant and equipment. There is a risk that the estimated useful life may change as customers are looking elsewhere other than PRC and Thailand for low cost production, especially for the volume and price-sensitive business resulting in the Group having to shift production to the lower cost plants areas in these regions.

Income tax

As at 30 June 2007, a deferred tax asset in relation to unused tax losses of HK$79,801,000 and other deductible temporary differences of HK$97,000 has not been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

5. Financial instruments

a. Financial risk management objectives and policies

The Group's financial instruments include debtors, bills receivable, bank balances and cash, creditors and accrued charges, bank borrowings, obligations under finance leases and retirement benefit obligation. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign currency risk

Several subsidiaries of the Company have foreign currency sales, which exposes the Group to foreign currency risk. The Group currently does not have a formal currency hedging policy. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Cash flow interest rate risk

The Group is exposed to cash flow interest risk through the changes in interest rates relates mainly to the Group's bank borrowings and bank balances. The Group's treasury policy is in place to monitor interest rate exposure and management will consider hedging significant interest rate exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk for bank balances exposed is considered minimal as such amounts are placed in banks with good credit-ratings.

The Group's concentration of credit risk as the top five customers constitutes 89% of total trade debtors.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings. In addition, undrawn banking facilities *(see Note 21)* have been put in place for contingency purposes.

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. The directors consider that the fair value of financial assets and financial liabilities as at 30 June 2007 approximate to the carrying amounts.

6. Segment information

For management purposes, the Group's operation is currently organised into manufacturing business and branded business. Segment information in respect of these activities is as follows:

(a) Business segments

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Manufacturing business *HK$'000*	Branded business *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
REVENUE				
External sales	1,448,348	19,148	–	1,467,496
Inter-segment sales	3,906	–	(3,906)	–
Total sales	1,452,254	19,148	(3,906)	1,467,496
RESULTS				
Segment results	177,303	(1,184)	–	176,119
Unallocated corporate expenses				(14,309)
Interest income				5,390
Finance costs				(362)
Profit before taxation				166,838
Taxation				(30,743)
Profit for the year				136,095

FOR THE YEAR ENDED 30 JUNE 2006

	Manufacturing business	Branded business	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	1,403,798	21,693	–	1,425,491
Inter-segment sales	2,397	–	(2,397)	–
Total sales	1,406,195	21,693	(2,397)	1,425,491
RESULTS				
Segment results	163,331	(6,408)	–	156,923
Unallocated corporate expenses				(16,735)
Interest income				3,621
Finance costs				(601)
Profit before taxation				143,208
Taxation				(24,131)
Profit for the year				119,077

Inter-segment sales are charged at prevailing market rates.

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE

	2007	2006
	HK$'000	*HK$'000*
ASSETS		
Segment assets		
– manufacturing business	772,721	719,612
– branded business	34,262	20,360
	806,983	739,972
Unallocated corporate assets	8,717	8,807
Consolidated total assets	815,700	748,779
LIABILITIES		
Segment liabilities		
– manufacturing business	132,370	163,837
– branded business	11,086	8,211
	143,456	172,048
Unallocated corporate liabilities	103,590	96,379
Consolidated total liabilities	247,046	268,427

OTHER INFORMATION
FOR THE YEAR ENDED 30 JUNE

	2007	**2006**
	HK$'000	*HK$'000*
Capital expenditure		
– manufacturing business	29,867	31,901
– branded business	1,393	832
	31,260	32,733
Depreciation and amortisation		
– manufacturing business	30,861	28,176
– branded business	895	870
	31,756	29,046
Loss on disposal of property, plant and equipment		
– manufacturing business	310	908
– branded business	3	56
	313	964
Impairment loss recognised in respect of property, plant and equipment		
– manufacturing business	949	–

(b) Geographical segments

The Group's operations in manufacturing are principally located in the People's Republic of China ("PRC") (including Hong Kong) and Thailand. Branded business is principally carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

YEAR ENDED 30 JUNE

	Sales revenue by geographical market	
	2007	**2006**
	HK$'000	*HK$'000*
United States of America	1,104,029	1,033,281
Europe	226,503	219,878
Australia and New Zealand	79,351	71,251
Asia (excluding Hong Kong)	42,789	45,450
Hong Kong	14,824	55,065
South Africa	–	566
	1,467,496	1,425,491

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The PRC (including Hong Kong)	716,715	643,617	20,042	20,428
Thailand	83,770	91,109	10,746	11,667
Others	6,498	5,246	472	638
	806,983	739,972	31,260	32,733

7. Finance costs

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	312	510
Obligations under finance leases	50	91
	362	601

8. Profit before taxation

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	2,699	2,748
Cost of textile quota entitlements	13,601	11,953
Depreciation of property, plant and equipment		
Owned assets	31,156	28,407
Assets held under finance leases	488	527
	31,644	28,934
Amortisation of prepaid lease payments	112	112
Loss on disposal of property, plant and equipment	313	964
Impairment loss arising in respect of:		
Leasehold improvements	433	–
Furniture, fixtures and equipment	516	–
	949	–
Minimum lease payments paid under operating leases in respect of land and buildings *(note a)*	22,774	17,705
Net exchange (gain) loss	(4,630)	882
Staff costs, including directors' emoluments *(note b)*	334,926	298,096
Quota income	(9,346)	(1,046)
Interest income	(5,390)	(3,621)

Notes:

(a) Included in the amount are operating lease rentals of HK$529,000 (2006: HK$290,000) in respect of staff quarters.

(b) Details of directors' emoluments included in staff costs are disclosed in note 9. Staff costs included an amount of HK$21,938,000 (2006: HK$18,530,000) in respect of retirement benefit scheme contributions.

9. Directors' and employees' remuneration

Directors

Details of emoluments paid or payable by the Group to the directors (including non-executive directors) during the year are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Fees to Non-executive Directors	1,400	1,200
Remuneration to Executive Directors:		
Salaries and other benefits	7,805	7,805
Bonus	2,500	–
Retirement benefit scheme contributions	36	36
Total Directors' emoluments	11,741	9,041

	Fees	Salaries and other benefits	Bonus	Retirement benefit scheme contributions	2007 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fung Wai Yiu	–	2,940	850	12	3,802
Wong Chung Chong, Eddie	–	3,045	850	12	3,907
Leung Tat Yan	–	1,820	800	12	2,632
Lucas A.M. Laureys	200	–	–	–	200
Leung Churk Yin, Jeanny	200	–	–	–	200
Herman Van de Velde	200	–	–	–	200
Marvin Bienefeld	200	–	–	–	200
Chow Yu Chun, Alexander	200	–	–	–	200
Leung Ying Wah, Lambert	200	–	–	–	200
Lin Sun Mo, Willy	200	–	–	–	200
	1,400	7,805	2,500	36	11,741

	Fees	Salaries and other benefits	Bonus	Retirement benefit scheme contributions	2006 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fung Wai Yiu	–	2,940	–	12	2,952
Wong Chung Chong, Eddie	–	3,045	–	12	3,057
Leung Tat Yan	–	1,820	–	12	1,832
Lucas A.M. Laureys	200	–	–	–	200
Leung Churk Yin, Jeanny	200	–	–	–	200
Herman Van de Velde	200	–	–	–	200
Marvin Bienefeld	200	–	–	–	200
Chow Yu Chun, Alexander	200	–	–	–	200
Lam Ka Chung, William	200	–	–	–	200
Leung Ying Wah Lambert	–	–	–	–	–
Lin Sun Mo Willy	–	–	–	–	–
	1,200	7,805	–	36	9,041

No directors waived any emoluments during the year (2006: nil).

Employees

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are included in the disclosure above. The emoluments of remaining two (2006: two) individuals were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	5,155	4,143
Retirement benefit scheme contributions	12	12
	5,167	4,155

The emoluments were within the following bands:

	Number of individuals	
	2007	**2006**
HK$1,500,001 – HK$2,000,000	–	1
HK$2,000,001 – HK$2,500,000	1	1
HK$2,500,001 – HK$3,000,000	1	–

10. Taxation

	2007	2006
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the year	28,332	16,590
Taxation in other jurisdictions calculated at the rates prevailing in the respective jurisdictions	2,343	5,746
	30,675	22,336
Overprovision in prior years		
Hong Kong Profits Tax	248	(2,012)
Taxation in other jurisdictions	(937)	345
	(689)	(1,667)
Deferred taxation *(note 24)*		
Current year	757	3,462
	30,743	24,131

The taxation charge for the year can be reconciled to the profit before taxation in the consolidated income statement as follows:

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	166,838	143,208
Tax at Hong Kong Profits Tax rate of 17.5%	29,197	25,061
Effect of different tax rates of subsidiaries operating in other jurisdictions	(173)	(1,824)
Tax effect of expenses not deductible for tax purposes	7,618	6,875
Tax effect of income not taxable for tax purposes	(4,431)	(6,860)
Tax effect of tax losses not recognised	2,151	2,958
Tax effect of utilisation of deductible temporary differences previously not recognised	(39)	(45)
Tax effect of utilisation of tax losses previously not recognised	(3,455)	(1,004)
Overprovision in prior years	(689)	(1,667)
Others	564	637
Taxation charge for the year	30,743	24,131

11. Dividends

Dividends recognised as distribution during the year:

	2007	2006
	HK$'000	*HK$'000*
2007 interim dividend paid: HK$0.025 (year ended 30 June 2006: HK$0.025) per share on 1,076,298,125 shares (2006: 1,076,298,125 shares)	26,907	26,907
2006 final dividend paid: HK$0.03 (year ended 30 June 2005: HK$0.06) per share on 1,076,298,125 shares (2005: 1,077,514,125 shares)	32,289	64,651
	59,196	91,558

A final dividend of HK$0.03 (2006: HK$0.03) per share has been proposed by the directors and is subject to the approval by the shareholders in the annual general meeting.

12. Earnings per share

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007	2006
	HK$'000	*HK$'000*
Profit attributable to the equity holders of the Company for the purpose of basic and diluted earnings per share	132,967	114,876

	Number of shares	
	2007	2006
Number of ordinary shares for the purpose of basic and diluted earnings per share	1,076,298,125	1,076,694,164

No diluted earnings per share has been presented because there is no potential dilutive ordinary shares for both years.

13. Property, plant and equipment

	Leasehold properties HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 July 2005	80,424	53,925	240,620	13,247	–	388,216
Currency realignment	473	690	3,066	103	–	4,332
Additions	–	7,066	25,069	382	216	32,733
Disposals	–	(414)	(6,591)	(191)	–	(7,196)
Reclassification	205	–	–	–	(205)	–
At 30 June 2006	81,102	61,267	262,164	13,541	11	418,085
Currency realignment	1,072	3,282	12,204	327	2	16,887
Additions	153	5,973	23,986	1,139	9	31,260
Disposals	–	(1,474)	(3,501)	(305)	–	(5,280)
At 30 June 2007	82,327	69,048	294,853	14,702	22	460,952
DEPRECIATION AND IMPAIRMENT						
At 1 July 2005	17,808	43,935	149,520	10,700	–	221,963
Currency realignment	87	506	1,585	49	–	2,227
Charge for the year	3,779	4,455	19,488	1,212	–	28,934
Eliminated on disposals	–	(259)	(5,539)	(83)	–	(5,881)
At 30 June 2006	21,674	48,637	165,054	11,878	–	247,243
Currency realignment	366	2,030	6,129	201	–	8,726
Charge for the year	3,813	5,169	21,634	1,028	–	31,644
Impairment loss	75	358	516	–	–	949
Eliminated on disposals	–	(1,420)	(3,153)	(305)	–	(4,878)
At 30 June 2007	25,928	54,774	190,180	12,802	–	283,684
CARRYING VALUES						
At 30 June 2007	56,399	14,274	104,673	1,900	22	177,268
At 30 June 2006	59,428	12,630	97,110	1,663	11	170,842

Depreciation is provided to write off the cost of items of property, plant and equipment excluding construction in progress, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold properties	Over the shorter of the term of the lease, or 2% – 6.5%
Leasehold improvements	5% – 30%
Furniture, fixtures and equipment	10% – 45%
Motor vehicles	20% – 30%

Notes:

(a) The carrying value of the leasehold properties held by the Group's at the balance sheet date comprises:

	2007	**2006**
	HK$'000	*HK$'000*
Leasehold properties outside Hong Kong under:		
Long lease	3,211	1,282
Medium term lease	49,606	53,705
Short lease	3,387	4,188
Leasehold properties in Hong Kong under medium term lease	195	253
	56,399	59,428

(b) The carrying values of the Group's property, plant and equipment in respect of assets held under finance leases are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Furniture, fixtures and equipment	284	643
Motor vehicles	419	522
	703	1,165

14. Prepaid lease payments

The Group's prepaid lease payments comprise:

	2007	**2006**
	HK$'000	*HK$'000*
Leasehold land in Hong Kong:		
Medium-term lease	184	248
Leasehold land outside Hong Kong:		
Medium-term lease	2,005	2,053
	2,189	2,301
Analysed for reporting purposes as:		
Current portion	112	112
Non-current portion	2,077	2,189
	2,189	2,301

15. Prepaid rental payments

At 30 June 2007, prepaid rental payments represented the prepaid rent for a factory in Thailand for fifteen years until June 2012. The current portion of HK$518,700 is included in debtors, deposits and prepayments.

16. Interests in associates

At 30 June 2007, the Group held an interest of 30% of the registered capital of Yingkou Xinfa Industrial Park Development Company Limited 營口鑫發工業園開發有限公司 ("Yingkou Xinfa"). The Group's share of net assets of this associate of HK$8,957,000 (2006: HK$15,422,000) was fully impaired in previous years.

17. Inventories

	2007	2006
	HK$'000	*HK$'000*
Raw materials	74,264	101,357
Work in progress	76,416	92,161
Finished goods	46,782	52,475
	197,462	245,993

18. Debtors, deposits and prepayments

Included in the balance are trade debtors of HK$136,180,000 (2006: HK$211,072,000). The Group allows an average credit period of 30 days to its trade customers.

An aged analysis of trade debtors is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	131,880	188,030
31 – 60 days	2,971	5,011
61 – 90 days	984	7,869
Over 90 days	345	10,162
	136,180	211,072

19. Other financial assets

Bills receivable

Included in the bills receivable is an amount of HK$8,941,000 (2006: HK$6,972,000) aged within 30 days, HK$2,125,000 (2006: HK$2,677,000) aged within 31 to 60 days and the remaining balance of HK$1,752,000 (2006: nil) is aged between 61 to 90 days.

Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carry floating-rate interest at rates ranging from 2.79% to 4.70% (2006: 2.35% to 2.90%) per annum.

20. Creditors and accrued charges

Included in the balance are trade creditors of HK$60,461,000 (2006: HK$74,190,000).

An aged analysis of trade creditors is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	50,852	65,540
31 – 60 days	6,165	5,320
61 – 90 days	2,089	847
Over 90 days	1,355	2,483
	60,461	74,190

21. Bank borrowings and other liabilities

	2007	2006
	HK$'000	*HK$'000*
Bank borrowings:		
Trust receipts and import loans	4,670	4,941
Bank loan	–	1,009
Total bank borrowings *(note a)*	4,670	5,950
Other unsecured liabilities *(note b)*	254	285
	4,924	6,235
Less: Amount due within one year shown as current liabilities	(4,700)	(6,032)
Amount due after one year	224	203
Secured	–	1,009
Unsecured	4,924	5,226
	4,924	6,235

Notes:

(a) The bank borrowings are repayable within one year.

(b) Other liabilities are interest-free, unsecured and repayable:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	30	82
Between one to two years	224	203
	254	285

(c) At 30 June 2006, the Group pledged certain of its machinery with an aggregate carrying value of approximately HK$1,051,000 to secure a bank loan. The pledge was released during the year.

Included in bank borrowings is an amount of HK$4,670,000 (2006: HK$4,941,000) representing trust receipts and import loans denominated in the United States dollars.

The effective interest rates for the year were as follows:

	2007	**2006**
Trust receipts and import loans	6.94%	5.96%
Bank loan	4.5%	4.5%

Bank loans of HK$nil (2006: HK$1,009,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Trust receipts and import loans are arranged at HIBOR + 1.25% (2006: HIBOR + 1.25%), thus exposing the Group to cash flow interest rate risk.

At 30 June 2007, the Group had undrawn bank borrowing facilities of HK$145,330,000 (2006: HK$145,059,000).

22. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	236	400	211	358
Between one to two years	46	361	41	325
Between two to five years	–	37	–	34
	282	798	252	717
Less: Future finance charges	(30)	(81)	–	–
Present value of lease obligations	252	717	252	717
Less: Amount due within one year shown as current liabilities			(211)	(358)
Amount due after one year			41	359

It is the Group's policy to lease certain of its furniture, fixtures and equipment and motor vehicles under finance leases. The average lease term is three years. For the year ended 30 June 2007, the average effective borrowing rate was 10.51% (2006: 6.3%) per annum. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

23. Retirement benefits schemes

(a) Provision for long services payments

Under the Hong Kong Employment Ordinance, the Group is required to make long service payments to its employees in Hong Kong upon the termination of their employment or retirement when the employees fulfill certain conditions and the termination meets the required circumstances. However, where an employee is simultaneously entitled to a long service payment and to a retirement scheme payment (e.g. from the Mandatory Provident Fund Scheme), the amount of the long service payment will be reduced by the benefits arising from the retirement scheme.

The most recent actuarial valuation of the present value of the Group's obligation under the long service payments was carried out at 30 June 2007 by Hewitt Associates LLC, an independent firm of human resource consultants and actuaries. The present value of the Group's obligation under long service payments, the related current service cost, past service cost and net actuarial losses were measured using the projected unit credit method.

As at 30 June, 2007, the provision for long services payments to their employees in Hong Kong is HK$2,230,000 (2006: HK$2,946,000).

(b) Defined contribution scheme

The Group has joined a Mandatory Provident Fund scheme ("MPF Scheme") for all employees in Hong Kong which is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The eligible employees of the Company's subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The assets of the schemes are held separately from those of the Group in funds under the control of the Chinese local government.

(c) Defined benefit scheme

Eligible employees of the Company's subsidiaries in the Philippines currently participate in defined benefit pension scheme operated by the local municipal governments. The calculation of contributions is based on certain percentages of the employees' shares. The assets of the schemes are held separately from those of the Group in funds under the control of the local municipal governments.

Under the plan, the employees are entitled to retirement benefits equal to 22.5 day's pay for every year of credited service in accordance with the Retirement Pay Law of the Philippines. No other post-retirement benefits are provided.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2006 by E.M. Zalamea Acturial Services, Inc., an independent firm of actuaries. The present value of the defined benefit obligation, the related current service cost and past service costs are measured using the projected unit credit method.

The main actuarial assumptions used in the actuarial valuation were as follows:

	2007	**2006**
Expected rate of salary increases	5% per annum	5% per annum
Expected return on retirement benefit schemes	5% per annum	5% per annum
Discount rate	11% per annum	11% per annum

Amounts recognised in the consolidated income statement in respect of the defined benefit obligation are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Current service cost	157	133
Interest cost	224	154
Net actuarial losses recognised	–	1,112
Amount charged for the year (included in general and administrative expenses)	381	1,399

Movements in liability in the balance sheet are as follows:

	2007	2006
	HK$'000	*HK$'000*
At beginning of the year	1,399	–
Currency realignment	253	–
Amount charged to income statement	381	1,399
At end of the year	2,033	1,399

24. Deferred taxation

The major deferred tax liabilities recognised by the Group and movements thereon during the current and prior years are as follows:

	Accelerated tax depreciation	Unrealised losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2005	5,097	1,100	6,197
Charge to income statement	684	2,778	3,462
At 30 June 2006	5,781	3,878	9,659
(Credit) charge to income statement	(383)	1,140	757
At 30 June 2007	5,398	5,018	10,416

At 30 June 2007, the Group has unused tax losses of approximately HK$79,801,000 (2006: HK$86,209,000), available for offset against future assessable profits. No deferred tax asset has been recognised due to the unpredictability of future assessable profit streams. Included in unrecognised tax losses of the Group are losses of HK$4,282,000 (2006: HK$9,447,000) of subsidiaries in the PRC that will gradually expire until 2011. Other losses may be carried forward indefinitely.

At 30 June 2007, the Group has unrecognised deductible temporary differences of approximately HK$97,000 (2006: HK$527,000) in respect of accelerated accounting depreciation. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

25. Share capital

	2007	2006	2007	2006
	Number of shares	*Number of shares*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning and the end of the year	1,500,000,000	1,500,000,000	150,000	150,000
Issued and fully paid:				
At beginning of the year	1,076,298,125	1,077,514,125	107,630	107,752
Repurchase of shares during the year	–	(1,216,000)	–	(122)
At end of the year	1,076,298,125	1,076,298,125	107,630	107,630

During the year ended 30 June 2006, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited. The Directors considered that, as the Company's shares were trading at a discount to the expected net asset value per share, the repurchase would be beneficial to the Company.

These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The aggregate consideration paid on repurchase was charged to retained profits.

Month of repurchase	Number of shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
October 2005	1,216,000	1.75	1.68	2,077

26. Share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 22 November 2001 for the primary purpose of providing incentives or rewards to the Directors, employees or any other persons at the discretion of the Board, and the Scheme will expire on 21 November 2012. Under the Scheme, the Board of Directors of the Company may grant options to any employees, including executives or officers of the Company and its subsidiaries and any other persons at the discretion of the Board to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days of the date of grant, upon payment of HK$1 per grant. Options may generally be exercised at any time from the second anniversary of the date of acceptance to the tenth anniversary of the date of grant. In each grant of options, the Board of Directors of the Company may at their discretion determine the specific exercise period. The exercise price is determined by the Directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares.

As at 30 June 2007 and 30 June 2006, no Company's share options are being held by the Directors or anyone else under the Scheme.

During the year ended 30 June 2007 and 30 June 2006, no options were granted, exercised, cancelled or lapsed.

27. Major non-cash transactions

During the year ended 30 June 2006, the consideration in connection with the transfer of 25% of the registered capital of Foshan Nan Hai Top Form Underwear Co., Ltd. 佛山市南海黛麗斯內衣有限公司 ("NHTF"), a subsidiary of the Company, from a minority shareholder to the Group of HK$5,200,000 was included in creditors and accrued charges as at 30 June 2006.

28. Operating lease commitments

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	16,792	16,428
In the second to fifth year inclusive	13,874	20,178
Over five years	1,631	1,000
	32,297	37,606

Leases are negotiated for an average term of one to five years with fixed rental over the terms of the relevant leases.

29. Related party transactions/balances

During the year ended 30 June 2007, the Group sold finished products of approximately HK$38,723,000 (2006: HK$39,800,000), to a related company, Van de Velde N.V. ("VdV") and its subsidiaries and/or affiliates.

Messrs. Herman Van de Velde and Lucas A.M. Laureys, Directors of the Company, are beneficial owners of VdV which held an effective interest of 16.37% in the Company as at 30 June 2007.

As at 30 June 2007, the balance of trade receivable from VdV amounted to HK$1,793,000 (2006: HK$1,041,000).

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	16,860	19,126
Retirement benefit scheme contributions	48	107
	16,908	19,233

The remuneration of Directors and key management is determined by the Group's compensation committee having regard to the performance of individuals and market trends.

30. Principal subsidiaries

Details of the Company's principal subsidiaries as at 30 June 2007 are as follows:

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Charming Elastic Fabric Company Limited	Hong Kong	Ordinary – HK$316,667 Deferred – HK$810,000	60%	Manufacture of elastic garment straps
Foshan Nanhai Top Form Underwear Company Limited# 佛山市南海黛麗斯內衣有限公司	The PRC	Capital contribution – HK$20,800,000	100%	Manufacture of ladies' underwear
Grand Gain Industrial Limited	Hong Kong	Ordinary – HK$100,000	55%	Laminating business
Long Nan County Grand Gain Underwear Company Limited# 龍南縣建盈內衣有限公司	The PRC	Capital contribution – HK$5,000,000	55%	Moulding
Long Nan County Top Form Underwear Co., Ltd.# 龍南縣黛麗斯內衣有限公司	The PRC	Capital contribution – HK$45,000,000	100%	Manufacture of ladies' underwear
Marguerite Lee Limited	Hong Kong	Ordinary – HK$2,500,000	100%	Retail sales of underwear, sleepwear and other ladies' intimate apparel products
漫多姿服裝(深圳)有限公司#	The PRC	Capital contribution – HK$13,000,000	100%	Manufacture and distribution of ladies' underwear
Meritlux Industries Philippines, Inc.	Republic of Philippines	Ordinary – Peso17,500,000	100%	Manufacture of ladies' underwear

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Shenzhen Top Form Underwear Co., Limited^ 深圳黛麗斯內衣有限公司	The PRC	Capital contribution – RMB4,993,000	70%	Manufacture and distribution of ladies' underwear
Top Form Brassiere Co., Limited	Thailand	Ordinary – Baht 80,000,000	100%	Manufacture of ladies' underwear
Top Form Brassiere Mfg. Co., Limited	Hong Kong	Ordinary – HK$100 Deferred – HK$4,000,000	100%	Manufacture of ladies' underwear
Top Form (B.V.I.) Limited*	British Virgin Islands	Ordinary – US$50,000	100%	Investment holding
Top Form Industries Limited	Mauritius	Ordinary US$100,000	100%	Manufacture of ladies' underwear by setting a branch in Macau for operation
Top Form Brassiere (Maesot) Co., Ltd	Thailand	Ordinary – Baht 10,000,000	100%	Manufacture of ladies' underwear
Topfull Development Limited	Hong Kong	Ordinary – HK$2	100%	Property holding in the PRC
Twin Peak Brassiere Company Limited	Thailand	Ordinary – Baht 3,000,000	100%	Manufacture of ladies' underwear
Unique Form Manufacturing Company Limited	Hong Kong	Ordinary – HK$1,000 Deferred – HK$200	100%	Retail sales of underwear, sleepwear and other ladies' intimate apparel products
Unique Form Manufacturing (Thailand) Co., Ltd	Thailand	Ordinary – Baht 1,000,000	100%	Manufacture of ladies' underwear

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Wide Gain Investment Limited	Hong Kong	Ordinary – HK$2	100%	Investment holding
Xinfeng County Grand Gain Underwear Co., Ltd.# 信豐縣建盈內衣有限公司	The PRC	Capital contribution HK$2,500,000	100%	Manufacture of ladies' underwear

* *Directly held by the Company*

\# *These subsidiaries are registered as wholly foreign owned enterprises in the PRC.*

^ *This subsidiary is registered as a sino-foreign equity joint venture in the PRC.*

Note: Except for those subsidiaries which the place of operation mentioned in principal activities, the place of operation is the same as the place of incorporation.

Shenzhen Top Form Underwear Co., Limited 深圳黛麗斯內衣有限公司 ("SZTF") is a joint venture company established in the PRC and was originally held for a period of twelve years from 10 November 1987. On 18 September 1998, an extension agreement was entered into between the Group and the joint venture partner to extend the joint venture period for a further 10 years to 28 February 2009. Pursuant to the agreement under which the joint venture were established, the Group has contributed 70% of the registered capital of SZTF. However, under the joint venture agreement, the Group is entitled to 100% of this joint venture company's profit after deducting a fixed annual amount attributable to assets contributed by the joint venture partner. The Group is entitled to receive its attributable share of the net assets upon liquidation of the joint venture.

As at 30 June 2007, all of the deferred shares issued by subsidiaries were held by group companies. The deferred shares carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the respective companies. On winding-up, the holders of the deferred shares are entitled to one half of the remaining assets of the respective companies after the first HK$100,000,000,000 has been distributed equally amongst the holders of the ordinary shares.

None of the subsidiaries had any debt securities subsisting as at 30 June 2007 or at any time during the year.

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally comprised the Group's assets or results. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

3. UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

Set out below are the unaudited condensed consolidated interim results of the Group as extracted from the interim report of the Group for the six months ended 31 December 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2007

		For the six months ended 31 December	
		2007	**2006**
		(Unaudited)	**(Unaudited)**
	Notes	*HK$'000*	*HK$'000*
Revenue	*3*	682,566	770,125
Cost of sales		(532,200)	(572,716)
Gross profit		150,366	197,409
Other income		8,400	7,201
Selling and distribution expenses		(29,915)	(33,737)
General and administrative expenses		(87,809)	(80,657)
Finance costs		(231)	(162)
Profit before taxation	*4*	40,811	90,054
Income tax expense	*5*	(7,458)	(14,352)
Profit for the period		33,353	75,702
Attributable to:			
Equity holders of the Company		36,134	74,645
Minority interests		(2,781)	1,057
		33,353	75,702
Dividend paid	*6*	32,289	32,289
Interim dividend	*6*	16,128	26,907
Earnings per share	*7*		
Basic		3.4 cents	6.9 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	At 31 December 2007 (Unaudited) HK$'000	At 30 June 2007 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	*8*	170,619	177,268
Prepaid lease payments		2,021	2,077
Prepaid rental payments		6,499	3,134
Deferred tax assets		5,033	–
		184,172	182,479
Current assets			
Inventories		231,829	197,462
Debtors, deposits and prepayments	*9*	188,310	166,394
Bills receivable	*10*	25,677	12,818
Prepaid lease payments		112	112
Bank balances and cash		209,091	256,435
		655,019	633,221
Current liabilities			
Creditors and accrued charges	*11*	144,066	130,447
Taxation		107,759	96,744
Bank borrowings and other liabilities – due within one year	*12*	5,591	4,700
Obligations under finance leases – due within one year		192	211
		257,608	232,102
Net current assets		397,411	401,119
Total assets less current liabilities		581,583	583,598

	Notes	At 31 December 2007 (Unaudited) HK$'000	At 30 June 2007 (Audited) HK$'000
Non-current liabilities			
Bank borrowings and other liabilities			
– due after one year	*12*	21	224
Obligations under finance leases			
– due after one year		361	41
Retirement benefit obligations		4,464	4,263
Deferred tax liabilities		8,168	10,416
		13,014	14,944
		568,569	568,654
Capital and reserves			
Share capital	*13*	107,519	107,630
Reserves		441,545	438,640
Equity attributable to equity holders of the Company		549,064	546,270
Minority interests		19,505	22,384
		568,569	568,654

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Special reserve HK$'000 (note)	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2006	107,630	1,499	122	7,139	(506)	345,308	461,192	19,160	480,352
Exchange difference arising on translation of overseas operations recognised directly in equity	–	–	–	–	4,308	–	4,308	–	4,308
Profit for the period	–	–	–	–	–	74,645	74,645	1,057	75,702
Total recognised income for the period	–	–	–	–	4,308	74,645	78,953	1,057	80,010
Dividend paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	(1,035)	(1,035)
Dividend paid	–	–	–	–	–	(32,289)	(32,289)	–	(32,289)
At 31 December 2006	107,630	1,499	122	7,139	3,802	387,664	507,856	19,182	527,038
Exchange difference arising on translation of overseas operations recognised directly in equity	–	–	–	–	6,999	–	6,999	1,131	8,130
Profit for the period	–	–	–	–	–	58,322	58,322	2,071	60,393
Total recognised income for the period	–	–	–	–	6,999	58,322	65,321	3,202	68,523
Dividend paid	–	–	–	–	–	(26,907)	(26,907)	–	(26,907)
At 30 June 2007	107,630	1,499	122	7,139	10,801	419,079	546,270	22,384	568,654
Exchange difference arising on translation of overseas operations recognised directly in equity	–	–	–	–	(101)	–	(101)	577	476
Profit for the period	–	–	–	–	–	36,134	36,134	(2,781)	33,353
Total recognised income and expense for the period	–	–	–	–	(101)	36,134	36,033	(2,204)	33,829
Repurchase of shares	(111)	–	111	–	–	(950)	(950)	–	(950)
Dividend paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	(675)	(675)
Dividend paid	–	–	–	–	–	(32,289)	(32,289)	–	(32,289)
At 31 December 2007	107,519	1,499	233	7,139	10,700	421,974	549,064	19,505	568,569

Note: Special reserve represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal amount of share capital of companies forming the Group, pursuant to the group reorganisation in 1991.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2007

	For the six months ended 31 December	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash (used in) generated from operating activities	(3,671)	136,577
Net cash used in investing activities:		
Purchase of property, plant and equipment	(10,751)	(15,734)
Proceeds from disposal of property, plant and equipment	3	32
	(10,748)	(15,702)
Net cash used in financing activities:		
Dividend paid	(32,289)	(32,289)
Repayment of borrowings	(9,006)	(5,890)
Payment for repurchase of shares	(950)	–
Dividend paid to minority shareholders of a subsidiary	(675)	(1,035)
New borrowings raised	9,995	4,941
	(32,925)	(34,273)
Net (decrease) increase in cash and cash equivalents	(47,344)	86,602
Cash and cash equivalents at the beginning of the period	256,435	65,253
Cash and cash equivalents at the end of the period, represented by bank balances and cash	209,091	151,855

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2007

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2007.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "New HKFRSs") issued by the HKICPA, which are effective for the Group's accounting year beginning 1 July 2007. The adoption of these New HKFRSs has had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 12	Service Concession Arrangements[2]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[3]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

1 *Effective for annual periods beginning on or after 1 January 2009*

2 *Effective for annual periods beginning on or after 1 January 2008*

3 *Effective for annual periods beginning on or after 1 July 2008*

3. Segment information

For management reporting purposes, the Group's operations are currently organised into manufacturing business and branded business. Segment information in respect of these activities is as follows:

Business segments

Six months ended 31 December 2007

	Manufacturing business *HK$'000*	Branded business *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Revenue				
External sales	673,183	9,383	–	682,566
Inter-segment sales *(note)*	3,913	–	(3,913)	–
Total sales	677,096	9,383	(3,913)	682,566
Results				
Segment results	48,891	(3,716)	–	45,175
Unallocated corporate expenses				(8,362)
Interest income				4,229
Finance costs				(231)
Profit before taxation				40,811
Income tax expense				(7,458)
Profit for the period				33,353

Six months ended 31 December 2006

	Manufacturing business	Branded business	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	760,055	10,070	–	770,125
Inter-segment sales *(note)*	1,628	–	(1,628)	–
Total sales	761,683	10,070	(1,628)	770,125
Results				
Segment results	96,063	13	–	96,076
Unallocated corporate expenses				(7,947)
Interest income				2,087
Finance costs				(162)
Profit before taxation				90,054
Income tax expense				(14,352)
Profit for the period				75,702

Note: Inter-segment sales are charged at prevailing market rates.

Geographical segments

The Group's manufacturing operations are principally located in the People's Republic of China ("PRC") and Thailand. Branded business is principally carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of origin of the goods:

Six months ended 31 December

	Sales revenue by geographical market	
	2007	**2006**
	HK$'000	*HK$'000*
United States of America and Canada	432,610	566,820
Europe	183,910	127,561
Australia and New Zealand	38,915	42,661
Asia (excluding Hong Kong)	21,170	24,570
Hong Kong	5,664	8,513
South Africa	297	–
	682,566	770,125

4. Profit before taxation

	For the six months ended 31 December	
	2007	**2006**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	16,238	15,224
Amortisation of prepaid lease payments	56	56
Cost of textile quota entitlements	5,879	8,493
Loss on disposal of property, plant and equipment	175	23
and after crediting:		
Quota income	2,001	1,902
Interest income	4,229	2,087

5. Income tax expense

	For the six months ended 31 December	
	2007	**2006**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	4,430	10,729
Other jurisdictions	4,485	1,406
	8,915	12,135
Under(over) provision in prior year		
Hong Kong Profits Tax	6,409	309
Taxation in other jurisdictions	(585)	(214)
	5,824	95
Deferred tax:		
(Credit) charge for the period	(7,281)	2,122
	7,458	14,352

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 17.5% for the six months ended 31 December 2007 (six months ended 31 December 2006: 17.5%).

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rate expected to the full financial year. The estimated average annual tax rate used is 17% for the six months ended 31 December 2007 (six months ended 31 December 2006: 19%) calculated at the rates prevailing in the relevant jurisdictions.

The Group has recognised deferred tax assets in relation to the unused tax losses of a subsidiary during the current period.

6. Dividends

	For the six months ended 31 December	
	2007	**2006**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Dividend paid:		
2007 final dividend paid: HK$0.03 (year ended 30 June 2006: HK$0.03) per share on 1,076,298,125 shares (2006: 1,076,298,125 shares)	32,289	32,289
Dividend:		
Interim dividend *(Note)*	16,128	26,907

Note: An interim dividend of HK$0.015 (six months ended 31 December 2006: HK$0.025) per share on 1,075,188,125 shares (on 31 December 2006: 1,076,298,125 shares) has been declared by the Directors on 22 February 2008.

7. Earnings per share

The calculation of basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 31 December	
	2007	**2006**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Profit attributable to the equity holders of the Company for the purpose of basic earnings per share	36,134	74,645
	Number of shares	
Number of ordinary shares for the purpose of basic earnings per share	1,076,079,158	1,076,298,125

No diluted earnings per share has been presented because there are no potential dilutive ordinary shares for both years.

8. Movements in property, plant and equipment

During the period, additions of property, plant and equipment amounted to HK$10,751,000 (for the six months ended 31 December 2006: HK$15,734,000).

9. Debtors, deposits and prepayments

Included in the balance are trade debtors of HK$152,074,000 (at 30 June 2007: HK$136,180,000). The Group allows an average credit period of 30 days to its trade customers.

An aged analysis of trade debtors at the balance sheet date is as follows:

	At 31 December 2007 (Unaudited) *HK$'000*	**At 30 June 2007 (Audited)** *HK$'000*
0 – 30 days	148,833	131,880
31 – 60 days	2,385	2,971
61 – 90 days	790	984
Over 90 days	66	345
	152,074	136,180

10. Bills receivable

Included in the balance is an amount of HK$21,432,000 (at 30 June 2007: HK$8,941,000) aged within 30 days, HK$4,245,000 (at 30 June 2007: HK$2,125,000) aged within 31 to 60 days. There is no balance (at 30 June 2007: HK$1,752,000) aged between 61 to 90 days.

11. Creditors and accrued charges

Included in the balance are trade creditors of HK$80,444,000 (at 30 June 2007: HK$60,461,000).

An aged analysis of trade creditors at the balance sheet date is as follows:

	At 31 December 2007 (Unaudited) *HK$'000*	At 30 June 2007 (Audited) *HK$'000*
0 – 30 days	62,299	50,852
31 – 60 days	14,349	6,165
61 – 90 days	2,782	2,089
Over 90 days	1,014	1,355
	80,444	60,461

12. Bank borrowings and other liabilities

	At 31 December 2007 (Unaudited) *HK$'000*	At 30 June 2007 (Audited) *HK$'000*
Bank borrowings:		
Trust receipts and import loans	5,498	4,670
Other unsecured liabilities	114	254
	5,612	4,924
Less: Amount due within one year shown as current liabilities	(5,591)	(4,700)
Amount due after one year	21	224
Unsecured	5,612	4,924

13. Share capital

	31 December 2007 *Number of shares*	30 June 2006 *Number of shares*	31 December 2007 *HK$'000*	30 June 2006 *HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning and the end of the period/year	1,500,000,000	1,500,000,000	150,000	150,000
Issued and fully paid:				
At beginning of the period/year	1,076,298,125	1,076,298,125	107,630	107,630
Repurchase of shares during the period/year	(1,110,000)	–	(111)	–
At end of the period/year	1,075,188,125	1,076,298,125	107,519	107,630

During the period ended 31 December 2007, the Company repurchased certain of its own shares on the Stock Exchange.

The repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares with corresponding increase in capital redemption reserve. The aggregate consideration paid on repurchase was charged to retained profits.

Month of repurchase	Number of shares of HK$0.10 each	Price per share Highest *HK$*	Price per share Lowest *HK$*	Aggregate consideration paid *HK$'000*
November 2007	1,110,000	0.87	0.84	950

14. Operating lease commitments

At 31 December 2007, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	At 31 December 2007 (Unaudited) *HK$'000*	At 30 June 2007 (Audited) *HK$'000*
Within one year	17,602	16,792
In the second to fifth year inclusive	14,365	13,874
Over five years	1,818	1,631
	33,785	32,297

Leases are negotiated for lease terms of one to seven years with fixed rental over the terms of the relevant leases.

15. Related party transactions

(a) During the period, the Group sold finished products of approximately HK$20,422,000 (for the six months ended 31 December 2006: HK$20,194,000) to a related company, Van de Velde N.V. ("VdV").

Messrs. Herman Van de Velde and Lucas A.M. Laureys, directors of the Company, are beneficial owners of VdV which held an effective interest of 16.39% in the Company as at 31 December 2007.

As at 31 December 2007, the balance of trade receivables from VdV amounted to HK$1,634,000 (at 30 June 2007: HK$1,793,000) was included in debtors, deposits and prepayments.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	For the six months ended 31 December	
	2007	**2006**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Salaries and other benefits	7,962	6,519
Retirement benefit scheme contributions	24	24
	7,986	6,543

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

16. Comparative figures

Certain comparative figures have been reclassified, which have no effects on previously reported profit, to conform to the current period presentation.

4. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances, following completion of the Acquisition, taking into account the Enlarged Group's current cash balances and financial resources as well as its presently available banking facilities and the additional banking facility which is currently under negotiations and is expected to be secured shortly, the Enlarged Group has sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular.

5. STATEMENT OF INDEBTEDNESS

Indebtedness of the Enlarged Group

At the close of business on 31 July 2008, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of the circular, the Enlarged Group had total outstanding borrowings of approximately HK$426.0 million, comprising (i) secured bank borrowings of HK$406.1 million; (ii) unsecured bank borrowings of HK$5.7 million; (iii) obligations under finance leases of HK$0.5 million and (iv) unsecured loan from a director of HK$13.7 million.

The bank borrowings of HK$406.1 million at the close of business of 31 July 2008 were secured by all assets of the Sale Group Companies, the Sale Group Companies' holding company and certain of the Sale Group Companies' fellow subsidiaries, unlimited personal guarantee from two directors of the Sale Group Companies and two leasehold properties held by a director of the Sale Group Companies, Mr. Sia together with assignment of rentals.

The secured bank borrowings of the Enlarged Group and the charges over the assets of the Sale Group Companies will be released from the Bank Group and the unsecured loan from a director of the Sale Group Companies will be released from that director on Completion of the Share Acquisition Agreement in accordance with the conditions precedent pursuant to the Share Acquisition Agreement.

Foreign currency amounts have been translated into Hong Kong dollars at rates of exchange prevailing at the close of business on 31 July 2008.

Save as aforesaid or as otherwise disclosed herein, the Enlarged Group did not have any outstanding mortgages, charges, debentures or other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities at the close of business on 31 July 2008.

Capital commitments

The Enlarged Group had no capital commitments at the close of business on 31 July 2008.

Contingent liabilities

The Enlarged Group has given unlimited guarantees in favour of banks for banking facilities granted to a fellow subsidiary of the Sale Group Companies, Fiori Textiles Limited, of which HK$168.3 million was utilised as at 31 July 2008.

These unlimited guarantees given by the Enlarged Group will be released from the Bank Group on Completion of the Share Acquisition Agreement in accordance with the conditions precedent pursuant to the Share Acquisition Agreement.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants of the Sale Group Companies, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

19 August 2008

The Board of Directors
Top Form International Limited

Dear Sirs,

INTRODUCTION

We set out below our audit report on the combined financial information relating to Ace Style Intimate Apparel Limited, Carina Apparel, Inc., Elkhorn Enterprises Limited and Tavistock Springs (HK) Limited (hereinafter collectively referred to as the "Sale Group Companies"), including the combined income statements, the combined statements of changes in equity and combined cash flow statements of the Sale Group Companies for each of the years ended 31 March 2008, 2007 and 2006 (the "Relevant Period") and the combined balance sheets of the Sale Group Companies as at 31 March 2008, 2007 and 2006 together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of Top Form International Limited dated 19 August 2008 (the "Circular") in connection with the proposed acquisition of the entire equity interests of the Sale Group Companies, details of which are disclosed in section headed "Letter from the Board" contained in the Circular.

The Sale Group Companies are principally engaged in manufacturing and wholesaling of ladies' intimate apparel and accessories. Particulars of the companies comprising the Sale Group Companies are set out in Section B of this report.

During the Relevant Period, the statutory financial statements of the companies comprising the Sale Group Companies were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") or the relevant accounting rules and regulation applicable to entities in which they were incorporated and were audited by the following certified public accountants.

Name of company	Financial period	Auditors
Ace Style Intimate Apparel Limited	Years ended 31 March 2008, 2007 and 2006	KPMG
Carina Apparel, Inc.	Years ended 31 March 2008, 2007 and 2006	UY Singson Abella & Co
Elkhorn Enterprises Limited	Years ended 31 March 2008, 2007 and 2006	KPMG
Tavistock Springs (HK) Limited	Years ended 31 March 2008, 2007 and 2006	KPMG

Basis of preparation

The Financial Information has been prepared by the directors of the Sale Group Companies based on the audited financial statements of the companies now comprising the Sale Group Companies, on the basis set out in Section A below, after making such adjustments as are appropriate (the "Underlying Financial Information"). Adjustments have been made, for the purpose of this report, to restate the Underlying Financial Information to conform with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). HKFRSs include Hong Kong Accounting Standards and interpretations.

Respective responsibilities of directors and reporting accountants

The directors of the Sale Group Companies are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an independent opinion on the Financial Information based on our audit.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information of the Sale Group Companies for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies comprising the Sale Group Companies in respect of any period subsequent to 31 March 2008.

Fundamental uncertainty relating to the going concern

In forming our opinion, we have considered the adequacy of the disclosure made in note 1(b) of Section B of the Financial Information concerning the use of the going concern basis on which the Financial Information has been prepared. As at 31 March 2008, the Sale Group Companies had net current liabilities of HK$608 million and net liabilities of HK$527 million. In addition, the Sale Group Companies defaulted on certain bank loans and are now undergoing a debt restructuring. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Sale Group Companies to continue as a going concern. The Financial Information has been prepared on a going concern basis as the Sale Group Companies expect they could secure continuous banking facilities from their creditor bankers, obtain new funding from prospective investors and to generate sufficient cash flows from operations to cover their operating costs and to meet their financing commitments. The Financial Information does not include any adjustments that would result from the failure of such measures. We consider that adequate disclosures have been made and our opinion is not qualified in this respect.

Opinion

In our opinion, for the purpose of this report and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the combined results and combined cash flows of the Sale Group Companies for the Relevant Period and of its financial position as at 31 March 2008, 2007 and 2006.

A. BASIS OF PRESENTATION

The companies comprising the Sale Group Companies are controlled by the same equity holder, Fairwood Assets Limited, a limited liability company incorporated in the British Virgin Islands (the "Controlling Shareholder"), throughout the whole Relevant Period. Accordingly, the Financial Information has been prepared under the merger basis of accounting and the net assets of the combining companies are combined using the existing book values from the Controlling Shareholder's perspective.

The Financial Information relating to the combined income statements, the combined statements of changes in equity and the combined cash flow statements of the Sale Group Companies as set out in Section B for the Relevant Period includes the results of operations of the companies comprising the Sale Group Companies for the Relevant Period. The combined balance sheets of the Sale Group Companies as at 31 March 2008, 2007 and 2006 as set out in Section B have been prepared to present the combined assets and liabilities of the Sale Group Companies as at those dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Controlling Shareholder, whether directly or indirectly through subsidiaries, and in respect of which the Sale Group Companies have not agreed any additional terms with the holders of those interests which would result in the Sale Group Companies as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the combined balance sheet and combined statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Sale Group Companies. Minority interests in the results of the Sale Group Companies are presented on the face of the combined income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Sale Group Companies.

Where losses applicable to the minority exceed the minority's interest in the equity of a company, the excess, and any further losses applicable to the minority, are charged against the Sale Group Companies' interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the relevant group company subsequently reports profits, the Sale Group Companies' interest is allocated all such profits until the minority's share of losses previously absorbed by the Sale Group Companies has been recovered.

At the date of this report, the Sale Group Companies comprise the following entities, all of which are private companies, particulars of which are set out below:

Name of company	**Place and date of incorporation/ establishment**	**Issued and fully paid-up capital**	**Proportion of ownership interest owned by the Controlling Shareholder indirectly**	**Principal activities**
Ace Style Intimate Apparel Limited ("ASIAL")	Hong Kong/ 12 February 1985	HK$8,000,000 at HK$1 per share	100%	Sale and manufacture of ladies' intimate apparel and accessories
Carina Apparel, Inc. ("Carina")	Philippines/ 25 May 1999	Peso66,340,000 at Peso1,000 per share	99.99% *(note a)*	Sale and manufacture of ladies' intimate apparel and accessories
Elkhorn Enterprises Limited ("Elkhorn") *(note b)*	Hong Kong/ 28 February 1978	HK$5,000,000 at HK$10 per share	100%	Inactive
Tavistock Springs (HK) Limited ("Tavistock")	Hong Kong/ 30 January 2002	HK$20 at HK$10 per share	100%	Sale and manufacture of brassiere cup, wires and moulds

Notes:

(a) 0.01% equity interest in Carina is held by Mr. Andrew Sia and his family. Mr. Andrew Sia is a director and one of the beneficiaries of the Sale Group Companies.

(b) Elkhorn had set up a representative office in Dongguan, the People's Republic of China (the "PRC") on 28 May 2004 which had been deregistered on 8 January 2008.

B. FINANCIAL INFORMATION

1. Combined income statements

		Year ended 31 March								
		2008			2007			2006		
	Section C Note	Continuing operation *HK$'000*	Discontinued operation *HK$'000*	Total *HK$'000*	Continuing operation *HK$'000*	Discontinued operation *HK$'000*	Total *HK$'000*	Continuing operation *HK$'000*	Discontinued Operation *HK$'000*	Total *HK$'000*
Turnover	*2*	1,123,772	–	1,123,772	1,106,793	3,961	1,110,754	1,021,361	12,387	1,033,748
Cost of sales		(911,105)	–	(911,105)	(932,844)	(3,170)	(936,014)	(876,466)	(8,427)	(884,893)
Gross profit		212,667	–	212,667	173,949	791	174,740	144,895	3,960	148,855
Other revenue	*4*	3,678	–	3,678	6,105	5	6,110	4,233	1,984	6,217
Other net (losses)/gains	*5*	(2,403)	–	(2,403)	2,619	3	2,622	(10,149)	(989)	(11,138)
Selling and distribution expenses		(63,470)	–	(63,470)	(67,229)	(968)	(68,197)	(69,444)	(7,377)	(76,821)
Administrative expenses		(100,678)	–	(100,678)	(121,872)	(109)	(121,981)	(132,535)	(2,269)	(134,804)
Impairment provisions	*6(a)*	(113,668)	–	(113,668)	(303,154)	–	(303,154)	(320,998)	(371)	(321,369)
Other operating expenses		(1,487)	–	(1,487)	(2,709)	(100)	(2,809)	(17,010)	(130)	(17,140)
Loss from operations		(65,361)	–	(65,361)	(312,291)	(378)	(312,669)	(401,008)	(5,192)	(406,200)
Finance costs	*6(b)*	(45,876)	–	(45,876)	(49,587)	–	(49,587)	(21,266)	–	(21,266)
Loss before taxation	*6*	(111,237)	–	(111,237)	(361,878)	(378)	(362,256)	(422,274)	(5,192)	(427,466)
Income tax	*7(a)*	(4,602)	–	(4,602)	(1,178)	–	(1,178)	(5,381)	–	(5,381)
Loss for the year		(115,839)	–	(115,839)	(363,056)	(378)	(363,434)	(427,655)	(5,192)	(432,847)
Attributable to:										
Equity shareholders		(115,839)	–	(115,839)	(363,056)	(378)	(363,434)	(427,654)	(5,192)	(432,846)
Minority interests		–	–	–	–	–	–	(1)	–	(1)
Loss for the year		(115,839)	–	(115,839)	(363,056)	(378)	(363,434)	(427,655)	(5,192)	(432,847)
Dividends payable to equity shareholders attributable to the year										
Interim dividends declared during the year	*10*	–	–	–	–	–	–	11,200	–	11,200

The accompanying notes form part of the Financial Information.

2. Combined balance sheets

	Section C Note	2008 HK$'000	2007 HK$'000	2006 HK$'000
		As at 31 March		
Non-current assets				
Property, plant and equipment	*12*	95,127	100,119	121,815
Held-to-maturity debt securities		–	–	1,200
Amount due from immediate holding company	*15*	–	–	147,439
Deferred tax assets	*21(b)*	2,800	5,900	5,900
		97,927	106,019	276,354
Current assets				
Held-to-maturity debt securities		–	1,200	–
Investment securities		–	1,560	6,170
Inventories	*13*	112,373	108,552	174,156
Trade and other receivables	*14*	159,365	138,610	191,749
Amounts due from fellow subsidiaries	*15*	–	42,253	70,160
Tax recoverable	*21(a)*	14,836	4,479	–
Cash and cash equivalents	*16*	16,672	17,806	35,552
		303,246	314,460	477,787
Current liabilities				
Trade and other payables	*17*	205,854	143,638	169,321
Secured bank loans and overdrafts	*18*	437,752	464,918	504,150
Obligations under finance leases	*19*	–	3,361	4,431
Amount due to immediate holding company	*15*	–	48,486	37,000
Amounts due to fellow subsidiaries	*15*	261,778	154,153	65,810
Provision for unused annual leave	*20*	2,900	3,507	3,522
Current taxation	*21(a)*	2,753	117	8,602
		911,037	818,180	792,836
Net current liabilities		(607,791)	(503,720)	(315,049)
Total assets less current liabilities		(509,864)	(397,701)	(38,695)

		As at 31 March		
	Section C	**2008**	**2007**	**2006**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Other payables		–	–	650
Loan from a director	*22*	13,675	13,675	78
Amount due to immediate holding company	*15*	–	–	11,340
Provisions for employee benefits	*23*	3,882	2,932	1,517
		17,557	16,607	13,585
NET LIABILITIES		(527,421)	(414,308)	(52,280)
CAPITAL AND RESERVES				
Share capital	*24*	25,132	25,132	25,132
Reserves		(552,555)	(439,442)	(77,414)
Total equity attributable to equity shareholders		(527,423)	(414,310)	(52,282)
Minority interests		2	2	2
TOTAL EQUITY		(527,421)	(414,308)	(52,280)

The accompanying notes form part of the Financial Information.

3. Combined statements of changes in equity

	Section C Note	Share capital HK$'000 (Note 24)	Exchange reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity shareholders of the Sale Group Companies					
At 1 April 2005		25,132	(713)	365,936	390,355	3	390,358
Interim dividends declared and paid during the year		–	–	(11,200)	(11,200)	–	(11,200)
Exchange difference on translation of financial statements of companies outside Hong Kong		–	1,409	–	1,409	–	1,409
Net loss for the year		–	–	(432,846)	(432,846)	(1)	(432,847)
At 31 March 2006		25,132	696	(78,110)	(52,282)	2	(52,280)
Exchange difference on translation of financial statements of companies outside Hong Kong		–	1,406	–	1,406	–	1,406
Net loss for the year		–	–	(363,434)	(363,434)	–	(363,434)
At 31 March 2007		25,132	2,102	(441,544)	(414,310)	2	(414,308)
Exchange difference on translation of financial statements of companies outside Hong Kong		–	2,726	–	2,726	–	2,726
Net loss for the year		–	–	(115,839)	(115,839)	–	(115,839)
At 31 March 2008		25,132	4,828	(557,383)	(527,423)	2	(527,421)

The accompanying notes form part of the Financial Information.

4. Combined cash flow statements

	Section C Note	Year ended 31 March 2008 *HK$'000*	2007 *HK$'000*	2006 *HK$'000*
Operating activities				
Loss before taxation		(111,237)	(362,256)	(427,466)
Adjustments for:				
– Depreciation		25,904	26,925	27,104
– Finance costs		45,876	49,587	21,266
– Interest income		(127)	(266)	(259)
– Investment income		(112)	(75)	(214)
– Impairment provisions		113,668	303,154	321,369
– Loss/(gain) on disposal of property, plant and equipment		511	(216)	8,309
– Gain on disposal of golf club membership		–	–	(3,040)
– Gain on disposal of investment securities		–	(323)	(130)
– Increase in provisions		73	1,298	1,813
– Exchange differences		2,180	1,135	1,349
Cash generated from/(used in) operations before changes in working capital		76,736	18,963	(49,899)
(Increase)/decrease in inventories		(3,821)	65,604	(50,005)
(Increase)/decrease in trade and bills receivables		(20,805)	42,329	(81,596)
(Increase)/decrease in deposits, prepayments and other receivables		(990)	11,388	(8,734)
(Increase)/decrease in amounts due from fellow subsidiaries		(29,786)	(24,558)	8,186
Decrease in amount due from a related company		–	–	3,424
Increase/(decrease) in trade and bills payables		43,503	(30,866)	63,018
Increase in amounts due to fellow subsidiaries		107,625	88,343	23,852
Decrease in amount due to a related party		–	–	(1,298)
Increase/(decrease)in other payables and accruals		12,345	(4,862)	5,742
Cash generated from/(used in) operations		184,807	166,341	(87,310)
Hong Kong Profits Tax Paid		(8,579)	(12,006)	(18,455)
Overseas tax paid		(644)	(2,136)	(130)
Net cash generated from/(used in) operating activities		175,584	152,199	(105,895)

	Section C Note	Year ended 31 March 2008 HK$'000	2007 HK$'000	2006 HK$'000
Investing activities				
Payment for purchase of fixed assets		(13,321)	(7,895)	(32,867)
Proceeds from disposal of investment securities		2,760	4,933	1,586
Proceeds from disposal of plant and machinery		276	148	151
Proceeds from disposal of golf club membership		–	–	6,540
(Advance to)/repayment from fellow subsidiaries		(5,745)	(16,131)	88,497
Advance to immediate holding company		(91,108)	(84,537)	(157,293)
Repayment of advance to ultimate holding company		–	–	1,824
Interest income received		127	266	259
Dividend from investment securities		112	75	214
Net cash used in investing activities		(106,899)	(103,141)	(91,089)
Financing activities				
Proceeds of new bank loans		264,244	553,199	399,731
Repayment of bank loans		(301,576)	(611,399)	(175,206)
Capital element of finance lease paid		–	(1,070)	(7,743)
Interest and other borrowings costs paid		(39,508)	(39,542)	(19,976)
Proceeds of loan from a director		–	13,597	78
Repayment of long term payables		–	(650)	(770)
Interim dividend paid		–	–	(11,200)
Net cash (used in)/generated from financing activities		(76,840)	(85,865)	184,914
Net decrease in cash and cash equivalents		(8,155)	(36,807)	(12,070)
Cash and cash equivalents at beginning of the year		(1,162)	35,552	47,583
Effect of foreign exchange rate changes		216	93	39
Cash and cash equivalents at end of the year	*16*	(9,101)	(1,162)	35,552

The accompanying notes form part of the Financial Information.

C. NOTES TO THE FINANCIAL INFORMATION

1. Significant accounting policies

(a) Statement of compliance

The Financial Information has 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. The Financial Information also complies with the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Sale Group Companies is set out below.

These are the Sale Group Companies' first HKFRSs combined financial statements and HKFRS 1 has been applied. The Sale Group Companies did not prepare any combined financial statements previously.

For the purposes of preparing this Financial Information, the Sale Group Companies have adopted all the new and revised HKFRSs applicable to the Relevant Period, except for any new standards and interpretations that are not yet effective for the accounting period beginning on 1 April 2007. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 March 2008 are set out in note 31.

(b) Basis of preparation of the Financial Information

The Financial Information for the Relevant Period has been prepared on a going concern basis notwithstanding the net current liabilities of HK$608 million and the net liabilities of HK$527 million as at 31 March 2008 and the fact that the Sale Group Companies defaulted on certain bank loans during the Relevant Period as disclosed in note 18.

The ability of the Sale Group Companies to operate as a going concern is dependent on the continuing availability of banking facilities from their creditor bankers. The Sale Group Companies are currently under discussion with their creditor bankers for a revised repayment plan and actively discussing with prospective investors to bring in additional funding in order to alleviate their liquidity problem. The Sale

Group Companies' management has prepared a cash flow forecast for the year ending 31 March 2009 and discussed the facilities with their creditor bankers. Based on the cash flow forecast and outcome of the negotiations with creditor bankers, the directors are of the opinion that the creditor bankers will not terminate the banking facilities currently available for the Sale Group Companies and will allow the Sale Group Companies to further extend the repayment of bank loans, and that no creditors will take action to put the companies comprising the Sale Group Companies into liquidation. As of the date of approval of this Financial Information, no notice of termination of banking facilities has been received by the Sale Group Companies. Consequently, the Financial Information have been prepared on a going concern basis.

Should the Sale Group Companies be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the Financial Information.

The Financial Information is presented in Hong Kong Dollar ("HK$"), rounded to the nearest thousand. The measurement basis used in the preparation of the Financial Information is the historical cost basis except that the investment in debt and equity securities are stated at their fair value as explained in accounting policy set out in note 1(d).

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management on the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 30.

The accounting policies set out below have been applied consistently to all periods presented.

(c) Business combinations involving entities under common control

The combined financial statements incorporate the financial statements items of the combining entities or businesses as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are recognised at the carrying values prior to the common control combination. The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the control of the controlling parties, where this is a shorter period, regardless of the date of the common control combination.

(d) Other investments in debt and equity securities

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(q)(vi).

Dated debt securities that the company has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised costs less impairment losses *(see note 1(g))*.

Investments are recognised/derecognised on the date the Sale Group Companies commit to purchase/sell the investments or they expire.

(e) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses *(see note 1(g))*:

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease; and

– other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land	Shorter of 50 years or unexpired lease term
– Leasehold improvements	Shorter of 5 years or unexpired lease term
– Plant and machinery	10 years
– Furniture, fixtures and equipment	5 years
– Motor vehicles	5 years
– Moulds	2 years
– Motor vessel	10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Sale Group Companies determine that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Sale Group Companies

Assets that are held by the Sale Group Companies under leases which transfer to the Sale Group Companies substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Sale Group Companies are classified as operating leases, with the following exception:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Sale Group Companies, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Sale Group Companies acquire the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Sale Group Companies will obtain ownership of the asset, the life of the asset, as set out in note 1(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(g). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Sale Group Companies have the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(g) Impairment of assets

(i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable date that comes to the attention of the Sale Group Companies about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

– If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. On this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Sale Group Companies are satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average costing method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts *(see note 1(g))*, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks. Bank overdrafts that are repayable on demand and form an integral part of the Sale Group Companies' cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plan

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Sale Group Companies' net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Sale Group Companies' obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Sale Group Companies' obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Sale Group Companies' net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Sale Group Companies demonstrably commit themselves to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Textile quota entitlements

Income and expenses on transfers of temporary textile quotas are dealt with in profit or loss as they arise.

(o) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Sale Group Companies have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Sale Group Companies intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Sale Group Companies issue a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Sale Group Companies' policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Sale Group Companies under the guarantee, and (ii) the amount of that claim on the Sale Group Companies is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Sale Group Companies have a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Sale Group Companies and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

(iii) Subcontracting and management service income

Subcontracting and management service income is recognised when services are rendered.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Claims received

Claims are recognised when the right to receive is established.

(vi) Investment income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(r) Translation of foreign currencies

The Financial Information is presented in HK$ which is the Sale Group Companies' functional currency.

Foreign currency transactions during the Relevant Period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the Hong Kong are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into HK$ at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

(s) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(t) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Sale Group Companies if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Sale Group Companies or exercise significant influence over the Sale Group Companies in making financial and operating policy decisions, or has joint control over the Sale Group Companies ;

(ii) the Sale Group Companies and the party are subject to common control;

(iii) the party is an associate of the Sale Group Companies or a joint venture in which the Sale Group Companies is a venturer;

(iv) the party is a member of key management personnel of the Sale Group Companies or the Sale Group Companies' parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Sale Group Companies or of any entity that is a related party of the Sale Group Companies.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

A segment is a distinguishable component of the Sale Group Companies that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect of the Sale Group Companies' business and geographical segments. The primary format, business segment, is based on the Sale Group Companies' management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Unallocated items comprise mainly financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

2. Turnover

During the period from 1 April 2005 to 31 July 2006, the Sale Group Companies were engaged in both wholesaling and retailing of ladies' intimate apparel and accessories in Hong Kong. In August 2006, the Sale Group Companies ceased the retailing business due to the continuous poor operating results. Thereafter, the Sale Group Companies' principal activities are the manufacturing and wholesaling of ladies' intimate apparel and accessories.

Turnover represents the invoiced value of goods sold less discounts and returns and is analysed as follows:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Wholesales of intimate apparel	1,123,772	1,106,793	1,021,361
Retail sales of intimate apparel	–	3,961	12,387
	1,123,772	1,110,754	1,033,748

During the years ended 31 March 2008, 2007 and 2006, 26%, 21% and 32% of the total revenues were derived from fellow subsidiaries and 37%, 45% and 41% of the total revenues were derived from five largest third party customers.

The cash flows from discontinued retail operations for the years ended 31 March 2007 and 2006 were as follows:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from discontinued operation			
Net cash from operating activities	–	2,794	5,164
Net cash from investing activities	–	–	8
Net cash from financing activities	–	80	1,164
Net cash from discontinued operation	–	2,874	6,336

3. Segment information

Since the turnover from the wholesales of ladies' intimate apparel had accounted for over 98% of total turnover during the Relevant Period, no business segment information is presented.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover based on geographical locations			
United States of America	667,894	553,070	560,062
Canada	4,352	37,139	33,211
United Kingdom	218,420	173,366	221,308
Europe (excluding United Kingdom)	146,412	197,570	123,888
Asia Pacific	79,477	142,147	95,279
Other countries	7,217	7,462	–
	1,123,772	1,110,754	1,033,748

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Segment assets based on geographical locations			
Hong Kong	208,506	218,372	478,895
PRC	106,052	112,118	149,336
Philippines	85,044	89,503	121,273
United Kingdom	1,571	486	4,637
	401,173	420,479	754,141

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure incurred during the year based on geographical locations			
Hong Kong	6,190	5,409	2,406
PRC	12,970	7,173	18,473
Philippines	2,405	1,312	11,526
	21,565	13,894	32,405

4. Other revenue

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Claims received	3,020	4,824	2,693
Interest income from bank deposits	127	266	259
Investment income	112	75	214
Service income from fellow subsidiary	–	–	1,899
Sundry income	419	945	1,152
	3,678	6,110	6,217

5. Other net (losses)/gains

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Net exchange (loss)/gain	(1,892)	2,083	(5,999)
(Loss)/gain on disposal of property, plant and equipment	(511)	216	(8,309)
Gain on disposal of investment securities	–	323	130
Gain on disposal of golf club membership	–	–	3,040
	(2,403)	2,622	(11,138)

6. Loss before taxation

Loss before taxation is arrived at after charging:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(a) Impairment provisions			
Provision for impairment of amount due from immediate holding company	42,622	232,122	223,469
Provision for impairment of amounts due from fellow subsidiaries	70,746	67,215	97,529
Impairment of property, plant and equipment	300	3,817	371
	113,668	303,154	321,369
(b) Finance costs:			
Interest on:			
– bank borrowings repayable within one year or on demand	29,202	32,420	20,793
– finance leases	141	204	473
Debt restructuring fee	10,675	–	–
Professional fee for debt restructuring	5,858	16,963	–
	45,876	49,587	21,266

Loss before taxation is arrived at after charging:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(c) Staff costs (include directors' emoluments):			
Contributions to retirement benefit schemes	9,660	8,895	11,058
Salaries, wages and other benefits	272,082	229,291	252,213
Termination benefits	–	5,794	207
	281,742	243,980	263,478

The Sale Group Companies operate and participate in a number of pension and retirement schemes of both the defined contribution and defined benefit types. Principal schemes are as follows:–

Employees of the Sale Group Companies in the PRC are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal government. The Sale Group Companies contribute funds which are calculated base on certain percentage of the average employee salary as agreed by the local municipal government to the schemes to fund the retirement benefits of the employees.

The Sale Group Companies also maintain a mandatory provident fund (the "MPF Scheme") for all qualifying employees in Hong Kong. The Sale Group Companies' and employee's contributions to the MPF Scheme are based on 5% of the relevant income of eligible employee (up to a cap of monthly relevant income of HK$20,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

Carina, which operates in the Philippines has adopted a funded non-contributory defined benefit pension plan covering all its regular employees. The benefits are based on years of services and the employees' final covered compensation. The plan requires periodic contributions by Carina as determined by periodic actuarial reviews. An actuarial valuation was performed by E.M. Zalamea Actuarial Services, Inc., a qualified actuary at 6 May 2008 using the Projected Unit Credit Actuarial Cost Method. The principal assumptions used in the actuarial valuation are that scheme assets will not earn any yield and salary will increase by 5% per annum. Based on this report, Carina has unrecognised actuarial losses of PesoNil for the year ended 31 March 2007 and Peso4,157,861 (equivalent to HK$779,000) for the year ended 31 March 2008.

No actuarial report had been prepared by the directors for the year 2006 but the directors are of the opinion that the provision for retirement benefits for the Sale Group Companies' employees in the Philippines was adequate as at 31 March 2006.

The Sale Group Companies have no other material obligations for the payment of retirement benefits associated with these schemes beyond the annual contributions described above.

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(d) Other items:			
Auditors' remuneration			
– Current year provision	1,268	861	758
– Under-provision for prior years	296	300	–
Depreciation			
– assets held under finance leases	–	1,343	2,036
– owned assets	25,904	25,582	25,068
Operating lease charges: minimum lease payments on properties	13,651	15,512	17,646
Temporary textile quota	5,035	11,959	6,671
Processing fees to third parties#	148,606	103,974	105,158
Processing fees to fellow subsidiaries	62,923	121,151	108,891
Provision for compensation to surrender unexpired leases	–	2,579	130

\# *Processing fees are payable to processing factories in the PRC for local labour supply, water and electricity expenses for the manufacturing of products. Included in the processing fees are staff costs of HK$93,038,000, HK$90,625,000 and HK$135,045,000 for the years ended 31 March 2008, 2007 and 2006 respectively which are also included in the total staff costs as disclosed separately in note 6(c).*

7. Income tax in the combined income statements

(a) Taxation in the combined income statements represents:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK\$'000	*HK\$'000*	*HK\$'000*
Current tax – Hong Kong Profits Tax			
Provision for the year	–	–	–
(Over)/under-provision in respect of prior years *(note (ii))*	(1,458)	560	22,661
	(1,458)	560	22,661
Current tax – Overseas			
Provision for the year	2,960	618	130
Over-provision in respect of prior years	–	–	(2,510)
	2,960	618	(2,380)
Deferred tax			
Origination and reversal of temporary differences	3,100	–	(14,900)
	4,602	1,178	5,381

Notes:

(i) No provision for Hong Kong profits tax has been provided as the Sale Group Companies have sustained tax losses for the years presented.

Applicable Hong Kong Profits Tax rate for the Relevant Period was 17.5%. On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual budget which proposed a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008/09 and a one-off reduction of 75% of the tax payable for the year of assessment 2007/08 subject to a ceiling of HK$25,000. No adjustments have been made on provision for Hong Kong Profits Tax payable in this Financial Information.

Processing factories of the Sale Group Companies in the PRC are subject to Corporate Income Tax at a rate of 15% on deemed profits for the period from 1 April 2005 to 31 December 2007 and 18% from 1 January 2008 to 31 March 2008. Carina is subject to a concession tax rate of 5% on assessable gross profits during the Relevant Period.

(ii) Under provision of Hong Kong Profits Tax for the year ended 31 March 2006 included an additional provision of HK$17.4 million for the years of assessment 1998/99 to 2003/04 *(see note 21(a))*.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Loss before taxation	(111,237)	(362,256)	(427,466)
Notional tax on loss before taxation, calculated at the rates applicable in the jurisdictions concerned	(14,509)	(62,993)	(73,834)
Tax effect of non-taxable revenue	(62,520)	(49,599)	(43,504)
Tax effect of non-deductible expenses	82,328	105,038	99,802
Tax effect of unrecognised temporary differences	492	9,385	2,765
Tax effect of unrecognised tax losses utilised	–	(1,213)	–
Effect on change in tax rates	269	–	–
(Over)/under provision for prior years	(1,458)	560	20,152
Actual tax expenses	4,602	1,178	5,381

8. Directors' remuneration

Details of directors' remuneration of the Sale Group Companies are set out below:

Year ended 31 March 2008

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Prior years' directors' fee waived	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors						
Andrew Sia	–	9,557	780	–	–	10,337
May May, Carina Wong	–	100	–	–	–	100
Tina Sia	–	1,239	95	–	–	1,334
Rosa Ng *	–	–	–	–	–	–
Ng Kui Chi *	–	–	–	–	–	–
Lam Kwai Ying *	–	–	–	–	–	–
Total	–	10,896	875	–	–	11,771

Year ended 31 March 2007

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Prior years' directors' fee waived	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors						
Andrew Sia	–	9,442	780	–	(200)	10,022
May May, Carina Wong	–	–	–	–	(200)	(200)
Tina Sia	–	1,255	94	–	(200)	1,149
Rosa Ng *	–	480	44	–	(200)	324
Ng Kui Chi *	–	586	54	–	(200)	440
Lam Kwai Ying *	–	593	55	–	(200)	448
Total	–	12,356	1,027	–	(1,200)	12,183

Year ended 31 March 2006

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Discretionary bonuses	Prior years' directors' fee waived	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors						
Andrew Sia	100	11,266	780	–	–	12,146
May May, Carina Wong	100	–	–	–	–	100
Tina Sia	100	1,262	89	–	–	1,451
Rosa Ng *	100	1,077	97	–	–	1,274
Ng Kui Chi *	100	1,245	118	–	–	1,463
Lam Kwai Ying *	100	1,439	119	–	–	1,658
Total	600	16,289	1,203	–	–	18,092

* *Rosa Ng, Ng Kui Chi and Lam Kwai Ying resigned on 15 September 2006 as directors of ASIAL.*

During the Relevant Period, no amount was paid by the Sale Group Companies to the directors or any of the highest paid individuals set out in note 9 below as an inducement to join or upon joining the Sale Group Companies or as compensation for loss of office. Apart from the waive of directors' fee disclosed above, there was no arrangement under which a director waived or agreed to waive any compensation during the Relevant Period.

9. Individuals with highest emoluments

During the years ended 31 March 2007 and 2006, one of the five highest paid individuals is a director of the Sale Group Companies and during the year ended 31 March 2008, two of the five highest paid individuals are directors of the Sale Group Companies, whose emoluments are disclosed in note 8. The remuneration of the remaining individuals is as follows:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other emoluments	4,517	5,693	5,906
Discretionary bonus	–	–	205
Contributions to retirement benefit scheme	226	249	260
	4,743	5,942	6,371

The emoluments of the remaining individuals with the highest emoluments are within the following bands:

	Year ended 31 March		
	2008	**2007**	**2006**
	Number of individuals	*Number of individuals*	*Number of individuals*
HK$Nil – HK$1,000,000	–	–	–
HK$1,000,001 – HK$1,500,000	2	3	1
HK$1,500,001 – HK$2,000,000	–	1	3
HK$2,000,001 – HK$2,500,000	1	–	–

10. Dividends

ASIAL declared and paid an interim cash dividend to its then equity owners of HK$1.4 per share totalling HK$11,200,000 during the year ended 31 March 2006. Apart from this, no interim or final dividend declared or paid by the companies comprising the Sale Group Companies during the Relevant Period.

The dividend declared during the Relevant Period is not indicative to the future dividend policy.

11. Loss per share

Loss per share is not presented as the directors of the Sale Group Companies do not consider such information to be meaningful in the context of the Financial Information.

12. Property, plant and equipment

	Properties held for own use	Leasehold improvements	Furniture, Fixtures and equipment	Plant and machinery	Motor vehicles	Motor vessel	Mould heads	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:								
At 1 April 2005	6,125	51,364	46,692	216,032	14,292	2,000	–	336,505
Exchange adjustments	–	444	231	38	56	–	–	769
Additions	–	5,539	4,779	20,924	81	–	1,082	32,405
Transfer to fellow subsidiaries	–	(226)	(267)	(56,811)	–	–	–	(57,304)
Disposals	–	(1,555)	(2,785)	(1,309)	–	–	–	(5,649)
At 31 March 2006	6,125	55,566	48,650	178,874	14,429	2,000	1,082	306,726
At 1 April 2006	6,125	55,566	48,650	178,874	14,429	2,000	1,082	306,726
Exchange adjustments	–	594	274	46	61	–	–	975
Additions	–	1,150	2,819	8,398	161	–	1,366	13,894
Transfer to fellow subsidiaries	–	–	(38)	(7,116)	–	–	–	(7,154)
Disposals	–	(13,343)	(2,198)	–	(76)	–	–	(15,617)
At 31 March 2007	6,125	43,967	49,507	180,202	14,575	2,000	2,448	298,824
At 1 April 2007	6,125	43,967	49,507	180,202	14,575	2,000	2,448	298,824
Exchange adjustments	–	1,465	701	120	148	–	–	2,434
Additions	–	1,310	6,649	12,789	50	–	767	21,565
Transfer to fellow subsidiaries	–	–	–	(557)	–	–	–	(557)
Disposals	–	(6,546)	(3,057)	(4,236)	–	–	(107)	(13,946)
At 31 March 2008	6,125	40,196	53,800	188,318	14,773	2,000	3,108	308,320
Accumulated depreciation and impairment losses:								
At 1 April 2005	503	32,829	33,398	120,736	8,050	267	–	195,783
Exchange adjustments	–	276	210	33	51	–	–	570
Charge for the year	159	5,512	4,858	14,093	2,054	200	228	27,104
Impairment losses	–	128	243	–	–	–	–	371
Transfer to fellow subsidiaries	–	(111)	(111)	(34,839)	–	–	–	(35,061)
Write back on disposals	–	(1,154)	(2,013)	(689)	–	–	–	(3,856)
At 31 March 2006	662	37,480	36,585	99,334	10,155	467	228	184,911
At 1 April 2006	662	37,480	36,585	99,334	10,155	467	228	184,911
Exchange adjustments	–	354	243	40	58	–	–	695
Charge for the year	158	5,613	4,298	13,814	2,079	200	763	26,925
Impairment losses	–	1,310	1,590	917	–	–	–	3,817
Transfer to fellow subsidiaries	–	–	(9)	(2,335)	–	–	–	(2,344)
Write back on disposals	–	(13,041)	(2,188)	–	(70)	–	–	(15,299)
At 31 March 2007	820	31,716	40,519	111,770	12,222	667	991	198,705

	Properties held for own use HK$'000	Leasehold improvements HK$'000	Furniture, Fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Motor vessel HK$'000	Mould heads HK$'000	Total HK$'000
At 1 April 2007	820	31,716	40,519	111,770	12,222	667	991	198,705
Exchange adjustments	–	965	622	102	145	–	–	1,834
Charge for the year	159	4,525	3,922	14,545	1,573	200	980	25,904
Impairment losses	–	–	–	300	–	–	–	300
Transfer to fellow subsidiaries	–	–	–	(391)	–	–	–	(391)
Write back on disposals	–	(6,547)	(3,057)	(3,505)	–	–	(50)	(13,159)
At 31 March 2008	979	30,659	42,006	122,821	13,940	867	1,921	213,193
Net book value:								
At 31 March 2008	5,146	9,537	11,794	65,497	833	1,133	1,187	95,127
At 31 March 2007	5,305	12,251	8,988	68,432	2,353	1,333	1,457	100,119
At 31 March 2006	5,463	18,086	12,065	79,540	4,274	1,533	854	121,815

(a) ASIAL leases out certain machineries under operating leases to fellow subsidiaries in the Philippines which provide exclusive subcontracting services to ASIAL. At 31 March 2008, 2007 and 2006, net book value of those machines was HK$21,053,000, HK$24,553,000 and HK$28,098,000, respectively. Operating lease rental income from the fellow subsidiaries for the leases of machines for the year ended 31 March 2008, 2007 and 2006 of HK$3,177,000, HK$6,731,000 and HK$6,000,000, respectively, had been netted off against the subcontracting charges paid and payable to respective fellow subsidiaries and credited to cost of sales.

(b) During the year ended 31 March 2007 and 2006, certain machineries and motor vehicles with an aggregate carrying value of HK$6,676,000 and HK$9,554,000 respectively were under finance leases. All such finance leases were converted into bank loans during the year ended 31 March 2008 *(note 19)*.

(c) The property held for own use is a director quarters located in Hong Kong under long lease. As a condition of the Share Acquisition Agreement as set out on page 16 of the Circular, the director quarters will be sold to a third party upon completion of the acquisition of the entire interests of the Sale Group Companies by Top From (B.V.I.) Limited, a direct wholly-owned subsidiary of Top Form International Limited.

(d) Impairment of property, plant and equipment was made based on the directors' estimations that the recoverable amounts or value in use of those items were smaller than their carrying value.

(e) Directors of the Sale Group Companies consider the consideration for transfer of machines to/from fellow subsidiaries were at fair market value.

13. Inventories

(a) Inventories in the combined balance sheets comprise:

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	36,531	21,014	30,067
Work in progress	63,569	77,803	127,952
Finished goods	12,273	9,735	16,137
	112,373	108,552	174,156

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cost of inventories sold	905,301	924,648	877,614
Write-down of inventories	5,804	11,366	7,279
	911,105	936,014	884,893

14. Trade and other receivables

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	140,790	115,599	112,599
Bills receivable	11,914	22,268	65,760
Less: allowance for doubtful debts	(1,376)	(7,344)	(5,507)
	151,328	130,523	172,852
Deposits for purchase of fixed assets	–	1,040	462
Prepaid textile quotas	1,080	1,512	7,144
Other receivables and prepayments	6,957	5,535	11,291
	159,365	138,610	191,749

(a) Ageing analysis

An ageing analysis of the trade and bills receivables (net of allowance for doubtful debts) is as follows:

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	64,917	68,364	93,917
31 – 60 days	35,010	32,511	33,937
61 – 90 days	28,429	12,764	30,405
Over 90 days	22,972	16,884	14,593
	151,328	130,523	172,852

All of the trade and other receivables are expected to be recovered within one year. Further details on the Sale Group Companies' credit policy are set out in note 25(a).

(b) Impairment of trade receivables and bills receivable

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Sale Group Companies are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly *(see note 1(g)(i))*.

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	7,344	5,507	269
Impairment loss recognised	103	2,377	5,238
Reversal of impairment provision	(312)	(540)	–
Uncollectible amounts written off	(5,759)	–	–
At end of the year	1,376	7,344	5,507

The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Sale Group Companies do not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor impaired	99,927	100,875	127,854
Less than 1 month past due	28,429	12,764	30,405
1 to 3 months past due	10,962	11,921	9,661
More than 3 months past due	12,010	4,963	4,932
Amounts past due	51,401	29,648	44,998
	151,328	130,523	172,852

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Sale Group Companies. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality. The overdue balances at 31 March 2007 and 2006 have been fully recovered in subsequent periods. The Sale Group Companies do not hold any collateral over these balances.

(d) At 31 March 2008, 2007 and 2006, included in the trade receivables were amounts of HK$20,625,000, HK$12,704,000 and HK$10,812,000 pledged to secure factoring advances respectively.

15. Amounts due from/(to) group companies

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from immediate holding company	498,214	455,591	370,908
Less: Impairment provision	(498,214)	(455,591)	(223,469)
	–	–	147,439
Amounts due from fellow subsidiaries	235,490	206,997	167,689
Less: Impairment provision	(235,490)	(164,744)	(97,529)
	–	42,253	70,160
Amount due to immediate holding company	–	48,486	48,340
Amounts due to fellow subsidiaries	261,778	154,153	65,810

(a) The balances are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$11,340,000 due to the immediate holding company and HK$370,908,000 due from immediate holding company at 31 March 2006 which were not repayable within one year after the balance sheet date.

In March 2008, the immediate holding company agreed that the amounts owed by the Sale Group Companies to it of HK$48,485,000 were netted off against the amounts due from it to the Sale Group Companies.

(b) Provisions for impairment on amounts due from companies are made to the extent of the difference between the gross amounts of receivables and the amounts received or expected to be receivable. Since the group companies were operating at operating losses and in net liabilities position, the directors of the Sale Group Companies consider that full impairment provision for the balances due from group companies at 31 March 2008 was required.

(c) Included in the balances due from fellow subsidiaries at 31 March 2008, 2007 and 2006 was an amount of HK$15,573,000, HK$15,628,000 and HK$15,518,000 respectively subordinated to banking facilities granted to a fellow subsidiary, Ace Style Intimate Apparel Inc.

16. Cash and cash equivalents

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cash at bank	16,102	17,073	34,837
Cash in hand	570	733	715
	16,672	17,806	35,552
Bank overdrafts *(note 18)*	(25,773)	(18,968)	–
Cash and cash equivalents in combined cash flow statements	(9,101)	(1,162)	35,552

17. Trade and other payables

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables			
– third parties	106,499	78,764	119,114
– a related company	6,148	6,764	3,898
Bills payable	23,002	6,618	–
	135,649	92,146	123,012
Accrued directors' fee	–	–	1,200
Accrued salaries, wages and other benefits	20,581	15,763	17,382
Payable for purchase of fixed assets	1,890	741	852
Provision for redundancy costs	220	3,500	–
Provision for professional fee on debt restructuring	8,290	10,282	–
Debt restructuring fees payable	10,675	–	–
Lease surrender compensation	1,009	2,479	–
Other payables and accruals	27,540	18,727	26,875
	205,854	143,638	169,321

All of the trade and other payables are due within one year.

(a) An ageing analysis of trade and bills payables is as follows:

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	55,054	27,730	62,553
31 – 60 days	24,700	24,593	27,756
61 – 90 days	24,036	20,539	17,692
Over 90 days	31,859	19,284	15,011
	135,649	92,146	123,012

18. Secured bank loans and overdrafts

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Bank loans repayable on demand	411,979	445,950	504,150
Bank overdrafts *(note 16)*	25,773	18,968	–
	437,752	464,918	504,150

All bank borrowings are classified as current liabilities in view of the terms and conditions of a banking facilities standstill agreement dated 4 August 2006 which is terminable by any bankers by giving 10 days' advance notice, upon the determination of the majority of creditor bankers immediately or upon making of a winding-up order or the appointment of a provisional liquidator, receiver, administrator or analogous insolvency appointment against any of the Sale Group Companies or its group companies.

During the standstill period, the Sale Group Companies, together with their holding companies and certain fellow subsidiaries, agreed with their creditor bankers for a five-year repayment plan as specified under a debt restructuring agreement dated 29 August 2007. However, they subsequently defaulted on repayment of the scheduled monthly repayments. The Sale Group Companies, together with their holding companies and certain fellow subsidiaries, are currently under discussion with their creditor bankers for a revised repayment plan and actively discussing with prospective investors to bring in additional funding in order to alleviate their liquidity problem. Considering the current business opportunities and stable customer base, the directors are of the opinion that the creditor bankers will not terminate the standstill agreement and will allow the Sale Group Companies to further extend the repayment of bank loans, and that no creditors will take action to put the Sale Group Companies into liquidation. As of the date of approval of the Financial Information, there is no notice of termination of the standstill agreement.

All bank borrowings are secured by all assets of the Sale Group Companies, its holding companies and certain of its fellow subsidiaries, unlimited personal guarantees from the directors and two leasehold properties held by a director together with assignment of rentals.

Effective interest rates of bank overdrafts at 31 March 2008 and 2007 were 4.25% and 6.75% per annum respectively, while the annual effective interest rates for bank loans at 31 March 2008, 2007 and 2006 were 4.31%, 6.40% and 5.63% respectively.

19. Obligations under finance leases

At each of the balance sheet date, the Sale Group Companies had obligations under finance leases repayable as follows:

	As at 31 March					
	2008		2007		2006	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	–	–	3,361	3,406	4,431	4,590
Less: Total future interest expense		–		(45)		(159)
Present value of lease obligations		–		3,361		4,431

All finance leases were converted into bank loans on 30 November 2007.

20. Provision for unused annual leave

	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	3,507	3,522	1,805
Utilised for the year	(1,208)	(1,273)	(902)
Charged to income statement	601	1,258	2,619
At end of the year	2,900	3,507	3,522

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

21. Income tax in the combined balance sheets

(a) Current taxation in the combined balance sheets represents:

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Provision for income tax for the year	2,960	618	130
Provisional Profits Tax paid	(527)	(501)	(130)
	2,433	117	–
Balance of tax provision relating to prior years	(14,516)	(4,479)	8,602
	(12,083)	(4,362)	8,602
Representing:			
Tax recoverable	(14,836)	(4,479)	–
Current taxation payable	2,753	117	8,602
	(12,083)	(4,362)	8,602

During the year ended 31 March 2005, the Hong Kong Inland Revenue Department ("IRD") enquired ASIAL's basis of allocation of profits arising from the operations in the PRC, the Philippines and Hong Kong and the basis of depreciation allowances claims for the years of assessment 1998/99 to 2003/04. In respect of the queries, ASIAL submitted revised tax computations for the years under enquiries and paid HK$17.4 million additional Hong Kong Profits Tax during the year ended 31 March 2006 and 2007.

In July 2008, the IRD finally agreed ASIAL's compromise proposal and confirmed the additional Hong Kong Profits Tax payable by ASIAL for the years of assessment 1998/99 to 2003/04 should be HK$15.9 million. The excess Hong Kong Profits Tax paid of HK$1.5 million has been subsequently refunded to ASIAL in July 2008.

(b) Deferred tax assets recognised:

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

Deferred tax arising from:	**Tax losses**	**Depreciation allowances in excess of related depreciation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2005	–	(9,000)	(9,000)
Credited to profit or loss	10,009	4,891	14,900
At 31 March 2006 and 1 April 2006	10,009	(4,109)	5,900
(Charged)/credited to profit or loss	–	–	–
At 31 March 2007 and 1 April 2007	10,009	(4,109)	5,900
(Charged)/credited to profit or loss	(5,558)	2,458	(3,100)
At 31 March 2008	4,451	(1,651)	2,800

(c) Deferred taxation not recognised

The Sale Group Companies have not recognised deferred tax assets in respect of tax losses of HK$64,320,000, HK$57,839,000 and HK$61,046,000 for the year ended 31 March 2008, 2007 and 2006 respectively, and temporary differences on depreciation allowances over related charges of HK$6,532,000, HK$4,981,000 and HK$17,595,000 respectively. The tax losses do not expire under the current tax legislation.

22. Loan from a director

Loan from a director, Andrew Sia, is unsecured, interest free and subordinated to the repayment of all bank loans due to creditor bankers and not payable until the Sale Group Companies are financially capable to repay, which is not expected to be within the twelve months from the balance sheet date.

As a condition of the Share Acquisition Agreement as set out on page 16 of the Circular, the director will assign his rights to the loan advanced to the Sale Group Companies of HK$13,675,000 to Ace Style International Limited, the then immediate holding company of the Sale Group Companies upon completion of the acquisition of the entire interests of the Sale Group Companies by Top Form (B.V.I.) Limited, a direct wholly-owned subsidiary of Top Form International Limited.

23. Provisions for employee benefits

	Retirement benefits	Long service payments	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2005	1,331	–	1,331
Charged to profit or loss	186	–	186
At 31 March 2006 and 1 April 2006	1,517	–	1,517
Charged to profit or loss	893	522	1,415
At 31 March 2007 and 1 April 2007	2,410	522	2,932
Charged to profit or loss	950	–	950
At 31 March 2008	3,360	522	3,882

See note 6(c) the basis for provision for retirement benefits.

Long service payments are provided by the Sale Group Companies in accordance with Part VB of the Hong Kong Employment Ordinance based on the employees' service to date and current salary levels for those employees in Hong Kong who have been employed by the Sale Group Companies for at least five years.

24. Share capital

As the companies comprising the Sale Group Companies are under common control of the same equity holder and there was no parent-subsidiary relationships among the companies during the Relevant Period, the share capital in the combined balance sheets as at 31 March 2008, 2007 and 2006 represented the aggregate amount of paid up capital of the companies now comprising the Sale Group Companies.

25. Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of business are limited by the Sale Group Companies' financial management policies and practices described below.

(a) Credit risk

Sale Group Companies' credit risk is primarily attributable to cash and bank deposits, trade and other receivables and balances due from group companies. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis, except for the advance to group companies.

The Sale Group Companies' cash and bank deposits are placed with major financial institutions and the credit risk is considered to be low.

Trade and bills receivables are presented net of the allowance for bad and doubtful debts. Credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Sale Group Companies do not obtain collateral from customers. At the balance sheet date, the Sale Group Companies have a certain concentration of credit risk as the trade receivables from the five largest third party customer at 31 March 2008, 2007 and 2006 represented 59%, 65%, and 54% of the total trade receivables respectively, while 5%, 19% and 15% of the total trade receivables were due from the largest third party customer respectively.

The Sale Group Companies provide interest free advances to the then immediate holding company and fellow subsidiaries as instructed by the shareholders although the then immediate holding company and fellow subsidiaries had been operated under continuous losses and recorded net liabilities. At 31 March 2008, full provision had been made for the amounts due from the then immediate holding company and fellow subsidiaries.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for guarantees given by the Sale Group Companies to certain banks in favour of a then fellow subsidiary, Fiori Textiles Limited, as set out in note 27, the Sale Group Companies do not provide any other guarantees which would expose them to credit risk.

(b) Liquidity risk

During the year ended 31 March 2008, 2007 and 2006, the Sale Group Companies were operated at net current liabilities and relies on bank borrowings as a significant source of finance.

The Sale Group Companies' objective is to generate adequate operating cash inflows for meeting committed repayment schedule of bank loans and trade and other obligations as and when they fall due. The directors of the Sale Group Companies are currently negotiating with the creditor bankers for an extension of repayment schedule and on-going banking facilities so as to allow the Sale Group Companies to get sufficient working capital to continue their trading operations. The directors are also actively searching investors to bring in additional funding in order to alleviate the Sale Group Companies' liquidity problem.

As of the date of approval of the Financial Information, the directors are of the opinion that the creditor bankers will allow the Sale Group Companies to extend the loan repayment schedule so that they will be able to meet their other debts and monthly repayment of outstanding bank loans as and when fall due.

The following table details the remaining contractual maturities at the balance sheet date of the Sale Group Companies' financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Sale Group Companies' can be required to pay.

	As at 31 March 2008			
	Carrying Amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	205,854	(205,854)	(205,854)	–
Secured bank loans and overdrafts	437,752	(437,752)	(437,752)	–
Amounts due to fellow subsidiaries	261,778	(261,778)	(261,778)	–
Provision for unused annual leave	2,900	(2,900)	(2,900)	–
Loan from a director	13,675	(13,675)	–	(13,675)
Provision for employee benefits	3,882	(3,882)	–	(3,882)
	925,841	(925,841)	(908,284)	(17,557)

	As at 31 March 2007			
	Carrying Amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	143,638	(143,638)	(143,638)	–
Secured bank loans and overdrafts	464,918	(464,918)	(464,918)	–
Obligations under finance lease	3,361	(3,406)	(3,406)	–
Amount due to immediate holding company	48,486	(48,486)	(48,486)	–
Amounts due to fellow subsidiaries	154,153	(154,153)	(154,153)	–
Provision for unused annual leave	3,507	(3,507)	(3,507)	–
Loan from a director	13,675	(13,675)	–	(13,675)
Provision for employee benefits	2,932	(2,932)	–	(2,932)
	834,670	(834,715)	(818,108)	(16,607)

	As at 31 March 2006			
	Carrying Amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	169,321	(169,321)	(169,321)	–
Secured bank loans and overdrafts	504,150	(504,150)	(504,150)	–
Obligations under finance lease	4,431	(4,590)	(4,590)	–
Amount due to immediate holding company	48,340	(48,340)	(37,000)	(11,340)
Amounts due to fellow subsidiaries	65,810	(65,810)	(65,810)	–
Provision for unused annual leave	3,522	(3,522)	(3,522)	–
Other payables	650	(650)	–	(650)
Loan from a director	78	(78)	–	(78)
Provision for employee benefits	1,517	(1,517)	–	(1,517)
	797,819	(797,978)	(784,393)	(13,585)

(c) Interest rate risk

Except for bank deposits with stable interest rates, the Sale Group Companies have no other significant interest-bearing assets. Accordingly, the Sale Group Companies' income and operating cash flows are substantially independent of changes in market interest rates. In addition, the management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

The Sale Group Companies' interest rate risk arise mainly from bank borrowings. Borrowings obtained at variable rates expose the Sale Group Companies to cash flow interest rate risk. The Sale Group Companies do not use derivative financial instruments to hedge its interest rate risk.

As at 31 March 2008, 2007 and 2006, it is estimated that a general increase/decrease of 100 base points in interest rates, with all other variables held constant, would increase/decrease the Sale Group Companies' loss for the respective year and accumulated losses by approximately HK$3,612,000, HK$3,836,000 and HK$4,159,000 respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the Relevant Period and to the coming balance sheet date.

(d) Currency risk

The Sale Group Companies are primarily exposed to currency risk through sales, purchases and certain bank borrowings that are denominated in Euros ("EUR"), United States dollars ("USD"), British Sterling ("GBP"), Philippines Peso ("Peso") or Renminbi ("RMB").

As USD is pegged to HKD, the Sale Group Companies do not expect any significant movements in the USD/HKD exchange rate and therefore, the management considers the currency risk from transactions denominated in USD to be low. Any significant depreciation in GBP and EUR would adversely affect the Sale Group Companies' operating results and financial position since most of the sales revenues are denominated in GBP and EUR. In addition, any appreciation in RMB and Peso would also affect the Sale Group Companies' operating results since a material portion of the Sale Group Companies' manufacturing overhead and labour costs are denominated in RMB and Peso.

The Sale Group Companies have not hedged their currency risk because the exposure is not significant and the Sale Group Companies ensure that the net exposure to foreign currency is kept at an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

(i) Exposure to currency risk

The following table details the Sale Group Companies' exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the Sale Group Companies' functional currency.

	As at 31 March 2008				
	United States dollars	**Sterling**	**Euros**	**Philippines peso**	**Renminbi**
	'000	*'000*	*'000*	*'000*	*'000*
Trade and bills receivables	12,125	2,582	846	–	–
Other receivables and prepayments	26	1	61	–	1,435
Trade and bills payables	(3,109)	(171)	(293)	(18)	(594)
Other payables and accruals	(792)	(75)	–	–	(4,937)
Cash and cash equivalents	1,714	5	1	3	1,587
Bank loans and overdrafts	(7,403)	(696)	(292)	–	–
Net exposure to currency risk	2,561	1,646	323	(15)	(2,509)

	As at 31 March 2007				
	United States dollars	**Sterling**	**Euros**	**Philippines peso**	**Renminbi**
	'000	*'000*	*'000*	*'000*	*'000*
Trade and bills receivables	9,580	1,811	629	3	–
Other receivables and prepayments	9	1	–	632	1,392
Trade and bills payables	(2,193)	(106)	(716)	–	–
Other payables and accruals	(102)	(112)	–	–	(11,602)
Cash and cash equivalents	864	5	2	3	7,893
Bank loans and overdrafts	(7,299)	(837)	(548)	–	–
Net exposure to currency risk	859	762	(633)	638	(2,317)

	As at 31 March 2006				
	United States dollars	Sterling	Euros	Philippines peso	Renminbi
	'000	*'000*	*'000*	*'000*	*'000*
Trade and bills receivables	15,655	2,343	769	–	–
Other receivables and prepayments	457	2	–	112	182
Trade and bills payables	(3,335)	(268)	(978)	–	–
Other payables and accruals	(299)	(223)	(3)	–	(7,175)
Cash and cash equivalents	1,038	72	231	3	8,597
Bank loans and overdrafts	(21,311)	(1,486)	(437)	–	–
Net exposure to currency risk	(7,795)	440	(418)	115	1,604

(ii) Sensitivity analysis

The following table indicates the approximate change in the Sale Group Companies' losses for the year and accumulated losses in response to reasonably possible changes in the foreign exchange rates to which the Sale Group Companies have significant exposure at the balance sheet date. Other components of equity would not be affected by changes in the foreign exchange rates.

	As at 31 March					
	2008		2007		2006	
	Increase/ (decrease) In foreign exchange rates	(Increase)/ decrease on loss for the year and accumulated losses	Increase/ (decrease) In foreign exchange rates	(Increase)/ decrease on loss for the year and accumulated losses	Increase/ (decrease) In foreign exchange rates	(Increase)/ decrease on loss for the year and accumulated losses
		HK$'000		*HK$'000*		*HK$'000*
United States dollars	10%	1,644	10%	554	10%	(4,989)
	(10%)	(1,644)	(10%)	(554)	(10%)	4,989
Sterling	10%	2,106	10%	965	10%	488
	(10%)	(2,106)	(10%)	(965)	(10%)	(488)
Euros	10%	328	10%	(544)	10%	(324)
	(10%)	(328)	(10%)	544	(10%)	324
Philippines peso	10%	(1)	10%	9	10%	1
	(10%)	1	(10%)	(9)	(10%)	(1)
Renminbi	10%	(230)	10%	(193)	10%	181
	(10%)	230	(10%)	193	(10%)	(181)

(e) Fair values

Held-to-maturity debt securities were carried at fair value based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The carrying amounts of other significant financial assets and liabilities approximate to their respective fair values as at 31 March 2008, 2007 and 2006, except for the amounts due from/to group companies and directors which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

(f) Business risk

A material portion of the Sale Group Companies' products are manufactured at the PRC processing factories operated by third parties under processing agreements. The terms of the processing agreements are terminable by either party by giving three month's notice. The directors are not aware of any reason or events which will result in an early termination of the processing agreements in view of a stable relationship between the Sale Group Companies and the processing factories.

26. Commitments

(a) Capital commitments of the Sale Group Companies in respect of property, plant and equipment outstanding at 31 March 2008, 2007 and 2006 not provided for in the Financial Information were as follows:

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Contracted for	611	3,825	744
Authorised but not contracted for	–	–	–
	611	3,825	744

(b) At each of the balance sheet dates, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	15,992	14,331	17,476
After 1 year but within 5 years	37,430	36,269	44,486
After 5 years	99,448	95,261	96,464
	152,870	145,861	158,426

The Sale Group Companies lease a number of properties under operating leases, including its office in Hong Kong and production facilities in the Philippines and the PRC. The leases typically run for an initial period of one to thirty years, with an option to renew the leases when all terms are renegotiated. The leases do not include contingent rentals.

Subsequent to 31 March 2007, the directors of the Sale Group Companies resolved to surrender the residue of tenancy of a production plant in Shenzhen prior to the lease expiry date for which the committed minimum operating lease payments at 31 March 2007 were HK$4,579,000. As mutually agreed with the landlord, the Sale Group Companies paid a compensation of HK$2,479,000 for the early termination of the unexpired lease, which had been provided for in the 2007 financial statements *(note 6(d))*.

27. Contingent liabilities

(i) The Sale Group Companies had given unlimited guarantees in favour of banks for banking facilities granted to a fellow subsidiary, Fiori Textiles Limited, of which HK$171,496,000, HK$170,990,000 and HK$235,330,000 was utilised as at 31 March 2008, 2007 and 2006, respectively.

At the balance sheet date the directors did not consider it probable that a claim would be made against the Sale Group Companies under any guarantees. The Sale Group Companies have not recognised any deferred income in respect of the guarantees issued as their fair value could reliably measured and their transaction price was not significant.

(ii) On 7 June 2007, the board of directors of Carina agreed to assume the liabilities that may arise from all pending labour disputes of Prima Lingerie Inc., a fellow subsidiary incorporated in the Philippines. The directors confirm that there has been no compensation paid or payable by Carina regarding this undertaking since the date of board resolution, and the undertaking has been revoked on 14 August 2008.

28. Major non-cash transactions

Non cash transactions

(a) In March 2008, the directors of Ace Style International Limited, the immediate holding company of the Sale Group Companies, agreed to assign the amounts owed by Elkhorn, Tavistock and Carina to it of HK$48,485,000 to ASIAL.

(b) During the year ended 31 March 2008, 2007 and 2006, the Sale Group Companies transferred certain plant and machinery to fellow subsidiaries at a consideration of HK$166,000, HK$5,196,000 and HK$15,576,000 respectively which were settled through the current accounts with the fellow subsidiaries without cash settlement.

(c) During the year ended 31 March 2008, 2007 and 2006, certain plant and machinery were transferred from fellow subsidiaries at a consideration of HK$7,204,000, HK$6,577,000 and HK$Nil respectively which were settled through the current accounts with the fellow subsidiaries without cash settlement.

29. Material related party transactions

During the Relevant Period, the directors are of the view that the following companies are related parties of the Sale Group Companies.

Name of party	**Relationship**
Ace Style International Limited ("ASIL")	Immediate holding company of the Sale Group Companies which is wholly owned and controlled by Mr. Andrew Sia and his family through Fairwood Assets
Fairwood Assets Limited ("Fairwood Assets")	Ultimate holding company of the Sale Group Companies which is wholly owned and controlled by Mr. Andrew Sia and his family
Ace Style Intimate Apparel (UK) Limited ("AS(UK)")	Wholly owned and controlled by Mr. Andrew Sia and his family through ASIL

Name of party	Relationship
Ace Style Intimate Apparel, Inc. ("AS(US)")	Wholly owned and controlled by Mr. Andrew Sia and his family through ASIL
Euphoria Boutiques Inc. ("Euphoria Boutiques")	Wholly owned and controlled by Mr. Andrew Sia and his family through ASIL. Euphoria Boutiques is undergoing liquidation at 31 March 2008
Lingerie Studio Inc. ("Lingerie Studio")	Wholly owned and controlled by Mr. Andrew Sia and his family through ASIL
Fiori Apparel Limited ("Fiori Apparel")	Wholly owned and controlled by Mr. Andrew Sia and his family through ASIL
Fiori Textiles Limited ("Fiori Textiles")	Wholly owned and controlled by Mr. Andrew Sia and his family through ASIL
Les Boutiques Ace Style Limited ("Les Boutiques")	Wholly owned and controlled by Mr. Andrew Sia and his family through ASIL
Blue Vibes International Limited ("Blue Vibes Int'l")	Wholly owned and controlled by Mr. Andrew Sia and his family through ASIL
Blue Horizon Sourcing & Logistics Inc. ("Blue Horizon") New Waves Apparel Corporation ("New Waves") Prima Lingerie, Inc. ("Prima") Sensuous Lingerie, Inc. ("Sensuous")	Collectively, "Ace Philippines", companies wholly owned and controlled by Mr. Andrew Sia and his family through ASIL. At 31 March 2008, these companies were inactive and being petitioned for voluntary dissolution.
AP Spectrum Limited ("AP Spectrum")	Andrew Sia, a director and a beneficiary of the Sale Group Companies, is one of the two directors of AP Spectrum and holds 5% equity interest in AP Spectrum through ASIL

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Sale Group Companies entered into the following material related party transactions during the Relevant Period.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Sale Group Companies, including amounts paid to the directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Short-term employee benefits	13,087	13,072	18,632
Discretionary bonus	–	–	–
Contributions to defined contribution retirement benefit scheme	886	1,039	1,215
	13,973	14,111	19,847

(b) Transactions with related parties

(i) During the year ended 31 March 2008, the Sale Group Companies paid legal and professional fee of HK$1,759,000 for ASIL regarding the liquidation of a company, Guy Birkin Limited and a fellow subsidiary, Euphoria Boutiques Inc.

(ii) During the year ended 31 March 2008, the Sale Group Companies paid legal and professional fee of HK$351,000 for Fairwood Assets regarding the consultancy services on a family trust arrangement for the ultimate beneficiaries of Fairwood Assets.

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(iii) Sales of goods to			
– AS (US)	288,431	211,624	307,557
– Les Boutiques	–	–	733
– Euphoria Boutiques	–	6,535	8,203
– Lingerie Studio	–	11,110	15,025
	288,431	229,269	331,518
(iv) Purchase of materials from			
– Fiori Textiles	88,529	85,137	107,719
– AP Spectrum	5,655	7,752	6,922
	94,184	92,889	114,641
(v) Processing fee to			
– Fiori Textiles	583	559	7,574
– Fiori Apparel	655	7,697	–
– Ace Philippines	61,685	111,943	101,317
– Blue Vibes Int'l	–	952	–
	62,923	121,151	108,891
(vi) Service fee paid and payable to			
– AS (US)	11,123	20,597	23,561
– AS (UK)	7,136	7,511	11,735
	18,259	28,108	35,296
(vii) Service fee income from			
– Les Boutiques	–	–	1,899

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
(viii) Net transfer of fixed assets from/(to)			
– AS (US)	3,945	575	(32)
– AS (UK)	–	25	–
– Fiori Textiles	–	(632)	(15,282)
– Fiori Apparel	3,093	(2,064)	(7)
– Blue Vibes Int'l	–	3,477	–
– Les Boutiques	–	–	(254)

As confirmed by the directors of the Sale Group Companies, the above transactions were made in accordance with normal commercial terms and were priced with reference to prevailing market prices and in the ordinary course of business.

30. Significant accounting estimates and judgements

The methods, estimates and judgements the directors used in applying the Sale Group Companies' accounting policies have a significant impact on the Sale Group Companies' financial position and operating results. Some of the accounting policies require the Sale Group Companies to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Sale Group Companies' accounting policies are described below.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Sale Group Companies review annually the useful life of an asset and its residual value, if any, based on Sale Group Companies' historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairments

The Sale Group Companies review the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provide for impairment loss. Any change in the assumption adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Sale Group Companies' net asset value.

Impairment losses for trade and other receivables are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in the year and in future years.

(c) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Sale Group Companies carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future profit will be available against which the unused tax credit can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(d) Net realisable value of inventories

The Sale Group Companies perform regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

31. Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2008 and which have not been adopted in the Financial Information.

Of these developments, the following relate to matters that may be relevant to the Sale Group Companies' operations and Financial Information:

		Effective for accounting periods beginning on or after
Revised HKAS 1	Presentation of financial statements	1 January 2009
Revised HKAS 23	Borrowing costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009

The directors have confirmed that the Sale Group Companies is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Sale Group Companies' results of operations and financial position.

D. SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, there was no other significant event took place subsequent to 31 March 2008.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the companies comprising the Sale Group Companies in respect of any period subsequent to 31 March 2008.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

With reference to the accountants' report on the Sale Group Companies set out in Appendix II to this circular, following is the management discussion and analysis of the business, financial results and position of the Sale Group Companies for the three years ended 31 March 2008.

For the year ended 31 March 2006

The Sale Group Companies recorded an audited turnover of HK$1,033.7 million for the year compared to HK$1,144.9 million in the previous year. The audited net loss for the year amounted to HK$432.8 million compared with a net profit of HK$61.4 million in the previous year.

Operations

The early part of the financial year was characterised by strong sales growth and a robust order book. In anticipation of the rate of growth continuing ASIL increased manufacturing capacity in both the PRC and the Philippines. In addition, the ASIL's investment into the textile business in order to support the anticipated sales growth was completed with the dyeing and finishing operations starting trial production in July 2005.

Negative developments and operating challenges which arose during the second half of the financial year negated this planning with serious financial consequences.

The chaotic implementation of the trade agreement between the PRC and the EU in which allocated quotas were negotiated away in settlement of the unexpectedly high level of backlog held at the various customs points in Europe had a devastating effect on the business operations. All the EU production was transferred to the plants in the Philippines. The differing product capabilities between the plants seriously impacted efficiency and thus output, as did the need to recruit and train new sewers in the Philippines. The performance of the textile business proved a liability to the Sale Group Companies due to the tremendous business disruption brought on by the quota fiasco.

The gross profit percentage declined dramatically from 27.9% in the previous year to 14.4%.

In order to meet delivery dates and clear order backlogs, it was necessary to airfreight goods thus increasing operating costs.

With the stabilisation of the China quota situation in 2006, through the allocation and auction process the Sale Group Companies were able to reshuffle production back on the basis of plant capability. Many skillful sewers had left the PRC operations and these proved difficult to replace.

As at 31 March 2006, the Sale Group Companies had approximately 8,449 employees. Staff costs are disclosed in note 6(c) of the Accountants' Report on the Sale Group Companies. The remuneration policy is structured by reference to market terms and statutory requirements as appropriate. Other benefits are structured according to seniority. There is no share option scheme.

Financial position

As at 31 March, 2006 there was a deficiency in shareholders' funds of HK$52.3 million compared to a positive balance of HK$390.4 million at 31 March, 2005.

The investment into the textile business noted above was funded partially by bank loans. As at 31 March, 2006, bank loans repayable on demand amounted to HK$504.1 million. In January 2006 the lending banks were notified of the Sale Group Companies' inability to meet the repayment schedules. All borrowings were secured as detailed in note 18 of the Accountants' Report on the Sale Group Companies.

As a result of the negative performance of the textile business, provisions amounting to HK$321 million were made in the profit and loss account against amounts due from ASIL and ACE Style Group. In addition interest expense on bank borrowings amounted to HK$20.8 million.

At 31 March 2006, the Sale Group Companies did not hold any significant investments and there were no material acquisitions or disposals of subsidiaries or associated companies during the year and no future plans for the same.

In view of the net liabilities position, the gearing ratio (defined as total interest-bearing borrowings to net assets) is not considered to be meaningful.

Exposure to fluctuations in exchange rates are detailed in note 25 of the Accountants' Report on the Sale Group Companies.

Contingent liabilities are detailed in note 27 of the Accountants' Report of the Sale Group Companies.

For the year ended 31 March 2007

The Sale Group Companies recorded audited turnover of HK$1,110.8 million for the year, an increase of 7.5% over the previous year. The audited net loss for the year amounted to HK$363.4 million, down from HK$432.8 million in the previous year.

Operations

Whilst the quota situation had stabilised, customers were cautious in their sourcing from the PRC fearing possible trade disputes. During the first part of 2007, the Sale Group Companies continued to clear the backlog of orders, with consequential additional airfreight costs.

The year showed a marked deterioration in the operating environment in the Pearl River Delta. Increases in minimum wages, severe labour shortages and the strengthening of the currency were significant issues which the Sale Group Companies faced. The headcount in the Philippines was trimmed to improve efficiency and reflect the continuing reallocation of production back to China.

The gross profit percentage increased from 14.4% in the previous year to 15.7%.

As at 31 March 2007, the Sale Group Companies had approximately 7,001 employees. Staff costs are disclosed in note 6(c) of the Accountants' Report on the Sale Group Companies. The remuneration policy is structured by reference to market terms and statutory requirements as appropriate. Other benefits are structured according to seniority. There is no share option scheme.

Financial position

As at 31 March 2007 there was a deficiency in shareholders' funds of HK$414.3 million compared to HK$52.3 million in the previous year.

In August 2006, ASIL and its subsidiaries entered into a standstill agreement with the Bank Group as detailed in note 18 of the Accountants' Report on the Sale Group Companies and commenced a restructuring exercise, including the closure of inefficient plants and a consolidation of operations.

As at 31 March 2007, bank loans repayable on demand and overdrafts amounted to HK$464.9 million.

During the year interest expense on bank borrowings and overdrafts amounted to HK$32.4 million whilst professional fees relating to the restructuring totalled HK$17 million.

Provisions amounting to HK$299.3 million were made in the profit and loss account against amounts due from ASIL and ACE Style Group.

At 31 March 2007, the Sale Group Companies did not hold any significant investments and there were no material acquisitions or disposals of subsidiaries or associated companies during the year and no future plans for the same.

In view of the net liabilities position, the gearing ratio (defined as total interest-bearing borrowings to net assets) is not considered to be meaningful.

Exposure to fluctuations in exchange rates are detailed in note 25 of the Accountants' Report on the Sale Group Companies.

Contingent liabilities are detailed in note 27 of the Accountants' Report of the Sale Group Companies.

For the year ended 31 March 2008

The Sale Group recorded audited turnover of HK$1,123.8 million for the year, an increase of 1.2% over the previous year. The audited net loss for the year amounted to HK$115.8 million, down from HK$363.4 million in the previous year.

Operations

The manufacturing environment in which the Sale Group Companies currently operate continued to deteriorate, particularly in China where the increases in minimum wages, labour and power shortages and the appreciation of the RMB against the US dollar all impacted on operations. In the Philippines, the Sale Group Companies were faced with an increase in the minimum wage together with the strengthening of the Peso against the US dollar.

To counter the continuing softness in the US market and to ensure that the capacity of the Sale Group Companies is fully utilised, the Sale Group Companies have expanded the product range to include swimwear.

The gross profit percentage increased from 15.7% in the previous year to 18.9%.

As at 31 March 2008, the Sale Group Companies had approximately 9,722 employees. Staff costs are disclosed in note 6(c) of the Accountants' Report on the Sale Group Companies. The remuneration policy is structured by reference to market terms and statutory requirements as appropriate. Other benefits are structured according to seniority. There is no share option scheme.

Financial position

As at 31 March 2008 there was a deficiency in shareholders' funds of HK$527.4 million compared to HK$414.3 million in the previous year.

As more fully described in note 18 of the Accountants' Report on the Sale Group Companies, the debt restructuring exercise was completed in August 2007 with the first payment to the Bank Group due on 31 December 2007. The Sale Group Companies were unable to meet that obligation.

As at 31 March 2008, bank loans repayable on demand and overdrafts amounted to HK$437.8 million.

During the year interest expense on bank borrowings and overdrafts amounted to HK$29.2 million, whilst debt restructuring fee and professional fees relating to the restructuring totalled HK$16.5 million.

Provisions amounting to HK$113.4 million were made in the profit and loss account against amounts due from ASIL and the ACE Style Group.

At 31 March 2008, the Sale Group Companies did not hold any significant investments and there were no material acquisitions or disposals of subsidiaries or associated companies during the year and no future plans for the same.

In view of the net liabilities position, the gearing ratio (defined as total interest-bearing borrowings to net assets) is not considered to be meaningful.

Exposure to fluctuations in exchange rates are detailed in note 25 of the Accountants' Report on the Sale Group Companies.

Contingent liabilities are detailed in note 27 of the Accountants' Report of the Sale Group Companies.

Prospects

The core business of the Sale Group Companies is fundamentally sound but since the early part of fiscal year 2006 operations have been defensive in nature. The textile business has been a serious drain on financial resources and management time.

The performance of the latter has caused significant provisions to be made against amounts due from ASIL and the ACE Style Group in each of the past three financial years. Interest costs and costs relating to the restructuring also impacted the profit and loss accounts. These costs are considered to be non-recurring in nature.

It is encouraging that the core customers have remained with the Sale Group Companies, notwithstanding the turmoil experienced in the last few years.

Prospects of the Enlarged Group

As noted in the 2008 interim report, the Group's ability to manage increasing cost pressures will be tested, with labour shortages continuing to push up the cost of labour and the decline in the US dollar expected to continue. It is imperative that the Group continues its efforts to shift production to those cost effective areas which also benefit from an adequate labour supply and also target sales to higher value business. The Enlarged Group will continue to prioritise efforts in managing increasing cost pressures.

It was also noted that the focus of the Group's business model was changing from OEM to ODM to enable direct sales to retail customers. This was a continuous learning experience requiring investment, inter alia, in product development and sales support functions. Growth and profitability may be compromised in the short term. The acquisition of the Sale Group Companies gives the Enlarged Group instant direct access to retail customers.

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 31 December 2007	The Sale Group Companies as at 31 March 2008	Total	Pro forma adjustments	Notes	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Non-current assets						
Property, plant & equipment	170,619	95,127	265,746	(5,146)	*1*	260,600
Goodwill	–	–	–	71,612	*8*	71,612
Prepaid lease payments	2,021	–	2,021	–		2,021
Prepaid rental payments	6,499	–	6,499	–		6,499
Deferred tax assets	5,033	2,800	7,833	–		7,833
	184,172	97,927	282,099	66,466		348,565
Current assets						
Inventories	231,829	112,373	344,202	–		344,202
Debtors, deposits and prepayments	188,310	147,451	335,761	–		335,761
Bills receivable	25,677	11,914	37,591	–		37,591
Amount due from AS(US)	–	–	–	28,080	*5*	28,080
Amounts due from ASIL	–	–	–	–		–
Amounts due from fellow subsidiaries of Sale Group Companies	–	–	–	–		–
Tax recoverable	–	14,836	14,836	–		14,836
Prepaid lease payments	112	–	112	–		112
Bank balances and cash	209,091	16,672	225,763	(85,000)	*2, 7*	140,763
	655,019	303,246	958,265	(56,920)		901,345
Current liabilities						
Creditors and accrued charges	144,066	182,852	326,918	–		326,918
Bills payable	–	23,002	23,002	(23,002)	*3*	–
Taxation	107,759	2,753	110,512	–		110,512
Amounts due to fellow subsidiaries of Sale Group Companies	–	261,778	261,778	(261,778)	*6*	–
Provision for unused annual leave	–	2,900	2,900	–		2,900
Bank borrowings and other liabilities – due within one year	5,591	437,752	443,343	(397,752)	*3, 7*	45,591
Obligations under finance leases – due within one year	192	–	192	–		192
	257,608	911,037	1,168,645	(682,532)		486,113
Net current assets (liabilities)	397,411	(607,791)	(210,380)	625,612		415,232
Total assets less current liabilities	581,583	(509,864)	71,719	692,078		763,797
Non-current liabilities						
Bank borrowings and other liabilities – due after one year	21	–	21	160,000	*7*	160,021
Obligations under finance leases – due after one year	361	–	361	–		361
Loan from a director of the Sale Group Companies	–	13,675	13,675	(13,675)	*4*	–
Retirement benefit obligations	4,464	3,882	8,346	–		8,346
Deferred tax liabilities	8,168	–	8,168	–		8,168
	13,014	17,557	30,571	146,325		176,896
Net assets (liabilities)	568,569	(527,421)	41,148	545,753		586,901

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "Statement") has been prepared to illustrate the effect of the purchase of the entire issued share capital (the "Acquisition") of Ace Style Intimate Apparel Limited, Elkhorn Enterprises Limited, Tavistock Springs (HK) Limited and Carina Apparel, Inc. ("Sale Group Companies") assuming the Acquisition has been completed on 31 December 2007. The Statement has been prepared by the Directors in accordance with paragraph 29 of Chapter 4 of the Listing Rules.

The Statement is prepared based on the unaudited consolidated balance sheet of the Group as at 31 December 2007 as extracted from the interim review report of the Group for the period ended 31 December 2007 and the audited combined balance sheet of the Sale Group Companies as at 31 March 2008 as extracted from the Accountant's Report set out in Appendix II to this circular after making certain pro forma adjustments relating to the Acquisition that are i) directly attributable to the transaction; and ii) factually supportable.

The Statement is prepared by the Directors based on a number of assumptions, estimates, uncertainties and currently available information for illustrative purposes only. Accordingly, the Statement does not purport to give a true picture of the actual financial position of the Enlarged Group had the Acquisition occurred on 31 December 2007. Furthermore, the Statement does not purport to predict the Enlarged Group's future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular and the financial information of the Sale Group Companies as set out in Appendix II to this circular.

The Statement has been prepared in accordance with the Group's accounting policies as set out in the annual report of the Group for the year ended 30 June 2007 and on the basis of the adjustments set out below. As the Group will have the power to govern the financial and operating policies of the Sale Group Companies on completion of the Acquisition, they have been accounted for as subsidiaries using the purchase method.

Notes:

(1) Being transfer of the property located at Unit B1, 8/F, Block B, Wisdom Court, 5 Hatton Road, Hong Kong and Car Parking Space No. C15, The Basement 2, Wisdom Court, 5 Hatton Road, Hong Kong by ASIAL to a third party with carrying amount of HK$5,146,000 as at 31 March 2008 in accordance with the condition (j) as set out on page 16 of this circular.

(2) Adjustments in connection with the acquisition of the Sale Group Companies for a total consideration of approximately HK$303,332,000 which shall be satisfied by (i) cash of HK$285,000,000 upon Completion and (ii) allotment and issue of 26,879,703 new shares by the Company to Mr. Sia at approximately HK$0.682 each, as stated in the Share Acquisition Agreement and subject to adjustments upon Completion pursuant to the terms and conditions of the Share Acquisition Agreement, which is not the market price of the shares of the Company at 31 December 2007 as if the Acquisition has been completed on, and is used for preparing the unaudited Pro Forma Financial Information only. The total consideration will be subject to change based on the adjustments as stated in the Share Acquisition Agreement and the market price of the Consideration Shares upon Completion of the Acquisition.

(3) Adjustments represent the release of the Sale Group Companies from all their obligations to the Bank Group under any loan or security documents with effect from the Completion Date such that immediately after Completion, none of the Sales Group Companies have any obligation to the Bank Group in fulfilling the conditions of the Share Acquisition Agreement. The total bank obligations at 31 March 2008 included bills payable of HK$23,002,000 and bank borrowings due within one year of HK$437,752,000.

(4) Adjustment of HK$13,675,000 represents the release of the Sale Group Companies from their obligation to the director of ACE Style Group with effect from the Completion Date in accordance with the condition (i) as set out on page 16 of this circular.

(5) Adjustment of HK$28,080,000 represents the trade receivables as at 31 March 2008 due from third party customers recorded in the books of AS(US) which shall be paid back to ASIAL from time to time upon their settlement in accordance with the terms of the Share Acquisition Agreement.

(6) Adjustment of HK$261,778,000 represents the release of the Sales Group Companies from their obligations to ASIL or ACE Style Group in fulfilling the conditions (i) and (r) as set out on page 16 of this circular.

(7) Raising of a bank loan of HK$200,000,000 by the Group which will be repayable by fixed instalments over 5 years on a straight-line basis for financing the Acquisition of the Sale Group Companies which the directors of the Company consider such raise of bank loan is directly attributable to the Acquisition.

(8) Goodwill of HK$71,612,000 being the difference between the total consideration of approximately HK$303,332,000 as stated in note 2 and the adjusted combined net assets of the Sale Group Companies of HK$231,720,000 as at 31 March 2008 on the assumption that the fair value of the identifiable net assets of the Sale Group Companies equals to their carrying amounts. The adjusted combined net assets of the Sale Group Companies represents the combined net assets of the Sale Group Companies as at 31 March 2008 after (a) transferring the property owned by ASIAL as mentioned in note 1; (b) releasing the Sale Group Companies from all the bank obligations as mentioned in note 3; (c) releasing the Sale Group Companies from their obligation to the director of ACE Style Group as mentioned in note 4; (d) add back the receivable from AS(US) as mentioned in note 5 and (e) releasing the Sale Group Companies from their obligation to ASIL or ACE Style Group as mentioned in note 6.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

TO THE DIRECTORS OF TOP FORM INTERNATIONAL LIMITED

We report on the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of Top Form International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), Ace Style Intimate Apparel Limited, Elkhorn Enterprises Limited, Tavistock Springs (HK) Limited and Carina Apparel, Inc. (together with the Group hereinafter referred to as the "Enlarged Group") set out on pages 223 to 225 under the heading of "Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group" in connection with the purchase of the entire issued share capital of Ace Style Intimate Apparel Limited, Elkhorn Enterprises Limited, Tavistock Springs (HK) Limited and Carina Apparel, Inc. (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 19 August 2008 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 224 of the Circular.

Respective responsibilities of directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2007 or any future date.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

19 August 2008

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Company 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. SHARE CAPITAL

The authorised share capital of the Company as at the Latest Practicable Date and immediately following the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares) and immediately following the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares) and the Allotted Shares (assuming that a maximum number of Allotted Shares were issued and allotted) were and will be as follows:

Authorised		*HK$*
1,500,000,000	Shares	150,000,000.00

The issued and fully paid or credited as fully paid share capital of the Company as at the Latest Practicable Date and immediately following the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares) and immediately following the issue and allotment of the Consideration Shares (assuming no adjustment to the number of Consideration Shares) and the Allotted Shares (assuming that a maximum number of Allotted Shares were issued and allotted) were and will be as follows:

1,075,188,125	Shares in issue as at the Latest Practicable Date	107,518,812.50
1,102,067,828	Shares in issue after the issue of 26,879,703 Consideration Shares	110,206,782.80
1,171,955,056	Shares in issue after the issue of 69,887,228 Allotted Shares	117,195,505.60

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange, or which were required to be entered in the register required to be kept by the Company under section 352 of the SFO were as follows:

Long positions in Shares of the Company:

Name of Shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage in the issued share capital of the Company
Fung Wai Yiu	Beneficial owner and interests held by spouse and trust *(Note 1)*	41,952,521	3.90%
Wong Chung Chong, Eddie	Beneficial owner and interests held by spouse and trust *(Note 2)*	178,172,118	16.57%
Marvin Bienenfeld	Beneficial owner	870,521	0.08%
Chow Yu Chun, Alexander	Beneficial owner	3,400,521	0.32%
Leung Churk Yin, Jeanny	Beneficial owner	70,521	0.01%

Name of Shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage in the issued share capital of the Company
Leung Ying Wah, Lambert	Beneficial owner	400,000	0.04%
Lucas A.M. Laureys	Interests held by a controlled corporation *(Note 3)*	250,599,544	23.31%
Herman Van de Velde	Interests held by a controlled corporation *(Note 3)*	250,599,544	23.31%

Notes:

1. 770,521 Shares were beneficially owned by Mr. Fung Wai Yiu ("Mr. Fung") whereas 216,000 Shares were held by the spouse of Mr. Fung. 40,966,000 Shares were registered in the name of Fung On Holdings Limited ("Fung On") or its nominee. The shares of Fung On were held by a family trust of which Mr. Fung and his family were eligible beneficiaries.

2. 1,480,521 Shares were beneficially owned by Mr. Wong Chung Chong, Eddie ("Mr. Wong") or his nominees whereas 1,100,000 Shares were held by the spouse of Mr. Wong and 175,591,597 Shares were registered in the name of High Union Holdings Inc., the trustee of a unit trust whereas the unit trust were held by a family trust of which the family members of Mr. Wong were eligible beneficiaries.

3. 250,599,544 Shares were registered in the name of Van De Velde N.V. of which Mr. Lucas A.M. Laureys and Mr. Herman Van de Velde were beneficial owners.

Save as disclosed above, as at the Latest Practicable Date, and other than certain nominee shares in subsidiaries held by Directors in trust for the Company's Subsidiaries, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions 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 to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO and so far as was known to the Directors or chief executive of the Company, persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follow:

Long positions in Shares:

Name of Shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage in the issued share capital of the Company
Van De Velde N.V. ("VDV") *(Note 1)*	Beneficial owner	250,599,544	23.31%
High Union Holdings Inc. *(Note 2)*	Beneficial owner	175,591,597	16.33%
V.F. Corporation	Beneficial owner	106,000,000	9.86%
Allianz Aktiengesellschaft *(Note 3)*	Interests held by controlled corporations	107,270,000	9.98%

Notes:

1. VDV is beneficially owned by Mr. Lucas A.M. Laureys and Mr. Herman Van de Velde, the non-executive Directors.

2. 1,480,521 Shares were beneficially owned by Mr. Wong Chung Chong, Eddie ("Mr. Wong") or his nominees whereas 1,100,000 Shares were held by the spouse of Mr. Wong and 175,591,597 Shares were registered in the name of High Union Holdings Inc., the trustee of a unit trust whereas the unit trust were held by a family trust of which the family members of Mr. Wong were eligible beneficiaries.

3. 107,270,000 Shares were registered in the name of Veer Palthe Voute N.V. which was an indirect wholly-owned subsidiary of Dresdner Bank, which in turn, was 81.10% indirectly owned by Allianz Aktiengesellschaft.

Save as disclosed above, as at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO and so far as was known to the Directors or chief executive of the Company, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Lucas A.M. Laureys and Mr. Herman Van de Velde are the respective President and Managing Director of VDV and both have indirect interests in VDV whose principal business activity is manufacture and marketing of luxury lingerie, therefore, they were considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associate(s) was interested in any business which competes or was likely to compete, either directly or indirectly, with the business of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contracts with the Company or any member of the Group, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, other than matters already set out in the Company's annual report for the year ended 30 June 2007, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2007, being the date to which the latest published audited accounts of the Company were made up.

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

8. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given their opinion or advice which are contained in this circular:

Name	Qualification
Access Capital	a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu ("**Deloitte**")	Certified Public Accountants
KPMG	Certified Public Accountants

Each of Access Capital, Deloitte and KPMG has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and opinion in the form and context in which they respectively appear in this circular.

9. EXPERTS' INTERESTS IN ASSETS

Each of Access Capital, Deloitte and KPMG has confirmed that as at the Latest Practicable Date, it did not have any holding, directly or indirectly, of any securities in any member of the Enlarged Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities of any member of the Enlarged Group nor did it have any direct or indirect interests in any assets which have since 30 June 2007 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

10. MATERIAL CONTRACTS

Save for the Share Acquisition Agreement, there are no contracts (not being contracts entered into in the ordinary course of business) entered into by members of the Enlarged Group within the two years preceding the date of this circular which are or may be material.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal office of the Company at Room 1813, 18th Floor, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong during normal business hours on any weekday (public holidays excepted) up to and including the date of the SGM:

(a) the memorandum of association and New Bye-laws of the Company;

(b) the annual reports of the Company for the financial years ended 30 June 2005, 2006 and 2007 and the interim report 2008;

(c) a letter from the Independent Board Committee, the text of which is set out on pages 39 to 41 of this circular;

(d) a letter from Access Capital, the text of which is set out on pages 42 to 76 of this circular;

(e) an accountants' report on the Sale Group Companies and the accountants' report on the unaudited pro forma financial information on the Enlarged Group, the texts of which are set out in appendices II and IV to this circular, respectively;

(f) the Share Acquisition Agreement with the agreed terms of the Service Agreement, the AUS Service Contract and the Fiori Contract attached thereto as referred to in the paragraph headed "Material Contracts" in this appendix;

(g) the written consents from Access Capital, Deloitte and KPMG referred to in the section headed "Experts and consents" in this appendix; and

(h) the circulars issued pursuant to the requirements set out in Chapters 14 and 14A of the Listing Rules which have been issued since 30 June 2007, the date of the latest published audited accounts.

12. MISCELLANEOUS

(a) The qualified accountant and secretary of the Company is Mr. Michael Austin, who is a Fellow Member of the Institute of Chartered Accountants in England and Wales and an Associate Member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The principal office of the Company in Hong Kong is at Room 1813, 18th Floor, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

(e) As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 30 June 2007 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

(f) There is no contract or arrangement entered into by any member of the Enlarged Group, subsisting as at the date hereof in which any of the Directors is materially interested and which is significant in relation to the business of the Enlarged Group as a whole.

(g) In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

TOP FORM INTERNATIONAL LIMITED
黛麗斯國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00333)

NOTICE IS HEREBY GIVEN that a special general meeting of Top Form International Limited (the "**Company**") will be held at Harbour View Ballroom, Level 4, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong on Friday, 5 September 2008 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

   (a) the conditional sale and purchase agreement dated 26 July 2008 entered into among Top Form (B.V.I.) Limited as purchaser and Ace Style International Limited, Andrew Sia, Wong May May Carina, Tina Sia, Pearl Soriaga, Marileen Silvestre and Rowena Tence as vendors (the "**Share Acquisition Agreement**") (a copy of which has been produced to the meeting marked "A" and initialled by the Chairman for the purpose of identification), in relation to the acquisition of the entire issued share capital of each of Ace Style Intimate Apparel Limited, Elkhorn Enterprises Limited, Tavistock Springs (HK) Limited and Carina Apparel Inc. (the "**Acquisition**") for an aggregate consideration of HK$303,331,957 (subject to adjustment as set out in the Share Acquisition Agreement) and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified, and that the directors of the Company be and are hereby authorised to do all things and acts and execute and deliver all documents under the common seal, if necessary, of the Company or otherwise which they consider necessary, desirable or expedient in connection with the Acquisition and the transactions contemplated under the Share Acquisition Agreement; and

* *For identification purpose only*

(b) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the Consideration Shares (as defined below), the directors of the Company be and are hereby authorised to allot and issue an aggregate of up to 26,879,703 new shares (the "**Consideration Shares**") in the authorised share capital of the Company valued at HK$0.682 per Consideration Share to Mr. Andrew Sia at completion of the Share Acquisition Agreement, and that the Consideration Shares shall, when allotted and issued, rank pari passu in all respects with all other shares in the Company in issue on the date of such allotment and issue."

2. "**THAT**

(a) subject to the terms and conditions of the Share Acquisition Agreement, the service agreement to be entered into between Mr. Andrew Sia and the Company (the "**Service Agreement**") on the date of completion of the Share Acquisition Agreement (a copy of which has been produced to the meeting marked "B" and initialled by the Chairman for the purpose of identification), in relation to the appointment of Mr. Andrew Sia as an executive director of the Company and all the transactions contemplated thereunder be and are hereby accepted, approved and confirmed, and that the directors of the Company be and are hereby authorised to do all things and acts and execute and deliver all documents under the common seal, if necessary, of the Company or otherwise which they consider necessary, desirable or expedient in connection with the transactions contemplated under the Service Agreement; and

(b) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the Allotted Shares (as defined below), the directors of the Company be and are hereby authorised to allot and issue an aggregate of up to 69,887,228 new shares (the "Allotted Shares") to Mr. Andrew Sia pursuant to the Service Agreement, and that the Allotted Shares shall, when allotted and issued, rank pari passu in all respects with all other shares in the Company in issue on the date of such allotment and issue."

3. “**THAT**

(a) subject to the terms and conditions of the Share Acquisition Agreement, the service contract (the “**AUS Service Contract**”) to be entered into between Marguerite Lee Limited (“**Marguerite Lee**”) and Pink Martini Design Studio, a limited liability company incorporated in the United Sates of America whose shares are controlled by the sister of Mr. Andrew Sia’s wife (“**AUS**”) on the date of completion of the Share Acquisition Agreement (a copy of which has been produced to the meeting marked “C” and initialled by the Chairman for the purpose of identification), in relation to the provision of services by AUS to the Company and its subsidiaries from time to time and all the transactions contemplated thereunder be and are hereby accepted, approved and confirmed, and that the directors of the Company be and are hereby authorised to do all things and acts and execute and deliver all documents under the common seal, if necessary, of the Company or otherwise which they consider necessary, desirable or expedient in connection with the transactions contemplated under the AUS Service Contract; and

(b) the directors of the Company be and are hereby authorised to do, approve and transact all things which they may in their discretion consider to be necessary or desirable in connection with the AUS Service Contract provided that the annual caps in respect of the annual service fees payable by Marguerite Lee to AUS under the AUS Service Contract shall not exceed US$2.12 million (approximately HK$16.536 million) as set out in the circular of the Company dated 19 August 2008.”

4. “**THAT**

(a) subject to the terms and conditions of the Share Acquisition Agreement, the supply agreement to be entered into between Fiori Textiles Limited (“**Fiori Textiles**”) and Top Form (B.V.I.) Limited (the “**Fiori Contract**”) on the date of completion of the Share Acquisition Agreement (a copy of which has been produced to the meeting marked “D” and initialled by the Chairman for the purpose of identification), in relation to the supply of accessories, fabric and raw materials (the “**Materials**”) by Fiori Textiles and its subsidiaries from time to time (“**Fiori Group**”) to the Company and its subsidiaries from time to time (the “**Group**”) and all the transactions contemplated thereunder be and are hereby accepted, approved and confirmed, and that the directors of the Company be and are hereby authorised to do all things and acts and execute and deliver all documents under the common seal, if necessary, of the Company or otherwise which they consider necessary, desirable or expedient in connection with the transactions contemplated under the Fiori Contract; and

(b) the directors of the Company be and are hereby authorised to do, approve and transact all things which they may in their discretion consider to be necessary or desirable in connection with the Fiori Contract provided that the annual caps in respect of the aggregate amount of the Materials to be purchased by the Group from the Fiori Group from the date of the Fiori Contract up to the financial year ending 30 June 2011 shall not exceed the annual caps for the relevant financial year as set out in the circular of the Company dated 19 August 2008.”

By Order of the Board
Top Form International Limited
Michael Austin
Company Secretary

Hong Kong, 19 August 2008

Principal office:
Room 1813, 18th Floor
Tower 1, Grand Century Place
193 Prince Edward Road West
Kowloon, Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company's share registrar in Hong Kong, Tricor Secretaries Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjourned meeting.

3. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

4. The directors of the Company as at the date of this notice are Mr. Fung Wai Yiu and Mr. Wong Chung Chong, Eddie as executive directors, Mr. Lucas A.M. Laureys, Mr. Herman Van de Velde and Ms. Leung Churk Yin, Jeanny as non-executive directors, Mr. Marvin Bienenfeld, Mr. Chow Yu Chun, Alexander, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy as independent non-executive directors.