

# TOP FORM

INTERNATIONAL LIMITED

INTERIM REPORT  
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## TOP FORM INTERNATIONAL LIMITED

The Directors of Top Form International Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2002 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

	<i>Notes</i>	<b>For the six months ended 31 December</b>	
		<b>2002 (Unaudited)</b>	<b>2001 (Unaudited and restated)</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	551,573	402,429
Cost of sales		(389,929)	(305,288)
Gross profit		161,644	97,141
Other operating income	4	4,311	5,656
Selling and distribution expenses		(20,973)	(24,823)
General and administrative expenses		(62,988)	(50,879)
Profit from operations	5	81,994	27,095
Finance costs		(5,151)	(8,639)
Gain on deemed disposal of interest in a subsidiary		–	10,400
Profit before taxation		76,843	28,856
Taxation	6	(9,930)	(3,286)
Profit before minority interests		66,913	25,570
Minority interests		(1,545)	(1,664)
Profit attributable to shareholders		65,368	23,906
Earnings per share	7		
Basic		8.0 cents	3.2 cents
Diluted		6.1 cents	2.5 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2002

	Notes	31 December 2002 (Unaudited) HK\$'000	30 June 2002 (Audited and restated) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	94,828	76,920
Interests in associates	9	–	–
Interest in a jointly controlled entity		212	682
Investment in securities		–	4,355
		<u>95,040</u>	<u>81,957</u>
<b>Current assets</b>			
Inventories		125,252	132,171
Debtors, deposits and prepayments	10	94,137	90,422
Bills receivable		5,008	1,049
Amount due from a minority shareholder of a subsidiary		3,920	6,377
Bank balances and cash		113,555	70,551
		<u>341,872</u>	<u>300,570</u>
<b>Current liabilities</b>			
Creditors and accrued charges	11	98,392	101,467
Taxation		8,210	6,666
Bank borrowings and other liabilities – due within one year	12	85,087	92,782
Obligations under finance leases – due within one year		2,072	1,518
Convertible loan notes	13	61,212	109,557
		<u>254,973</u>	<u>311,990</u>
<b>Net current assets (liabilities)</b>		<u>86,899</u>	<u>(11,420)</u>
<b>Total assets less current liabilities</b>		<u>181,939</u>	<u>70,537</u>
<b>Non-current liabilities</b>			
Secured bank borrowings and other liabilities – due after one year	12	–	449
Obligations under finance leases – due after one year		2,000	1,242
Provision for long service payment		2,788	2,648
Deferred taxation		2,380	2,380
		<u>7,168</u>	<u>6,719</u>
<b>Minority interests</b>		<u>24,325</u>	<u>22,466</u>
		<u>150,446</u>	<u>41,352</u>
<b>Capital and reserves</b>			
Share capital	14	92,568	77,052
Reserves (deficit)		57,878	(35,700)
		<u>150,446</u>	<u>41,352</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

	Share capital HK\$'000	Share premium HK\$'000	Legal reserve HK\$'000	Special reserve HK\$'000	Revaluation reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 July 2001								
– as originally stated	73,561	242,159	323	7,139	13,735	(5,022)	(363,432)	(31,537)
– prior period adjustments in respect of:								
– foreign currency translation	–	–	–	–	–	448	(448)	–
– employee benefits	–	–	–	–	–	–	(2,386)	(2,386)
– as restated	<u>73,561</u>	<u>242,159</u>	<u>323</u>	<u>7,139</u>	<u>13,735</u>	<u>(4,574)</u>	<u>(366,266)</u>	<u>(33,923)</u>
Exchange differences arising on translation of overseas operations	–	–	–	–	–	(552)	–	(552)
Deficit arising from revaluation of investment in securities	–	–	–	–	(3,950)	–	–	(3,950)
Realised on disposal of investments in securities	–	–	–	–	(1,275)	–	–	(1,275)
Profit attributable to shareholders	–	–	–	–	–	–	23,906	23,906
At 31 December 2001	<u>73,561</u>	<u>242,159</u>	<u>323</u>	<u>7,139</u>	<u>8,510</u>	<u>(5,126)</u>	<u>(342,360)</u>	<u>(15,794)</u>
Net gains and losses not recognised in the income statement during the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(3,950)</u>	<u>(552)</u>	<u>–</u>	<u>(4,502)</u>
At 1 July 2002								
– as originally stated	77,052	249,546	323	7,139	5,511	(3,556)	(292,015)	44,000
– prior period adjustments in respect of:								
– foreign currency translation	–	–	–	–	–	1,299	(1,299)	–
– employee benefits	–	–	–	–	–	–	(2,648)	(2,648)
– as restated	<u>77,052</u>	<u>249,546</u>	<u>323</u>	<u>7,139</u>	<u>5,511</u>	<u>(2,257)</u>	<u>(295,962)</u>	<u>41,352</u>
Exchange difference arising on translation of overseas operations	–	–	–	–	–	(1,600)	–	(1,600)
Issue of shares upon the conversion of the convertible loan notes	15,516	32,829	–	–	–	–	–	48,345
Realised on disposal of investments in securities	–	–	–	–	(3,019)	–	–	(3,019)
Profit attributable to shareholders	–	–	–	–	–	–	65,368	65,368
At 31 December 2002	<u>92,568</u>	<u>282,375</u>	<u>323</u>	<u>7,139</u>	<u>2,492</u>	<u>(3,857)</u>	<u>(230,594)</u>	<u>150,446</u>
Net gains and losses not recognised in the income statement during the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,600)</u>	<u>–</u>	<u>(1,600)</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

	For the six months ended 31 December	
	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>
Net cash from operating activities	71,374	26,849
Net cash used in investing activities	(22,128)	(6,988)
Net cash used in financing activities	(10,198)	(5,720)
Net increase in cash and cash equivalents	39,048	14,141
Cash and cash equivalents at the beginning of the period	45,566	7,953
Effect of foreign exchange rate changes	88	84
Cash and cash equivalents at the end of the period	84,702	22,178
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	113,555	48,289
Bank overdrafts	(28,853)	(26,111)
	84,702	22,178

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

**1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and 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 "Listing Rules").

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain leasehold properties and investment in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2002, except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs issued by HKSA. The adoption of these SSAPs has resulted in a change in the format of presentation of the condensed consolidated cash flow statement and has resulted in the adoption of the following new and revised accounting policies.

**Foreign Currencies**

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period. They are now required to be translated at average rate. Accordingly, on consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of. This change in accounting policy has been applied retrospectively, resulting in an adjustment of HK\$448,000 and HK\$1,299,000 to the opening balance of retained earnings and the translation reserve as at 1 July 2001 and 1 July 2002, respectively. The change in accounting policy has resulted in the decrease in the Group's profit for the six months ended 31 December 2001 and 2002 by approximately HK\$387,000 and HK\$31,000, respectively.

**Cash Flow Statements**

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements" ("SSAP 15 (Revised)"). Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest income and expenses, which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The change in exchange rates used for translation of cash flows of overseas operations have not had any material effect on the comparative amounts shown in the cash flow statement.

**Employee Benefits**

In the current period, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits. Under SSAP 34, a provision was recognised for the best estimate of long service payments that would be required to be made to the employees of the Group in respect of their service up to the balance sheet date, less any amounts that would be expected to be met out of the Group's retirement benefits schemes. This change in accounting policy has been applied retrospectively, resulting in an adjustment of approximately HK\$1,664,000 and HK\$1,820,000 to the opening balance of retained earnings at 1 July 2001 and 1 July 2002, respectively. The change in policy has resulted in a decrease in the profit for the six months ended 31 December 2001 and 2002 by HK\$131,000 and HK\$140,000 respectively.

**3. SEGMENT INFORMATION**

The business activities of the Group can be categorised into manufacturing business and branded business. Segment information in respect of these activities is as follows:

**Business segments**

Six months ended 31 December 2002

	<b>Manufacturing business</b> <i>HK\$'000</i>	<b>Branded business</b> <i>HK\$'000</i>	<b>Elimination</b> <i>HK\$'000</i>	<b>Consolidation</b> <i>HK\$'000</i>
Turnover				
External sales	539,280	12,293	–	551,573
Inter-segment sales	<u>3,173</u>	<u>–</u>	<u>(3,173)</u>	<u>–</u>
Total sales	<u>542,453</u>	<u>12,293</u>	<u>(3,173)</u>	<u>551,573</u>
Results				
Segment results	<u>92,179</u>	<u>(6,264)</u>	<u>–</u>	85,915
Unallocated corporate expenses				(4,159)
Interest income				<u>238</u>
Profit from operations				<u>81,994</u>

Six months ended 31 December 2001

	Manufacturing business (Restated) <i>HK\$'000</i>	Branded business (Restated) <i>HK\$'000</i>	Elimination (Restated) <i>HK\$'000</i>	Consolidated (Restated) <i>HK\$'000</i>
Turnover				
External sales	387,989	14,440	–	402,429
Inter-segment sales	<u>2,698</u>	<u>–</u>	<u>(2,698)</u>	<u>–</u>
Total sales	<u>390,687</u>	<u>14,440</u>	<u>(2,698)</u>	<u>402,429</u>
Results				
Segment results	<u>32,215</u>	<u>(1,082)</u>	<u>–</u>	31,133
Unallocated corporate expenses				(4,543)
Interest income				<u>505</u>
Profit from operations				<u>27,095</u>



**Geographical segments**

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

Six months ended 31 December 2002

	<b>Sales revenue by geographical market</b> <i>HK\$'000</i>	<b>Contribution to profit from operations</b> <i>HK\$'000</i>
United States of America	428,712	74,624
Europe	78,602	11,895
Asia (excluding Hong Kong)	21,030	475
Australia and New Zealand	12,704	2,248
Hong Kong	10,525	(3,327)
	<u>551,573</u>	<u>85,915</u>
Unallocated corporate expenses		(4,159)
Interest income		<u>238</u>
Profit from operations		<u>81,994</u>

Six months ended 31 December 2001

	<b>Sales revenue by geographical market</b> <i>HK\$'000</i>	<b>Contribution to profit from operations</b> <i>HK\$'000</i>
United States of America	285,158	23,676
Europe	48,338	4,013
Asia (excluding Hong Kong)	39,205	2,396
Australia and New Zealand	18,901	1,570
Hong Kong	10,827	(522)
	<u>402,429</u>	<u>31,133</u>
Unallocated corporate expenses		(4,543)
Interest income		<u>505</u>
Profit from operations		<u>27,095</u>

**4. OTHER OPERATING INCOME**

Other operating income include:

**For the six months ended  
31 December**

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of investments in securities	3,108	813
Interest income	238	505
Service income	—	1,881
	—	1,881

**5. PROFIT FROM OPERATIONS**

Profit from operations has been arrived at after charging:

**For the six months ended  
31 December**

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment	8,762	8,642
Cost of textile quota entitlements	3,922	12,738
	3,922	12,738

**6. TAXATION**

**For the six months ended  
31 December**

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the period	8,636	2,335
Taxation in other jurisdictions calculated at the rates prevailing in the respective jurisdictions	1,294	951
	9,930	3,286

**7. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$65,368,000 (2001: HK\$23,906,000) and on the weighted average of 813,230,541 shares (2001: 735,608,744 shares) in issue during the period.

The computation of diluted earnings per share is as follows:

	<b>For the six months ended 31 December</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the purpose of basic earnings per share	65,368	23,906
Interest on convertible loan notes	<u>2,971</u>	<u>3,712</u>
Profit for the purpose of diluted earnings per share	<u><u>68,339</u></u>	<u><u>27,618</u></u>

	<b>For the six months ended 31 December</b>	
	<b>2002</b>	<b>2001</b>
	<i>Number of shares</i>	
Number of shares for the purpose of basic earnings per share	813,230,541	735,608,744
Effect of dilutive potential shares:		
Convertible loan notes	308,911,868	386,533,665
Share options	<u>768,609</u>	<u>–</u>
Number of shares for the purpose of diluted earnings per share	<u><u>1,122,911,018</u></u>	<u><u>1,122,142,409</u></u>

For the six months ended 31 December 2001, the Company's share options were not taken into account in the computation of diluted earning per share as the exercise price of options was higher than the average market price of the Company's shares.

**8. PROPERTY, PLANT AND EQUIPMENT**

During the period, the additions and disposals of property, plant and equipment amounted to HK\$28,456,000 and HK\$955,000 respectively (for the six months ended 31 December 2001: HK\$11,633,000 and HK\$857,000 respectively).

**9. INTERESTS IN ASSOCIATES**

	<b>31 December 2002</b> <i>HK\$'000</i>	<b>30 June 2002</b> <i>HK\$'000</i>
Share of net assets	13,015	13,015
Interest capitalised	2,407	2,407
	<u>15,422</u>	<u>15,422</u>
Less: Provision for impairment in value	(15,422)	(15,422)
	<u><u>—</u></u>	<u><u>—</u></u>

**10. DEBTORS, DEPOSITS AND PREPAYMENTS**

Included in the balance were trade debtors of HK\$62,120,000 (At 30 June 2002: HK\$50,555,000). The Group allows an average credit period of 30 days to its trade customers.

The aging analysis of trade debtors was as follows:

	<b>31 December 2002</b> <i>HK\$'000</i>	<b>30 June 2002</b> <i>HK\$'000</i>
Within 30 days	57,944	47,073
Over 30 days and under 60 days	2,334	1,401
Over 60 days and under 90 days	584	947
Over 90 days	1,258	1,134
	<u><u>62,120</u></u>	<u><u>50,555</u></u>

**11. CREDITORS AND ACCRUED CHARGES**

Included in the balance were trade creditors of HK\$45,797,000 (At 30 June 2002: HK\$56,712,000).

The aging analysis of trade creditors were as follows:

	<b>31 December 2002</b> <i>HK\$'000</i>	<b>30 June 2002</b> <i>HK\$'000</i>
Within 30 days	42,061	45,150
Over 30 days and under 60 days	2,437	10,479
Over 60 days and under 90 days	1,003	845
Over 90 days	296	238
	<u>45,797</u>	<u>56,712</u>

**12. BANK BORROWINGS AND OTHER LIABILITIES**

	<b>31 December 2002</b> <i>HK\$'000</i>	<b>30 June 2002</b> <i>HK\$'000</i>
Bank borrowings	85,087	92,700
Other liabilities	–	531
	<u>85,087</u>	<u>93,231</u>
Less: Amount due within one year and shown as current liabilities	<u>(85,087)</u>	<u>(92,782)</u>
Amount due after one year	<u>–</u>	<u>449</u>

## 13. CONVERTIBLE LOAN NOTES

	<b>31 December 2002</b> <i>HK\$'000</i>	<b>30 June 2002</b> <i>HK\$'000</i>
Convertible loan notes ("CLN")		
At the beginning of the period/year	109,557	120,000
Exchange adjustment	–	435
Converted during the period/year ( <i>note e</i> )	<u>(48,345)</u>	<u>(10,878)</u>
At the end of the period/year	61,212	109,557
Less: Amount due within one year shown as current liabilities	<u>(61,212)</u>	<u>(109,557)</u>
Amount due after one year	<u>–</u>	<u>–</u>

On 23 January 1998, the Company issued US\$15.5 million (equivalent to approximately HK\$120 million) of CLNs. The salient features of the CLNs are set out below:

- (a) The CLNs have a five-year term and, unless converted, the Company shall repay the principal monies outstanding to the noteholders, together with all interest and unpaid thereon up to and including the date of repayment, on a date five years from the date of issue, which is on 20 January 2003.
- (b) Principal and any accrued but unpaid interest of the CLNs rank *pari passu* with the Group's secured indebtedness to the banks and the holders of the CLNs share, on a *pari passu* basis, all securities given to the banks under the debt restructuring exercise.
- (c) The CLNs can be converted into shares of the Company at the conversion price of US\$0.0401 (equivalent to HK\$0.31 per share), and will be subject to adjustment in the event of further issues of shares or other dilutive events, at any time following the first anniversary after the date of issue on 23 January 1998. The minimum principal amount that may be converted on any conversion of the CLNs, will be the lesser of US\$50,000 and the remaining principal amount outstanding under such CLNs.

- (d) Interest is compounded and payable semi-annually. Interest in years one, two and three accrued at a semi-annual rate of 3 per cent. and interest in years four and five accrued at a semi-annual rate of 2.875 per cent.
- (e) During the period/year, US\$6.2 million (year ended 30 June 2002: US\$1.4 million) of CLNs were converted into 155,161,696 ordinary shares (year ended 30 June 2002: 34,912,718 ordinary shares) of the Company at the conversion price of US\$0.0401 (equivalent to HK\$0.31 per share). The new shares issued rank pari passu in all respects with the then existing shares.

Assuming full conversion of the remaining CLNs at the conversion price of HK\$0.31 per share, the Company would be required to issue a total of 196,459,251 (At 30 June 2002: 351,620,947) new shares upon full conversion of the remaining CLNs.

Subsequent to 31 December 2002, US\$5.8 million of CLNs were converted in 145,666,799 shares of the Company at HK\$0.1 par value per share. The remaining balance of CLNs amounted to US\$2.1 million was repaid upon the maturity of CLNs.

#### 14. SHARE CAPITAL

	31 December 2002 <i>Number of shares</i>	30 June 2002	31 December 2002 <i>HK\$'000</i>	30 June 2002 <i>HK\$'000</i>
Shares of HK\$0.10 each				
Authorised:				
At the beginning and end of period/year	1,500,000,000	1,500,000,000	150,000	150,000
Issued and fully paid:				
At the beginning and end of period/year	770,521,462	735,608,744	77,052	73,561
Issue of shares upon the conversion of CLNs (note 13e)	155,161,696	34,912,718	15,516	3,491
At the end of period/year	925,683,158	770,521,462	92,568	77,052

## 15. CONTINGENT LIABILITIES

	<b>31 December 2002</b> <i>HK\$'000</i>	<b>30 June 2002</b> <i>HK\$'000</i>
Export bills discounted with recourse	<u>477</u>	<u>3,848</u>

## 16. CAPITAL COMMITMENTS

	<b>31 December 2002</b> <i>HK\$'000</i>	<b>30 June 2002</b> <i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	4,578	5,210
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	<u>42,500</u>	<u>44,255</u>
	<u>47,078</u>	<u>49,465</u>



**17. RELATED PARTY TRANSACTIONS**

During the period, the Group had significant transactions with related parties and connected transactions as follows:

Name of related party	Nature of transactions	For the six months ended 31 December	
		2002 HK\$'000	2001 HK\$'000
Bestform, Inc. and its affiliates (note a)	Sale of finished products (note e)	332,422	195,078
	Purchase of raw materials or semi finished products (note f)	928	4,503
	Interest payable on CLN	793	838
		<u>          </u>	<u>          </u>
Van de Velde N.V. (note b)	Sales of finished products (note e)	9,186	–
	Interest payable on CLN	151	–
		<u>          </u>	<u>          </u>
AIG Asia Direct Investment Fund Ltd. (note c)	Interest payable on CLN	976	1,316
		<u>          </u>	<u>          </u>
American International Assurance Co. (Bermuda) Ltd. (note c)	Interest payable on CLN	876	1,316
		<u>          </u>	<u>          </u>
Charming Industrial Co. Ltd. (note d)	Purchase of embroidery services for brassiere products (note f)	3,268	281
		<u>          </u>	<u>          </u>

In addition, Guliano Pte. Limited (“Guliano”) had issued guarantees to bankers in respect of the banking facilities granted to the Company during the period. Guliano is owned by Van de Velde N.V. (“VdV”), High Union Holdings Inc. and Fung On Holdings Limited. Certain Directors of the Company are directors and/or controlling shareholders of the companies.

Notes:

- (a) At 31 December 2002, the balances of trade receivable from Bestform, Inc. (“Bestform”) and its affiliates amounted to HK\$38,102,000 (At 30 June 2002: HK\$23,196,000) and the balance of interest payable to Bestform amounted to HK\$747,000 (At 30 June 2002: HK\$740,000). Bestform is a beneficial owner of 66,000,000 shares of the Company and holds US\$3.5 million of the CLN issued by the Company.

- (b) On 9 September 2002, Messrs. Lucas Laureys and Herman Van de Velde, who are directors and controlling shareholders of VdV, became Directors of the Company. At 31 December 2002, the balance of trade receivable from VdV amounted to HK\$1,189,000 and the balance of interest payable to VdV amounted to HK\$201,000. VdV holds US\$1 million of CLNs issued by the Company.
- (c) At 31 December 2002, the balance of interest payable to each of AIG Asia Direct Investment Fund Ltd. ("ADIF") and American International Assurance Co. (Bermuda) Ltd. ("AIAB"), respectively, amounted to HK\$802,000 (At 30 June 2002: HK\$1,015,000). ADIF and AIAB, both are managed by AIG Investment Corporation (Asia) Limited, each holds US\$1.7 million (At 30 June 2002: US\$4.8 million) of the CLNs issued by the Company. Mr. Lin Sian Zu, John and Ms. Tse Koon Hang, Ada, non-executive Directors of the Company, are directors of AIG Investment Corporation (Asia) Limited.
- (d) In November 2001, the Company disposed of a 40% interest in Charming Elastic Fabric Company Limited (formerly Elastex Manufacturing Company Limited) to Ko Ching Enterprises Limited which is controlled by Mr. Wong Lok Cheung ("Mr. Wong"). Since then, Mr. Wong became a connected party of the Group and Charming Elastic Fabric Company Limited became a 60% owned subsidiary of the Company. At 31 December 2002, the balance of trade payable to Charming Industrial Co., Ltd. ("Charming") amounted to HK\$389,000 (At 30 June 2002: HK\$1,267,000). Mr. Wong has certain interests in Charming.
- (e) The sales were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.
- (f) The purchase price were mutually agreed with the supplier.

**MANAGEMENT DISCUSSION AND ANALYSIS**

The six months ended 31 December 2002 recorded the best interim result ever for the Group. Total Sales was HK\$551.6 million, up 37%, and Net Earning was HK\$65.4 million, up 173% comparing with the same period in the previous year.

Our basic earnings per share has increased by 150% to HK¢8 from HK¢3.2 in the corresponding period. Subsequent to 31 December 2002, US\$5.8 million of our Convertible Loan Notes were converted in 145,666,799 shares of the Company. Had this conversion taken place on 31 December 2002, the pro forma earnings per share calculated on the profit attributable to shareholders of HK\$65,368,000 and 958,897,340 shares (being the sum of weighted average of 813,230,541 shares in issue and 145,666,799 shares to be issued after conversion) is HK¢6.8.

The Group's impressive performance was driven primarily by the strong growth in our OEM business. During the period we shipped over 26 million units of brassiere products. We had increased production demands from customers in all markets. Our plants were virtually 100% filled including the capacities for July and August, traditionally the two slack months in our business. We were also thankful for the timely completion of Phase I of the expansion project we staged in China; the added low-cost capacity has helped to support our increase in sales. Following the elimination of two major quota categories for export of brassiere products from China to the U.S. last year, we were free to reshuffle our product mix and load our plants among the different regions on basis of their capabilities instead of quota limitations. This to a great extent has enhanced our manufacturing efficiency and lowered our cost.

Our branded business posted a loss of HK\$6.3 million during the period. Subsequent to our recent exit from the Taiwan market, the turnover of the business unit has fallen to a level that could not be cost efficient. It was for this reason and as mentioned in my last report, your management decided to rebuild the business with a focus on the China market. It should be noted that over 50% of the loss posted during the period was a onetime charge to those inventories deemed obsolete in our business plan to reposition our brands and in the market.

Corporate expenses decreased by HK\$4 million or 31% from the correspondent period in the previous year. This was attained largely due to the reduction of bank borrowings, resulting in savings in interest expenses.

On the financial side, I would like to highlight the following developments:

- The Convertible Loan Note Agreement we entered into as part of the Group's financial and business restructuring five years ago had come to a conclusion last month. The noteholders collectively converted 87% of the notes (amounting to approximately HK\$104.2 million) to common stocks and the Company has settled the balance Convertible Loan Notes amount (amounting to approximately HK\$15.8 million) by cash repayment. The notes conversions effectively reversed debt to equity. HK\$48.3 million of the total conversions took place during the six months period and it helped to strengthen the Group's balance sheet.
- The profit generated by business operations during the period had resulted in an increase of our bank balances and an improvement in our cash position from HK\$70.6 million as at 30 June 2002 to HK\$113.6 million as at 31 December 2002.
- We decreased the Group's bank borrowings from HK\$92.7 million to HK\$85.1 million in accordance with the Amendment Agreement entered into with the banks in January 2001.
- Our gearing ratio, which is measured by net borrowing to net worth, was reduced substantially to 22% only as at 31 December 2002 compared to 318% as at 30 June 2002. This was accomplished by a combination of the above factors.
- The net worth of the Group, had attained approximately HK\$150.4 million as at 31 December 2002 as compared to a negative net worth of HK\$13.3 million as at the same date last year.

Additionally, we have recently entered into an agreement with Hongkong Bank, Hang Seng Bank and ING Bank under which the three banks have become the only bankers of the Group, providing a line of revolving credit facilities amounting to HK\$140 million sufficient to support our business needs. All these reflect the gaining strength in the Group's financial position.

Outlook for the second half of the current fiscal year remains positive on basis of the production orders we have received on hand. Nevertheless, the lackluster retail performance over the last Christmas season, and the prospect of a war in the Middle East, have caused concerns in the market and prompted your management to take a cautious approach to business.

Our Branded business, while being redeveloped with a focus on the China market, is not expected to have much meaningful impact on the Group's overall performance in the short term. However, it bears strategic significance in sustaining the Group's continuous growth beyond the expansion project of our OEM business in China.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

The following Directors of the Company were granted options to subscribe for shares in the Company on 9 September 2002 at an exercise price of HK\$0.343 in accordance with the share option scheme approved and adopted at a special meeting of the Company held on 22 November 2001. Details of the new share option scheme are set out under the section "Share Options" below.

<b>Name of Director</b>	<b>Number of shares</b>
Fung Wai Yiu	770,521
Wong Chung Chong, Eddie	770,521
Chow Yu Chun, Alexander	770,521
Lam Ka Chung, William	770,521
Marvin Bienenfeld	770,521
Leung Churk Yin, Jeanny	770,521
Lin Sian Zu, John	770,521
Tse Koon Hang, Ada	770,521
	6,164,168

No options were exercised by the Directors during the period.

Save as disclosed above:

- (a) none of the Directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the year; and
- (b) at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, the interests of the Directors in the share capital of the Company as recorded in the register maintained pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Directors	Number of Shares held		
	Personal interests	Family interests	Other interests
Fung Wai Yiu	–	216,000*	367,904,142*
Wong Chung Chong, Eddie	–	–	367,904,142**
Lam Ka Chung, William	200,000	–	–

\* 216,000 shares are held by the spouse of Mr. Fung Wai Yiu ("Mr. Fung"). 209,191,780 shares are registered in the name of Guliano Pte Limited ("Guliano"). 158,712,362 shares are registered in the name of HKSCC Nominees Limited ("HKSCC") and are beneficially owned by Guliano. 9,590 shares of Guliano are held by a family trust of which the family members of Mr. Fung are eligible beneficiaries.

\*\* 209,191,780 shares are registered in the name of Guliano. 158,712,362 shares are registered in the name of HKSCC and are beneficially owned by Guliano. 40,411 shares of Guliano are held by a family trust of which the family members of Wong Chung Chong, Eddie ("Mr. Wong") are eligible beneficiaries.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Directors in trust for the Company's subsidiaries as at 31 December 2002, no Directors had any interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

**SUBSTANTIAL SHAREHOLDERS**

In addition to the interests disclosed above in respect of the Directors, the Company was notified of the following interest in the issued ordinary share capital of the Company as at 31 December 2002 as required to be recorded in the register maintained under Section 16(1) of the SDI Ordinance:

- (i) 367,904,142 shares of the Company are held by Guliano, representing 39.74% of the issued share capital of the Company.
- (ii) VdV is deemed to be interested in the shares of the Company as it holds 49.99% of the issued share capital of Guliano.
- (iii) A family trust of which the family members of Mr. Wong are eligible beneficiaries is deemed to be interested in the shares of the Company as it holds 40.41% of the issued share capital of Guliano.

**SHARE OPTIONS**

A new share option scheme was approved and adopted at a special general meeting of the Company held on 22 November 2001, pursuant to which the Company may grant options to Directors of the Company and employees of the Group, and any suppliers, consultants and advisers who will or have provided services to the Group, to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company as at 22 November 2001 and the maximum number of options granted to any one individual in any 12-month period shall not exceed 1% of the issued share capital. The purpose of the new share option scheme is to enable the Company to grant options to selected participants as incentives and rewards for their contribution to the Group. A consideration of HK\$1 is payable on the grant of an option. Options granted must be taken up within 14 days from the date of grant. The subscription price of the option shares is determined by the Directors of the Company, and will not be less than the highest of the nominal value of the shares, the closing price of the shares on the date of grant and the average of the closing prices of the shares on the five trading days immediately preceding the date of the grant.

The options are exercisable at any time during the period commencing on the second anniversary of the date of grant of the options and expiring at the close of business on the day preceding the tenth anniversary of the date of adoption of the share option scheme.

Other than the options granted to the Directors, there were no options under the share option scheme were granted, exercised or cancelled during the period.

## PRACTICE NOTE 19 DISCLOSURE

	<b>31 December 2002</b> <i>HK\$'000</i>	<b>30 June 2002</b> <i>HK\$'000</i>
Loans receivable	53,141	53,141
Less: Provision made	(53,141)	(53,141)
	<u>—</u>	<u>—</u>

As part of the Group's debt restructuring agreement entered into with its bankers in January 1998, the Company had advanced an aggregate amount of HK\$53,141,000 to Almswood International Limited ("Almswood") and has an obligation to make further advances to Almswood from the net proceeds to be realised from the sale of the Group's property investments in Shanghai, Chengdu and Yingkou in the People's Republic of China.

The loan bears interest at the highest of the interest rates charged by the banks on overdraft facilities to the Group or, if none, at the cost of funding the loans by the Group. The repayment by Almswood of the principal and interest is subordinated to Lo Kit Lun, Frank's, Almswood and its subsidiaries' indebtedness to certain banks ("banks' indebtedness").

The loans extended by the Company to Almswood are to be repaid in 10 equal semi-annual instalments commencing from the sixth month after Almswood's indebtedness to the banks has been fully repaid or, at the discretion of the Board of the Company, commencing no later than the thirteenth month after Almswood's indebtedness to the banks has been fully repaid. Under the existing payment profile of the indebtedness, full repayment of the banks' indebtedness is scheduled in the fifth year from the date of drawdown on 23 January 1998.

Under an agreement with its bankers, Almswood was committed to commence repayment of its bank indebtedness by January 2000. The Directors understand that Almswood has yet to obtain additional external funding to enable it to meet its financial obligations, including those to its bankers and to the Group. In the opinion of the Directors, the recoverability of amounts loaned and to be loaned to Almswood is dependent upon Almswood obtaining sufficient additional external funding, which was in question, and accordingly, provisions were made for the loans receivable of HK\$53,141,000 and against the Group's property and other investments with an aggregate carrying value of HK\$59,138,000 in the previous years.

Almswood is a company wholly owned by Lo Kit Lun, Frank, who acted as a non-executive Director of the Company until 18 August 2000.



**EMPLOYMENT AND REMUNERATION POLICY**

As at 31 December 2002, the Group had a total number of approximately 8,500 employees.

The remuneration policy and package of the Group's employees are structured by reference to market terms and statutory requirements as appropriate. In addition, the Group also provide other staff benefits such as medical insurance, mandatory provident fund and a share option scheme to its employees.

**AUDIT COMMITTEE**

On 11 December 1998, the Company formed an Audit Committee comprising Mr. Chow Yu Chun, Alexander, Mr. Lam Ka Chung, William, Mr. Lin Sian Zu, John and Ms. Tse Koon Hang, Ada, all of whom are independent non-executive Directors of the Company. In establishing the terms of reference of the Audit Committee, the Directors have made reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

The unaudited interim report for the six months ended 31 December 2002 has been reviewed by the Audit Committee.

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**DIVIDENDS**

The Directors proposed that no interim dividend be declared for this six months period (2001: nil).

**CORPORATE GOVERNANCE**

The Company has complied throughout the period with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board  
**Fung Wai Yiu**  
*Chairman*

Hong Kong, 20 February 2003