TOP FORM

INTERNATIONAL LIMITED

ANNUAL REPORT

2006

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Fung Wai Yiu, *Chairman*
Mr. Wong Chung Chong, Eddie,
Group Managing Director
Mr. Leung Tat Yan (1)

NON-EXECUTIVE DIRECTORS

Mr. Lucas A.M. Laureys
Ms. Leung Churk Yin, Jeanny (5)
Mr. Herman Van de Velde

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Marvin Bienenfeld (5) (6)
Mr. Chow Yu Chun, Alexander (5) (6)
Mr. Lam Ka Chung, William (3) (5) (6)
Mr. Leung Ying Wah, Lambert (4) (5) (6)
Mr. Lin Sian Zu, John (2) (5)
Mr. Lin Sun Mo, Willy (4) (5)
Ms. Tse Koon Hang, Ada (2) (5) (6)

COMPANY SECRETARY

Mr. Michael Austin

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

(1) Appointed on 18 September 2005
(2) Resigned on 18 September 2005
(3) Passed away on 24 April 2006
(4) Appointed on 3 May 2006
(5) Member of Audit Committee
(6) Member of Compensation Committee

PRINCIPAL OFFICE

Room 1813, 18th Floor, Tower 1
Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Fung Wai Yiu
Mr. Wong Chung Chong, Eddie

PRINCIPAL BANKERS

Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

AUDITORS

Deloitte Touche Tohmatsu

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

The Group saw the first setback in fiscal year 2005/06 after six consecutive years of growth and increases in earnings.

Group sales declined 3% to HK$1,425.5 million, after-tax earnings 37% to HK$114.9 million and earnings per share from 17.0 HK cents to 10.7 HK cents.

The Board of Directors has proposed a final dividend of HK$0.03 per share.

As reported in our interim results, our core business took a hit from a combination of trade issues that took place in the first half of the fiscal which led to the setback for the year. While we were encouraged by our success in rebuilding our plant capacity and sales to a healthy level during the second half of the year, our profit performance suffered from abnormal operating costs as well as hefty airfreight expenses incurred during the second half of the fiscal year in clearing up the shipments delayed from the first half.

Our core OEM business remains fundamentally robust; we remain the largest supplier in the trade and shipped 56.7 million units during the year. We have continued the expansion in Thailand and we have added a small satellite plant some fifty kilometers inland from our Long Nan plant in Jiangxi Province, all in anticipation of the changing market demand which necessitates the support of new skills, new equipment, additional headcount and space.

Our branded business remains an insignificant portion of our portfolio, representing less than 2% of Group turnover. Losses, all of which were attributable to the Hong Kong operations, amounted to HK$6.5 million on a turnover of HK$21.7 million. Our strategic plan predicates the growth of this business unit on the acquisition of a distribution platform in China. Our cautious efforts in this direction have not yet produced results with unrealistic valuations by potential sellers being a significant factor. In the absence of an immediate M&A target we have exited from those unprofitable operations in Hong Kong and to prudently re-invest in our China structure to position ourselves for internal growth.

Financially, notwithstanding the difficulties of the year, the Group continues to maintain a strong balance sheet. As at 30 June 2006, shareholders' funds increased to HK$461.2 million from HK$434.3 million at 30 June 2005. The Group has credit facilities amounting to HK$150 million of which HK$4.9 million had been utilized at 30 June 2006. Cash and bank balances amounted to HK$65.3 million, which is sufficient for our immediate needs and which provides a firm basis for any M&A projects or expansion opportunities.

The Group is committed to maintaining a high standard of corporate governance. Our key corporate governance practices are set out in the Corporate Governance Report, benchmarked against the provisions of the Code on Corporate Governance Practices which came into effect this year. Your Board meets quarterly and, in order to enhance transparency, it was decided that we would post selected operational data on our website to bridge the gaps between our interim and final results announcements. The first of these updates was posted in May following our third quarter Board of Directors meeting. During the year we also established an internal audit function.

Looking forward to 2007 the worst seems to have been left behind us. The quota situation has been stabilized and is not likely to be a factor adversely affecting our operation and cost performance. Demand is stable; with the build up of our capacity, we have the ability to develop new customers and expand business with existing customers. There are concerns under the shadow of rising interest rates which might discourage spending and negatively impact business. The biggest challenge confronting us, however, is the rapidly deteriorating operating environment in China especially for those manufacturing companies operating in the Pearl River Delta. The steep rise in labour costs, reduction of VAT refund on exports, shortage of labour, shortage of energy supply, stepping up of environmental requirements etc., are all heavy burdens to our cost efficiency. Our business plan for the next fiscal year therefore calls for a prudent approach, with a focus on cost control and a growth level based on our capacity buildup achieved in the fourth quarter of this year. Long term, we will maintain our even spread of global capacity between China and other regions; our business strategy will have an emphasis on product innovation in order to support high value-added exports. As for our branded business, we have started to broaden the presence of our products in southern China. With the few sales counters we have set up in department stores, we expect a slight growth in the coming year while we continue to look for M&A or joint-venture opportunities.

There have been some changes in our Board of Directors during the year. I regret to report that Mr. Lam Ka Chung, William, an Independent Non-executive Director of the Company, passed away on 24 April 2006. Mr. Lam served the Board for over twelve years and his wise counsel, diligence and independence of mind will be sorely missed.

On 3 May 2006, the Board announced the appointment, subject to the approval of shareholders at the upcoming Annual General Meeting, of two new Independent Non-executive Directors, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy. Biographical details are set out on page 35 of this Annual Report. Both bring a wealth of expertise and experience to our business and, on behalf of all Board members, I welcome them to the Group.

This has not been an easy year for our managers and employees and, on behalf of the Board, I wish to express our appreciation for the hard work and diligence they have demonstrated in difficult circumstances.

Fung Wai Yiu
Chairman

The Group's business activities are organized into two operating units, namely Manufacturing and Brands, and a corporate cost center.

	Turnover		Profit (Loss)	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Manufacturing	**1,403,798**	1,442,897	**166,405**	251,942
Brands	**21,693**	20,918	**(6,457)**	(5,594)
Corporate	**–**	–	**(16,740)**	(16,229)
	1,425,491	1,463,815	**143,208**	230,119

Group profit before taxation for the year reduced by 38% to HK$143.2 million and turnover declined by 3% to HK$1,425.5 million, when compared to the previous year.

MANUFACTURING

Our core business was adversely affected by a number of negative developments that occurred during the year. During the year, our global sales totalled 56.7 million units of brassiere products. This compares with 61.6 million units in 2005.

In our 2005 Annual Report, we noted that fiscal 2006 would present operational challenges to the Group in the short term. We did not, however, anticipate the magnitude of these challenges; primarily caused by the need to reshuffle plant loadings between China and our overseas plants due to quota availability reasons.

Our first half accounted for 25.9 million units, compared to 30.3 million units in 2005, after adjustment for the U.S. embargo which was in force towards the end of calendar 2004. As anticipated, first quarter sales were affected by the caution in inventory management shown by our customers as a result of a generally lackluster consumer market in the U.S.. Business returned and demands for capacity increased in the second quarter as market sentiment improved.

Unfortunately, the increasingly regimented colour and material approval process required by some of our OEM customers created not only delays in the supply chain, but further complicated the already challenging operating environment resulting from the trade disputes between China, the E.U. and the U.S.. The vast majority of our E.U. production was scheduled to be manufactured in our plants in China but, despite our plant in Nan Hai being one of the largest E.U. quota holders in the country, we were unable to utilize any of the quota due to the chaotic implementation of the trade agreement in which allocated quotas were negotiated away in settlement of the unexpectedly high level of backlog held at the various customs points in Europe. This development, together with the threat of an imminent embargo under the Safeguard mechanism imposed by the U.S., meant that we were compelled during our second quarter to reshuffle our production loadings between our plants in China, Thailand and the Philippines. The differing product capabilities between the plants seriously impacted efficiency and thus output, compromising not only our ability to make sales but also resulting in a domino effect of production delays.

Sales during our second half amounted to 30.8 million units, compared to an adjusted 31.3 million in the previous year. The China quota situation for 2006 has been stabilized through the allocation and auction process. Together with purchases from the market, we secured sufficient quota for our needs in the second half and also the remainder of calendar 2006. We therefore were able to reshuffle our production back on the basis of plant capability. The third quarter saw us rebuilding the efficiency in our plants, resulting in an output of 14.8 million pieces which was equivalent to the same period last year and our expectations. In the fourth quarter our output increased to 16 million pieces which again was in line with our expectations. While we were encouraged by the progress of our output buildup, costs in the second half were impacted by substantial overtime payments and logistic costs as we cleared the backlog in orders carried over from the first half and to meet delivery obligations.

Notwithstanding the operational challenges we faced, the upward trend in our products and customer mix continued during the year. Unit prices increased as a result of this trend and material costs remained stable. In August 2004, we added to our existing plants in Thailand by setting up a satellite plant in a Province located away from the dense concentration of manufacturing industries surrounding Bangkok. This plant is now well on the way to becoming a full scale operation and brings not just increased capacity and labour supply but also balances our country risks should there be any future trade disputes between China and her trading nations. In February we set up a small satellite plant some fifty kilometers inland from our Long Nan plant in Jiangxi Province, in accordance with our strategic plan to migrate our labour intensive operations from the coastal cities to inland China.

BRANDS

Brands sales for the year showed a modest increase in turnover compared to last year. The loss of HK$6.5 million was in line with expectations given the level of turnover and was attributable to the operations in Hong Kong where we continue to showcase our products to uphold our brand image. In Hong Kong we opened a second Marguerite Lee shop in a high profile commercial location and are in the process of reviewing our remaining brand operations within the HKSAR. We have prudently invested in building the structure for expansion in China in the absence of an immediate M&A target.

CORPORATE

The charges attributable to our corporate cost center were maintained at HK$16.7 million for the year, the same as the previous year.

FINANCIAL POSITION

The financial position of the Group remains strong.

Shareholders' funds increased from HK$434.3 million at 30 June 2005 to HK$461.2 million at 30 June 2006. At 30 June 2006, the Group had credit facilities amounting to HK$150 million of which HK$4.9 million had been utilized. The level of gearing remained insignificant and bank and cash balances stood at HK$65.3 million, which is sufficient for our immediate needs and provides a firm basis for any M&A projects or expansion opportunities.

OUTLOOK

The outlook for the coming year remains challenging. On the positive side we are comfortable that China quotas will no longer present a major issue and we therefore can select the optimum production locations for our products. The efficiency of our plants has returned to an acceptable level and we are continuing to expand our capacity to meet the demands of existing and potential new customers. Average selling prices are likely to show modest increases.

We will however be faced with unprecedented cost pressures during fiscal 2007. Whilst material prices are forecast to remain stable, minimum wages in Guandong Province have recently surged again by approximately 20% above the scheduled statutory increases over the previous eighteen months. A reduction in export tax rebate on textile and garment products will almost certainly be implemented in the near future which in effect will elevate our China cost. The continuing weakness of the U.S. dollar against many Asian currencies remains a concern and we are mindful of the effects that an economic downturn, particularly in the U.S., could have on consumer confidence and thus our business in that market.

Our business plan for the coming year therefore calls for a prudent approach, with an emphasis on cost control, and a growth level based on our rebuilt capacity achieved in the fourth quarter of this year.

The Board and management of the Company are committed to maintaining high standards of corporate governance. We aim to continually review and enhance our corporate governance practices in the light of local and international best practices.

The Company has complied with the Code on Corporate Governance Practices set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong with the following deviations:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement and by rotation and re-election at least once every three years in accordance with the Company's Bye-laws.

- A4.1 The Chairman and the Group Managing Director are not, while holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep these matters under review.

Key corporate governance principles and the corporate governance practices of the Company are set out in this report.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A	**DIRECTORS**		
A1	**The Board** ***Code Principle*** The Board should assume responsibility for leadership and control of the issuer; and be responsible for directing and supervising the company's affairs.		
A1.1	• Regular board meetings at least four times a year	✓	• The Board meets regularly and held meetings in November 2005 and in February, May and September 2006. • Details of Directors' attendance records : *Executive Directors* — *Attendance* Fung Wai Yiu *(Chairman)* — 4/4 Wong Chung Chong, Eddie *(Group Managing Director)* — 4/4 Leung Tat Yan — 4/4 *Non-executive Directors* Leung Churk Yin, Jeanny — 4/4 Lucas A. M. Laureys — 3/4 Herman Van de Velde — 2/4

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			Independent Non-executive Directors — *Attendance* Marvin Bienenfeld 3/4 Chow Yu Chun, Alexander 4/4 Lam Ka Chung, William (1) 0/2 Leung Ying Wah, Lambert (2) 2/2 Lin Sun Mo, Willy (2) 1/2 (1) Passed away on 24 April 2006 (2) Appointed on 3 May 2006
A1.2	• All directors be given an opportunity to include matters in the agenda for regular board meetings	✓	• Regular Board meetings are scheduled at least 3 months in advance to give Directors the opportunity to include matters in the agenda.
A1.3	• Notice at least 14 days be given for regular board meetings	✓	• At least 14 days formal notice is given before each regular meeting.
A1.4	• Access to advice and services of the company secretary	✓	• The Company Secretary is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters. • Directors have direct access to the Company Secretary.
A1.5	• Minutes of board meetings and board committee meetings kept by a duly appointed secretary of the meeting and open for inspection by directors	✓	• The Company Secretary is responsible for taking minutes of Board and Board Committee meetings. Such minutes are open for inspection by Directors.
A1.6	• Minutes record in sufficient detail the matters considered by the board and decisions reached • Draft and final minutes sent to all directors for comments within a reasonable time	✓	• Minutes record in sufficient detail matters considered and decisions reached. • Directors are given an opportunity to comment on draft Board minutes which are sent to Directors within a reasonable time. (generally within 14 days) of the relevant meeting.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A1.7	• Agreed procedure for directors to seek independent professional advice at the company's expense	✓	• Directors have been advised that the Company Secretary can arrange independent professional advice at the expense of the Company.
A1.8	• If a substantial shareholder or a director has a conflict of interest in a material matters, a physical board meeting be held • Independent non-executive directors who have no material interest in the transaction be present at such meeting	✓	• There is a prescribed list of matters reserved for Board decision which includes approval of material connected transactions and matters involving a conflict of interest for a substantial shareholder or Director. • Such matters are considered at a full Board meeting. The Company's articles provide for voting and quorum requirements conforming with Code Provisions.
	Recommended Best Practices		
A1.9	• Appropriate insurance cover in respect of legal action against directors	✓	• There is in place appropriate insurance covering Directors and Officers liability.
A1.10	• Board committees shall adopt broadly the same principles and procedures	✓	• Board Committee principles and procedures conform to the above.
A2	**Chairman and Chief Executive Officer** ***Code Principle*** There should be a clear division of responsibilities between the Chairman and the Chief Executive Officer of the issuer to ensure a balance of power and authority.		
A2.1	• Roles of chairman and chief executive officer should be separate; clearly established and set out in writing • Division of responsibilities should be clearly established and set out in writing	✓	• The positions of Chairman of the Board and Group Managing Director are held by separate individuals. • The Chairman focuses on Group strategic and Board issues. The Group Managing Director has overall Chief Executive responsibility for Group operations and development generally.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A2.2	• The chairman should ensure that all directors are properly briefed on issues arising at board meetings	✓	• The Chairman, with the support of Executive Directors and the Company Secretary, has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities. • Board meetings are structured to encourage open discussion and frank debate.
A2.3	• The chairman should be responsible for ensuring that directors receive adequate information, which is complete and reliable in a timely manner	✓	• Board papers are normally sent to Directors at least three days before Board meeting.
	Recommended Best Practices		
A2.4 – A2.9	Various recommended roles for chairman including: • Drawing up and approving board agenda • Ensuring establishment of good corporate governance practices and procedures	✓	• The Chairman plays a key role in driving corporate governance development. • The Chairman, together with the Company Secretary draw up the Board agenda after consultation with relevant parties.
A.3	**Board Composition** ***Code Principle*** The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer and shall include a balanced composition of Executive and Non-executive Directors so that independent judgment can effectively be exercised.		
A3.1	• Independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the company	✓	• The Board consists of a total of ten Directors, comprising three Executive Directors, three Non-executive Directors and four Independent Non-executive Directors. • The composition of the Board by category is disclosed in all corporate communications.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			• Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. Biographical information is set out on page 35.
	Recommended Best Practices		
A3.2	• Independent non-executive directors should represent at least one-third of the board	✓	• The Company complies with this practice.
A3.3	• Maintain on the website an updated list of directors identifying their role and function and (where applicable) independence	✓	• Biographies and designations are included on the website: www.topformbras.com.
A4	**Appointments, Re-election and Removal** ***Code Principle*** These should be a formal, considered and transparent procedure for the appointment of new Directors and plans in place for orderly succession for appointments to the Board. All Directors should be subject to re-election at regular intervals.		
A4.1	• Non-executive directors should be appointed for a specific term, subject to re-election	*Deviation explained*	• Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at least once every three years in accordance with the Company's Bye-laws.
A4.2	• All directors appointed to fill a casual vacancy should be subject to election by shareholders at the next general meeting after their appointment	✓	• In accordance with the Company's Articles of Association, newly appointed Directors are required to offer themselves for re-election at the next annual general meeting following their appointment.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
	• Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years	*Deviation explained*	• Under the Company's Bye-laws, at each annual general meeting one-third of the Directors for the time being or, if the number is not three or a multiple of three, the number nearest to one-third shall retire from office. The Chairman and the Group Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in the roles of Chairman and Group Managing Director and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.
	Recommended Best Practices		
A4.3	• Election of an independent non-executive director serving more than nine years. Include reason why considered to be independent and why should be re-elected	✓	• The Company strongly supports the principle of Board independence. Chow Yu Chun, Alexander has served the Board since his first appointment in 1993. Mr. Chow will stand for re-election at the 2006 AGM. The Board considers that Mr. Chow remains independent, notwithstanding the length of his tenure. Mr. Chow has consistently demonstrated his willingness to exercise independent judgment and provide objective challenges to management.
A4.4 – A4.5	• Establishment of a nomination committee with written terms of reference	*Deviation explained*	• Potential new Directors are identified and submitted to the Board for approval. Non-executive directors are equally involved in the selection process from inception and the Board considers that the establishment of a Nomination Committee is unnecessary at this time.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5	**Responsibilities of Directors** ***Code Principle*** All directors (including non-executive directors) are required to keep abreast of their responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer.		
A5.1	• Every newly appointed director should receive a comprehensive, formal induction to ensure that he has a proper understanding of the business; his responsibilities under the listing rules, applicable regulatory requirements, business and governance policies of the issuer	✓	• The Chairman and Company Secretary liaise with newly appointed Directors both immediately before and after the appointment with the duties and responsibilities as Directors of a listed company and other regulatory requirements. • Non-executive Directors are provided at quarterly Board meetings with comprehensive reports on the management's strategic plans, updates on business, financial objectives, plans and actions. • The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.
A5.2	• Function of non-executive directors include: – bring an independent judgement to the board meeting – take the lead where potential conflicts of interest arise – serve on committees if invited – scrutinise the issuer's performance	✓	• Non-executive Directors seek guidance and direction from the Chairman, the Group Managing Director and Executive Director on the future business direction and strategic plans so as to gain a comprehensive understanding of the business of the Company to exercise their independent judgement. • Non-executive Directors review the financial information and operational performance of the Company on a regular basis. • The Audit and Compensation Committees of the company are wholly comprised of Non-executive Directors, with the majority being Independent Non-executive Directors.
A5.3	• Directors should ensure that they can give sufficient time and attention to the affairs of the issuer	✓	• There is satisfactory attendance for Board and Board Committee meetings in 2006.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A5.4	• Directors must comply with the Model Code • Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees	✓	• The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules regarding Directors' dealings in securities. Following specific enquiry, the Directors have confirmed that they have complied with the required standards. • Employees who are likely to be in possession of unpublished price-sensitive information of the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code.
	Recommended Best Practices		
A5.5	• Directors should participate in a programme of continuous professional development	✓	• The Company supports the practice of continuous professional development. Presentations on relevant topics are organized from time to time to coincide with Board meetings.
A5.6	• Directors should disclose at the time of appointment (and at subsequent times) all offices held in other organizations and other significant commitments	✓	• On appointment Directors disclose all relevant information. This information is updated annually.
A5.7	• Directors should ensure regular attendance and active participation at board, board committee and general meetings	✓	• Attendance records at Board and Board committee meetings are satisfactory. In 2005, 100% of Executive Directors, 81.25% of Independent Non-executive Directors and 75% of Non-executive Directors attended the Annual General Meeting.
A5.8	• Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments	✓	• Details on the roles and functioning of Non-executive Directors as set out above.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A6	**Supply of and Access to Information** *Code Principle* Directors should be provided in a timely manner with appropriate information so as to enable them to make an informed decision and to discharge their duties and responsibilities.		
A6.1	• Board papers should be sent to all directors at least three days before regular board or board committee meetings	✓	• Board papers are circulated not less than three days before regular Board or Board Committee meetings.
A6.2	• Management has an obligation to supply the board and committees with adequate information in a timely manner to enable it to make informed decisions • Each director should have separate and independent access to senior management	✓	• The Company Secretary and Qualified Accountant is in attendance at all regular Board and Board Committee meetings to advise on corporate governance, statutory compliance, accounting and financial matters. • Senior management are from time to time brought into formal and informal contact with the Board at Board meetings and other events.
A6.3	• Directors are entitled to have access to board papers; steps must be taken to respond to director queries promptly and fully	✓	• Board papers and minutes are made available for inspection by Directors and Committee Members. • The Executive Directors and Company Secretary play a leading role in ensuring that queries are answered promptly and fully.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B	**REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**		
B1	**The Level and Make-up of Remuneration and Disclosure** ***Code Principle*** A formal and transparent procedure should be established for setting policy on executive director remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.		
B1.1	• Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the remuneration committee should be independent non-executive directors	✓	• The Company established a Compensation Committee in 2001. Full terms of reference are available on the Company's website. • The Committee met on 7 September, 2006 and currently comprises: *Independent Non-executive Directors* — *Attendance* Marvin Bienenfeld *(Chairman)* — 1/1 Chow Yu Chun, Alexander — 1/1 Leung Ying Wah, Lambert — 1/1 *Non-executive Directors* Herman Van de Velde — 1/1
B1.2	• The committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary	✓	• There is close liaison and consultation between the Committee and the Chairman and the Group Managing Director on all human resource issues. • Committee members are aware that access to professional advice is available if considered necessary.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B1.3	• Terms of reference of the remuneration committee to include: – recommendations to the board on policy and structure for all remuneration of directors and senior management – determine specific remuneration packages of all executive directors and senior management – review and approve performance based remuneration and the compensation payable on loss or termination of office or appointment – ensure that no director or any of his associates is involved in deciding his own remuneration	✓	• The terms of reference of the Compensation Committee follow closely the requirements of the Code Provisions and have been adopted by the Board. • The Committee reviews compensation policies and recommends to the Board the remuneration packages of the Executive Directors and senior management. • The compensation policy of the Group is designed to reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals. • No individual Director is involved in deciding his own remuneration.
B1.4	• The remuneration committee should make available its terms of reference and the authority delegated to it by the board	✓	• The terms of reference of the Compensation Committee are set out on the Company's website. • The Group's compensation policy for Non-executive Directors is to ensure that they are sufficiently but not excessively compensated for their efforts and time dedicated to the group.
B1.5	• The remuneration committee should be provided with sufficient resources to discharge its duties	✓	• Independent professional advice will be brought to supplement internal resources where appropriate.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
	Recommended Best Practices		
B1.6	• A significant proportion of executive directors' remuneration should be linked to corporate and individual performance	✓	• Details of remuneration of Executive Directors are disclosed on an individual basis. A significant proportion of the compensation of Executive Directors and senior management is based on individual performance and the financial performance of the Group.
B1.7	• Disclosure of remuneration payable to senior management, on an individual and named basis	*Deviation explained*	• The Board does not consider that such disclosure is in the best interests of the Group due to the shortage of skills and experience prevalent in the sector at the senior management level and for competition reasons.
C	**ACCOUNTABILITY AND AUDIT**		
C.1	**Financial Reporting** *Code Principle* The Board should present a balanced, clear and comprehensive assessment of the company's performance, position and prospects.		
C1.1	• Management to provide explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put forward to the board for approval	✓	• Directors are provided with a review of the Group's major business activities and detailed financial information on a quarterly basis.
C1.2	• The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts	✓	• The Directors annually acknowledge their responsibility for preparing the financial statements of the Group.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			• The Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to: – select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable; – state the reasons for any significant departure from accounting standards; and – prepare the financial statements on a going concern basis, unless it is not appropriate to assume that the Company and the Group will continue in business for the foreseeable future. The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention of fraud and other irregularities.
	• A statement by the auditors regarding their reporting responsibilities in the auditors' report	✓	• The Auditors' Report states auditors' reporting responsibilities.
	• Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary	✓	• Directors are not aware of any matters which may cause significant doubt upon the Company's ability to continue as a going concern.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
	• Where material uncertainties exist regarding the company's ability to continue as a going concern, such uncertainties should be clearly and prominently set out and discussed in the Corporate Governance Report	*N/A*	
C1.3	• Board responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements; other financial disclosures; reports under the Listing Rules and statutory requirements	✓	• The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all shareholder communications.
	Recommended Best Practices		
C1.4	• An issuer should announce and publish quarterly financial results, within 45 days from the end of the relevant quarter	*Deviation explained*	• The Board does not consider the announcement and publication of quarterly financial results to be desirable at the present time.
C1.5	• Once an issuer has decided to publish its quarterly financial results, it should continue to do so	*N/A*	• The Board reviews business and operational updates on a quarterly basis. In order to enhance the transparency of the Company and raise the investment community's understanding of the latest situation and performance of the Group, quarterly business and operational updates are posted on the Company's website; bridging the gaps between the publication of the interim and annual results. The first of these was posted in May 2006 following the third quarter meeting of the Board.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C2	**Internal Controls** *Code Principle* The Board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investments and the issuer's assets.		
C2.1	• The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report that they have done so in their Corporate Governance Report • The review should cover all material controls, including financial, operational and compliance controls and risk management functions	✓	• The Directors, through the Audit Committee of the Company, have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries. The review covers all material controls, including financial, operational and compliance controls and risk management functions. • The Board is generally satisfied as to the effectiveness of the system of internal control of the Company and its subsidiaries.
	Recommended Best Practices		
C2.2	• The boards annual review should, in particular consider: – the changes since the past annual review in the nature and extent of significant risks, and the issuer's ability to respond to changes in its business and the external environment – the scope and quality of managements ongoing monitoring of risks and of the system of internal control, and where applicable, the work of its internal audit function and other providers of assurance	✓	• The Review by the Board considered all these matters. • There were no significant control failings or weakness identified.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
	– the extent and frequency of the communication of the results of the monitoring to the board which enables it to build up a cumulative assessment of the state of control of the issuer and the effectiveness with which risk is being managed – the incidence of significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; and – the effectiveness of the issuers processes relating to financial reporting and Listing Rule compliance		

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C2.3	• Narrative statement on compliance with code provisions on internal control including: – process applied for identifying, evaluating and managing significant risks – additional information to assist understanding of risk management processes and system of internal control – acknowledgement by the board that it is responsible for the issuers system of internal control and its effectiveness – process applied in reviewing the effectiveness of the system of internal control – process applied to deal with internal control aspects of any significant problems disclosed in annual reports and accounts	✓	• The Board has overall responsibility for the system of internal control and reviewing its effectiveness. • The Group has in place an internal control system which is designed in light of the nature of the business as well as the organization structure. The Group's system of internal control includes a defined management structure with limits of authority and is designed to further the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. • Senior management adopts a hands-on approach to the operations of the business and delegation of authority is limited. • Detailed operational and financial budgets are prepared and reviewed by the responsible Directors prior to being adopted. • Robust controls are in place for the recording of complete, accurate and timely accounting and management information. Comprehensive monthly management accounts are prepared, reviewed with, and distributed to appropriate senior managers. In addition, monthly operational review meetings are held, usually on location at the various operating plants. The Chairman and the Group Managing Director play leading roles in these meetings.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			• In July 2005, the Group established an Internal Audit function. The Internal Audit Charter is published on the Company's website and is based on the Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing and Code of Ethics. The Head of Internal Audit has direct access to the Chairman of the Audit Committee. The work plan of the Internal Audit Department focuses on those areas of the Group's activities with the greatest perceived risk and the plan is reviewed and approved by the Audit Committee. The results of internal audit reviews and corresponding remedial actions taken are reported to the Executive Directors and Audit Committee periodically.
C3	**Audit Committee** ***Code Principle*** The audit committee should have clear terms of reference, including arrangements for considering how it applies the financial reporting and internal controls principles. The committee should maintain an appropriate relationship with the company's auditors.		
C3.1	• Minutes should be kept by a duly appointed secretary and sent to all committee members within a reasonable time	✓	• Draft minutes are prepared by the Company Secretary and sent to members of the Audit Committee within 14 days of each meeting.
C3.2	• A former partner of existing auditing firm shall not act as a member of the committee for 1 year after he ceases to be a partner of or to have any financial interest in the firm, whichever is the later	✓	• No member of the Audit Committee is a partner of the existing auditing firm of the Company.

<table>
<tr><th>Code Ref.</th><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr><td>C3.3</td><td>• The terms of reference of the audit committee should include:
– relationship with the external auditors
– review of financial information
– oversight of the financial reporting system and internal control procedures</td><td>✓</td><td>• Terms of reference of the Audit Committee, which follow closely the requirements of the Code Provisions and have been adopted by the Board, are posted on the Company's website.</td></tr>
<tr><td>C3.4</td><td>• The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board</td><td>✓</td><td>• The Audit Committee currently consists of five members and held two meetings, on 16 February and 7 September 2006. Members of the Committee are:

<u>Independent Non-executive Directors</u> — <u>Attendance</u>
Chow Yu Chun, Alexander (Chairman) — 2/2
Marvin Bienenfeld — 2/2
Leung Yin Wah, Lambert — 1/1
Lin Sien Mo, Willy — 0/1

<u>Non-executive Directors</u>
Leung Churk Yin, Jeanny — 1/1

• Under its terms of reference, the Committee oversees the Group's financial reporting process; it also reviews the Group's internal controls and risk management system, approves the scope of work of the internal audit department and oversees the relationship with the external auditors.

The Committee presents a report to the Board on its findings after each Committee meeting.</td></tr>
</table>

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			• At the 16 February 2006 meeting, the Committee reviewed and recommended to the Board for approval the unaudited financial statements for the 6 months to 31 December 2006, prior to public announcement and filing. The Committee reviewed the reports of the internal audit department and also received reports from, and met with, the external auditors to discuss the scope of their review and findings. Discussions were held with management and external auditors relating to the adoption of a number of new Hong Kong Financial Reporting Standards. • At the 7 September 2006 meeting the Committee reviewed and discussed with management and external auditors the fiscal 2006 consolidated financial statements included in the 2006 Annual Report, prior to public announcement and filing. The Committee received reports from, and met with, the external auditors to discuss the general scope of their audit work and findings, including their assessment of the Group's internal controls in this light. The committee reviewed the scope and reports of the work of the internal audit department. Based on these reviews and discussions, and the report of the external auditors, the Audit Committee was satisfied as to the effectiveness of the Group's internal controls and risk management processes and recommended to the Board of Directors approval of the consolidated financial statements for the year ended 30 June 2006 with the Auditors' Report thereon.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C3.5	• Disclosure – statement from the audit committee explaining its recommendation on the appointment, resignation or dismissal of external auditors; express disclosure where the board disagrees with the committee's view	✓	• The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming Annual General Meeting, Deloitte Touche Tohmatsu be re-appointed as the external auditors for 2007. • For the year ended 30 June 2006, the external auditors received HK$2,748,000 for audit services and HK$126,000 for tax and other services.
C3.6	• The audit committee should be provided with sufficient resources to discharge its duties	✓	• Independent professional advice will be brought to supplement internal resources where appropriate.
	Recommended Best Practices		
C3.7	• Terms of reference should include: – review of arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal controls or other matters – to act as the key representative body for overseeing the issuer's relation with the external auditor	✓	• The Code of Conduct adopted by the Group provides for direct consultation with the Chairman or Group Managing Director on uncertain legal or ethical issues. • The Audit Committee oversees the relationship with the external auditors.
D	**DELEGATION BY THE BOARD**		
D1	**Management Functions** ***Code Principle*** An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.		
D1.1	Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board	✓	• The functions of Executive Directors are in accordance with their respective areas of expertise. • Matters reserved to the Board are set out below.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D1.2	Formalize the functions reserved to the board and those delegated to management; and review arrangements on a periodic basis	✓	• There is a defined schedule of matters reserved for full Board approval, including: – long-term objectives and strategies; – audited financial statements and associated materials; – interim and final result announcements and quarterly operational updates; – dividend; – appointment, removal or re-designation of Directors; – remuneration of Non-executive Directors and changes in terms and conditions of employment of Executive Directors; – material connected transactions; – material acquisitions, disposals or joint-venture arrangements; – material raising of external finance; – changing external auditors; – matters involving a conflict of interest for a substantial shareholder or Director.
	Recommended Best Practices		
D1.3	• An issuer should disclose the division of responsibility between the board and management	✓	• As set out in C2.3 and D1.2
D1.4	• Issuers should have formal letters of appointment setting out the key terms and conditions relative to their appointment	✓	• A formal appointment letter, setting out the key terms and conditions relative to their appointment will be prepared for each newly appointed Director.
D2	**Board Committees** ***Code Principle*** Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.		
D2.1	• Clear terms of reference to enable proper discharge of committees functions	✓	• Two Board Committees, Audit Committee and Compensation Committee, have been established with clear and specific terms of reference.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D2.2	• The terms of reference should require committees to report their decisions and recommendations to the board	✓	• Each Board Committee reports to the Board after the relevant meeting.
E	**COMMUNICATION WITH SHAREHOLDERS**		
E1	**Effective Communication** ***Code Principle*** The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.		
E1.1	• A separate resolution be proposed by the chairman for each substantially separate issue	✓	• Separate resolutions are proposed at the general meeting on each substantially separate issue, including the election of individual Directors.
E1.2	• The chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting	✓	• The Chairman of the Board chairs the Annual General Meeting. • In 2005, the Chairman of the Audit Committee and a member of the Compensation Committee were amongst those Directors who attended the Annual General Meeting.
	• The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval	✓	• The Company's practice conforms with this principle.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E2	**Voting by Poll** *Code Principle* The issuer should regularly inform shareholders of the procedures for voting by poll and answer compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.		
E2.1	• The chairman of a meeting should ensure disclosure in the circulars of the procedures for and the rights of shareholders to demand a poll • The chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies • If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands	✓	• The right to demand a poll is set out in the circular containing the notice of Annual General meeting. • It is the company's practice that the Chairman of the meeting exercises his power under the Articles of Association to put each resolution set out in the notice to be voted by way of poll. • Poll results are posted on the Stock Exchange website and also published in Hong Kong newspapers on the next business day following the Annual General Meeting of the Company.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E2.2	• The issuer should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands • The issuer should ensure that votes cast are properly counted and recorded	✓	• Representatives of the Share Registrar of the Company are appointed as scrutineers to monitor and count the poll votes cast at the Annual General Meeting.
E2.3	• The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of: – the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands, and – the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required	✓	• The Chairman explains the detailed procedures for conducting a poll at the outset of the Annual General Meeting and answers questions from shareholders.

ADDITIONAL CORPORATE GOVERNANCE MATTERS

Business Integrity

Maintaining the highest professional and ethical standards is central to the Group's core operating philosophy. The Group has formally adopted a Code of Conduct (the "Code") addressing guiding principles governing the conduct of Directors and senior employees. The Code is intended to establish minimum general standards of conduct encompassing the most common and sensitive areas in which the business operates.

In summary, executives of the Group are expected to:

- Conduct business of the Group in full compliance with both the letter and spirit of the Law and of the Code.
- Maintain the highest possible standards in the way we operate and the way we treat our employees in order to satisfy the expectations of both the business and social communities.
- Use confidential information properly.
- Recognize and avoid conflicts of interest.
- Protect the ownership of property of the Group, including information, products, rights and services.
- Conduct outside activities in a way which does not compromise the individual or the Group.

The detailed Code is published on our website.

Communications with the Investment Community

The Company is committed to maintaining a continuing open dialogue with institutional investors and analysts to facilitate understanding of the group's management, financial position, operations, strategy and plans.

The Chairman and Chief Financial Officer have the prime responsibility for these activities, with the Chairman taking the lead in the period immediately following the interim and final results announcements.

Regular one-on-one meetings are held with the financial community which, in a number of instances, involve visits to production facilities.

The Company endeavours to be responsive to all media requests.

The Directors present their annual report and the audited financial statements of the Company and its subsidiaries for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

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.

RESULTS AND DIVIDEND

The results of the Group for the year ended 30 June 2006 are set out in the consolidated income statement on page 44.

An interim dividend of HK$0.025 per share was paid to shareholders during the year. The directors now recommend the payment of a final dividend of HK$0.03 per share to the shareholders on the register of members on 20 October 2006.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 88.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure, principally on its production facilities, totalling approximately HK$33 million. Movements of property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movement in share capital of the Company during the year are set out in note 28 to the financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Fung Wai Yiu	*(Chairman)*
Wong Chung Chong, Eddie	*(Group Managing Director)*
Leung Tat Yan	(Appointed on 18 September 2005)

Non-executive Directors

Lucas A.M. Laureys
Leung Churk Yin, Jeanny
Herman Van de Velde

Independent Non-executive Directors

Marvin Bienenfeld	
Chow Yu Chun, Alexander	
Lin Sian Zu, John	(resigned on 18 September 2005)
Tse Koon Hang, Ada	(resigned on 18 September 2005)
Lam Ka Chung, William	(passed away on 24 April 2006)
Leung Ying Wah Lambert	(appointed on 3 May 2006)
Lin Sun Mo Willy	(appointed on 3 May 2006)

Chow Yu Chun, Alexander and Leung Churk Yin, Jeanny retire in accordance with Bye-law 87(2) and Leung Ying Wah, Lambert and Lin Sun Mo, Willy retire in accordance with Bye-law 86(2) of the Company's Bye-laws and, being eligible, offer themselves for re-election. All remaining Directors continue in office.

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

All Directors, except Chairman and Group Managing Director, have been appointed for a period up to their retirement by rotation as required by the Company's Bye-laws.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Fung Wai Yiu, 59, the Chairman of the Group, has over 35 years of experience in the apparel industry.

Wong Chung Chong, Eddie, 61, a co-founder of the Group and the Group Managing Director, is responsible for the operations of the Group. Mr. Wong has over 30 years of experience in the brassiere trade.

Leung Tat Yan, aged 49, is currently the Managing Director of Top Form Brassiere Mfg. Co., Limited ("TFB"), a wholly owned subsidiary of the Company, and is the chief executive of the OEM operations of the Group. Mr. Leung joined the Group in 1983, and brings to the Board a broad range of experience in the ladies' intimate apparel industry. He completed his further education in Business Studies in the United Kingdom.

Non-executive Directors

Lucas A.M. Laureys, 61, is the Chairman of Van de Velde N.V. ("VdV"), a listed company in Belgium. Mr. Laureys has over 30 years of experience in the brassiere trade and specialises in marketing.

Leung Churk Yin, Jeanny, 41, is the Managing Director of Access Capital Limited. She has over 15 years of corporate finance experience in the Greater China region.

Herman Van de Velde, 52, is the Managing Director of VdV. He joined the brassiere industry in 1981 and is well versed in operating the brassiere business in Europe.

Independent Non-executive Directors

Marvin Bienenfeld, 74, was formerly the Chairman of Bestform, Inc., a company of VF Corporation. Mr. Bienenfeld has over 40 years of experience in the ladies' intimate apparel industry in the United States of America ("USA").

Chow Yu Chun, Alexander, 59, is a Fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and has over 25 years of experience in property development in Hong Kong.

Mr. Leung Ying Wah, Lambert, aged 59, is Chief Executive Officer of a leading construction materials company. He is also a Fellow member of the Association of Chartered Certified Accountants, a Fellow member of the HKICPA, a Fellow member of the Institute of Quarrying (UK) and is currently Chairman of the Hong Kong Construction Materials Association and the Hong Kong Cement Association.

Mr. Lin Sun Mo, Willy, aged 47, is Managing Director of Milo's Knitwear (International) Limited. He holds a Bachelor of Science degree from Babson College, the United States of America. He is currently Vice Chairman of the Textile Council of Hong Kong, Chairman of the Hong Kong Shippers' Council and an Honorary Trade Advisor to the Ministry of Commerce of Thailand.

Management and Senior Staff

Michael Austin, 58, is the Chief Financial Officer of the Group and Company Secretary. Mr. Austin is a Fellow member of the Institute of Chartered Accountants in England and Wales and an Associate member of the HKICPA. He has over 25 years of diverse senior financial and general management experience in Hong Kong and worldwide.

Choi Wai Yin, 59, is Director of TFB, joined the Group in 1993. Ms. Choi has over 35 years of experience in apparel manufacturing. She oversees all manufacturing operations within the Group.

Chen Fu Mei, 59, is Director and Deputy General Manager of Shenzhen Top Form Underwear Co., Limited. Ms. Chen joined the Group in 1988 and is responsible for the administration of all the Group's companies in the People's Republic of China ("PRC").

Wong Kai Chi, Kenneth, 32, is Director of Top Form Brassiere Co., Limited. He is the son of Mr. Wong Chung Chong, Eddie. Mr. Wong holds a bachelor degree in Marketing and Operation Management from Boston University, USA. He joined the Group in 1997 and is responsible for the Group's product development activities.

Wong Kai Chung, Kevin, 30, CFA, is Director of Marguerite Lee Ltd. and Unique Form Manufacturing Co. Ltd. and is the Corporate Development Manager of the Group. He is the son of Mr. Wong Chung Chong, Eddie. Mr. Wong graduated from Colby College, majoring in Economics in 1998. He joined the Group in 2001. He is responsible for the Group's corporate affairs as well as development of the branded business in the PRC.

Wong Hei Yin, Henry, 43, is Director and the General Manager of Charming Elastic Fabric Company Limited, a subsidiary of the Company, producing elastic tapes. Mr. Wong holds a bachelor degree in Accounting from Lamer University, USA.

Wan Ho Yau, David, 49, is the Managing Director of Grand Gain Industrial Limited, a subsidiary of the Company, producing foam pads and accessories for brassiere manufacturing. Mr. Wan joined the Group in 1994. He holds degrees in Computer Science and Business Administration from York University, Toronto, Canada.

CONNECTED TRANSACTIONS

The Group has from time to time conducted transactions with VdV and its subsidiaries and/or affiliates which are connected persons of the Company pursuant to the Rules Governing the Listing of the Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 18 September 2005, the Company entered into a master agreement with VdV in respect of the sale of ladies intimate apparel by the Group to VdV and its subsidiaries and/or affiliates ("Master Agreement") and the transactions between the Group and VdV and its subsidiaries and/or affiliates ("VdV Transactions") contemplated under the Master Agreement constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

At the Special General Meeting held on 28 October, 2005, the Company obtained Independent Shareholders' approval of the Master Agreement and the annual caps detailed below by the Independent Shareholders on the following conditions:

a. the annual caps for the VdV Transactions contemplated under the Master Agreement for the three financial years ending 30 June 2008 will be up to HK$70 million for the year ending 30 June 2006, HK$85 million for the year ending 30 June 2007 and HK$100 million for the year ending 30 June 2008 respectively;

b. the VdV Transactions have been entered into;

    (i) in the ordinary and usual course of business of the Group;

    (ii) either on normal commercial terms or, if there is no available comparison, on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties; and

    (iii) in accordance with the abovementioned arrangement on the terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;

c. the Independent Non-executive Directors will review the VdV Transactions annually and confirm in the Company's next and successive annual reports that the VdV Transactions have been conducted in the manner as stated in paragraphs (a) and (b) above;

d. the auditors of the Company will be engaged to perform certain agreed upon procedures in respect of the VdV Transactions annually and will issue a letter to the Board, to assist the Board to evaluate whether:

    (i) the VdV Transactions have been approved by the Board;

    (ii) the VdV Transactions have been entered into in accordance with the pricing policy as stated above;

    (iii) the VdV Transactions have been entered into in accordance with the terms as mentioned above; and

    (iv) the annual caps set out in paragraph (a) above have been exceeded.

    Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the letter referred to in paragraph (d) above, the Directors will contact the Listing Division of the Stock Exchange immediately; and

e. details of the VdV Transactions in each financial year will be disclosed in the annual report of the Company for that financial year together with a statement of the opinion of the Independent Non-executive Directors and confirmation from the auditors of Company referred to in paragraphs (c) and (d) above.

Pursuant to the Independent Shareholders' approval on 28 October 2005, details of the VdV Transactions which have been entered into in the ordinary course of business are not required to be disclosed by press announcements nor is the Company required to obtain prior independent shareholders' approval for the VdV Transactions as each of the relevant transactions arises.

Details of the continuing connected transactions are set out below:

Name of connected person	Nature of transactions	HK$'000
VdV and its affiliates	Sales of ladies intimate apparel	39,800

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors.

The Independent Non-executive Directors have reviewed the continuing connected transactions and the report of the auditors and confirmed that the connected transactions conducted by the Group during the year ended 30 June 2006 were:

- in the ordinary and usual course of the business of the Group;
- on normal commercial terms;
- entered into in accordance with the relevant agreement governing the transactions on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- within the relevant amounts as stipulated under the designated annual caps.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions as disclosed under the heading of "connected transactions" above, there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which any one of the Directors of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors have an interest in any business constituting a competing business to the Group during the year.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 29 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2006, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions:

Ordinary shares of HK$0.10 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Fung Wai Yiu	Beneficially owned and held by spouse and trust *(note 1)*	41,952,521	3.90%
Wong Chung Chong, Eddie	Beneficially owned and held by spouse and held by trust *(note 2)*	176,462,118	16.40%
Chow Yu Chun, Alexander	Beneficial owner	3,400,521	0.32%
Marvin Bienenfeld	Beneficial owner	870,521	0.08%
Leung Churk Yin, Jeanny	Beneficial owner	70,521	0.01%
Leung Ying Wah, Lambert	Beneficial owner	400,000	0.04%
Lucas A. M. Laureys	Held by controlled corporation *(note 3)*	176,181,544	16.37%
Herman Van de Velde	Held by controlled corporation *(note 3)*	176,181,544	16.37%

Notes:

1. 770,521 shares are beneficially owned by Mr. Fung Wai Yiu ("Mr. Fung") whereas 216,000 shares are held by the spouse of Mr. Fung and 40,966,000 shares are registered in the name of Fung On Holdings Limited ("Fung On"). The shares of Fung On are held by a family trust of which Mr. Fung and his family are eligible beneficiaries.

2. 770,521 shares are beneficially owned by Mr. Wong Chung Chong, Eddie ("Mr. Wong") whereas 100,000 shares are held by the spouse of Mr. Wong and 175,591,597 shares are registered in the name of High Union Holdings Inc. on behalf of the trustee of a unit trust. The unit trust is held by a family trust of which the family members of Mr. Wong are eligible beneficiaries.

3. 159,339,762 shares are registered in the name of Guliano (HK) Limited which is wholly owned by VdV. 2,442,000 shares are registered in the name of HKSCC Nominees Limited and beneficially owned by VdV. 14,399,782 shares are registered in the name of VdV of which Mr. Lucas A. M. Laureys and Mr. Herman Van de Velde are beneficial owners.

Save as disclosed above, and other than certain nominee shares in subsidiaries held by Directors in trust for the Company's subsidiaries as at 30 June 2006, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions:

Ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
High Union Holdings Inc.	Beneficial owner	175,591,597	16.31%
Guliano (HK) Limited	Beneficial owner	159,339,762	14.80%
VF Intimates, LP	Beneficial owner	106,000,000	9.85%
Veer Palthe Voute N.V.	Investment manager	97,488,000	9.06%
Chartered Asset Management Pte Ltd.	Investment manager	76,924,000	7.15%

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

Except for the repurchase of the Company's listed shares set out in note 28 to the financial statements, neither the Company nor any of its subsidiaries sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

The respective percentages of the Group's purchases from major suppliers and turnover attributable to major customers for the year ended 30 June 2006 were as follows:

Percentage of purchases attributable to the Group's largest supplier	11%
Percentage of purchases attributable to the Group's five largest suppliers	32%
Percentage of turnover attributable to the Group's largest customer	53%
Percentage of turnover attributable to the Group's five largest customers	81%

As at 30 June 2006, VF Intimates LP, a shareholder owning more than 5% of the Company's share capital, is the Group's largest customer. Apart from this, none of the Directors, their associates or other shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) were interested at any time in the year in the above major suppliers or customers.

The aggregate purchases of the Group for the year ended 30 June 2006 amounted to HK$692,144,000.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$268,000.

RETIREMENT BENEFIT SCHEMES

Information on the Group's retirement benefit schemes is set out in note 26 to the financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

CORPORATE GOVERNANCE

Matters relating to corporate governance, Audit and Compensation Committees are set out in the Corporate Governance Report.

MODEL CODE

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

AUDITORS

A resolution will be proposed to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Fung Wai Yui
Chairman

10 September 2006, Hong Kong

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE SHAREHOLDERS OF TOP FORM INTERNATIONAL LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Top Form International Limited (the "Company") and its subsidiaries (the "Group") on pages 44 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
10 September 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000
Revenue	7	**1,425,491**	1,463,815
Cost of sales		**(1,057,771)**	(1,020,695)
Gross profit		**367,720**	443,120
Other income	9	**7,629**	3,964
Selling and distribution expenses		**(68,529)**	(40,484)
General and administrative expenses		**(163,011)**	(176,320)
Finance costs	10	**(601)**	(630)
Gain on winding up of subsidiaries	11	**–**	469
Profit before taxation	12	**143,208**	230,119
Taxation	14	**(24,131)**	(45,853)
Profit for the year		**119,077**	184,266
Attributable to:			
Equity holders of the Company		**114,876**	183,090
Minority interests		**4,201**	1,176
		119,077	184,266
Dividends paid	15	**91,558**	80,736
Final dividend proposed	15	**32,289**	64,651
Earnings per share	16		
Basic		**10.7 cents**	17.0 cents
Diluted		**10.7 cents**	17.0 cents

At 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	17	**170,842**	166,253
Prepaid lease payments	18	**2,189**	2,301
Interests in associates	19	**–**	–
		173,031	168,554
Current assets			
Inventories	20	**245,993**	188,039
Debtors, deposits and prepayments	21	**254,741**	143,227
Bills receivable	22	**9,649**	6,845
Prepaid lease payments	18	**112**	112
Bank balances and cash	22	**65,253**	184,084
		575,748	522,307
Current liabilities			
Creditors and accrued charges	23	**169,087**	139,852
Taxation		**78,384**	72,483
Bank borrowings and other liabilities – due within one year	24	**6,032**	8,639
Obligations under finance leases – due within one year	25	**358**	1,503
		253,861	222,477
Net current assets		**321,887**	299,830
Total assets less current liabilities		**494,918**	468,384
Non-current liabilities			
Bank borrowings and other liabilities – due after one year	24	**203**	1,150
Obligations under finance leases – due after one year	25	**359**	693
Provision for long service payments	26	**4,345**	4,989
Deferred taxation	27	**9,659**	6,197
		14,566	13,029
		480,352	455,355
Capital and reserves			
Share capital	28	**107,630**	107,752
Reserves		**353,562**	326,544
Equity attributable to equity holders of the Company		**461,192**	434,296
Minority interests		**19,160**	21,059
		480,352	455,355

The financial statements on pages 44 to 87 were approved and authorised for issue by the Board of Directors on 10 September 2006 and are signed on its behalf by:

Fung Wai Yiu
Chairman

Wong Chung Chong, Eddie
Group Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital redemption reserve	Special reserve (note)	Revaluation reserve	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$'000	HK$'000
At 1 July 2004 as originally stated	107,135	–	–	7,139	2,281	(5,431)	219,432	330,556	21,902	352,458
Effect of changes in accounting policies *(see note 3)*	–	–	–	–	(2,281)	–	2,281	–	–	–
At 1 July 2004 as restated	107,135	–	–	7,139	–	(5,431)	221,713	330,556	21,902	352,458
Exchange difference arising on translation of overseas operations recognised directly in equity	–	–	–	–	–	(261)	–	(261)	–	(261)
Profit for the year	–	–	–	–	–	–	183,090	183,090	1,176	184,266
Total recognised income and expenses for the year	–	–	–	–	–	(261)	183,090	182,829	1,176	184,005
Issue of shares on exercise of share options	617	1,499	–	–	–	–	–	2,116	–	2,116
Realised on winding up of a subsidiary	–	–	–	–	–	(469)	–	(469)	–	(469)
Dividend paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	(2,019)	(2,019)
Dividends paid	–	–	–	–	–	–	(80,736)	(80,736)	–	(80,736)
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 and expense 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)
Dividends 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	**107,630**	**1,499**	**122**	**7,139**	**–**	**(506)**	**345,308**	**461,192**	**19,160**	**480,352**

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 2006

	2006 HK$'000	2005 HK$'000 (restated)
Operating activities		
Profit before taxation	**143,208**	230,119
Adjustments for:		
Provision for long service payments	**338**	469
Allowance for amount due from a jointly controlled entity	**–**	113
Interest income	**(3,621)**	(823)
Interest expenses	**601**	630
Depreciation of property, plant and equipment	**28,934**	26,445
Amortisation of prepaid lease payments	**112**	112
Loss on disposal of property, plant and equipment	**964**	182
Gain on winding up of subsidiaries	**–**	(469)
Impairment loss recognised in respect of property, plant and equipment	**–**	4,990
Effect of foreign exchange rate changes	**(108)**	46
Operating cash flows before movement in working capital	**170,428**	261,814
Increase in inventories	**(54,296)**	(27,770)
Increase in debtors, deposits and prepayments	**(111,514)**	(22,513)
Increase in bills receivable	**(2,804)**	(4,220)
Increase in creditors and accrued charges	**24,035**	37,445
Decrease in provision for long service payments	**(982)**	–
Cash generated from operations	**24,867**	244,756
Interest income	**3,621**	823
Interest paid	**(510)**	(458)
Hong Kong Profits Tax paid	**(8,649)**	(16,591)
Taxation paid in other jurisdictions	**(6,119)**	(2,656)
Net cash from operating activities	**13,210**	225,874
Investing activities		
Proceeds on disposal of property, plant and equipment	**351**	468
Purchase of property, plant and equipment	**(32,733)**	(66,362)
Repayment from a jointly controlled entity	**–**	752
Acquisition of an additional interest in a subsidiary	**–**	(1,119)
Net cash used in investing activities	**(32,382)**	(66,261)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	2006 HK$'000	2005 HK$'000 (restated)
Financing activities		
Dividends paid	**(91,558)**	(80,736)
Dividend paid to minority shareholders of a subsidiary	**(900)**	(900)
Finance lease charges paid	**(91)**	(172)
Repayments of obligations under finance leases	**(1,479)**	(2,575)
Net cash outflow in respect of bank borrowings	**(3,554)**	(5,449)
Repayments of other liabilities	**–**	(82)
Payment for redemption of shares	**(2,077)**	–
Proceeds from issue of shares on exercise of share options	**–**	2,116
Net cash used in financing activities	**(99,659)**	(87,798)
Net (decrease) increase in cash and cash equivalents	**(118,831)**	71,815
Cash and cash equivalents at beginning of the year	**184,084**	112,269
Cash and cash equivalents at end of the year	**65,253**	184,084
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**65,253**	184,084

1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda. 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 the same as the functional currency of the Company.

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/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have effects on how the results for the current and/or prior accounting years are prepared and presented:

Financial Instruments

In the current year, the Group has applied HKAS 32 "*Financial Instruments: Disclosure and Presentation*" and HKAS 39 "*Financial Instruments: Recognition and Measurement*". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of the financial instruments in the consolidated financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES – continued

Financial Instruments – continued

Financial assets and financial liabilities other than debts and equity securities

From 1 July 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice ("SSAP") 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. However, there has been no significant financial impact on the adoption of this new accounting policy.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. Advantage has been taken of the transitional relief provided by paragraph 80 of the SSAP 17 "*Property, plant and equipment*" issued by the HKICPA from the requirement to make regular revaluation of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out.

In the current year, the Group has applied HKAS 17 "*Leases*". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and released to the income statement over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES – continued

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group is in the process of making an assessment of the potential impact of these standards, amendments and interpretations. Other than the adoption of HKAS 39 and HKFRS 4 (Amendments) "*Financial guarantee contracts*" and HKAS 19 (Amendment) "*Actuarial gains and losses, group plans and disclosures*" which may have potential impact to the consolidated financial statements, the Directors of the Company so far concluded that the application of these new standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group. HKAS 19 (Amendment) introduces an additional recognition option for actuarial gains and losses arising in post-employment defined benefit plans. HKAS 39 and HKFRS 4 (Amendments) requires financial guarantee contracts which are within the scope of HKAS 39 to be measured at fair value upon initial recognition. The Group is still not in a position to reasonably estimate the impact that may arise from the HKAS 39 and HKFRS 4 (Amendments) and HKAS 19 (Amendment).

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[6]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2006
[3] Effective for annual periods beginning on or after 1 December 2005
[4] Effective for annual periods beginning on or after 1 March 2006
[5] Effective for annual periods beginning on or after 1 May 2006
[6] Effective for annual periods beginning on or after 1 June 2006

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs as at 30 June 2005 and 1 July 2005 are summarised below:

	At 30 June 2005 (originally stated)	Adjustments on adoption of HKAS 17	Adjustments on adoption of HKAS 1	At 30 June 2005 and 1 July 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items				
Property, plant and equipment	168,666	(2,413)	–	166,253
Prepaid lease payments	–	2,413	–	2,413
Total effects on assets and liabilities	168,666			168,666
Retained profits	321,786	2,281	–	324,067
Revaluation reserve	2,281	(2,281)	–	–
Minority interests	–	–	21,059	21,059
Total effects on equity	324,067			345,126
Minority interests	21,059	–	(21,059)	–

4. 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 its subsidiaries.

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 in line with those used by other members of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

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

The results and assets and liabilities of associates are incorporated in these 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 profit or loss and of changes in equity 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, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except to the extent that unrealised losses provided evidence of an impairment of the asset transferred, in which case, the full amount of the losses is recognised.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable.

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 amount 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

Construction in progress is stated at cost less any identified impairment loss, as appropriate.

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 dereognised.

Prepaid lease payments for leasehold land

Prepaid lease payments represent upfront premium paid for use of land. Prepaid lease payments are released to the 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, 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 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. Impairment losses are 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, but 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – continued

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 its 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. Exchange differences arising on the retranslation are recognised directly in equity.

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 income statement at the time of utilisation.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense as they fall due.

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. 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.

The amount recognised in the 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 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 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.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity 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 a group entity 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, bank borrowings and other liabilities, and obligations under finance leases) 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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 is recognised in profit or loss.

Financial liabilities are removed from the Group's balance sheet (i.e. 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 is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not be 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 within the next financial year, are discussed below.

Allowance of doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade debtors. Allowances are applied to trade debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation on or the actual recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other debtors and doubtful debts expenses in the periods in which such estimate is changed or the receivable are collected.

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. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. Where the expectation on the net realisable value of inventories is different from the original estimate, such difference will impact the carrying value of inventories.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

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 2006 was approximately HK$170,842,000. 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 placed into productive use. The estimated useful life of the property, plant and equipment for productive use reflects the Directors' estimate of the number of years that the Group intends to derive future economic benefits from the use of the property, plant and equipment.

Income tax

As at 30 June 2006, a deferred tax asset in relation to unused tax losses of HK$86,209,000 and other deductible temporary differences of HK$527,000 has not been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the income statement for the period in which such recognition takes place.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debtors, bills receivable, bank balances and cash, creditors, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in 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 expose 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 arises.

(ii) Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings. The Group's treasury policy is in place to monitor fair value interest rate exposure and management will consider hedging its exposure to fair value interest rate risk should the need arises.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

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 other liabilities, obligations under finance leases, 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 arises.

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 has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank loans and overdrafts. In addition, banking facilities have been put in place for contingency purposes.

7. REVENUE

Revenue represents the net amount received and receivable for goods sold by the Group to outside customers during the year.

8. SEGMENT INFORMATION

For management purposes, the Group's operations are 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 2006

	Manufacturing business HK$'000	Branded business HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue				
External sales	1,403,798	21,693	–	1,425,491
Inter-segment sales *(note)*	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

8. SEGMENT INFORMATION – continued

(a) Business segments – continued

FOR THE YEAR ENDED 30 JUNE 2005

	Manufacturing business HK$'000	Branded business HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue				
External sales	1,442,897	20,918	–	1,463,815
Inter-segment sales *(note)*	744	–	(744)	–
Total sales	1,443,641	20,918	(744)	1,463,815
RESULTS				
Segment results	251,728	(5,573)	–	246,155
Unallocated corporate expenses				(16,698)
Interest income				823
Finance costs				(630)
Gain on winding up of subsidiaries				469
Profit before taxation				230,119
Taxation				(45,853)
Profit for the year				184,266

Note: Inter-segment sales are charged at prices determined by management with reference to market prices.

8. SEGMENT INFORMATION – continued

(a) Business segments – continued

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE

	2006 HK$'000	2005 HK$'000
ASSETS		
Segment assets		
– manufacturing business	**719,612**	661,576
– branded business	**20,360**	17,854
Unallocated corporate assets	**8,807**	11,431
Consolidated total assets	**748,779**	690,861
LIABILITIES		
Segment liabilities		
– manufacturing business	**163,837**	137,715
– branded business	**8,211**	4,573
Unallocated corporate liabilities	**96,379**	93,218
Consolidated total liabilities	**268,427**	235,506

OTHER INFORMATION
FOR THE YEAR ENDED 30 JUNE

	2006 HK$'000	2005 HK$'000
Capital expenditure		
– manufacturing business	**31,901**	67,189
– branded business	**832**	843
	32,733	68,032
Depreciation and amortisation		
– manufacturing business	**28,176**	25,832
– branded business	**870**	725
	29,046	26,557
Loss on disposal of property, plant and equipment		
– manufacturing business	**908**	120
– branded business	**56**	62
	964	182
Impairment loss recognised in respect of property, plant and equipment:		
– manufacturing business	**–**	4,990
– branded business	**–**	–
	–	4,990

8. SEGMENT INFORMATION – continued

(b) Geographical segments

The Group's operations in manufacturing are principally located in Hong Kong, 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 the origin of the goods:

YEAR ENDED 30 JUNE 2006

	Sales revenue by geographical market HK$'000	Contribution to profit before taxation HK$'000
United States of America	1,033,281	120,222
Europe	219,878	25,582
Australia and New Zealand	71,251	8,290
Asia (excluding Hong Kong)	45,450	4,531
Hong Kong	55,065	(1,768)
South Africa	566	66
	1,425,491	156,923
Unallocated corporate expenses		(16,735)
Interest income		3,621
Finance costs		(601)
Profit before taxation		143,208

8. SEGMENT INFORMATION – continued

(b) Geographical segments – continued

YEAR ENDED 30 JUNE 2005

	Sales revenue by geographical market HK$'000	Contribution to profit before taxation HK$'000
United States of America	1,134,819	197,981
Europe	208,472	36,370
Australia and New Zealand	60,563	10,566
Asia (excluding Hong Kong)	42,508	6,222
Hong Kong	17,024	(5,059)
South Africa	429	75
	1,463,815	246,155
Unallocated corporate expenses		(16,698)
Interest income		823
Finance costs		(630)
Gain on winding up of subsidiaries		469
Profit before taxation		230,119

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 total assets		**Additions to property, plant and equipment**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
The PRC (including Hong Kong)	**651,134**	609,474	**20,428**	61,043
Thailand	**91,109**	74,320	**11,667**	6,676
Others	**6,536**	7,067	**638**	313
	748,779	690,861	**32,733**	68,032

9. OTHER INCOME

	2006 HK$'000	2005 HK$'000
Other income includes:		
Interest income	**3,621**	823

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**510**	458
Obligations under finance leases	**91**	172
	601	630

11. GAIN ON WINDING UP OF SUBSIDIARIES

The amount represented release of translation reserve upon winding up of subsidiaries in 2005.

The subsidiaries wound up did not make a significant contribution to the Group's turnover and operating results in 2005.

12. PROFIT BEFORE TAXATION

	2006 HK$'000	2005 HK$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	**2,748**	1,682
Cost of textile quota entitlements	**11,953**	7,086
Depreciation of property, plant and equipment		
Owned assets	**28,407**	24,217
Assets held under finance leases	**527**	2,228
	28,934	26,445
Amortisation of prepaid leases payments	**112**	112
Loss on disposal of property, plant and equipment	**964**	182
Impairment loss arising in respect of *(note a)*:		
Leasehold improvements	**–**	3,370
Furniture, fixture and equipment	**–**	1,620
	–	4,990
Minimum lease payments paid under operating leases in respect of land and buildings *(note b)*	**17,705**	17,242
Net exchange loss	**882**	318
Staff costs, including Directors' emoluments *(note c)*	**298,096**	302,244

Notes:

(a) Impairment loss arising during the year ended 30 June 2005 included in cost of sales and general and administrative expenses are HK$3,514,000 and HK$1,476,000, respectively.

(b) Included above is operating lease rentals of HK$290,000 (2005: HK$478,000) in respect of staff quarters.

(c) Details of Directors' emoluments included in staff costs are disclosed in note 13. Staff costs included an amount of HK$2,192,000 (2005: HK$1,938,000) in respect of retirement benefit scheme contributions, net of forfeited contributions.

13. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors

Details of emoluments paid by the Group to the Directors during the year are as follows:

	2006	2005
	HK$'000	HK$'000
Fees to Non-executive Directors	**1,200**	1,600
Remuneration to Executive Directors:		
Salaries and other benefits	**7,805**	5,985
Bonus	**–**	13,000
Retirement benefit scheme contributions	**36**	24
Total Directors' emoluments	**9,041**	20,609

Details of emoluments paid to individual Directors (including Non-executive Directors) during the year are as follows:

	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
Lin Sian Zu, John	–	–	–	–	–
Tse Koon Hang, Ada	–	–	–	–	–
Leung Ying Wah, Lambert	–	–	–	–	–
Lin Sun Mo, Willy	–	–	–	–	–
	1,200	7,805	–	36	9,041

13. DIRECTORS' AND EMPLOYEES' REMUNERATION – continued

Directors – continued

	Fees HK$'000	Salaries and other benefits HK$'000	Bonus HK$'000	Retirement benefit scheme contributions HK$'000	2005 Total HK$'000
Fung Wai Yiu	–	2,940	6,000	12	8,952
Wong Chung Chong, Eddie	–	3,045	7,000	12	10,057
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
Lin Sian Zu, John	200	–	–	–	200
Tse Koon Hang, Ada	200	–	–	–	200
	1,600	5,985	13,000	24	20,609

No Directors waived any emoluments during the year (2005: nil).

Employees

Of the five individuals with the highest emoluments in the Group, three (2005: two) were Directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining two (2005: three) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**4,143**	10,325
Retirement benefit scheme contributions	**12**	24
	4,155	10,349

The emoluments were within the following bands:

	Number of individuals	
	2006	2005
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**1**	–
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,500,001 – HK$4,000,000	**–**	2

14. TAXATION

	2006 **HK$'000**	2005 HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the year	**16,590**	47,085
Taxation in other jurisdictions calculated at the rates prevailing in the respective jurisdictions	**5,746**	3,305
	22,336	50,390
(Over)underprovision in prior years		
Hong Kong Profits Tax	**(2,012)**	(473)
Taxation in other jurisdictions	**345**	(349)
	(1,667)	(822)
Deferred taxation *(Note 27)*		
Current year	**3,462**	(3,715)
	24,131	45,853

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

	2006 **HK$'000**	2005 HK$'000
Profit before taxation	**143,208**	230,119
Tax at Hong Kong Profits Tax rate of 17.5%	**25,061**	40,271
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,824)**	1,488
Tax effect of expenses not deductible for tax purposes	**6,875**	8,579
Tax effect of income not taxable for tax purposes	**(6,860)**	(5,792)
Tax effect of deductible temporary differences not recognised	**–**	32
Tax effect of tax losses not recognised	**2,958**	1,617
Tax effect of utilisation of deductible temporary differences previously not recognised	**(45)**	(125)
Tax effect of utilisation of tax losses previously not recognised	**(1,004)**	(489)
Overprovision in prior years	**(1,667)**	(822)
Others	**637**	1,094
Taxation charge for the year	**24,131**	45,853

15. DIVIDENDS

	2006	2005
	HK$'000	HK$'000
2006 interim dividend paid:		
HK$0.025 (year ended 30 June 2005: HK$0.025) per share on 1,076,298,125 shares (2005: 1,077,514,125 shares)	**26,907**	26,938
2005 final dividend paid:		
HK$0.06 (year ended 30 June 2004: HK$0.05) per share on 1,077,514,125 shares (2004: 1,075,973,083 shares)	**64,651**	53,798
	91,558	80,736

A final dividend of HK$0.03 (2005: HK$0.06) per share has been proposed by the Directors and is subject to the approval by the shareholders in general meeting.

16. EARNINGS PER SHARE

The computation of basic and diluted earnings per share is as follows:

	2006	2005
	HK$'000	HK$'000
Profit attributable to the equity holders of the Company for the purpose of basic and diluted earnings per share	**114,876**	183,090

	Number of shares	
	2006	2005
Number of shares for the purpose of basic earnings per share	**1,076,694,164**	1,075,732,427
Effect of dilutive share options	**–**	1,293,079
Number of shares for the purpose of diluted earnings per share	**1,076,694,164**	1,077,025,506

17. 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 2004, as originally stated	56,864	48,044	210,361	12,463	3,384	331,116
Effect of changes in accounting policies	(5,623)	–	–	–	–	(5,623)
At 1 July 2004, as restated	51,241	48,044	210,361	12,463	3,384	325,493
Currency realignment	(102)	(128)	(574)	(21)	–	(825)
Additions	27,584	6,344	32,977	1,127	–	68,032
Disposals	(1,683)	(335)	(2,144)	(322)	–	(4,484)
Reclassification	3,384	–	–	–	(3,384)	–
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**
DEPRECIATION AND IMPAIRMENT						
At 1 July 2004, as originally stated	20,094	37,018	131,652	9,109	–	197,873
Effect of changes in accounting policies	(3,098)	–	–	–	–	(3,098)
At 1 July 2004, as restated	16,996	37,018	131,652	9,109	–	194,775
Currency realignment	(14)	(92)	(301)	(6)	–	(413)
Charge for the year	2,509	3,828	18,191	1,917	–	26,445
Eliminated on disposals	(1,683)	(189)	(1,642)	(320)	–	(3,834)
Impairment loss	–	3,370	1,620	–	–	4,990
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**
CARRYING VALUES						
At 30 June 2006	**59,428**	**12,630**	**97,110**	**1,663**	**11**	**170,842**
At 30 June 2005	62,616	9,990	91,100	2,547	–	166,253

17. PROPERTY, PLANT AND EQUIPMENT – continued

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

Leasehold properties	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 at the balance sheet date comprises:

	2006 **HK$'000**	2005 HK$'000
Leasehold properties outside Hong Kong under:		
Long lease	**1,282**	1,356
Medium term lease	**53,705**	56,026
Short lease	**4,188**	4,919
Leasehold properties in Hong Kong under medium term lease	**253**	315
	59,428	62,616

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

	2006 **HK$'000**	2005 HK$'000
Furniture, fixtures and equipment	**643**	3,416
Motor vehicles	**522**	935
	1,165	4,351

During the year ended 30 June 2005, the Directors reviewed the carrying value of the Group's manufacturing assets and determined that a number of those assets were impaired due to the plan for reallocation of certain production lines to Long Nan, the PRC. The reallocation of production lines commenced in October 2004 but had not been completed by 30 June 2005. Impairment losses of HK$3,370,000 and HK$1,620,000 had been recognised in respect of leasehold improvements and furniture, fixtures and equipment, respectively.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2006 HK$'000	2005 HK$'000
Leasehold land in Hong Kong:		
Medium-term lease	**248**	312
Leasehold land outside Hong Kong:		
Medium-term lease	**2,053**	2,101
	2,301	2,413
Analysed for reporting purposes as:		
Current portion	**112**	112
Non-current portion	**2,189**	2,301
	2,301	2,413

19. INTERESTS IN ASSOCIATES

At 30 June 2005, interests in associates included 25% of the registered capital of Shenzhen Fenghua Weaving Tape Factory Company Limited 深圳豐華織帶有限公司 ("Shenzhen Fenghua") and 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") held by the Group. The Group's share of net assets of these associates of HK$15,422,000 was fully impaired in previous years.

Shenzhen Fenghua was deregistered during the year. The Directors of the Company consider that the Group no longer has the power to exercise significant influence over Yingkou Xinfa during the year and it is therefore not classified as an associate of the Group.

20. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**101,357**	81,503
Work in progress	**92,161**	64,397
Finished goods	**52,475**	42,139
	245,993	188,039

21. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance are trade debtors of HK$211,072,000 (2005: HK$120,996,000). The Group allows an average credit period of 30 days to its trade customers.

An aged analysis of trade debtors is as follows:

	2006	2005
	HK$'000	HK$'000
0-30 days	**188,030**	112,515
31-60 days	**5,011**	1,642
61-90 days	**7,869**	2,215
Over 90 days	**10,162**	4,624
	211,072	120,996

The Directors consider that the fair value of debtors at 30 June 2006 approximates to the carrying amount.

22. OTHER FINANCIAL ASSETS

Bills receivable

Included in the bills receivable are amounts of HK$6,972,000 (2005: HK$5,252,000) aged within 30 days and the remaining balance of HK$2,677,000 (2005: HK$1,593,000) aged between 31 to 60 days.

The Directors consider that the fair value of bills receivable at 30 June 2006 approximates to the carrying amount.

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 interest at rates ranging from 2.35% to 2.90% (2005: 0.002% to 1.14%) per annum. The fair value of bank balances and cash approximates to its carrying amount.

23. CREDITORS AND ACCRUED CHARGES

Included in the balance are trade creditors of HK$74,190,000 (2005: HK$59,193,000).

An aged analysis of trade creditors is as follows:

	2006 HK$'000	2005 HK$'000
0 – 30 days	**65,540**	46,281
31 – 60 days	**5,320**	6,785
61 – 90 days	**847**	4,924
Over 90 days	**2,483**	1,203
	74,190	59,193

The Directors consider that the fair value of creditors at 30 June 2006 approximates to the carrying amount.

24. BANK BORROWINGS AND OTHER LIABILITIES

	2006 HK$'000	2005 HK$'000
Bank borrowings:		
Trust receipts and import loans	**4,941**	7,616
Bank loan	**1,009**	1,888
Total bank borrowings *(note a)*	**5,950**	9,504
Other unsecured liabilities *(note b)*	**285**	285
	6,235	9,789
Less: Amount due within one year shown as current liabilities	**(6,032)**	(8,639)
Amount due after one year	**203**	1,150
Secured	**1,009**	1,888
Unsecured	**5,226**	7,901
	6,235	9,789

24. BANK BORROWINGS AND OTHER LIABILITIES – continued

Notes:

		2006 HK$'000	2005 HK$'000
(a)	The bank borrowings are repayable:		
	Within one year	**5,950**	8,557
	Between one to two years	**–**	947
		5,950	9,504
(b)	Other liabilities are unsecured and repayable:		
	Within one year	**82**	82
	Between one to two years	**203**	203
		285	285

(c) At 30 June 2006, the Group pledged certain of its machinery with an aggregate carrying value of approximately HK$1,051,000 (2005: HK$1,346,000) to secure a bank loan.

Included in bank borrowings is an amount of HK$4,941,000 (2005: HK$7,616,000) representing trust receipts and import loans denominated in United States dollars.

The average interest rates were as follows:

	2006	2005
Trust receipts and import loans	**5.96%**	4.75%
Bank loans	**4.5%**	4.5%

Bank loans of HK$1,009,000 (2005: HK$1,888,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. The loan is secured by a charge over certain of the Group's machinery. Trust receipts and import loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The Directors consider that the fair values of the Group's bank borrowings and other liabilities at 30 June 2006 approximate to their carrying amounts.

At 30 June 2006, the Group had undrawn borrowing facilities of HK$145,059,000 (2005: HK$142,384,000).

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**400**	1,618	**358**	1,503
Between one to two years	**361**	735	**325**	661
Between two to five years	**37**	35	**34**	32
	798	2,388	**717**	2,196
Less: Future finance charges	**(81)**	(192)	**–**	–
Present value of lease obligations	**717**	2,196	**717**	2,196
Less: Amount due within one year shown as current liabilities			**(358)**	(1,503)
Amount due after one year			**359**	693

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 2006, the average effective borrowing rate was 6.3% (2005: 7.3%) 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.

The fair value of the Group's finance lease obligations at 30 June 2006, is based on the present value of the estimated cash flows discounted using the prevailing market rate at the balance sheet date, approximates to the carrying amount.

26. PROVISION FOR LONG SERVICE 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 (i.e. the Mandatory Provident Fund Scheme), the amount of the long service payment will be reduced by certain 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 2006 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.

26. PROVISION FOR LONG SERVICE PAYMENTS – continued

In addition, the Group operates a defined benefit plan for qualifying employees of its subsidiaries in the Philippines. Under the plan, the employees are entitled to retirement benefits equal to 22.5 days 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 Actuarial 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:

	2006	2005
Expected rate of salary increases	**5% per annum**	3% per annum
Expected return on retirement benefit schemes	**5% per annum**	4% per annum

The discount rates used in the actuarial valuation are 6% and 11% (2005: 5% and nil) for the provision of long service payments to the employees in Hong Kong and the Philippines, respectively. Amounts recognised in the consolidated income statement in respect of the long service payments are as follows:

	2006 **HK$'000**	2005 HK$'000
Current service cost	**158**	11
Interest cost	**422**	135
Net actuarial losses recognised	**(242)**	603
Benefit forfeited	**–**	(280)
Amount charged for the year (included in general and administrative expenses)	**338**	469

Movements in the net liability in the balance sheet are as follows:

	2006 **HK$'000**	2005 HK$'000
At beginning of the year	**4,989**	4,520
Amount charged to income statement	**338**	469
Benefits paid	**(982)**	–
At end of the year	**4,345**	4,989

27. 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 HK$'000	Unrealised losses HK$'000	Total HK$'000
At 1 July 2004	3,512	6,400	9,912
Charge (credit) to income statement	1,585	(5,300)	(3,715)
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**

At 30 June 2006, the Group has unused tax losses of approximately HK$86,209,000 (2005: HK$75,040,000), available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses of the Group are losses of HK$9,447,000 (2005: HK$7,123,000) of subsidiaries in the PRC that will gradually expire until 2011. Other losses may be carried forward indefinitely.

At 30 June 2006, the Group has unrecognised deductible temporary differences of approximately HK$527,000 (2005: HK$785,000) 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.

28. SHARE CAPITAL

	2006 Number of shares	2005 Number of shares	**2006 HK$'000**	2005 HK$'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	**1,077,514,125**	1,071,349,957	**107,752**	107,135
Issue of shares during the year	**–**	6,164,168	**–**	617
Repurchase of shares during the year	**(1,216,000)**	–	**(122)**	–
At end of the year	**1,076,298,125**	1,077,514,125	**107,630**	107,752

During the year, 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$0.10 each**	**Price per share Highest** HK$	**Price per share Lowest** HK$	**Aggregate consideration paid** HK$'000
October 2005	1,216,000	1.75	1.68	2,077

29. 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 or 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.

At 1 July 2004, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 6,164,168, representing 0.6% of the shares of the Company in issue at 8 September 2004. All of these granted options were exercised during the year ended 30 June 2005. No options were granted under the Scheme during the year ended 30 June 2006.

The following table discloses details of the Company's share options held by the Directors under the Scheme during the two years ended 30 June 2006:

Date of grant	Vesting period	Exercise period	Exercise price	Number of share options outstanding at 1.7.2004	Exercised during the year ended 30.6.2005	Number of share options outstanding at 30.6.2005 and 30.6.2006
			HK$			
9 September 2002	9 September 2002 to 8 September 2004	9 September 2004 to 8 September 2012	0.343	6,164,168	(6,164,168)	–

The weighted average closing price of the Company's share at the dates on which the options were exercised was HK$1.39.

30. MAJOR NON-CASH TRANSACTION

The consideration in connection with the transfer of 25% of the nominal 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 Group, from the joint venture partner to the Group of HK$5,200,000 during the year was included in creditors and accrued charges as at 30 June 2006.

During the year ended 30 June 2005, the Group entered into finance lease arrangements in respect of assets with a total capital value of HK$1,670,000 at the inception of the finance leases.

31. 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:

	2006	2005
	HK$'000	HK$'000
	16,428	15,440
In the second to fifth year inclusive	**20,178**	14,432
Over five years	**1,000**	–
	37,606	29,872

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

32. RETIREMENT BENEFIT SCHEMES

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 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.

Eligible employees of the Company's subsidiaries in Thailand and the Philippines currently participate in defined contribution pension schemes operated by the local municipal governments. The calculation of contributions is based on certain percentages of the employees' shares.

33. RELATED PARTY TRANSACTIONS

During the year ended 30 June 2006, the Group sold finished products of approximately HK$39,800,000 (2005: HK$35,803,000), 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 2006.

As at 30 June 2006, the balance of trade receivable from VdV amounted to HK$1,041,000 (2005: HK$2,294,000).

Compensation of key management personnel

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

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**19,126**	37,299
Contribution to retirement benefit scheme	**107**	101
	19,233	37,400

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

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 30 June 2006 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 綉麗橡根帶織品有限公司	Hong Kong	Ordinary – HK$316,667 Deferred – HK$810,000	60%	Manufacture of elastic garment straps
Foshan Nan Hai 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 建盈實業有限公司	Hong Kong	Ordinary – HK$100,000	55%	Laminating business

34. PRINCIPAL SUBSIDIARIES – continued

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
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$47,266,038	100%	Manufacture of ladies' underwear
Marguerite Lee Limited	Hong Kong	Ordinary – HK$2,500,000	100%	Retail sales of underwear, sleepwear and other intimate apparel
Marguerite Lee (Overseas) Limited	British Virgin Islands	Ordinary – US$10	100%	Investment holding
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 – Peso 17,500,000	100%	Manufacture of ladies' underwear
Shenzhen Top Form Underwear Co., Limited 深圳黛麗斯內衣有限公司	The PRC^	Capital contribution – HK$8,616,475	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 黛麗斯胸圍製造廠有限公司	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

34. PRINCIPAL SUBSIDIARIES – continued

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
Top Form Industries Limited	Mauritius	Ordinary US$100,000	100%	Manufacture of ladies, underwear
Top Form Brassiere (Maesot) Co., Ltd	Thailand	Ordinary – Baht 10,000,000	100%	Manufacture of ladies' underwear
Top Prospect Investment Limited 統興投資有限公司	Hong Kong	Ordinary – HK$2	100%	Property holding in the PRC
Topfull Development Limited 統富發展有限公司	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 特麗儂內衣製造廠有限公司	Hong Kong	Ordinary – HK$1,000 Deferred – HK$200	100%	Retail sales of underwear, sleepwear and other intimate apparel
Unique Form Manufacture (Thailand) Co., Ltd	Thailand	Ordinary – Baht 1,000,000	100%	Manufacture of ladies' underwear
Wide Gain Investment Limited 和盈投資有限公司	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.*

34. PRINCIPAL SUBSIDIARIES – continued

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 was established, the Group has contributed 70% of the nominal 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.

NHTF was established as a joint venture company in the PRC on 1 January 1992 for a joint venture period of ten years. The joint venture period had then been extended to 5 September 2006. Pursuant to an agreement under which the joint venture were established, the Group had contributed 75% of the nominal registered capital of NHTF. However, under the joint venture agreement, the Group was entitled to 100% of the joint venture company' profit after deducting a fixed annual amount attributable to assets contributed by the joint venture partner. The Group was entitled to receive its attributable share of the net assets upon liquidation of the joint ventures. In June 2006, the Group has terminated this joint venture agreement and 25% of the nominal registered capital of NHTF were transferred by joint venture partner to the Group. Since then, NHTF has been changed as a foreign investment enterprise.

As at 30 June 2006, 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 2006 or at any time during the year.

All subsidiaries operate principally in their respective places of incorporation unless specified otherwise under the heading "Principal activities".

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.

35. COMPANY'S BALANCE SHEET

	2006 HK$'000	2005 HK$'000
Non-current assets		
Investments in subsidiaries	**147,740**	125,002
Amounts due from subsidiaries	**–**	304,183
Interests in associates	**–**	–
	147,740	429,185
Current assets		
Amounts due from subsidiaries	**425,301**	–
Deposits and prepayments	**122**	99
Bank balances and cash	**19**	16
	425,442	115
Current liabilities		
Amounts due to subsidiaries	**168,067**	–
Creditors and accrued charges	**1,661**	2,226
	169,728	2,226
Net current assets (liabilities)	**255,714**	(2,111)
	403,454	427,074
Capital and reserves		
Share capital	**107,630**	107,752
Reserves	**295,824**	319,322
	403,454	427,074

RESULTS

Year ended 30 June	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000	**2006** **HK$'000**
Revenue	846,846	1,094,364	1,217,043	1,463,815	**1,425,491**
Profit before taxation	78,619	158,364	194,397	230,119	**143,208**
Taxation	(6,001)	(26,479)	(36,042)	(45,853)	**(24,131)**
Profit for the year	72,618	131,885	158,355	184,266	**119,077**
Attributable to:					
Equity holders of the Company	69,885	131,500	156,503	183,090	**114,876**
Minority interests	2,733	385	1,852	1,176	**4,201**
	72,618	131,885	158,355	184,266	**119,077**

ASSETS AND LIABILITIES

At 30 June	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000	**2006** **HK$'000**
Total assets	382,527	423,809	531,483	690,861	**748,779**
Total liabilities	(319,339)	(138,117)	(179,025)	(235,506)	**(268,427)**
	63,188	285,692	352,458	455,355	**480,352**
Equity attributable to:					
Equity holders of the Company	40,722	264,742	330,556	434,296	**461,192**
Minority interests	22,466	20,950	21,902	21,059	**19,160**
	63,188	285,692	352,458	455,355	**480,352**