# TOP FORM

INTERNATIONAL LIMITED

STOCK CODE : 333

ANNUAL REPORT

2007

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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

## NON-EXECUTIVE DIRECTORS

Mr. Lucas A.M. Laureys
Ms. Leung Churk Yin, Jeanny [(1)]
Mr. Herman Van de Velde [(2)]

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Marvin Bienenfeld [(1) (2)]
Mr. Chow Yu Chun, Alexander [(1) (2)]
Mr. Leung Ying Wah, Lambert [(1) (2)]
Mr. Lin Sun Mo, Willy [(1)]

## COMPANY SECRETARY

Mr. Michael Austin

## REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

(1) Member of Audit Committee
(2) 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

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

While Group revenue and profit achieved in the fiscal year 2007 improved following the quota-related disruption which affected fiscal 2006, there are a number of external factors which negatively impacted our performance.

On a year to year comparison Group sales rose 3% to HK$1,467.5 million, profit 14% to HK$136.1 million and earnings per share from HK$0.107 to HK$0.124.

The Board of Directors has proposed a final dividend of HK$0.03 per share (2006: HK$0.03 per share). Together with the interim dividend of HK$0.025 per share, there is an aggregate distribution of HK$0.055 per share (2006: HK$0.055 per share).

In our communications with shareholders during the past year we have expressed caution regarding the changes in the market and in the operating environment. Our caution was well founded. During the year we have seen continuing softness in the U.S. market, particularly evident in the sourcing requirements and strategies of the mass channels. Significant increases in minimum wages in our manufacturing locations in China, labour and power shortages, currency appreciation and, from 1 July 2007, a 2% reduction in export tax rebate have all contributed to the ongoing deterioration of the operating environment in the Pearl River Delta. The trend for high volume and price-sensitive business to be sourced outwith China continues. To mitigate the negative effect of these external pressures on the margins of our core business, we have started to downsize our most expensive manufacturing facilities. This move is in line with our plan of shifting production to lower cost areas in the China and Thailand regions which also benefit from an adequate labour supply.

Our existing brands business reported a loss of HK$1.2 million this year, down from HK$6.5 million last year, all attributable to the operations in Hong Kong which is burdened with high rentals. We now operate nine counters in Shenzhen, maintaining our focus on expanding the distribution network for our "mx" brand in China.

The mounting challenges in our OEM trade prompted the need to accelerate the Group's strategic move to expand the brand business through M&A.

On 8 August 2007 we announced that we had entered into a non-binding letter of intent to acquire 51% of the entire issued share capital of a company which, together with its subsidiaries, operates the business of distribution of sleepwear, homewear, innerwear and brassiere products utilizing an established network of some 500 points-of-sale throughout the People's Republic of China. While due diligence work is at an early stage at the time of this writing, we are indeed hopeful that we can successfully acquire a quality company, which marks the beginning of our growth in the China market.

As we reported in our third quarter operational update VF Corporation, a major customer accounting for 54% by value of the Group's OEM business, announced on 2 April 2007 that it had sold its intimate apparel business to Fruit of the Loom Inc., a subsidiary of Berkshire Hathaway Inc. The management team remains unchanged and we have not seen any significant change in the business relationship which remains robust.

As at the balance sheet date VF Corporation is the beneficial owner of 9.85% of the issued share capital of Top Form.

The financial position of the Group remains strong. As at 30 June 2007, shareholders' funds had increased to HK$546.3 million from HK$461.2 million at 30 June 2006. Credit facilities available to the Group amount to HK$150 million of which HK$4.7 million has been utilized. Our gearing is insignificant and, with bank balances standing at HK$256.4 million, we retain the flexibility to finance future requirements.

# CHAIRMAN'S STATEMENT

The China quota agreements with the E.U. and the U.S. expire at the end of calendar year 2007 and 2008 respectively. Whether or not these quota agreements will be renewed, protectionism prevails in global trade and there could be other forms of barriers to exports of apparel products from China to her major markets. It is however hopeful that the recent changes in China's cost structure might discourage low cost exports and therefore help to restore orderly trade even in the absence of any quota agreements.

Looking ahead, the steep deterioration in the operating environments in China and other regions in Asia presents unprecedented challenges to business, and manufacturing companies must respond to such challenges with corresponding changes in structure and business approach. At Top Form we are glad that we have, at an early stage, put in place the right strategy and that we have embarked on our action plans as evidenced by some of the developments reported earlier. We will continue to migrate our OEM operations from expensive locations to low cost and labour abundant areas. We will develop direct sales to retail customers, especially those in Europe and continue our investment of resources in product development and sales support functions. Last but not least, we will accelerate the growth of our brand business by rolling out an additional 45 point-of-sales in the next twelve months while continuing to look for strategic or equity relationships with other compatible products and brands companies, notwithstanding the M&A opportunity we recently reported. The process may take longer than we would like, but we are confident that our Group is heading in the right direction through the sea of changes.

Meeting the challenges of the last year and preparing for the future imposes great pressures on our management and employees. On behalf of the Board I wish to thank them all for their extra efforts and dedication during difficult times.

**Fung Wai Yiu**
*Chairman*

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

| | Turnover | | Profit (Loss/Expenses) | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Manufacturing | **1,448,348** | 1,403,798 | **182,317** | 166,405 |
| Brands | **19,148** | 21,693 | **(1,171)** | (6,457) |
| Corporate | **–** | – | **(14,308)** | (16,740) |
| | **1,467,496** | 1,425,491 | **166,838** | 143,208 |

For the year ended 30 June 2007, the Group recorded an increase in both sales revenue and after tax profit when compared to the previous year. Sales revenue was up 3% to HK$1,467.5 million, after tax profit up 14% to HK$136.1 million. Basic earnings per share increased from HK$0.107 to HK$0.124.

## MANUFACTURING

Our core OEM manufacturing business accounts for some 99% of the Group's revenue. During the year our global sales totalled 55.5 million units of brassieres compared to 56.7 million units in 2006.

Our first half accounted for 29.7 million units, compared to 25.9 million units in 2006. During this half our plants had returned to an acceptable level of efficiency following the quota disruption experienced during a large part of fiscal 2006. The latter part of the half was characterized by market softness, primarily in the U.S., which prompted caution in inventory management. This was particularly evident in the sourcing strategies of the mass channels and a marked decrease in order lead times. In addition the surge in wages in China, together with the severe labour shortages in Guangdong Province, caused customers to look elsewhere for low cost production, especially for volume and price-sensitive business. The "value based" quota allocation system in China also contributed to this trend.

The soft market trend in the U.S. exacerbated during the second half and the operating environment in our plant locations within China continued to deteriorate. Sales in our second half totalled 25.8 million units compared to 30.8 million units in 2006.

Gross margins were under pressure throughout the year. Our plants in China account for 58% of our total output. Statutory minimum wages in our plants in Shenzhen increased by 17% on 1 July, 2006, in Nan Hai by 20% on 1 September, 2006 and by 36% on 1 January, 2007 in our Longnan plant located in Jiangxi Province. In Thailand, the military coup which took place in September and subsequent civil unrest had virtually no impact on the operations of our plants but the strong currency has resulted in virtually a 20% year-to-year increase in our operating cost in that country. In both China and Thailand, in order to mitigate the margin pressure, we continue the ongoing trend of shifting production to the lower cost areas in the regions. During the year we shut down a satellite plant and consolidated two other sewing plants outside of Bangkok. In China, the workforce of our two plants in Guangdong were trimmed down by about 15% by attrition. At the same time, we have increased the headcount in our new plant on the western border of Thailand and the plant in Jiangxi, China.

Average selling prices showed modest increases during the year, reflecting the changes in product mix to higher work content products, which also explains the general decrease in production unit output on a per machine basis.

### BRANDS

Revenue for the year attributable to our brand business amounted to HK$19.1 million, which was marginally down from HK$21.7 million in 2006 following the downsizing of the units operations in Hong Kong to two Marguerite Lee shops. Losses were reduced from HK$6.5 million to HK$1.2 million, all of which arose in Hong Kong and in line with our expectations. Our focus has been on expanding the distribution network for the "mx" brand in China. During the year, we opened sales counters in fifteen department stores but we were also quick to exit from some of the under-performing locations. As of 30 June 2007 we were operating sales counters in nine department stores in Shenzhen.

### CORPORATE

I am pleased to report that the recurring charges attributable to our corporate cost centre have been maintained at the same level as the previous two years.

## FINANCIAL POSITION

The strong financial position of the Group continued to improve throughout the year.

The unusually high levels of receivables and inventory recorded at the end of fiscal 2006 returned to normality as the order backlog was cleared in early fiscal 2007.

As at 30 June 2007 :

- Shareholders' funds had increased to HK$546.3 million from HK$461.2 million at 30 June 2006.
- Bank balances and cash had increased to HK$256.4 million from HK$65.3 million at 30 June 2006.
- Credit facilities available to the Group amounted to HK$150 million.

## OUTLOOK

Looking forward to 2008 we are facing a number of significant challenges. Many are not unique to our business, such as rising labour costs in China and currency appreciation of the Renminbi and Thai Baht against the greenback. The current soft market trend, particularly in the U.S., is expected to continue well into the next year and we see other changes in the operating environment. More retailers are sourcing directly from Asia through local buying offices. This requires us, amongst other initiatives, to strengthen our design capabilities and thus branch out from our current, primarily OEM business model. This transition in the foreseeable future is focused on the Europe market where we have already established a sound customer base with retailers. Stringent cost control remains as a cornerstone of our strategy.

Brand business is an important element in our strategic plan and we are committed to invest in the business for growth. Internally we plan to roll out 45 new point-of-sales in the next twelve months, mostly sales counters in department stores in Guangdong. Externally we will continue to develop strategic and equity relationships with additional companies with compatible products and brands in order to enhance our presence and sales in the China market.

The Group is prepared to compromise on growth and profitability in the short term in order to ensure that these changes and initiatives will lead us to long term prosperity.

**Wong Chung Chong, Eddie**
*Group Managing Director*

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

During the year under review, the Company has complied with the Code on Corporate Governance Practices ("Code Provisions") set out in the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") except for the following deviations:

- A.4.1 - 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.

- A.4.2 - 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 is pleased to present the key corporate governance principles and practices implemented by the Group for the year ended 30 June 2007.

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A | **DIRECTORS** | | |
| A1 | **The Board**<br>***Code Principle***<br>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 held 4 regular meetings during the year.<br><br>• Details of Directors' attendance records are set out below :<br><br>*Executive Directors* — *Attendance*<br>Fung Wai Yiu *(Chairman)* — 4/4<br>Wong Chung Chong, Eddie *(Group Managing Director)* — 4/4<br>Leung Tat Yan — 4/4<br><br>*Non-executive Directors*<br>Leung Churk Yin, Jeanny — 3/4<br>Lucas A. M. Laureys — 3/4<br>Herman Van de Velde — 3/4 |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | | | *Independent Non-executive Directors* — *Attendance*<br>Marvin Bienenfeld 3/4<br>Chow Yu Chun, Alexander 4/4<br>Leung Ying Wah, Lambert 4/4<br>Lin Sun Mo, Willy 3/4 |
| 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.<br>• Directors have direct access to the Company Secretary. |
| A1.5 | • Minutes of board meetings and board committee meetings should be 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 should record in sufficient detail the matters considered by the board and decisions reached.<br>• Draft and final minutes sent to all directors for comments within a reasonable time. | ✓ | • Minutes recorded in sufficient detail matters considered and decisions reached.<br>• 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 adopted by the Group |
|---|---|---|---|
| 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.<br><br>• 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.<br><br>• Such matters are considered at a full Board meeting. The Company's Bye-laws 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**<br>***Code Principle***<br>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.<br><br>• Division of responsibilities should be clearly established and set out in writing. | ✓ | • The positions of Chairman and Group Managing Director are held by separate individuals.<br><br>• 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 adopted by the Group |
|---|---|---|---|
| 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.<br>• 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 to A2.9 | Various recommended roles for chairman including:<br>• Drawing up and approving board agenda<br>• Ensuring establishment of good corporate governance practices and procedures.<br>• Ensuring effective communication between the Board and shareholders | ✓ | • The Chairman, together with the Company Secretary, draw up the Board agenda after consultation with relevant parties.<br>• The Chairman plays a key role in driving corporate governance development.<br>• General meetings are held at least once a year which the Chairman and the Group Managing Director are present to answer any questions from shareholders. Shareholders can also access the Company's latest information by visiting the Company's website (www.topformbras.com). |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A3 | **Board Composition**<br>*Code Principle*<br>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.<br>• The composition of the Board by category is disclosed in all corporate communications.<br>• 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.<br>• Biographical details of the Directors are set out on pages 36 and 37 of this report. |
| | *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 Company's website. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A4 | **Appointments, Re-election and Removal**<br>***Code Principle***<br>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 and 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 Bye-laws, newly appointed Directors are required to offer themselves for re-election at the next general meeting following their appointment. |
| | • 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. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | *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.<br>• Mr. Marvin Bienenfeld and Mr. Chow Yu Chun, Alexander have served the Board for more than nine years and have consistently demonstrated their willingness to exercise independent judgment and provide objective challenges to management. Therefore, the Board considers that they remain independent, notwithstanding the length of their tenure. |
| A4.4 to 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. |
| A5 | **Responsibilities of Directors**<br>*Code Principle*<br>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 will usually brief the newly appointed Director for the duties and responsibilities he/she may perform as a Director of the Company and other regulatory requirements he/she may observe.<br>• 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.<br>• The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A5.2 | • Function of non-executive directors include:<br>– bring an independent judgement to the board meeting<br>– take the lead where potential conflicts of interest arise<br>– serve on committees if invited<br>– 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.<br><br>• Non-executive Directors review the financial information and operational performance of the Group on a regular basis.<br><br>• 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 was satisfactory attendance for Board and Board Committee meetings during the year.<br><br>Pls refer to A.1.1., B.1.1 and C.3.4 for details. |
| A5.4 | • Directors must comply with the Model Code.<br><br>• Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees. | ✓ | • The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for Directors' dealings in securities of the Company.<br><br>Having made specific enquiries, the Company confirmed that each of the Directors has complied with the required standards during the year.<br><br>• 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. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | *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 through which to demonstrate their skills, expertise and varied backgrounds and qualifications. | ✓ | • There was satisfactory attendance for Board and Board Committee meetings during the year.<br><br>During these meetings, there were open discussions amongst the Board and Board Committee members and constructive advices were given to the Board.<br><br>Please refer to A.1.1., B.1.1. and C.3.4. for details. |
| 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 are set out above. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A6 | **Supply of and Access to Information**<br>***Code Principle***<br>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 meetings or board committee meetings. | ✓ | • Board papers are circulated not less than three days before regular Board meetings 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.<br><br>• 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.<br><br>• Senor 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 and related materials; steps must be taken to respond to director queries promptly and fully. | ✓ | • Board papers and related materials are made available for inspection by Directors and Committee members.<br><br>• 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 adopted by the Group |
|---|---|---|---|
| B | **REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT** | | |
| B1 | **The Level and Make-up of Remuneration and Disclosure**<br>***Code Principle***<br>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. The written terms of reference are available on the Company's website.<br>• The Committee currently comprises the following members and one meeting was held during the year.<br>• Details of committee members' attendance records are set out below:–<br>*Independent Non-executive Directors* — *Attendance*<br>Marvin Bienenfeld *(Chairman)* — 1/1<br>Chow Yu Chun, Alexander — 1/1<br>Leung Ying Wah, Lambert — 1/1<br>*Non-executive Directors*<br>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.<br>• Committee members are aware that access to professional advice is available if considered necessary. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| B1.3 | • Terms of reference of the remuneration committee to include:<br>– recommendations to the board on policy and structure for all remuneration of directors and senior management.<br>– determine specific remuneration packages of all executive directors and senior management.<br>– review and approve performance based remuneration.<br>– review and approve the compensation payable on loss or termination of office or appointment.<br>– 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 have been adopted by the Board.<br>• The Committee reviews compensation policies and recommends to the Board the remuneration packages of the Executive Directors and senior management.<br>• 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.<br>• 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 available on the Company's website.<br>• 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 bought to supplement internal resources where appropriate. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | *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<br>C1 | **ACCOUNTABILITY AND AUDIT**<br>**Financial Reporting**<br>***Code Principle***<br>The Board should present a balanced, clear and comprehensible 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 adopted by the Group |
|---|---|---|---|
| | | | • 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:<br>– select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;<br>– state the reasons for any significant departure from accounting standards; and<br>– 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.<br><br>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 cast significant doubt upon the Company's ability to continue as a going concern. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | • 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 required 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. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| C2 | **Internal Controls**<br>***Code Principle***<br>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.<br><br>• The review should cover all material controls, including financial, operational and compliance controls and risk management functions. | ✓ | • The Company, through the Audit Committee and Internal Audit department, has conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries.<br><br>The review covers all material controls, including financial, operational and compliance controls and risk management functions.<br><br>• The Board is generally satisfied as to the effectiveness of the system of internal control of the Company and its subsidiaries during the year under review. |
| | ***Recommended Best Practices*** | | |
| C2.2 | • The boards annual review should, in particular consider:<br>– 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.<br>– 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.<br><br>• There were no significant control failings or weakness identified. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | – 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.<br>– 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<br>– the effectiveness of the issuers processes relating to financial reporting and Listing Rule compliance. | | |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| C2.3 | • Narrative statement on compliance with code provisions on internal control including:<br>– process applied for identifying, evaluating and managing significant risks<br>– additional information to assist understanding of risk management processes and system of internal control<br>– acknowledgement by the board that it is responsible for the issuers system of internal control and its effectiveness<br>– process applied in reviewing the effectiveness of the system of internal control<br>– 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.<br><br>• 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.<br><br>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.<br><br>• Senior management adopts a hands-on approach to the operations of the business and delegation of authority is limited.<br><br>• Detailed operational and financial budgets are prepared and reviewed by the responsible Directors prior to being adopted.<br><br>• 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 adopted by the Group |
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| | | | • 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**<br>***Code Principle***<br>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. | ✓ | • 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 or has financial interest in the existing auditing firm of the Company. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| C3.3 | • The terms of reference of the audit committee should include:<br>– relationship with the external auditors.<br>– review of financial information<br>– oversight of the financial reporting system and internal control procedures | ✓ | • The terms of reference of the Audit Committee follow closely the requirements of the Code Provisions have been adopted by the Board. The terms of reference are available on the Company's website.<br><br>• 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. |
| C3.4 | • The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. | ✓ | • The Audit Committee currently consists of the following members and three meetings were held during the year.<br><br>• Details of committee members' attendance records are set out below :–<br><br>*Independent Non-executive Directors* — *Attendance*<br>Chow Yu Chun, Alexander *(Chairman)* — 3/3<br>Marvin Bienenfeld — 1/3<br>Leung Ying Wah, Lambert — 3/3<br>Lin Sun Mo, Willy — 0/3<br><br>*Non-executive Director*<br>Leung Churk Yin, Jeanny — 2/3 |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | | | • In the three meetings held during the year, the Committee met with the external auditors to review the Company's financial statements for the six months ended 31 December 2006 and the financial statements for the year ended 30 June 2007 and recommended such financial statements to the Board for their approval and adoption; met with external auditors and internal audit department to review and discuss various audit works done by and reports prepared by internal audit department as well as the internal audit planning summary for the fiscal years 2007 and 2008. The Committee was satisfied as to the effectiveness of the internal controls and risk management processes during the year under review. |
| C3.5 | • A 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 the fiscal year 2008.<br><br>• For the year ended 30 June 2007, the external auditors received HK$2,748,000 for audit services and HK$843,000 for non-audit 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. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | *Recommended Best Practices* | | |
| C3.7 | • Terms of reference should include:<br>– review of arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal controls or other matters.<br>– 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.<br><br>• The Audit Committee oversees the relationship with the external auditors. |
| D<br>D1 | **DELEGATION BY THE BOARD**<br>**Management Functions**<br>***Code Principle***<br>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 and D1.2 | • Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board before making decisions and entering into any commitments on behalf of the issuer.<br><br>• Formalize the functions reserved to the board and those delegated to management; and review arrangements on a periodic basis. | ✓ | • The daily management and administration functions of the Company are delegated to management. The reporting system is designed to ensure that significant issues are reported to the Board on a regular basis.<br><br>• There is a defined schedule of matters reserved for full Board approval, including:<br>– long-term objectives and strategies;<br>– audited financial statements and associated materials; review and approve interim and final result announcements and quarterly operational updates;<br>– recommendations as to dividend;<br>– appointment, removal or re-designation of Directors; |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | | | – remuneration of Non-executive Directors and changes in terms and conditions of employment of Executive Directors;<br>– material connected transactions;<br>– material acquisitions, disposals or joint-venture arrangements;<br>– material raising of external finance;<br>– appointment and removal of external auditors;<br>– 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 C.2.3, D.1.1 and D.1.2. |
| D.1.4 | Issuers should have formal letters of appointment for Directors 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**<br>*Code Principle*<br>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. |
| 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. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| E<br>E1 | **COMMUNICATION WITH SHAREHOLDERS**<br>**Effective Communication**<br>***Code Principle***<br>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.<br>• The Chairman of the Audit Committee and members of the Audit and Compensation Committees were amongst those Directors who attended the 2006 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 adopted by the Group |
|---|---|---|---|
| E2 | **Voting by Poll**<br>***Code Principle***<br>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.<br><br>• 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.<br><br>• 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 rights of shareholders and the procedures to demand a poll are set out in every circular sent to shareholders.<br><br>• It is the Company's practice that the Chairman of the meeting exercises his power under the Bye-laws to put each resolution set out in the notice to be voted by way of poll.<br><br>• The Company will announce the Poll Results on the websites of the Company and the Stock Exchange the next business day following the Annual General Meeting or any general meetings of the Company. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| 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.<br><br>• The issuer should ensure that votes cast are properly counted and recorded. | ✓ | • The Company has appointed Tricor Secretaries Limited, the Company's Hong Kong branch share registrar, as the 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:<br>– the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and<br>– 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 any general meetings 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 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 Board of Directors ("the Directors") present their annual report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 30 June 2007.

## PRINCIPAL ACTIVITIES

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

The activities of its principal subsidiaries and associates are set out in notes 30 and 16 respectively to the consolidated financial statements.

## RESULTS AND DIVIDEND

The results of the Group for the year ended 30 June 2007 are set out in the consolidated income statement on page 46.

An interim dividend of HK$0.025 per share (2006: 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 (2006: HK$0.03 per share) to shareholders whose names appear on the register of members of the Company on 26 October 2007.

## 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 84.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure, principally on its production facilities, totalling approximately HK$31 million. Movements of property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

## SHARE CAPITAL

Details of movement in share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

## DIRECTORS

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

### Executive Directors

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

### Non-executive Directors

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

### Independent Non-executive Directors

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

In accordance with bye-law 87(2) of the Company's Bye-laws, Mr. Leung Tat Yan, Mr. Herman Van de Velde and Mr. Marvin Bienenfeld will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which has a duration that exceeds three years or which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

The Non-executive Directors have not been appointed for a specific term but are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuance to Rule 3.13 of the Listing Rules of the Stock Exchange. The Company has accessed their independence and concluded that all the Independent Non-executive Directors are independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Fung Wai Yiu**, aged 60, is the Chairman of the Group. Mr. Fung has 40 years of experience in the apparel industry.

**Wong Chung Chong, Eddie**, aged 62, is the co-founder of the Group. Mr. Wong is the Group Managing Director and is responsible for the operations of the Group. Mr. Wong has over 41 years of experience in the brassiere trade.

**Leung Tat Yan**, aged 49, joined the Group in 1983 and was appointed as an Executive Director of the Company on 18th September, 2005. Mr. Leung is the Managing Director of Top Form Brassiere Mfg. Co. Limited and is the Chief Executive of the OEM operations of the Group. Mr. Leung has 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**, aged 62, is the President of Van de Velde N.V. ("VdV"), a company listed on the Euronext. Mr. Laureys has over 35 years of experience in the brassiere trade and specialises in marketing. Mr. Laureys holds a degree in marketing from the University of Ghent – Leuven. Mr. Laureys is also a member of the Board of several European companies, namely Omega Pharma (a company listed on Euronext), Hedgren, Sinelco International N.V. and Delta LLoyd Bank N.V.

**Leung Churk Yin, Jeanny**, aged 42, a seasoned investment banker with over 20 years of corporate finance experience in the Greater China region. She is also the Chief Executive Officer and an Executive Director of eSun Holdings Limited, and an Executive Director of Lai Sun Garment International Limited, Lai Sun Development Company Limited and Lai Fung Holdings Limited respectively. All of which are companies listed on the Stock Exchange.

**Herman Van de Velde**, aged 53, is the Managing Director of VdV. He joined the brassiere industry in 1981 and is well versed in operating the brassiere business in Europe. Mr. Van de Velde holds a master degree in economics from the University of Louvain. He is also an Independent Non-executive Director of Lotus Bakeries, a Belgium company listed on Euronext.

### Independent Non-executive Directors

**Marvin Bienenfeld**, aged 75, was appointed as a Non-executive Director of the Company on 27th August, 1998 and then re-designated as an Independent Non-executive Director of the Company on 8th September 2004. Mr. Bienenfeld was formerly the Chairman of Bestform Inc. and has over 40 years of experience in the ladies' intimate apparel industry in the United States of America.

**Chow Yu Chun, Alexander**, aged 60, was appointed as a Director of the Company in 1993. He is a Fellow member of The Association of Chartered Certified Accountants ("ACCA") and a CPA of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He has over 30 years of experience in commercial, financial and investment management in Hong Kong and China. Mr. Chow is also a Director of New World China Land Limited, Playmates Holdings Limited and Yu Ming Investments Limited. All of which are companies listed on the Stock Exchange.

**Leung Ying Wah, Lambert**, aged 60, is the Chief Executive Officer of a leading construction materials company. He is also a Fellow member of ACCA, a Fellow member of the HKICPA, a Fellow member of the Institute of Quarrying (UK) and is currently the Chairman of the Hong Kong Construction Materials Association and the Hong Kong Cement Association.

**Lin Sun Mo, Willy**, aged 47, is the Managing Director of Milo's Knitwear (International) Limited. He holds a bachelor degree in Science from Babson College, the United States of America. He is currently the 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.

### Senior Management

**Michael John Austin**, aged 59, 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 26 years of diverse senior financial and general management experience in Hong Kong and worldwide.

**Chan Man Ying, Vivian**, aged 32, is the Group Financial Controller. She is an Associate member of the HKICPA and ACCA. She holds a bachelor degree in Accounting from the Hong Kong University of Science & Technology. She joined the Group in 2004 and has 10 years of experience in accounting, auditing and financial management areas.

**Chen Fu Mei**, aged 60, is a Director and the Deputy General Manager of Shenzhen Top Form Underwear Co., Limited. Ms. Chen joined the Group in March 1993 and is responsible for the administration of all the Group's companies in the People's Republic of China.

**Choi Wai Yin**, aged 60, is a Director of Top Form Brassiere Mfg. Co., Limited and joined the Group in 1993. Ms. Choi has over 36 years of experience in apparel manufacturing. She oversees all manufacturing operations within the Group.

**Hau Chun On, Allan**, aged 51, is Group Human Resources Manager of the Group. Mr. Hau holds a bachelor degree in Business Management from Buckingham, UK and a MBA degree. He has over 25 years of experience in Human Resources Management in world-class US multi-national corporations. He joined the Group in 2006 and is responsible for the Group's Human Capital management & development activities.

**Wong Chor Wai**, aged 39, joined the Group in 1989 and is a Director of Top Form Brassiere Mfg. Co. Limited. Mr. Wong holds a bachelor degree in Science from The University of Hong Kong.

**Wong Hei Yin, Henry**, aged 44, is a 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.

**Wong Kai Chi, Kenneth**, aged 33, is a Director of Top Form Brassiere Mfg. 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 and a Master degree in International Business from Asian Institute of Technology, Thailand. He joined the Group in 1997 and is responsible for the Group's product development activities.

**Wong Kai Chung, Kevin**, aged 31, CFA, is the General Manager of Brands Business and a Director of Marguerite Lee Limited, Meritlux Garment and Unique Form Manufacturing Company Limited. He is also the Group's Corporate Development Manager. He joined the Group in 2001 and is responsible for the Group's corporate affairs as well as the Brands Business unit. He is the son of Mr. Wong Chung Chong, Eddie. Mr. Wong graduated from Colby College, majoring in Economics in 1998.

**Wan Ho Yau, David**, aged 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 been from time to time conducting transactions with Van de Velde N. V. ("VdV"), a substantial shareholder of the Company, by supplying ladies' intimate apparel to VdV in accordance with the terms and conditions of the master agreement dated 18 September 2005 (the "Master Agreement") entered into between the Company and VdV. Pursuant to the Listing Rules of the Stock Exchange, VdV is defined as a "connected person" and the transactions between VdV and the Company contemplated under the Master Agreement would constituted as "Continuing Connected Transactions".

An announcement dated 18 September 2005 and a circular dated 10 October 2005 disclosing the detailed information of the Continuing Connected Transactions had been sent to shareholders of the Company and an approval had been obtained from independent shareholders of the Company on 28 October 2005.

Details of the Continuing Connected Transactions conducted during the year were set out below:–

| Name of the Connected Person | Nature of the Continuing Connected Transactions | Amount HK$'000 |
|---|---|---|
| VdV | Sales of ladies' intimate apparel by the Group to VdV | 38,723 |

Pursuant to Rule 14A.37 of the Listing Rules, the Independent Non-executive Directors of the Company have conducted an annual review and confirmed to the Board that during the year the Continuing Connected Transactions have been entered into:

1. in the ordinary and usual course of business of the Company;

2. on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and

3. in accordance with the terms of the relevant agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the auditors of the Company has conducted an annual review and confirmed to the Board that the Continuing Connected Transactions:–

1. have been approved by the Board of Directors of the Company;

2. have been entered into in accordance with the pricing policies of the Company;

3. have been entered into in accordance with the relevant agreement governing the transactions; and

4. have not exceeded the annual cap set by the Company.

## DIRECTORS' INTERESTS IN CONTRACTS

Apart from the Connected Transactions as disclosed under the section headed "Connected Transactions" above, there was 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' INTERESTS IN COMPETING BUSINESS

During the year, the following Directors were considered to have interests in the following business, which compete or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to Rule 8.10 of the Listing Rules:–

Mr. Lucas A.M. Laureys, is the President of VdV and has an indirect interest of 58.98% in VdV whose principal business activity is the manufacture and marketing of luxury lingerie. The Board considers that the business of VdV may indirectly compete with the business of the Group.

Mr. Herman Van de Velde, is the Managing Director of VdV and has an indirect interest of 58.98% in VdV whose principal business activity is the manufacture and marketing of luxury lingerie. The Board considers the business of VdV may indirectly compete with the business of the Group.

Save as disclosed above, none of the Directors during the year have any interest in business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 26 to the consolidated financial statements.

## DIRECTORS' INTERESTS

As at 30 June 2007, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, 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 | Beneficial owner and interests held by spouse and trust *(note 1)* | 41,952,521 | 3.90% |
| Wong Chung Chong, Eddie | Beneficial owner and interests held by spouse and trust *(note 2)* | 177,172,118 | 16.46% |
| Marvin Bienenfeld | Beneficial owner | 870,521 | 0.08% |
| Chow Yu Chun, Alexander | Beneficial owner | 3,400,521 | 0.32% |
| Leung Churk Yin, Jeanny | Beneficial owner | 70,521 | 0.01% |
| Leung Ying Wah, Lambert | Beneficial owner | 400,000 | 0.04% |
| Lucas A.M. Laureys | Interests held by a controlled corporation *(note 3)* | 176,181,544 | 16.37% |
| Herman Van de Velde | Interests held by a controlled corporation *(note 3)* | 176,181,544 | 16.37% |

*Notes:*

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

2. 1,480,521 shares were beneficially owned by Mr. Wong Chung Chong, Eddie ("Mr. Wong") or his nominees whereas 100,000 shares were held by the spouse of Mr. Wong and 175,591,597 shares were registered in the name of High Union Holdings Inc. on behalf of the trustee of a unit trust whereas the unit trust were held by a family trust of which the family members of Mr. Wong were eligible beneficiaries.

3. The shares were registered in the name of VdV of which Mr. Lucas A.M. Laureys and Mr. Herman Van de Velde were beneficial owners.

Certain nominee shares in the Company's subsidiaries were held by Directors in trust for the Company's subsidiaries as at 30 June 2007.

Save as disclosed above, 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

As at 30 June 2007, the interests and short positions of the persons (other than the Directors) in the shares, underlying shares and debentures of the Company as recorded in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

### 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 |
|---|---|---|---|
| VdV | Beneficial owner | 176,181,544 | 16.37% |
| High Union Holdings Inc. | Beneficial owner | 175,591,597 | 16.31% |
| VF Corporation | Beneficial owner | 106,000,000 | 9.85% |
| Allianz Aktiengesellschaft | Interests held by a controlled corporation *(Note 1)* | 97,488,000 | 9.06% |
| Dresdner Bank Aktiengesellschaft ("Dresdner Bank") | Interests held by a controlled corporation *(Note 1)* | 97,488,000 | 9.06% |
| Veer Palthe Voute NV ("VPV") | Investment manager *(Note 1)* | 97,488,000 | 9.06% |
| Deutsche Bank Aktiengesellschaft | Investment manager | 64,890,000 | 6.03% |

*Note:*

1. These shares refer to the same block of shares. VPV was indirectly wholly-owned by Dresdner Bank, which in turn, was 81.10% indirectly owned by Allianz Aktiengesellschaft.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June, 2007.

## 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 revenue attributable to major customers for the year ended 30 June 2007 were as follows:

| | |
|---|---|
| Percentage of purchases attributable to the Group's largest supplier | 7% |
| Percentage of purchases attributable to the Group's five largest suppliers | 29% |
| Percentage of revenue attributable to the Group's largest customer | 53% |
| Percentage of revenue attributable to the Group's five largest customers | 84% |

As at 30 June 2007, VF Corporation, 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 during the year in the above major suppliers or customers.

The aggregate purchases of the Group for the year ended 30 June 2007 amounted to HK$618,177,000.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$369,000.

## EMOLUMENT POLICY

As at 30 June 2007, the Group has employed approximately 13,039 employees (30 June 2006: approximately 14,253 employees).

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

Details of remuneration of Directors on an individual basis are disclosed in this report. A significant proportion of the compensation of the Executive Directors is based on individual performance and the financial performance of the Group. The 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.

The Group established a Compensation Committee in 2001 and its functions and duties are, inter alia, to review and recommend to the Board the overall remuneration policy of the Group as well as the remuneration packages for Executive Directors.

## RETIREMENT BENEFIT SCHEMES

Information on the Group's retirement benefit schemes is set out in note 23 to the consolidated financial statements.

## 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

The Company is committed to maintaining high standards of corporate governance practices and has throughout the year, except for the deviations stated and explained in the Corporate Governance Report set out on pages 7 to 33 of this report, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

## MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Mode Code") as set out in Appendix 10 to 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.

## AUDITOR

A resolution will be proposed to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**Fung Wai Yiu**
*Chairman*

Hong Kong, 7 September 2007

**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 (collectively referred to as the "Group") set out on pages 46 to 83, which comprise the consolidated balance sheet as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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
7 September 2007

# CONSOLIDATED INCOME STATEMENT

*For the year ended 30 June 2007*

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

# CONSOLIDATED BALANCE SHEET

*At 30 June 2007*

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *13* | **177,268** | 170,842 |
| Prepaid lease payments | *14* | **2,077** | 2,189 |
| Prepaid rental payments | *15* | **3,134** | – |
| Interests in associates | *16* | **–** | – |
| | | **182,479** | 173,031 |
| **Current assets** | | | |
| Inventories | *17* | **197,462** | 245,993 |
| Debtors, deposits and prepayments | *18* | **166,394** | 254,741 |
| Bills receivable | *19* | **12,818** | 9,649 |
| Prepaid lease payments | *14* | **112** | 112 |
| Bank balances and cash | *19* | **256,435** | 65,253 |
| | | **633,221** | 575,748 |
| **Current liabilities** | | | |
| Creditors and accrued charges | *20* | **130,447** | 169,087 |
| Taxation | | **96,744** | 78,384 |
| Bank borrowings and other liabilities – due within one year | *21* | **4,700** | 6,032 |
| Obligations under finance leases – due within one year | *22* | **211** | 358 |
| | | **232,102** | 253,861 |
| **Net current assets** | | **401,119** | 321,887 |
| **Total assets less current liabilities** | | **583,598** | 494,918 |
| **Non-current liabilities** | | | |
| Bank borrowings and other liabilities – due after one year | *21* | **224** | 203 |
| Obligations under finance leases – due after one year | *22* | **41** | 359 |
| Retirement benefit obligations | *23* | **4,263** | 4,345 |
| Deferred taxation | *24* | **10,416** | 9,659 |
| | | **14,944** | 14,566 |
| | | **568,654** | 480,352 |
| **Capital and reserves** | | | |
| Share capital | *25* | **107,630** | 107,630 |
| Reserves | | **438,640** | 353,562 |
| Equity attributable to equity holders of the Company | | **546,270** | 461,192 |
| Minority interests | | **22,384** | 19,160 |
| | | **568,654** | 480,352 |

The financial statements on pages 46 to 83 were approved and authorised for issue by the Board of Directors on 7 September 2007 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 2007*

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

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

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 30 June 2007*

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

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 30 June 2007*

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

## 1. GENERAL

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

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

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 November 2006
[4] Effective for annual periods beginning on or after 1 March 2007
[5] Effective for annual periods beginning on or after 1 January 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

### Basis of consolidation

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

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

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

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

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

### Investments in associates

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Revenue recognition

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

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

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

### Property, plant and equipment

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

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

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

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

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

### Prepaid lease payments for leasehold land

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Inventories

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

### Impairment

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

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

### Leasing

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Foreign currencies

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

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

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

### Textile quota entitlements

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

### Borrowing costs

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

### Retirement benefit costs

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Retirement benefit costs – continued

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

### Taxation

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments

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

*Financial assets*

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

Loans and receivables

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

*Financial liabilities and equity*

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

Financial liabilities

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

Equity instruments

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

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

## 3. 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 and receivable and cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Allowance of doubtful debts

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

### Allowance of inventories

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

## 4. 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 2007 was approximately HK$177,268,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life, commencing from the date the property, plant and equipment is available for use. The estimated useful life of the property, plant and equipment for productive use reflects the Directors' estimate of the numbers of years that the Group intends to derive future economic benefits from the use of the property, plant and equipment. There is a risk that the estimated useful life may change as customers are looking elsewhere other than PRC and Thailand for low cost production, especially for the volume and price-sensitive business resulting in the Group having to shift production to the lower cost plants areas in these regions.

### Income tax

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

## 5. FINANCIAL INSTRUMENTS

### a. Financial risk management objectives and policies

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

*Market risk*

(i) Foreign currency risk

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

## 5. FINANCIAL INSTRUMENTS – continued

### a. Financial risk management objectives and policies – continued

*Market risk – continued*

(ii) Cash flow interest rate risk

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

*Credit risk*

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

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

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

*Liquidity risk*

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

### b. Fair value

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

## 6. SEGMENT INFORMATION

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

### (a) Business segments

**CONSOLIDATED INCOME STATEMENT**
**FOR THE YEAR ENDED 30 JUNE 2007**

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

## 6. SEGMENT INFORMATION – continued

### (a) Business segments – continued

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 | 2,397 | – | (2,397) | – |
| Total sales | 1,406,195 | 21,693 | (2,397) | 1,425,491 |
| RESULTS | | | | |
| Segment results | 163,331 | (6,408) | – | 156,923 |
| Unallocated corporate expenses | | | | (16,735) |
| Interest income | | | | 3,621 |
| Finance costs | | | | (601) |
| Profit before taxation | | | | 143,208 |
| Taxation | | | | (24,131) |
| Profit for the year | | | | 119,077 |

Inter-segment sales are charged at prevailing market rates.

## 6. SEGMENT INFORMATION – continued

### (a) Business segments – continued

**CONSOLIDATED BALANCE SHEET**
**AS AT 30 JUNE**

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

**OTHER INFORMATION**
**FOR THE YEAR ENDED 30 JUNE**

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

## 6. SEGMENT INFORMATION – continued

### (b) Geographical segments

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

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

**YEAR ENDED 30 JUNE**

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

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

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

## 7. FINANCE COSTS

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

## 8. PROFIT BEFORE TAXATION

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

*Notes:*

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

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

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATION

### Directors

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

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

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

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

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

### Employees

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

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

The emoluments were within the following bands:

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

## 10. TAXATION

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

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

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

## 11. DIVIDENDS

Dividends recognised as distribution during the year:

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

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

## 12. EARNINGS PER SHARE

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

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

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

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

## 13. PROPERTY, PLANT AND EQUIPMENT

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

## 13. PROPERTY, PLANT AND EQUIPMENT – continued

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

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

*Notes:*

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

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

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

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

## 14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

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

## 15. PREPAID RENTAL PAYMENTS

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

## 16. INTERESTS IN ASSOCIATES

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

## 17. INVENTORIES

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

## 18. DEBTORS, DEPOSITS AND PREPAYMENTS

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

An aged analysis of trade debtors is as follows:

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

## 19. OTHER FINANCIAL ASSETS

### Bills receivable

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

### Bank balances and cash

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

## 20. CREDITORS AND ACCRUED CHARGES

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

An aged analysis of trade creditors is as follows:

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

## 21. BANK BORROWINGS AND OTHER LIABILITIES

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

*Notes:*

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

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

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

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

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

The effective interest rates for the year were as follows:

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

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

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

## 22. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

## 23. RETIREMENT BENEFITS SCHEMES

### (a) Provision for long services payments

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

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

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

## 23. RETIREMENT BENEFITS SCHEMES – continued

### (b) Defined contribution scheme

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

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

### (c) Defined benefit scheme

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

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

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

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

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

## 23. RETIREMENT BENEFITS SCHEMES – continued

### (c) Defined benefit scheme

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

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

Movements in liability in the balance sheet are as follows:

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

## 24. DEFERRED TAXATION

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

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

## 24. DEFERRED TAXATION – continued

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

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

## 25. SHARE CAPITAL

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

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

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

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

## 26. SHARE OPTION SCHEME

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

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

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

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

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

## 27. MAJOR NON-CASH TRANSACTIONS

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

## 28. OPERATING LEASE COMMITMENTS

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

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

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

## 29. RELATED PARTY TRANSACTIONS/BALANCES

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

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

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

### Compensation of key management personnel

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

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

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

## 30. PRINCIPAL SUBSIDIARIES

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

| Name of company | Place of incorporation/ registration | Nominal value of issued share capital/ registered capital | Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company | Principal activities |
|---|---|---|---|---|
| Charming Elastic Fabric Company Limited | Hong Kong | Ordinary – HK$316,667<br>Deferred – HK$810,000 | 60% | Manufacture of elastic garment straps |
| Foshan Nanhai Top Form Underwear Company Limited#<br>佛山市南海黛麗斯內衣有限公司 | The PRC | Capital contribution – HK$20,800,000 | 100% | Manufacture of ladies' underwear |
| Grand Gain Industrial Limited | Hong Kong | Ordinary – HK$100,000 | 55% | Laminating business |
| Long Nan County Grand Gain Underwear Company Limited#<br>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.#<br>龍南縣黛麗斯內衣有限公司 | The PRC | Capital contribution – HK$45,000,000 | 100% | Manufacture of ladies' underwear |
| Marguerite Lee Limited | Hong Kong | Ordinary – HK$2,500,000 | 100% | Retail sales of underwear, sleepwear and other ladies' intimate apparel products |
| 漫多姿服裝(深圳)有限公司# | The PRC | Capital contribution – HK$13,000,000 | 100% | Manufacture and distribution of ladies' underwear |
| Meritlux Industries Philippines, Inc. | Republic of Philippines | Ordinary – Peso 17,500,000 | 100% | Manufacture of ladies' underwear |

## 30. 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 |
|---|---|---|---|---|
| Shenzhen Top Form Underwear Co., Limited^ 深圳黛麗斯內衣有限公司 | The PRC | Capital contribution – RMB4,993,000 | 70% | Manufacture and distribution of ladies' underwear |
| Top Form Brassiere Co., Limited | Thailand | Ordinary – Baht 80,000,000 | 100% | Manufacture of ladies' underwear |
| Top Form Brassiere Mfg. Co., Limited | Hong Kong | Ordinary – HK$100<br>Deferred – HK$4,000,000 | 100% | Manufacture of ladies' underwear |
| Top Form (B.V.I.) Limited* | British Virgin Islands | Ordinary – US$50,000 | 100% | Investment holding |
| Top Form Industries Limited | Mauritius | Ordinary US$100,000 | 100% | Manufacture of ladies' underwear by setting a branch in Macau for operation |
| Top Form Brassiere (Maesot) Co., Ltd | Thailand | Ordinary – Baht 10,000,000 | 100% | Manufacture of ladies' underwear |
| Topfull Development Limited | Hong Kong | Ordinary – HK$2 | 100% | Property holding in the PRC |
| Twin Peak Brassiere Company Limited | Thailand | Ordinary – Baht 3,000,000 | 100% | Manufacture of ladies' underwear |
| Unique Form Manufacturing Company Limited | Hong Kong | Ordinary – HK$1,000<br>Deferred – HK$200 | 100% | Retail sales of underwear, sleepwear and other ladies' intimate apparel products |

## 30. 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 |
|---|---|---|---|---|
| Unique Form Manufacturing (Thailand) Co., Ltd | Thailand | Ordinary – Baht 1,000,000 | 100% | Manufacture of ladies' underwear |
| Wide Gain Investment Limited | Hong Kong | Ordinary – HK$2 | 100% | Investment holding |
| Xinfeng County Grand Gain Underwear Co., Ltd.# 信豐縣建盈內衣有限公司 | The PRC | Capital contribution HK$2,500,000 | 100% | Manufacture of ladies' underwear |

* *Directly held by the Company*

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

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

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

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

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

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

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

# FIVE YEAR FINANCIAL SUMMARY

## RESULTS

| Year ended 30 June | 2003<br>HK$'000 | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
|---|---|---|---|---|---|
| Revenue | 1,094,364 | 1,217,043 | 1,463,815 | 1,425,491 | **1,467,496** |
| Profit before taxation | 158,364 | 194,397 | 230,119 | 143,208 | **166,838** |
| Taxation | (26,479) | (36,042) | (45,853) | (24,131) | **(30,743)** |
| Profit for the year | 131,885 | 158,355 | 184,266 | 119,077 | **136,095** |
| Attributable to: | | | | | |
| Equity holders of the Company | 131,500 | 156,503 | 183,090 | 114,876 | **132,967** |
| Minority interests | 385 | 1,852 | 1,176 | 4,201 | **3,128** |
| | 131,885 | 158,355 | 184,266 | 119,077 | **136,095** |

## ASSETS AND LIABILITIES

| At 30 June | 2003<br>HK$'000 | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
|---|---|---|---|---|---|
| Total assets | 423,809 | 531,483 | 690,861 | 748,779 | **815,700** |
| Total liabilities | (138,117) | (179,025) | (235,506) | (268,427) | **(247,046)** |
| | 285,692 | 352,458 | 455,355 | 480,352 | **568,654** |
| Equity attributable to: | | | | | |
| Equity holders of the Company | 264,742 | 330,556 | 434,296 | 461,192 | **546,270** |
| Minority interests | 20,950 | 21,902 | 21,059 | 19,160 | **22,384** |
| | 285,692 | 352,458 | 455,355 | 480,352 | **568,654** |