TOP FORM

INTERNATIONAL LIMITED

STOCK CODE: 333

INTERIM REPORT 2019

CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 31 December 2018 - unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December 2018 $'000	2017 $'000
Revenue		**606,696**	645,260
Cost of sales		**(506,938)**	(522,065)
Gross profit		**99,758**	123,195
Other net income		**6,285**	5,865
Selling and distribution expenses		**(19,566)**	(20,179)
General and administrative expenses		**(101,646)**	(86,244)
Finance costs		**(98)**	(158)
Share of profits of a joint venture		**2,135**	2,437
Other expenses	*9*	**–**	(3,141)
(Loss)/profit before tax	*4*	**(13,132)**	21,775
Income tax expense	*5*	**(803)**	(2,480)
(Loss)/profit for the period		**(13,935)**	19,295
Attributable to:			
Owners of the Company		**(11,808)**	19,834
Non-controlling interests		**(2,127)**	(539)
(Loss)/profit for the period		**(13,935)**	19,295
(Loss)/earnings per share (HK cents)	*7*		
Basic		**(5.49)**	9.22

The notes on pages 9 to 25 form part of this interim financial report. Details of dividends payable to owners of the Company are set out in note 6.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 31 December 2018 - unaudited

(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2018	2017
	$'000	$'000
(Loss)/profit for the period	**(13,935)**	19,295
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of operations outside Hong Kong		
– subsidiaries	**(3,097)**	6,308
– a joint venture	**(483)**	805
Release of translation reserve upon deemed disposal of interest in a joint venture	**–**	(25)
Other comprehensive income for the period, net of income tax	**(3,580)**	7,088
Total comprehensive income for the period	**(17,515)**	26,383
Attributable to:		
Owners of the Company	**(15,201)**	26,795
Non-controlling interests	**(2,314)**	(412)
Total comprehensive income for the period	**(17,515)**	26,383

The notes on pages 9 to 25 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018 - unaudited

(Expressed in Hong Kong dollars)

	Note	**At 31 December 2018 $'000**	At 30 June 2018 $'000
Non-current assets			
Property, plant and equipment	8	**122,845**	122,352
Prepaid land lease payments		**1,408**	1,432
Investment properties	8	**83,349**	86,705
Deferred tax assets		**781**	781
Derivative financial instrument		**2,800**	2,800
Interest in a joint venture	9	**27,482**	25,830
Prepaid rental payments		**494**	631
		239,159	240,531
Current assets			
Inventories		**170,171**	148,736
Debtors and other receivables	10	**257,886**	222,627
Prepaid land lease payments		**48**	48
Current tax recoverable		**–**	500
Bank balances and cash		**68,285**	102,616
		496,390	474,527
Current liabilities			
Creditors and accrued charges	11	**187,465**	137,504
Obligations under finance lease		**139**	149
Current tax payable		**679**	1,851
		188,283	139,504
Net current assets		**308,107**	335,023
Total assets less current liabilities		**547,266**	575,554

	Note	At 31 December 2018 $'000	At 30 June 2018 $'000
Non-current liabilities			
Obligations under finance lease		**–**	62
Retirement benefit obligations		**1,403**	832
Deferred tax liabilities		**21,668**	22,198
		23,071	23,092
Net assets		**524,195**	552,462
CAPITAL AND RESERVES			
Share capital	*12*	**107,519**	107,519
Reserves		**409,545**	435,498
Equity attributable to owners of the Company		**517,064**	543,017
Non-controlling interests		**7,131**	9,445
Total equity		**524,195**	552,462

The notes on pages 9 to 25 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2018 - unaudited

(Expressed in Hong Kong dollars)

		Attributable to owners of the Company									
		Share capital	Share premium	Capital redemption reserve	Special reserve (note)	Asset revaluation reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2018		107,519	1,499	233	7,139	59,765	8,440	358,422	543,017	9,445	552,462
Exchange differences arising on translation of operations outside Hong Kong		-	-	-	-	-	(3,393)	-	(3,393)	(187)	(3,580)
Loss for the period		-	-	-	-	-	-	(11,808)	(11,808)	(2,127)	(13,935)
Total comprehensive income		-	-	-	-	-	(3,393)	(11,808)	(15,201)	(2,314)	(17,515)
Final dividends paid in respect of the previous year	6(ii)	-	-	-	-	-	-	(10,752)	(10,752)	-	(10,752)
At 31 December 2018		107,519	1,499	233	7,139	59,765	5,047	335,862	517,064	7,131	524,195

	Note	Attributable to owners of the Company									
		Share capital	Share premium	Capital redemption reserve	Special reserve (note)	Asset revaluation reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2017		107,519	1,499	233	7,139	59,765	2,832	367,033	546,020	9,880	555,900
Exchange differences arising on translation of operations outside Hong Kong		–	–	–	–	–	6,986	–	6,986	127	7,113
Release of translation reserve upon deemed disposal of interest in a joint venture		–	–	–	–	–	(25)	–	(25)	–	(25)
Profit/(loss) for the period		–	–	–	–	–	–	19,834	19,834	(539)	19,295
Total comprehensive income		–	–	–	–	–	6,961	19,834	26,795	(412)	26,383
Special dividends paid in respect of the previous year	6(ii)	–	–	–	–	–	–	(10,752)	(10,752)	–	(10,752)
At 31 December 2017		107,519	1,499	233	7,139	59,765	9,793	376,115	562,063	9,468	571,531

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

The notes on pages 9 to 25 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 December 2018 - unaudited

(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2018	2017
	Note	**$'000**	$'000
Net cash used in operating activities		**(10,620)**	(9,624)
Investing activities			
Purchase of property, plant and equipment		**(12,004)**	(9,145)
Proceeds from disposal of property, plant and equipment		**–**	173
Interest income		**588**	307
Net cash used in investing activities		**(11,416)**	(8,665)
Financing activities			
Capital element of finance lease rentals paid		**(60)**	(75)
Interest element of finance lease rentals paid		**(9)**	(17)
Interest paid		**(98)**	(158)
Dividends paid	*6(ii)*	**(10,752)**	(10,752)
Net cash used in financing activities		**(10,919)**	(11,002)
Net decrease in cash and cash equivalents		**(32,955)**	(29,291)
Cash and cash equivalents at 1 July		**102,616**	133,300
Effect of foreign exchange rate changes		**(1,376)**	342
Cash and cash equivalents at 31 December, represented by bank balances and cash		**68,285**	104,351

The notes on pages 9 to 25 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 21 February 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. The 2018 annual financial statements represent the consolidated financial statements for the year ended 30 June 2018, which was approved and authorised for issue by the board of directors on 24 August 2018. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Top Form International Limited (the "Company") and its subsidiaries (collectively the "Group") since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

1 BASIS OF PREPARATION (CONTINUED)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the board of directors is included on pages 26 and 27.

The financial information relating to the financial year ended 30 June 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 August 2018.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT INFORMATION

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

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

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

All the Group's assets and liabilities are under the manufacturing business as at 31 December 2018 and 30 June 2018.

4 (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 31 December 2018 $'000	2017 $'000
(a) Finance costs		
Interest expense on bank borrowings	**89**	141
Finance charges on obligations under finance leases	**9**	17
	98	158
(b) Other items		
Depreciation of property, plant and equipment	**11,879**	11,381
Release of prepaid land lease payments	**24**	24
Reversal of impairment loss on trade debtors	**–**	(3,355)
Write back of allowance for inventories	**–**	(3,000)
Allowance for obsolete inventories (included in cost of sales)	**7,643**	10,259
Exchange (gain)/loss, net	**(2,987)**	775
Loss on disposal of property, plant and equipment	**347**	112
Interest income	**(588)**	(307)
Fair value gain of derivative financial instrument	**–**	(113)
Loss on deemed disposal of interest in a joint venture *(note 9)*	**–**	3,141

5 INCOME TAX EXPENSE

	Six months ended 31 December	
	2018	2017
	$'000	$'000
Current tax:		
Hong Kong Profits Tax	**39**	1,360
Other jurisdictions	**455**	1,268
	494	2,628
Deferred tax:		
Origination and reversal of temporary differences	**309**	(148)
	803	2,480

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods.

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

6 DIVIDENDS

(i) Dividends payable to owners of the Company attributable to the interim period

	Six months ended 31 December 2018 $'000	2017 $'000
No interim dividend declared and paid after the interim period (Six months ended 31 December 2017: $0.05 per share)	**–**	10,752

(ii) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 31 December 2018 $'000	2017 $'000
Dividends in respect of the previous financial year, approved and paid during the following interim period, of $0.05 per share		
– Special	**–**	10,752
– Final	**10,752**	–

7 (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company is based on the following:

	Six months ended 31 December 2018 $'000	2017 $'000
(Loss)/profit for the period attributable to the owners of the Company for the purpose of computing basic (loss)/earnings per share	**(11,808)**	19,834
	Number of shares	Number of shares
Number of weighted average of ordinary shares for the purpose of computing basic (loss)/earnings per share	**215,037,625**	215,037,625

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

8 MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period ended 31 December 2018, the Group acquired items of property, plant and equipment with a cost of $12,004,000 (six months ended 31 December 2017: $9,145,000).

The Group's investment properties were carried at fair value as at the end of the current interim period. These properties were revalued by the directors with reference to the market trend of the rental market and current rents of the properties being held under existing tenancies. There has been no change in fair value of the Group's investment properties for the six months ended 31 December 2018 (six months ended 31 December 2017: $Nil).

9 INTEREST IN A JOINT VENTURE

The Group has entered into a shareholders agreement (the "Shareholders Agreement") with New Horizon International Investments Limited ("New Horizon"), a wholly-owned subsidiary of Best Pacific International Holdings Limited, immediately after completion of the acquisition of 40% of the issued ordinary shares of Charming Elastic Fabric Company Limited ("Charming") by New Horizon from an independent third party on 4 November 2015.

According to the Shareholders' Agreement, should Charming together with its subsidiary ("Charming Group") be able to achieve certain pre-agreed performance targets by 30 June 2017 or by 31 December 2018, New Horizon shall have the right to subscribe for new ordinary shares in Charming such that New Horizon may eventually hold up to 51% of the then entire issued ordinary shares of Charming. Further, should New Horizon eventually hold 51% of the then entire issued ordinary shares of Charming, the Group shall have the right to dispose of part or all of its interest in Charming to New Horizon up to 30 June 2022.

Based on the audited financial results of Charming Group as of 30 June 2017, the pre-agreed performance targets for Charming were met. As such, New Horizon subscribed for 71,089 new shares issued by Charming on 27 December 2017. As a result, New Horizon's shareholding in Charming increased from 40% to 51%, while the Group's shareholding in Charming diluted from 60% to 49% and a loss on deemed disposal of interest in a joint venture of $3,141,000 was recognised by the Group in "Other expenses" for the six months ended 31 December 2017.

Under the Shareholders' Agreement, the substantive operating and financing decisions related to Charming are under the joint control by the Group and New Horizon when the Group's shareholding in Charming is 20% or above. As a result, the Group continues to account for its interest in Charming as a joint venture.

10 DEBTORS AND OTHER RECEIVABLES

Included in the balance are trade debtors of $229,189,000 (at 30 June 2018: $196,814,000). The Group allows an average credit period of 30 days to 90 days to its trade customers.

Management of the Company assesses the credit quality of the trade debtors based on the payment due date. An ageing analysis of trade debtors based on the payment due date, at the end of the reporting period is as follows:

	At 31 December 2018 $'000	At 30 June 2018 $'000
Current	**203,884**	191,215
1 – 30 days past due	**20,664**	4,167
31 – 60 days past due	**4,359**	116
Over 60 days past due	**282**	1,316
	25,305	5,599
	229,189	196,814

As the Group's average credit period is ranged from 30 days to 90 days, a majority of the balances which as disclosed above are within 90 days from the invoice date.

11 CREDITORS AND ACCRUED CHARGES

Included in the balance are trade creditors of $125,864,000 (at 30 June 2018: $74,951,000). The average credit period for purchases of goods is ranged from 30 days to 60 days.

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

	At 31 December 2018 $'000	At 30 June 2018 $'000
Current	**116,083**	71,370
1 – 30 days past due	**7,198**	3,135
31 – 60 days past due	**2,358**	294
Over 60 days past due	**225**	152
	125,864	74,951

As the average credit period on purchases of goods is ranged from 30 days to 60 days, a majority of the balances which as disclosed above are within 90 days from the invoice date. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

12 SHARE CAPITAL

	At 31 December 2018 No. of shares	At 31 December 2018 Amount $'000	At 30 June 2018 No. of shares	At 30 June 2018 Amount $'000
Ordinary shares of $0.50 each				
Authorised:				
At 1 July 2018/1 July 2017 and end of period/year	**300,000,000**	**150,000**	300,000,000	150,000
Issued and fully paid:				
At 1 July 2018/1 July 2017 and end of period/year	**215,037,625**	**107,519**	215,037,625	107,519

13 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

Fair value hierarchy

The fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

Valuation of instruments classified as a Level 3 instrument of the fair value hierarchy is performed by an external qualified appraiser. A valuation report with analysis of changes in fair value measurement prepared by the appraiser is reviewed and approved by the management.

Pursuant to the Shareholders' Agreement mentioned in note 9 and with the condition of New Horizon being a majority shareholder of Charming fulfilled on 27 December 2017, the Group shall have the right to dispose of part of all of its interest in Charming to New Horizon up to 30 June 2022. The right is recognised as a derivative financial instrument at fair value through profit or loss. The Group's derivative financial instrument is categorised as a Level 3 valuation.

13 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at fair value (continued)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Weighted average
Derivative financial instrument	Monte Carlo model	Discount for lack of marketability	25%
		Weighted average cost of capital ("WACC")	17.3%
		Expected volatility	32.4%

The fair value of the derivative financial instrument is determined in the following two-step process by the Group's external appraiser: (1) the enterprise value of Charming is firstly determined using the discounted cash flows model adjusted for lack of marketability discount and weighted average cost of capital; then, (2) the fair value of the Exit Option is estimated using the Monte Carlo simulation based on the enterprise value determined in (1) and adjusted for expected volatility, which in turn is estimated based on daily stock prices of comparable companies within the industry. The fair value measurement of the derivative financial instrument as a whole is negatively correlated with the WACC, while the fair value of the derivative financial instrument is positively correlated with the discount for lack of marketability and the expected volatility inputs.

13 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at fair value (continued)

Information about Level 3 fair value measurements (continued)

As at 31 December 2018, it is estimated that with all other variables held constant, a decrease/increase in:

– Discount for lack of marketability by 5% would have decreased/increased the Group's profit after tax and total comprehensive income by $755,000/$757,000;

– Weighted Average Cost of Capital by 3% would have increased/decreased the Group's profit after tax and total comprehensive income by $880,000/$509,000; and

– Expected volatility by 10% would have decreased/increased the Group's profit after tax and total comprehensive income by $755,000/$1,032,000.

There is no movement in the balance of these level 3 fair value measurements during the period.

Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2018 and 31 December 2018.

14 OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	At 31 December 2018 $'000	At 30 June 2018 $'000
Within one year	**19,505**	15,801
In the second to fifth year inclusive	**19,591**	18,062
Over five years	**526**	1,062
	39,622	34,925

Leases are negotiated for lease terms of one to fifteen years and rentals are fixed over the terms of the relevant leases.

The Group as lessor

At 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	At 31 December 2018 $'000	At 30 June 2018 $'000
Within one year	**8,936**	3,126
In the second to fifth year inclusive	**31,325**	11,356
Over five years	**137**	313
	40,398	14,795

15 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the period, the Group processed supplied materials and delivered the finished products to a related company, Van de Velde N.V. ("VdV"), for revenue of approximately $54,645,000 (for the six months ended 31 December 2017: $54,261,000).

As at 31 December 2018, the balance of trade receivables from VdV amounting to approximately $4,601,000 (at 30 June 2018: $5,091,000) was included in debtors and other receivables.

As at 31 December 2018 and 30 June 2018, 25.66% of the Company's ordinary shares were held by VdV.

(b) **Compensation of key management personnel**

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

	Six months ended 31 December	
	2018	2017
	$'000	$'000
Salaries and other benefits	**8,295**	7,940
Retirement benefit scheme contributions	**57**	63
	8,352	8,003

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.

16 COMPARATIVE FIGURES

Certain sales and merchandising staff cost of $7,594,000 incurred for the period ended 31 December 2017 has been reclassified from general and administrative expenses to selling and distribution expenses to conform to the current period's presentation.

17 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Leases*, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, *Leases*

As discussed in the 2018 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts forth lease arrangements differently, depending on the classification of the lease.

As disclosed in note 14, at 31 December 2018 the Group's future minimum lease payment under non-cancellable operating leases amount to $39,622,000, the majority of which is payable over 1 year after the reporting date.

Upon the initial adoption of HKFRS 16 at 1 July 2019, the present value of most of the future minimum lease payments will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF TOP FORM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 25 which comprises the consolidated statement of financial position of Top Form International Limited (the "Company") as of 31 December 2018 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 31 December 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 February 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Top Form International Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries ("Top Form" or the "Group") for the six months ended 31 December 2018.

BUSINESS REVIEW

In the last year, the global supply chain of everything from electronic gadgets to apparel has undergone significant challenges because of the trade dispute between the two largest economies in the world. Although the global economy is still growing decently, the uncertainty brought by the trade dispute has disrupted the global supply chain, i.e. customers accelerated near term order delivery to preempt potential tariff while re-allocated future orders to different manufacturing locations had caused tremendous challenge to manufacturer in capacity and cost management.

During the period, in monetary terms, 63% of our sales were made to the US market, whilst 21% of our sales were made to the EU, and the rest of the world accounted for the remaining 16%. From the supply side, the overseas manufacturing facilities accounted for 67% of the global production output whilst China accounted for the remaining 33% during the period. In view of the uncertainties in the trade dispute between US and China and the rising costs of operation in China, the Group will continue shifting more capacity from China to overseas.

The Group strives to be a leading international intimate apparel manufacturer driven by insights and built on sustainable operations. As such the Group has accelerated its investment in people and technology in the last six months where there is addition to the senior management team and the Group also expanded into new product category.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by 6% from HK$645.3 million to HK$606.7 million for the six months ended 31 December 2018. The decrease in revenue was mainly due to lower sales to customers and also changes in product mix where a higher portion of sales was from lower price brief products, which resulted in a lower average selling price as compared with the corresponding period of fiscal 2018.

Gross Profit

Gross profit decreased from HK$123.2 million to HK$99.8 million during the six months period. Gross profit margin decreased from 19.1% to 16.4% due to product mix change.

Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to HK$19.6 million for the six months ended 31 December 2018, against HK$20.2 million for the six months ended 31 December 2017. The decrease in selling and distribution expenses was driven by lower revenue.

General and Administrative Expenses

The Group's general and administrative expenses amounted to HK$101.6 million for the six months ended 31 December 2018, against HK$86.2 million for the six months ended 31 December 2017. The increase in general and administrative expenses was mainly attributable to the increase in key functional personnel to support future growth of the business.

Loss for the Period

The Group recorded a net loss of HK$13.9 million during the six months period as compared with a profit after tax of HK$19.3 million in the corresponding period last year.

FINANCIAL POSITION

The financial position of the Group remains healthy with insignificant gearing. Shareholders' funds stood at HK$517 million as at 31 December 2018.

Bank balances and cash amounted to HK$68 million while the credit facilities available to the Group amounted to HK$110 million.

Inventory turnover period increased to 58 days during the period from 55 days in the corresponding period last year which was mainly due to the increased raw materials at year end to support the higher business volume before the Chinese New Year.

Capital expenditure during the period amounted to HK$12 million which was mainly spent on machineries and leasehold improvement for factories.

Having considered the cash positions and reinvestment needs, the Board has resolved not to declare an interim dividend for the six months ended 31 December 2018.

FOREIGN EXCHANGE RISK

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

OUTLOOK AND FUTURE DEVELOPMENT

Regardless of a deal in the trade dispute or not, some of the changes and the impact to the world economy will be permanent. The growth rate in the leading economies has slowed down and sign of recession is faintly discernible. Manufacturer needs to be more resilient and agile in such a difficult time. The Group expects no major change in the macro environment, and operation remains challenging in the second half of the financial year.

Top Form has been proactively responding to these challenges. The Group is conducting a strategic review of its various operation assets in different countries and also exploring various options of capacity sharing arrangement to strike the right balance of capacity and cost structure. While the Group remains committed to invest in system, technology and people to expand its customer base, product offering and improving operational efficiency, the Group also believes the importance of having financial flexibility to cope with the potential downturn in the global economy and will continue managing the capital prudently.

OTHER INFORMATION

DIRECTORS' OR CHIEF EXECUTIVES' INTERESTS

As at 31 December 2018, the interests and short positions of the Directors or the chief executives of the Company 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"), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be entered 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 (the "Model Code"), were as follows:

Long positions:

Ordinary shares of HK$0.50 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wong Chung Chong	Beneficial owner and interests held by spouse and a controlled corporation and persons acting in concert *(note 1)*	61,026,823	28.38%
Wong Kai Chi, Kenneth	Persons acting in concert *(note 2)*	60,626,823	28.19%
Wong Kai Chung, Kevin	Interests held by a controlled corporation and persons acting in concert *(note 3)*	60,626,823	28.19%
Chow Yu Chun, Alexander	Beneficial owner	680,104	0.32%
Fung Wai Yiu	Beneficial owner and interests held by spouse *(note 4)*	8,705,704	4.05%
Leung Churk Yin, Jeanny	Beneficial owner	14,104	0.01%
Leung Ying Wah, Lambert	Beneficial owner	80,000	0.04%
Herman Van de Velde	Interests held by a controlled corporation *(note 5)*	55,184,708	25.66%

Notes:

1. 4,488,504 shares were beneficially owned by Mr. Wong Chung Chong ("Mr. Wong") whereas 220,000 shares were held by the spouse of Mr. Wong and 52,318,319 shares were registered in the name of High Union Holdings Inc., the shares of which were held by Mr. Wong. 4,000,000 shares were registered in the name of Triple Gains Ventures Limited ("TGV"), 41.36% equity interest of which was held by Mr. Wong Kai Chung, Kevin ("Mr. Kevin Wong"), and deemed to be interested by Mr. Wong who was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.

2. 60,626,823 shares were deemed to be interested by Mr. Wong Kai Chi, Kenneth who was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.

3. 4,000,000 shares were held by TGV, 41.36% equity interest of which was held by Mr. Kevin Wong, and 56,626,823 shares were deemed to be interested by Mr. Kevin Wong who was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.

4. 4,618,504 shares were beneficially owned by Mr. Fung Wai Yiu ("Mr. Fung") whereas 4,087,200 shares were held by the spouse of Mr. Fung.

5. 55,184,708 shares were held by VdV. Mr. Herman Van de Velde held an indirect equity interest in Van de Velde Holding N.V. which in turn directly held 56.26% of the equity interest of VdV.

Certain nominee shares in the Company's subsidiaries were held by Mr. Wong in trust for the Company's subsidiaries as at 31 December 2018.

Save as disclosed above, none of the Directors nor his/her 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 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO and as far as was known to the Directors of the Company, persons (other than the Directors) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long positions:

Ordinary shares of HK$0.50 each of the Company

Name of Shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
High Union Holdings Inc.	Beneficial owner and persons acting in concert *(note 1)*	60,626,823	28.19%
TGV	Beneficial owner and persons acting in concert *(note 2)*	60,626,823	28.19%
VdV	Beneficial owner	55,184,708	25.66%
David Michael Webb	Beneficial owner and interests held by a controlled corporation *(note 3)*	10,772,000	5%

Notes:

1. 52,318,319 shares were beneficially owned by High Union Holdings Inc. whereas 8,308,504 shares were deemed to be interested by High Union Holdings Inc. which was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.

2. 4,000,000 shares were beneficially owned by TGV whereas 56,626,823 shares were deemed to be interested by TGV which was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.

3. 3,562,200 shares were beneficially owned by Mr. David Michael Webb and 7,209,800 shares were held by Preferable Situation Assets Limited, the shares of which were held by Mr. David Michael Webb.

SHARE OPTION SCHEME

Pursuant to a resolution passed on 3 November 2011 (the "Adoption Date"), a new share option scheme (the "Scheme") of the Company was adopted 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 end on 2 November 2021. Under the Scheme, the Board may grant options to eligible employees, including directors, 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 on the Adoption Date, being 107,518,812 shares. Following the share consolidation (on the basis of every five issued and unissued shares of HK$0.10 each consolidated into one share of HK$0.50 each in the capital of the Company) which became effective on 23 May 2014, the total number of shares which may be issued on exercise of the options which may be granted under the Scheme shall not exceed 21,503,762 shares. The number of shares in respect of which options may be granted to any individual in any 12-month period 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 any 12-month period in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5 million on the date of offer must be approved in advance by the Company's independent shareholders.

Options granted must be taken up within 14 days of the date of offer, 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 acceptance or may at the Board's discretion determine the specific exercise period. The exercise price is determined by the Board, and will not be less than the highest of the closing price of the Company's shares on the date of offer and the average closing price of the shares for the five business days immediately preceding the date of offer and the nominal value of the Company's shares.

During the six months ended 31 December 2018, no share options of the Company were held by the Directors or anyone else under the Scheme, and no share options were granted, exercised, cancelled or lapsed under the Scheme.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 31 December 2018.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2018 (six months ended 31 December 2017: HK$0.05 per share).

AUDIT COMMITTEE

The Audit Committee comprises Mr. Chow Yu Chun, Alexander, Ms. Leung Churk Yin, Jeanny, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy, all of whom are Independent Non-executive Directors of the Company.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed financial reporting matters, internal controls and risk management systems.

The Company's unaudited interim financial report for the six months ended 31 December 2018 has been reviewed by the Audit Committee and KPMG, auditors of the Company.

CORPORATE GOVERNANCE

The Company has, during the six months ended 31 December 2018, complied with the code provisions as set out in the Corporate Governance Code, Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange except for the following deviations:

Code Provisions A.4.1 and A.4.2

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

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

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

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

UPDATES ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors of the Company since the publication of the 2018 annual report of the Company are set out below:

- Mr. Wong Chung Chong, the Chairman and executive director of the Company, resigned as a member of Nomination Committee of the Company with effect from 31 October 2018.

- Mr. Lin Sun Mo, Willy, the independent non-executive director of the Company, has been awarded the Gold Bauhinia Star in the HKSAR Government's 2018 Honours List. Mr. Lin was also appointed as the chairman of Compensation Committee of the Company with effect from 31 October 2018.

- Mr. Chow Yu Chun, Alexander, the independent non-executive director of the Company, resigned as a member of Hong Kong Institute of Certified Public Accountants with effect from 1 January 2019.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

EMPLOYEES

As at 31 December 2018, the Group had employed approximately 8,527 employees (30 June 2018: approximately 8,684 employees). The remuneration policy and package of the Group's employees are structured by reference to the prevailing market conditions and statutory requirements as appropriate. The Group also provides other staff benefits such as medical insurance, mandatory provident fund contributions and a share option scheme to its employees.

On behalf of the Board
Top Form International Limited
Wong Chung Chong
Chairman

21 February 2019