

TOP FORM

INTERNATIONAL LIMITED

ANNUAL REPORT
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CONTENTS

	<i>PAGE(S)</i>
CORPORATE INFORMATION	3
CHAIRMAN'S STATEMENT	4
MANAGEMENT DISCUSSION AND ANALYSIS	5
DIRECTORS' REPORT	8
AUDITORS' REPORT	19
CONSOLIDATED INCOME STATEMENT	20
CONSOLIDATED BALANCE SHEET	21
BALANCE SHEET	22
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	23
CONSOLIDATED CASH FLOW STATEMENT	24
NOTES TO THE FINANCIAL STATEMENTS	26
FIVE YEAR FINANCIAL SUMMARY	68

EXECUTIVE DIRECTORS

Mr. Fung Wai Yiu, *Chairman*

Mr. Wong Chung Chong, Eddie,
Group Managing Director

NON-EXECUTIVE DIRECTORS

Mr. Lucas A.M. Laureys

Ms. Leung Churk Yin, Jeanny

Mr. Herman Van de Velde

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Marvin Bienenfeld

Mr. Chow Yu Chun, Alexander

Mr. Lam Ka Chung, William

Mr. Lin Sian Zu, John

Ms. Tse Koon Hang, Ada

COMPANY SECRETARY

Mr. Michael Austin

REGISTERED OFFICE

Clarendon House, Church Street
Hamilton HM 11, Bermuda

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
ING Bank N.V.

AUDITORS

Deloitte Touche Tohmatsu

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
G/F., Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

CHAIRMAN'S STATEMENT

Despite a slow start early in the fiscal year, the Group achieved another record result for 2003/2004.

On a year-to-year basis, sales turnover increased by 11.2% to HK\$1.2 billion, after-tax earnings by 19% to HK\$156.5 million, and earnings per share from 14.0 cents to 14.6 cents.

The Board of Directors has proposed a final dividend of 5 HK cents per share for the year.

This impressive result was driven by the strong sales of our OEM business in the second half of the fiscal year, helped by a reduction in the charges of HK\$10.6 million attributable to our corporate cost centre, which was primarily due to a saving of HK\$5.5 million in interest expenses and the release of exchange reserve of HK\$4.0 million on winding up of two subsidiaries in Europe.

In the OEM business, our efforts to increase sales to customers in all our markets while expanding the manufacturing facilities into the low cost region is paying off. The new business we developed - much of which is high value added, has enhanced the efficient use of our plant capacities and skills. This, together with the low cost production from the new plant in mainland China, were the main drivers of the improvement in our profit performance.

The brand business remains a challenge to the Group, as reflected by the lack of improvement in sales volume and continuing losses, albeit at a lower level than last year. In building our own brands in the mainland China market, we have been careful in developing distribution channels and selecting business partners. This cautious approach admittedly has compromised our sales goals. Nevertheless we view it as necessary in operating in an emerging market which offers as many uncertainties as opportunities. While we will adhere to our current business plan, we are examining other options which might accelerate the progress of broadening our distribution channels in that market.

At Top Form, we place equal emphasis on near term performance as well as long term growth. From time to time we review our operations and performance against the changing operating environment. We want to ensure that we are always well positioned to meet business needs and challenges, present and future. The elimination of the quota system following the accession of WTO next year, will bring changes to the trade relationships among the trading nations. It is important that Top Form, being the largest OEM supplier in the trade, spreads out its manufacturing facilities in the region in order to address the uncertainties brought on by these changes. With our recent expansion in Jiangxi province, mainland China production has exceeded 54% of our global capacity. In anticipation of further growth in our OEM business, we have recently begun building a new plant in Thailand which, when operating at full capacity next year, will not only give us the additional capacity needed to satisfy demand, but balance our expansion in mainland China. Meanwhile, we will continue to look for external opportunities for growth, particularly those that might compliment our effort to distribute our branded products in the mainland China market. Our prudent dividend policy is designed to enable us to make optimum use of internal funding in pursuing such opportunities while maintaining an attractive return to our shareholders.

This is a proper occasion to recognize the support of our customers, suppliers, service providers and last but not least, the hard work and contributions of our employees during the year, for which I want to express our gratitude on behalf of the Board of Directors.

Fung Wai Yiu

Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's business activities are organised into two operating units, namely Manufacturing and Brands, and a Corporate Cost Centre.

	Turnover		Profit (Loss)	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Manufacturing	1,194,769	1,070,467	210,899	186,304
Brands	22,274	23,897	(8,777)	(9,587)
Corporate	—	—	(7,725)	(18,353)
Total	<u>1,217,043</u>	<u>1,094,364</u>	<u>194,397</u>	<u>158,364</u>

Group profit before taxation increased by 23% to HK\$194.4 million on a Sales increase of 11.2% to HK\$1.2 billion. This excellent profit performance was primarily due to a reduction in the charges attributable to our Corporate Cost Centre of HK\$10.6 million, and the continued improvement of operating profit in the OEM business.

MANUFACTURING

Our core business saw a steady upturn in sales after the initial setback in the first quarter, as evidenced by the fact that sales turnover for the second half of the year was up 28% from the first half.

During the year, we shipped 53.5 million bras, with the second half year accounting for 55% of the total unit sales. This can be compared with 53 million bras shipped in the previous year with the second half year accounting for 49% of the total unit sales. Evidently, our earlier efforts to develop new customers in Europe and the U.S. markets are bearing fruit; a large proportion of the sales increase in the second half of the year related to growing business with these new customers.

It should be noted that more customers, particularly the new ones, are turning to the Group for fashion products which involve the use of expensive materials and skill demanding production processes. This trend is reflected by the modest increase in our unit selling price. We are pleased with our ability to trade up the quality of sales while maintaining our competitiveness in the volume but price-sensitive segment of the market, making us the most versatile and competent supplier in the trade.

The expansion of our new plant in Jiangxi, mainland China has been progressing well. During the year, the new plant shipped over 7.7 million units of bras, representing 14.5% of the total unit sales, versus only 6% in the previous year. The last building for sewing operations in the expansion project will be completed by December this year. We expect a staggered increase of low cost production output from Jiangxi as our new plant there continues its productivity build up over the next several months.

BRANDS

Branded sales dropped 7% during the year to HK\$22.3 million, and now represent less than 2% of the Group's turnover. Operating losses remained disappointing at HK\$8.8 million.

In Hong Kong, we closed one Marguerite Lee shop and one Meritlux shop during the financial year as we were unable to extend the shop leases on viable terms as a result of the tight and expensive supply of upscale retail properties. The decrease in the number of own retail shops in Hong Kong contributed to the drop in total turnover.

In mainland China, we managed a modest increase in sales to our existing customers but the progress of business development with new accounts fell short of expectations. This emerging market has attracted a large number of brassiere brands and many of our competing brands were offering aggressive sales terms in order to gain market access. We, on the other hand, opted for rational trade terms and selecting the right trading partners in order to ensure proper control of distribution and collection. The conservative business approach, though minimising risks at the expense of sales growth, is viewed as necessary in our strategic plan to invest in the brand business to ensure a long presence in the mainland China market.

CORPORATE

The charges attributable to our Corporate Cost Centre dropped almost 58% to HK\$7.7 million in the financial year. This decrease was primarily due to a saving of HK\$5.5 million in interest expenses from the reduction of bank debts, and the release of exchange reserve of HK\$4.0 million on the winding up of two subsidiaries in Europe. We are pleased with our success in holding down other corporate and administration costs despite the continued growth in our core business.

FINANCIAL POSITION

The Group's financial position continued to improve throughout the year.

- Shareholders' funds increased from HK\$264.7 million at 30 June 2003 to HK\$330.6 million at 30 June 2004.
- At 30 June 2004, the Group had credit facilities amounting to HK\$160 million, of which HK\$16.5 million had been utilised. Our gearing ratio, which is measured by total borrowings to net worth, decreased from 9% to 6%. This was mainly due to our continuous reduction in bank debts. The Group is capable of generating internal cash flows to finance its daily operations.
- Our cash position has further improved during the year. Bank balances and cash increased by HK\$13 million as compared with the previous year. The Group continues to have the ability to generate a substantial net operating cash surplus. At 30 June 2004, cash available to the Group net of bank borrowings amounted to HK\$97.3 million.
- The Group's current ratio remained stable at 2.4 reflecting the Group's ability to maintain a positive financial position for the year.

OUTLOOK

Our core business continues to look strong in the months ahead. Most of the new OEM accounts we opened a year ago have started to develop strong business relationships with the Group. There are also potential new customers who might soon be included on our customer lists. In anticipation of increasing demand and in order to balance the investment of our expansion in mainland China, we have recently started to build a new plant in Thailand. This new plant, when fully operative next year, will give us the additional capacity needed to support our growth. On the other hand, we are mindful of the general concerns in the market on rising oil prices and upward adjustments of interest rates, which might trigger a downward cycle in the economy and negatively affect our business.

As for our brand business, we will adhere to our strategic plan with a focus on developing the mainland China market. While the sales turnover currently accounts for less than 2% of the Group's income and we are willing to take a long term but low risk approach to build the business, we do not expect it to have a significant impact on our overall performance in the near future.

Wong Chung Chong, Eddie

Group Managing Director

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company and its subsidiaries for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The results of the Group for the year ended 30 June 2004 are set out in the consolidated income statement on page 20.

An interim dividend of 2 HK cents per share was paid to shareholders during the year. The directors now recommend the payment of a final dividend of 5 HK cents per share to the shareholders on the register of members on 15 October 2004.

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 68.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure, principally on its production facilities, totalling approximately HK\$40 million. Movements of property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

DIRECTORS

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

Executive Directors

Fung Wai Yiu	(Chairman)
Wong Chung Chong, Eddie	(Group Managing Director)

Non-executive Directors

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

Independent Non-executive Directors

Marvin Bienenfeld
Chow Yu Chun, Alexander
Lam Ka Chung, William
Lin Sian Zu, John
Tse Koon Hang, Ada

Marvin Bienenfeld, a Non-executive Director of the Company during the year, was redesignated as Independent Non-executive Director on 8 September 2004.

Marvin Bienenfeld and Leung Churk Yin, Jeanny retire in accordance with Bye-law 87(2) of the Company's Bye-laws and, being eligible, offer themselves for re-election. All remaining Directors continue in office.

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

The Non-executive Directors have been appointed for a period up to their retirement by rotation as required by the Company's Bye-laws.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Fung Wai Yiu, 57, the Chairman of the Group, has over 35 years of experience in the apparel industry. He was formerly a Director of Kellwood Company, an apparel company listed on the New York Stock Exchange.

Wong Chung Chong, Eddie, 59, a co-founder of the Group and the Group Managing Director, is responsible for the operations of the Group. Mr. Wong has over 30 years of experience in the brassiere trade.

Non-executive Directors

Lucas A.M. Laureys, 59, is the Chairman of Van de Velde N.V. ("VdV"), a listed company in Belgium. Mr. Laureys has over 30 years of experience in the brassiere trade and specialises in marketing.

Leung Churk Yin, Jeanny, 39, is the Managing Director of Access Capital Limited. She has over 15 years of investment banking and corporate finance experience in the Greater China region.

Herman Van de Velde, 50, is the Managing Director of VdV. He joined the brassiere industry in 1981 and is well versed in operating the brassiere business in Europe.

Independent Non-executive Directors

Marvin Bienenfeld, 72, was formerly the Chairman of Bestform, Inc. ("Bestform"), a company of VF Corporation. Mr. Bienenfeld has over 40 years of experience in the ladies' intimate apparel industry in the United States of America ("USA").

Chow Yu Chun, Alexander, 57, is a Fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and has over 25 years of experience in property development in Hong Kong.

Lam Ka Chung, William, 52, is a Fellow member of the HKICPA, a responsible officer registered with the Hong Kong Securities and Futures Commission and a member of the Cash Market Consultative Panel of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lam is the founder and CEO of an investment bank listed on the Stock Exchange.

Lin Sian Zu, John, 41, is a Managing Director of the Direct Investment Division of AIG Global Investment Corporation (Asia) Limited ("AIGGIC").

Tse Koon Hang, Ada, 38, is a Managing Director of the Direct Investment Division of AIGGIC.

Management and Senior Staff

Michael Austin, 56, is the Chief Financial Officer of the Group and Company Secretary. Mr. Austin is a Fellow member of the Institute of Chartered Accountants in England and Wales and an Associate member of the HKICPA. He has over 25 years of diverse senior financial and general management experience in Hong Kong and worldwide.

Leung Tat Yan, 47, is the Managing Director of Top Form Brassiere Mfg. Co., Limited ("TFB"), a wholly owned subsidiary of the Company. Mr. Leung obtained a diploma in Business Studies from the Business Education Council, Birmingham, the United Kingdom ("UK"). He has over 15 years of experience in the ladies' intimate apparel industry and is the chief executive of the OEM operations.

Choi Wai Yin, 57, is a Director of Manufacturing of TFB and joined the Group in 1993. Ms. Choi has over 35 years of experience in apparel manufacturing. She oversees all manufacturing operations within the Group.

Yue-Chin Chai Ting, 43, is a Director of Unique Form Manufacturing Company Limited and Marguerite Lee Limited. Mrs. Yue holds a bachelor degree in Economics from the University of Lancaster, UK. Prior to joining the Group, she had over 10 years of experience in retail and wholesale management in Hong Kong. Mrs. Yue is the chief executive of the Group's retail and wholesale operations.

Chen Fu Mei, 57, is a Director and the Deputy General Manager of Shenzhen Top Form Underwear Co., Limited. Ms. Chen joined the Group in 1988 and is responsible for the administration of all the Group's companies in the People's Republic of China ("PRC").

Fung Sau Keung, Andy, 50, is the General Manager of Long Nan Country Top Form Underwear Co. Ltd. Mr. Fung also has the executive responsibility for the operations in the Philippines Region. He joined the Group in 1975 and has over 25 years of experience in intimate apparel manufacturing operations.

Wong Kai Chi, Kenneth, 30, is the Managing Director of Top Form Brassiere Co., Limited, Thailand. He is the son of Mr. Wong Chung Chong, Eddie. Mr. Wong holds a bachelor degree in Marketing and Operation Management from Boston University, USA. He joined the Group in 1997 and is responsible for the Group's manufacturing operations in Thailand.

Wong Hei Yin, Henry, 41, is the General Manager of Charming Elastic Fabric Company Limited, a subsidiary of the Company, producing elastic tapes. Mr. Wong holds a bachelor degree in Accounting from Lamer University, USA.

Wan Ho Yau, David, 47, is the Managing Director of Grand Gain Industrial Limited, a subsidiary of the Company, producing foam pads and accessories for brassiere manufacturing. Mr. Wan joined the Group in 1994. He holds degrees in Computer Science and Business Administration from York University, Toronto, Canada.

CONNECTED TRANSACTIONS

The Group has from time to time conducted transactions with VdV, its subsidiaries and/or affiliates, which are "connected persons" for the purposes of the Rules Governing the Listing of the Securities (the "Listing Rules") on the Stock Exchange. The Stock Exchange granted a waiver on 11 November 2002 to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules on connected transactions.

Pursuant to the waiver, details of the following connected transactions which have been entered into between VdV and the Group in the ordinary and usual course of business are not required to be disclosed by press notice and/or by circular nor is the Company required to obtain prior independent shareholders' approval on each occasion:

Name of connected person	Nature of transactions	HK\$'000
VdV and its affiliates	Sales of finished products	<u>26,882</u>

The Independent Non-executive Directors confirm that the aforesaid connected transactions conducted by the Group during the year ended 30 June 2004 were:

- a) in the ordinary and usual course of the Group's businesses;
- b) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- c) entered into in accordance with the terms of the agreements governing the transactions or on terms no less favourable than those available to or from independent third parties; and
- d) within the relevant amounts as stipulated under the relevant waivers.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group sold finished goods of HK\$26,882,000 to VdV, a company in which Mr. Herman Van de Velde and Mr. Lucas A.M. Laureys have beneficial interests.

In the opinion of those directors not having an interest in the above transaction, the transaction was carried out in the usual and ordinary course of business of the Group and on normal commercial terms.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 25 to the financial statements.

The following table discloses details of the Company's outstanding share options:

Name of Director	Date of grant	Number of share options outstanding at 1 July 2003 and 30 June 2004
Fung Wai Yiu	9 September 2002	770,521
Wong Chung Chong, Eddie	9 September 2002	770,521
Marvin Bienenfeld	9 September 2002	770,521
Chow Yu Chun, Alexander	9 September 2002	770,521
Lam Ka Chung, William	9 September 2002	770,521
Leung Churk Yin, Jeanny	9 September 2002	770,521
Lin Sian Zu, John	9 September 2002	770,521
Tse Koon Hang, Ada	9 September 2002	770,521
Total		<u>6,164,168</u>

Details of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise Price HK\$
9 September 2002	9 September 2002 to 8 September 2004	9 September 2004 to 8 September 2012	0.343

No option was granted, exercised or cancelled during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions:

(a) 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	Held by spouse and trust (note 1)	368,120,142	34.36%
Wong Chung Chong, Eddie	Held by trust (note 2)	367,904,142	34.34%
Chow Yu Chun, Alexander	Beneficial owner	1,930,000	0.18%
Lucas A. M. Laureys	Held by controlled corporation (note 3)	389,331,141	36.34%
Herman Van de Velde	Held by controlled corporation (note 3)	389,331,141	36.34%

Notes:

- 216,000 shares are held by the spouse of Mr. Fung Wai Yiu ("Mr. Fung"). 209,191,780 shares are registered in the name of Guliano Pte Limited ("Guliano"). 158,712,362 shares are registered in the name of HKSCC Nominees Limited ("HKSCC") and are beneficially owned by Guliano. Mr. Fung is deemed to be interested in the Company as he has beneficial interest in a family trust which held 9,590 shares of Guliano, representing 9.59% of interest in Guliano.
- 209,191,780 shares are registered in the name of Guliano. 158,712,362 shares are registered in the name of HKSCC and are beneficially owned by Guliano. Wong Chung Chong, Eddie ("Mr. Wong") is deemed to be interested in the Company as he is the founder of a family trust which held 40,411 shares of Guliano, representing 40.41% of interest in Guliano.
- 209,191,780 shares are registered in the name of Guliano. 158,712,362 shares are registered in the name of HKSCC and are beneficially owned by Guliano. 49,999 shares of Guliano are held by VdV, representing 50% of interest in Guliano. 21,426,999 shares are registered in the name of VdV of which Mr. Lucas A. M. Laureys and Mr. Herman Van de Velde are beneficial owners.

(b) Share options

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

Save as disclosed above, and other than certain nominee shares in subsidiaries held by Directors in trust for the Company's subsidiaries as at 30 June 2004, 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

As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions:

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Guliano	Beneficial owner	367,904,142	34.34%
VF Intimates	Beneficial owner	106,000,000	9.89%

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

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The respective percentages of the Group's purchases from major suppliers and turnover attributable to major customers for the year ended 30 June 2004 were as follows:

Percentage of purchases attributable to the Group's largest supplier	15%
Percentage of purchases attributable to the Group's five largest suppliers	51%
Percentage of turnover attributable to the Group's largest customer	59%
Percentage of turnover attributable to the Group's five largest customers	81%

As at 30 June 2004, VF Intimates, a shareholder owning more than 5% of the Company's share capital, is the Group's largest customer. Apart from this, none of the Directors, their associates or other shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) were interested at any time in the year in the above major suppliers or customers.

The aggregate purchases of the Group for the year ended 30 June 2004 amounted to HK\$597,674,000.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$262,000.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the audited financial statements.

COMPENSATION COMMITTEE

The compensation committee has reviewed with management the policies and procedures of compensation to the Directors and employees of the Group.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

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

On behalf of the Board

FUNG WAI YIU

Chairman

8 September 2004, Hong Kong



Deloitte.

德勤

TO THE SHAREHOLDERS OF TOP FORM INTERNATIONAL LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and Auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

8 September 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (Restated)
Turnover	4	1,217,043	1,094,364
Cost of sales		<u>(827,682)</u>	<u>(764,976)</u>
Gross profit		389,361	329,388
Other operating income	5	3,017	5,683
Selling and distribution expenses		(46,124)	(33,207)
General and administrative expenses		<u>(154,487)</u>	<u>(136,449)</u>
Profit from operations	6	191,767	165,415
Finance costs	8	(1,489)	(7,051)
Gain on winding up of subsidiaries	9	<u>4,119</u>	<u>–</u>
Profit before taxation		194,397	158,364
Taxation	10	<u>(36,042)</u>	<u>(26,479)</u>
Profit before minority interests		158,355	131,885
Minority interests		<u>(1,852)</u>	<u>(385)</u>
Profit for the year		<u>156,503</u>	<u>131,500</u>
Dividends:	11		
Interim		21,427	–
Final		53,567	42,854
Special		<u>–</u>	<u>21,427</u>
Earnings per share	12		
Basic		<u>14.6 cents</u>	<u>14.0 cents</u>
Diluted		<u>14.5 cents</u>	<u>12.2 cents</u>

CONSOLIDATED BALANCE SHEET

At 30 June 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment	13	133,243	116,111
Interests in associates	15	–	–
Interests in a jointly controlled entity	16	865	811
		<u>134,108</u>	<u>116,922</u>
Current assets			
Inventories	17	160,269	120,284
Debtors, deposits and prepayments	18	120,714	82,103
Bills receivable		2,625	3,765
Bank balances and cash		113,767	100,735
		<u>397,375</u>	<u>306,887</u>
Current liabilities			
Creditors and accrued charges	19	102,407	84,265
Taxation		42,259	20,692
Secured bank borrowings and other liabilities			
– due within one year	20	16,533	20,832
Obligations under finance leases – due within one year	21	1,801	1,821
		<u>163,000</u>	<u>127,610</u>
Net current assets		<u>234,375</u>	<u>179,277</u>
Total assets less current liabilities		<u>368,483</u>	<u>296,199</u>
Non-current liabilities			
Secured bank borrowings and other liabilities			
– due after one year	20	285	367
Obligations under finance leases – due after one year	21	1,308	1,683
Provision for long service payments	22	4,520	3,055
Deferred taxation	23	9,912	5,402
		<u>16,025</u>	<u>10,507</u>
		<u>352,458</u>	<u>285,692</u>
Capital and reserves			
Share capital	24	107,135	107,135
Reserves	26	223,421	157,607
		<u>330,556</u>	<u>264,742</u>
Minority interests		<u>21,902</u>	<u>20,950</u>
		<u>352,458</u>	<u>285,692</u>

The financial statements on pages 20 to 67 were approved and authorised for issue by the Board of Directors on 8 September 2004 and are signed on its behalf by:

Fung Wai Yiu
CHAIRMAN

Wong Chung Chong, Eddie
GROUP MANAGING DIRECTOR

BALANCE SHEET

At 30 June 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Interests in subsidiaries	14	327,421	263,066
Interests in associates	15	—	—
		<u>327,421</u>	<u>263,066</u>
Current assets			
Deposits and prepayments		86	86
Bank balances and cash		102	2
		<u>188</u>	<u>88</u>
Current liabilities			
Creditors and accrued charges		1,687	1,578
		<u>(1,499)</u>	<u>(1,490)</u>
Net current liabilities			
		<u>(1,499)</u>	<u>(1,490)</u>
		<u>325,922</u>	<u>261,576</u>
Capital and reserves			
Share capital	24	107,135	107,135
Reserves	26	218,787	154,441
		<u>325,922</u>	<u>261,576</u>

Fung Wai Yiu
CHAIRMAN

Wong Chung Chong, Eddie
GROUP MANAGING DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2004

	2004 HK\$'000	2003 HK\$'000 (Restated)
Total equity at beginning of the year		
– as originally stated	267,764	41,352
– prior period adjustment (<i>note 2</i>)	<u>(3,022)</u>	<u>(612)</u>
– as restated	<u>264,742</u>	<u>40,740</u>
Exchange differences arising on translation of overseas operations not recognised in the income statement	(953)	1,807
Effect of change in tax rate charged to equity	<u>–</u>	<u>(18)</u>
Net (losses) gains not recognised in the income statement	<u>(953)</u>	<u>1,789</u>
Profit for the year	156,503	131,500
Translation reserve released to income statement upon winding up of subsidiaries	(4,028)	–
Dividend paid	(85,708)	–
Revaluation surplus released to income statement upon disposal of investment in securities	–	(3,019)
Issue of shares upon the conversion of the convertible loan notes	<u>–</u>	<u>93,732</u>
Total equity at end of the year	<u><u>330,556</u></u>	<u><u>264,742</u></u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2004

	2004 HK\$'000	2003 HK\$'000
Operating activities		
Profit before taxation	194,397	158,364
Adjustments for:		
Provision for long service payments	1,465	407
Interest income	(353)	(655)
Interest expenses	1,489	7,051
Depreciation and amortisation of property, plant and equipment	23,163	20,126
Loss on disposal of property, plant and equipment	143	440
Gain on winding up of subsidiaries	(4,119)	–
Gain on disposal of investment in securities	–	(3,108)
Allowance on advance to a jointly controlled entity	–	955
Effect of foreign exchange rate changes	(1,458)	2,251
Operating cash flows before movement in working capital	214,727	185,831
(Increase) decrease in inventories	(39,985)	11,887
(Increase) decrease in debtors, deposits and prepayments	(38,667)	8,319
Decrease (increase) in bills receivable	1,140	(2,716)
Increase (decrease) in creditors and accrued charges	18,289	(17,189)
Cash generated from operations	155,504	186,132
Interest income	353	655
Interest paid	(1,260)	(6,799)
Finance lease charges paid	(229)	(265)
Hong Kong Profits Tax paid	(5,416)	(7,698)
Taxation paid in other jurisdictions	(4,605)	(2,407)
Net cash from operating activities	144,347	169,618
Investing activities		
Proceeds on disposal of property, plant and equipment	118	668
Purchase of property, plant and equipment	(37,863)	(51,361)
Advance to a jointly controlled entity	(54)	(1,084)
Proceeds on disposal of investment in securities	–	4,444
Net cash used in investing activities	(37,799)	(47,333)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2004

	2004 HK\$'000	2003 HK\$'000
Financing activities		
Dividend paid	(85,708)	–
Dividend paid to minority shareholders of a subsidiary	(900)	(1,800)
Repayments of obligations under finance leases	(2,527)	(2,975)
Net cash outflow in respect of trust receipts and import loans	(2,095)	(34,160)
Repayments of other liabilities	(82)	(82)
Repayments of convertible loan notes	–	(15,893)
Repayments of bank loans	–	(16,507)
Advance from a minority shareholder of a subsidiary	–	314
Repayments from a minority shareholder of a subsidiary	–	700
Repayments to a minority shareholder of a subsidiary	–	(415)
	<u>(91,312)</u>	<u>(70,818)</u>
Net cash used in financing activities	(91,312)	(70,818)
Net increase in cash and cash equivalents	15,236	51,467
Cash and cash equivalents at the beginning of the year	97,033	45,566
	<u>97,033</u>	<u>45,566</u>
Cash and cash equivalents at the end of the year	112,269	97,033
	<u>112,269</u>	<u>97,033</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	113,767	100,735
Bank overdrafts	(1,498)	(3,702)
	<u>112,269</u>	<u>97,033</u>
	<u>112,269</u>	<u>97,033</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The 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. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly.

The cumulative effect of the adoption of SSAP 12 (Revised) as at 1 July 2002 is summarised below:

	As originally stated	Adjustment	As restated
	HK\$'000	HK\$'000	HK\$'000
Accumulated losses	(295,962)	(419)	(296,381)
Revaluation reserve	5,511	(193)	5,318
Total effect on equity	<u>(290,451)</u>	<u>(612)</u>	<u>(291,063)</u>
Deferred taxation	<u>2,380</u>	<u>612</u>	<u>2,992</u>

The adoption of SSAP 12 (Revised) has resulted in a decrease in the profit for the year ended 30 June 2004 by HK\$3,378,000 (2003: HK\$2,392,000).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain leasehold properties, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from and up to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

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

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

(a) Construction in progress

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

(b) Other fixed assets

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and any identified impairment loss, as appropriate.

Certain of the Group's land and buildings are stated at valuation less accumulated depreciation and amortisation and any subsequent impairment loss. Advantage has been taken of the transitional relief provided by paragraph 80 of the SSAP 17 "Property, Plant and Equipment" issued by the HKICPA from the requirement to make revaluation on a regular basis of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995 and accordingly no further revaluation of land and buildings is carried out. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale of these land and buildings, the attributable revaluation surplus not yet transferred to accumulated profits in prior years will be transferred to accumulated profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

(b) Other fixed assets – continued

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

Leasehold land	Over the remaining unexpired terms of the leases
Buildings	2% – 6.5%
Leasehold improvements	5% – 30%
Furniture, fixtures and equipment	10% – 45%
Motor vehicles	20% – 30%

The gain or loss arising on the disposal or retirement of an asset is determined at the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss, as appropriate.

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence in management, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year. The consolidated balance sheet includes the Group's share of net assets of the associates less any identified impairment loss.

The Company's interests in associates are included in the Company's balance sheet at cost less any identified impairment loss, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities. The Group's share of the post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Long service payments

The Group's obligation under long service payments recognised in the balance sheet is determined using the projected unit credit method, with actuarial valuations being carried out at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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, associates and jointly controlled entities, 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 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

Leases

A lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. An asset held under a finance lease is capitalised at its fair value at the date of inception of the lease. The resulting leasing commitment, net of interest charges, is shown as a finance lease obligation of the Group on the balance sheet. Finance costs, which represent the difference between the total leasing commitment and the fair values of the assets acquired, are charged to the income statement as finance charges on an actuarial basis over the period of the lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and their rentals payable are charged to the income statement on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Textile quota entitlements

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

Retirement benefit costs

Payments to the retirement benefit schemes are charged as expenses as they fall due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

4. TURNOVER AND SEGMENT INFORMATION

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

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

(a) Business segments

TURNOVER AND RESULTS YEAR ENDED 30 JUNE 2004

	Manufacturing business HK\$'000	Branded business HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	1,194,769	22,274	-	1,217,043
Inter-segment sales (note)	2,948	-	(2,948)	-
	<u>1,197,717</u>	<u>22,274</u>	<u>(2,948)</u>	<u>1,217,043</u>
Total sales				
	<u>1,197,717</u>	<u>22,274</u>	<u>(2,948)</u>	<u>1,217,043</u>
RESULTS				
Segment results	<u>211,209</u>	<u>(8,686)</u>	<u>-</u>	202,523
Unallocated corporate expenses				(11,109)
Interest income				<u>353</u>
Profit from operations				191,767
Finance costs				(1,489)
Gain on winding up of subsidiaries				<u>4,119</u>
Profit before taxation				194,397
Taxation				<u>(36,042)</u>
Profit before minority interests				158,355
Minority interests				<u>(1,852)</u>
Profit for the year				<u>156,503</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

4. TURNOVER AND SEGMENT INFORMATION – continued

(a) Business segments – continued

TURNOVER AND RESULTS – continued

YEAR ENDED 30 JUNE 2003

	Manufacturing business HK\$'000	Branded business HK\$'000	Elimination HK\$'000	Consolidated HK\$'000 (Restated)
TURNOVER				
External sales	1,070,467	23,897	–	1,094,364
Inter-segment sales (<i>note</i>)	9,412	–	(9,412)	–
Total sales	<u>1,079,879</u>	<u>23,897</u>	<u>(9,412)</u>	<u>1,094,364</u>
RESULTS				
Segment results	<u>186,739</u>	<u>(9,529)</u>	<u>–</u>	177,210
Unallocated corporate expenses				(12,450)
Interest income				<u>655</u>
Profit from operations				165,415
Finance costs				<u>(7,051)</u>
Profit before taxation				158,364
Taxation				<u>(26,479)</u>
Profit before minority interests				131,885
Minority interests				<u>(385)</u>
Profit for the year				<u>131,500</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

4. TURNOVER AND SEGMENT INFORMATION – continued

(a) Business segments – continued

BALANCE SHEET

30 JUNE

	2004 HK\$'000	2003 HK\$'000 (Restated)
ASSETS		
Segment assets		
– manufacturing business	496,168	388,550
– branded business	23,443	23,093
Interests in a jointly controlled entity	865	811
Unallocated corporate assets	<u>11,007</u>	<u>11,355</u>
Consolidated total assets	<u><u>531,483</u></u>	<u><u>423,809</u></u>
LIABILITIES		
Segment liabilities		
– manufacturing business	79,428	57,883
– branded business	5,023	3,537
Unallocated corporate liabilities	<u>94,574</u>	<u>76,697</u>
Consolidated total liabilities	<u><u>179,025</u></u>	<u><u>138,117</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

4. TURNOVER AND SEGMENT INFORMATION – continued

(a) Business segments – continued

OTHER INFORMATION

YEAR ENDED 30 JUNE

	2004 HK\$'000	2003 HK\$'000
Capital expenditure		
– manufacturing business	39,407	59,855
– branded business	<u>580</u>	<u>873</u>
	<u>39,987</u>	<u>60,728</u>
Depreciation and amortisation of property, plant and equipment		
– manufacturing business	22,098	19,307
– branded business	<u>1,065</u>	<u>819</u>
	<u>23,163</u>	<u>20,126</u>
Loss on disposal of property, plant and equipment		
– manufacturing business	134	440
– branded business	<u>9</u>	<u>–</u>
	<u>143</u>	<u>440</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

4. TURNOVER AND SEGMENT INFORMATION – continued

(b) Geographical segments

The Group's operations in manufacturing are principally located in Hong Kong, the People's Republic of China ("PRC") and Thailand. Branded business is principally carried out in Hong Kong and 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		Contribution to profit from operations	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
United States of America	935,418	851,865	165,361	148,604
Europe	174,015	142,087	30,762	24,788
Asia (excluding Hong Kong)	45,951	52,105	2,905	4,636
Australia and New Zealand	43,167	29,075	7,631	5,072
Hong Kong	18,359	19,232	(4,160)	(5,890)
South Africa	133	–	24	–
	<u>1,217,043</u>	<u>1,094,364</u>	<u>202,523</u>	<u>177,210</u>
Unallocated corporate expenses			(11,109)	(12,450)
Interest income			353	655
Profit from operations			<u>191,767</u>	<u>165,415</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

4. TURNOVER AND SEGMENT INFORMATION – continued

(b) Geographical segments – continued

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

	Carrying amount of total assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The PRC	221,233	173,516	32,665	49,659
Hong Kong	193,416	169,947	5,442	5,884
Thailand	60,228	51,785	1,164	4,634
Others	56,606	28,561	716	551
	<u>531,483</u>	<u>423,809</u>	<u>39,987</u>	<u>60,728</u>

5. OTHER OPERATING INCOME

Other operating income includes:

	2004 HK\$'000	2003 HK\$'000
Gain on disposal of investment in listed securities	–	3,108
Interest income	<u>353</u>	<u>655</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

6. PROFIT FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,852	1,620
Cost of textile quota entitlements	15,064	6,512
Depreciation and amortisation on:		
Owned assets	22,467	18,737
Assets held under finance leases	696	1,389
Loss on disposal of property, plant and equipment	143	440
Minimum lease payments paid under operating leases		
in respect of land and buildings (Note a)	16,755	17,049
Net exchange loss	4,227	1,067
Staff costs (Note b)	<u>225,055</u>	<u>202,137</u>

Notes:

- (a) Included above is operating lease rentals of HK\$604,000 (2003: HK\$886,000) in respect of staff quarters.
- (b) Details of directors' emoluments included in staff costs are disclosed in note 7. Staff costs included an amount of HK\$1,782,000 (2003: HK\$1,681,000) in respect of retirement benefit scheme contributions, net of forfeited contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

	2004 HK\$'000	2003 HK\$'000
Fees to Non-executive Directors	–	–
Remuneration to Executive Directors		
Salaries and other benefits	14,986	12,985
Retirement benefits scheme contributions	24	24
	<u> </u>	<u> </u>
Total directors' emoluments	<u>15,010</u>	<u>13,009</u>

Other than the share options granted to independent non-executive directors on 9 September 2002, no emoluments or other benefits were paid or payable to non-executive directors during the two years ended 30 June 2004.

Emoluments of the Directors were within the following bands:

	Number of Directors	
	2004	2003
Nil to HK\$1,000,000	8	8
HK\$5,500,001 – HK\$6,000,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1
HK\$8,000,001 – HK\$8,500,000	1	–
	<u> </u>	<u> </u>

Details of emoluments paid by the Group to the five highest paid individuals (including Directors, details of whose emoluments are set out above, and employees) are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	22,727	19,099
Retirement benefits scheme contributions	60	60
	<u> </u>	<u> </u>
	<u>22,787</u>	<u>19,159</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

7. DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS – continued

Emoluments of the five highest paid individuals were within the following bands:

	Number of individuals	
	2004	2003
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	–	2
HK\$3,000,001 – HK\$3,500,000	2	–
HK\$5,500,001 – HK\$6,000,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1
HK\$8,000,001 – HK\$8,500,000	1	–
	<u>1</u>	<u>–</u>
Number of Directors	2	2
Number of employees	3	3
	<u>3</u>	<u>3</u>
	<u>5</u>	<u>5</u>

8. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,260	3,638
Obligations under finance leases	229	275
Convertible loan notes (“CLNs”)	–	3,138
	<u>1,489</u>	<u>7,051</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

9. WINDING UP OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net liabilities of subsidiaries wound up comprise:		
Debtors, deposits and prepayments	56	–
Creditors and accrued charges	<u>(147)</u>	<u>–</u>
	(91)	–
Release of translation reserve upon winding up	<u>(4,028)</u>	<u>–</u>
Gain on winding up	<u><u>(4,119)</u></u>	<u><u>–</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

10. TAXATION

	2004 HK\$'000	2003 HK\$'000 (Restated)
The charge (credit) comprises:		
Company and subsidiaries		
Current tax		
Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%) on the estimated assessable profit for the year	27,364	20,555
Taxation in other jurisdictions calculated at the rates prevailing in the respective jurisdictions	<u>4,843</u>	<u>3,735</u>
	<u>32,207</u>	<u>24,290</u>
(Over)underprovision in prior years		
Hong Kong Profits Tax	(1)	77
Taxation in other jurisdictions	<u>(674)</u>	<u>(280)</u>
	<u>(675)</u>	<u>(203)</u>
Deferred taxation (note 23)		
Current year	4,510	2,130
Attributable to increase in tax rate	<u>-</u>	<u>262</u>
	<u>4,510</u>	<u>2,392</u>
	<u><u>36,042</u></u>	<u><u>26,479</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

10. TAXATION – continued

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

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	<u>194,397</u>	<u>158,364</u>
Tax at Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)	34,019	27,714
Tax effect of expenses that are not deductible for tax purposes	10,824	10,234
Tax effect of income that is not taxable for tax purposes	(10,771)	(10,232)
Tax effect of deductible temporary differences not recognised	32	47
Tax effect of tax losses not recognised	1,379	1,107
Tax effect of utilisation of deductible temporary differences previously not recognised	(28)	(94)
Tax effect of utilisation of tax losses previously not recognised	(234)	(1,931)
Increase in opening deferred tax liabilities resulting from an increase in tax rate	–	262
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,384	1,487
Overprovision in prior years	(675)	(203)
Others	<u>112</u>	<u>(1,912)</u>
Taxation charge for the year	<u>36,042</u>	<u>26,479</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

11. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
2003 final dividend paid:		
HK\$0.04 (year ended 30 June 2002: nil) per share on 1,071,349,957 shares	42,854	–
2003 special dividend paid:		
HK\$0.02 (year ended 30 June 2002: nil) per share on 1,071,349,957 shares	21,427	–
2004 interim dividend paid:		
HK\$0.02 (year ended 30 June 2003: nil) per share on 1,071,349,957 shares	21,427	–
	<u>85,708</u>	<u>–</u>

A final dividend of 5 HK cents (2003: 4 HK cents) per share has been proposed by the Directors and is subject to the approval by the shareholders in general meeting.

12. EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000 (Restated)
Profit for the purpose of basic earnings per share	156,503	131,500
Interest on CLNs	–	3,138
	<u>156,503</u>	<u>134,638</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

12. EARNINGS PER SHARE – continued

	Number of shares	
	2004	2003
Number of shares for the purpose of basic earnings per share	1,071,349,957	936,623,919
Effect of dilutive potential shares:		
Options	4,376,622	2,564,079
CLNs	–	162,974,991
	<u> </u>	<u> </u>
Number of shares for the purpose of diluted earnings per share	<u>1,075,726,579</u>	<u>1,102,162,989</u>

The adjustment to comparative basic and diluted earnings per share, arising from the adoption of SSAP 12 (Revised) shown in note 2 above, is as follows:

	Basic	Diluted
	HK cents	HK cents
Reconciliation of 2003 earnings per share:		
Reported figures before adjustments	14.3	12.4
Adjustments arising from the adoption of SSAP 12 (Revised)	<u>(0.3)</u>	<u>(0.2)</u>
Restated	<u>14.0</u>	<u>12.2</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1 July 2003	47,148	43,973	181,441	11,883	7,611	292,056
Currency realignment	(18)	117	802	6	1	908
Additions	207	4,864	28,424	1,070	5,422	39,987
Disposals	(123)	(1,057)	(159)	(496)	–	(1,835)
Reclassification	9,650	147	(147)	–	(9,650)	–
At 30 June 2004	56,864	48,044	210,361	12,463	3,384	331,116
Comprising						
At cost	55,403	48,044	210,361	12,463	3,384	329,655
At valuation – 1992	1,461	–	–	–	–	1,461
	<u>56,864</u>	<u>48,044</u>	<u>210,361</u>	<u>12,463</u>	<u>3,384</u>	<u>331,116</u>
DEPRECIATION AND IMPAIRMENT						
At 1 July 2003	18,349	34,408	115,291	7,897	–	175,945
Currency realignment	(66)	79	322	4	–	339
Charge for the year	1,813	3,579	16,146	1,625	–	23,163
Eliminated on disposals	(2)	(1,048)	(107)	(417)	–	(1,574)
At 30 June 2004	20,094	37,018	131,652	9,109	–	197,873
NET BOOK VALUES						
At 30 June 2004	36,770	11,026	78,709	3,354	3,384	133,243
At 30 June 2003	28,799	9,565	66,150	3,986	7,611	116,111

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

13. PROPERTY, PLANT AND EQUIPMENT – continued

Notes:

- (a) The net book value of the Group's property interests as at the balance sheet date comprises:

	2004 HK\$'000	2003 HK\$'000
Land and buildings outside Hong Kong under:		
Long lease	3,581	4,444
Medium term lease	26,983	17,256
Short lease	5,450	6,218
Land and buildings in Hong Kong under medium term lease	<u>756</u>	<u>881</u>
	<u><u>36,770</u></u>	<u><u>28,799</u></u>

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

	2004 HK\$'000	2003 HK\$'000
Furniture, fixtures and equipment	3,111	3,352
Motor vehicles	<u>1,852</u>	<u>1,807</u>
	<u><u>4,963</u></u>	<u><u>5,159</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares	125,002	125,002
Capital contribution	<u>5,460</u>	<u>5,460</u>
	130,462	130,462
Impairment loss recognised	<u>(5,460)</u>	<u>(5,460)</u>
	125,002	125,002
Amounts due from subsidiaries, less allowances	<u>202,419</u>	<u>138,064</u>
	<u><u>327,421</u></u>	<u><u>263,066</u></u>

The value of unlisted shares is based on the underlying net assets of Top Form (B.V.I.) Limited and its subsidiaries at the time they became members of the Group pursuant to the group reorganisation in 1991.

In the opinion of directors, repayment of the amounts due from subsidiaries will not be demanded within the next twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

Details of the principal subsidiaries as at 30 June 2004 are set out in note 34.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

15. INTERESTS IN ASSOCIATES

Details of the Group's associates as at 30 June 2004 are as follows:

Name of company	Form of business structure	Place of registration	Principal place of operation	Proportion of nominal value of registered capital held by the Group	Principal activities
Shenzhen Fenghua Weaving Tape Factory Company Limited 深圳豐華織帶廠有限公司	Joint venture	PRC	PRC	25%	Inactive
Yingkou Xinfu Industrial Park Development Company Limited 營口鑫發工業園開發有限公司	Joint venture	PRC	PRC	30%*	Industrial land development

* Directly held by the Company

Share of net assets of associates of HK\$15,422,000 by the Group and the Company were fully impaired in previous years.

16. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	—	—
Amount due from a jointly controlled entity, less allowances	<u>865</u>	<u>811</u>
	<u>865</u>	<u>811</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

16. INTERESTS IN A JOINTLY CONTROLLED ENTITY – continued

Details of the Group's jointly controlled entity as at 30 June 2004 are as follows:

Name of company	Form of business structure	Place of incorporation	Principal place of operation	Proportion of nominal value of issued ordinary share capital held by the Group	Principal activity
Datel Asia Limited	Incorporated	Hong Kong	Hong Kong	50%	Selling of computer hardware, licensing of computer software, system integration and maintenance

17. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	59,537	47,537
Work in progress	64,444	38,189
Finished goods	36,288	34,558
	<u>160,269</u>	<u>120,284</u>
At cost	154,851	116,784
Finished goods stated at net realisable value	5,418	3,500
	<u>160,269</u>	<u>120,284</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

18. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance are trade debtors of HK\$97,376,000 (2003: HK\$55,773,000). The Group allows an average credit period of 30 days to its trade customers.

An aged analysis of trade debtors is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	85,130	50,890
31 – 60 days	9,190	1,841
61 – 90 days	1,308	576
Over 90 days	1,748	2,466
	<u>97,376</u>	<u>55,773</u>

19. CREDITORS AND ACCRUED CHARGES

Included in the balance are trade creditors of HK\$36,295,000 (2003: HK\$33,788,000).

An aged analysis of trade creditors is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	30,334	31,443
31 – 60 days	3,134	1,315
61 – 90 days	1,382	676
Over 90 days	1,445	354
	<u>36,295</u>	<u>33,788</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

20. SECURED BANK BORROWINGS AND OTHER LIABILITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Secured bank borrowings:		
Trust receipts and import loans	14,953	17,048
Bank overdrafts	1,498	3,702
Total bank borrowings (note a)	16,451	20,750
Other unsecured liabilities (note b)	367	449
	16,818	21,199
Less: Amount due within one year shown as current liabilities	(16,533)	(20,832)
Amount due after one year	285	367

Notes:

- (a) All bank borrowings are repayable within one year or upon demand and are all secured.

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
(b) Other liabilities are unsecured and repayable:		
Within one year	82	82
Between one to two years	82	82
Between two to five years	203	246
After five years	-	39
	367	449

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

21. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
THE GROUP				
Within one year	2,034	2,018	1,801	1,821
Between one to two years	1,210	1,331	1,157	1,216
Between two to five years	170	495	151	467
	<u>3,414</u>	<u>3,844</u>	<u>3,109</u>	<u>3,504</u>
Less: future finance charges	(305)	(340)	–	–
Present value of lease obligations	<u>3,109</u>	<u>3,504</u>	<u>3,109</u>	<u>3,504</u>
Less: Amount due within one year shown as current liabilities			<u>(1,801)</u>	<u>(1,821)</u>
Amount due after one year			<u>1,308</u>	<u>1,683</u>

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 2004, the average effective borrowing rate was 7.4% (2003: 7.3%). 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

22. PROVISION FOR LONG SERVICE PAYMENTS

THE GROUP

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

The most recent actuarial valuation of the present value of the Group's obligation under the long service payments was carried out at 30 June 2004 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.

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

	2004
Discount rate	6% per annum
Expected rate of salary increases	3% per annum for the first 2 years, and 5% per annum thereafter
Expected return on Mandatory Provident Fund Scheme	4% per annum for the next 2 years, and 5% per annum thereafter

Amounts recognised in the consolidated income statement in respect of the long service payments are as follows:

	2004 HK\$'000	2003 HK\$'000
Current service cost	318	283
Interest cost	182	158
Net actuarial losses recognised	999	–
Benefit paid	(34)	(34)
	<u>1,465</u>	<u>407</u>

All the charge for the year has been included in general and administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

22. PROVISION FOR LONG SERVICE PAYMENTS – continued

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

	2004	2003
	HK\$'000	HK\$'000
At beginning of the year	3,055	2,648
Amounts charged to income statement	1,465	407
At end of the year	4,520	3,055

23. DEFERRED TAXATION

THE GROUP

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 2002			
– as originally stated	2,380	–	2,380
– prior period adjustment on adoption of SSAP 12 (Revised)	(391)	1,003	612
– as restated	1,989	1,003	2,992
Charge to income statement for the year	342	1,788	2,130
Effect of change in tax rate			
– charge to the income statement	168	94	262
– charge to equity	18	–	18
At 30 June 2003	2,517	2,885	5,402
Charge to income statement for the year	995	3,515	4,510
At 30 June 2004	3,512	6,400	9,912

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

23. DEFERRED TAXATION – continued

At 30 June 2004, the Group and the Company has unused tax losses of approximately HK\$78,597,000 and HK\$12,770,000 (2003: HK\$72,053,000 and HK\$14,150,000), respectively, available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses of the Group are losses of HK\$2,994,000 (2003: nil) of subsidiaries in PRC that will gradually expire until 2008. Other losses may be carried forward indefinitely.

At 30 June 2004, the Group has unrecognised deductible temporary differences of approximately HK\$1,317,000 (2003: HK\$1,297,000) in respect of accelerated accounting depreciation. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

24. SHARE CAPITAL

	2004 Number of shares	2003 Number of shares	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At the beginning and the end of the year	<u>1,500,000,000</u>	<u>1,500,000,000</u>	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:				
At the beginning of the year	1,071,349,957	770,521,462	107,135	77,052
Issue of shares upon the conversion of CLNs	<u>–</u>	<u>300,828,495</u>	<u>–</u>	<u>30,083</u>
At the end of the year	<u>1,071,349,957</u>	<u>1,071,349,957</u>	<u>107,135</u>	<u>107,135</u>

25. 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.

At 30 June 2004, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 6,164,168 (2003: 6,164,168), representing 0.6% (2003: 0.6%) of the shares of the Company in issue at 8 September 2004. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

25. SHARE OPTION SCHEME – continued

The following table discloses details of the Company's share options held by the Directors under the Scheme during the two years ended 30 June 2004:

Date of grant	Vesting period	Exercise period	Exercise price HK\$	At 1.7.2002	Number of share options	
					Granted on 9.9.2002	outstanding at 1.7.2003 and 30.6.2004
9 September 2002	9 September 2002 to 8 September 2004	9 September 2004 to 8 September 2012	0.343	–	6,164,168	6,164,168

During the year ended 30 June 2004, no options were granted, exercised or cancelled under the Scheme.

Total consideration received during the year ended 30 June 2003 from the Directors for taking up the options granted amounted to HK\$8.

No charge was recognised in the income statement in respect of the value of options granted in last financial year.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

26. RESERVES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
SHARE PREMIUM				
At the beginning of the year	-	249,546	-	249,546
Premium arising on issue of shares upon the conversion of convertible loan notes	-	63,649	-	63,649
Cancellation against accumulated losses	-	(230,594)	-	(230,594)
Transfer to other distributable reserve	-	(82,601)	-	(82,601)
At the end of the year	-	-	-	-
LEGAL RESERVE				
At the beginning of the year	323	323	-	-
Transfer to accumulated profits upon winding up of a subsidiary	(323)	-	-	-
At the end of the year	-	323	-	-
SPECIAL RESERVE				
At the beginning and the end of the year	7,139	7,139	-	-
CONTRIBUTED SURPLUS				
At the beginning and the end of the year	-	-	124,802	124,802
OTHER DISTRIBUTABLE RESERVE				
At the beginning of the year	82,601	-	82,601	-
Dividend paid	(82,601)	-	(82,601)	-
Transfer from share premium	-	82,601	-	82,601
At the end of the year	-	82,601	-	82,601
REVALUATION RESERVE				
At the beginning of the year as originally stated	2,492	5,511	-	-
prior period adjustment in respect of deferred taxation	(211)	(193)	-	-
as restated	2,281	5,318	-	-
Effect of change in tax rate	-	(18)	-	-
Realised on disposal of investment in securities	-	(3,019)	-	-
At the end of the year	2,281	2,281	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

26. RESERVES – continued

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
TRANSLATION RESERVE				
At the beginning of the year	(450)	(2,257)	–	–
Realised on winding up of subsidiaries	(4,028)	–	–	–
Exchange differences arising on translation of overseas operations	(953)	1,807	–	–
At the end of the year	<u>(5,431)</u>	<u>(450)</u>	<u>–</u>	<u>–</u>
ACCUMULATED PROFITS (LOSSES)				
At the beginning of the year as originally stated	68,524	(295,962)	(52,962)	(563,457)
prior period adjustment in respect of deferred taxation	(2,811)	(419)	–	–
as restated	65,713	(296,381)	(52,962)	(563,457)
Eliminated against share premium	–	230,594	–	230,594
Profit for the year	156,503	131,500	150,054	279,901
Transfer from legal reserve upon winding up of a subsidiary	323	–	–	–
Dividend paid	(3,107)	–	(3,107)	–
At the end of the year	<u>219,432</u>	<u>65,713</u>	<u>93,985</u>	<u>(52,962)</u>
TOTAL RESERVES	<u>223,421</u>	<u>157,607</u>	<u>218,787</u>	<u>154,441</u>

Legal reserve at 30 June 2003 represented the transfer from accumulated profits of a subsidiary in Switzerland pursuant to legal requirements in Switzerland. The amount was realised on winding up of that subsidiary during the year.

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

Contributed surplus represents the difference between the combined net assets of the subsidiaries acquired by the Company under the group reorganisation, and the nominal amount of the Company's shares issued.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

26. RESERVES – continued

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Pursuant to a special resolution passed on 4 April 2003, the entire amount standing to the credit of the share premium account of the Company was cancelled and the credit arising therefrom was being applied towards eliminating the accumulated losses of the Company as at 31 December 2002 with the remaining balance credited to other distributable reserve of the Company. Other distributable reserve represents the surplus transferred from the share premium account.

The Company's reserves available for distribution to shareholders as at 30 June 2004 amounted to approximately HK\$218,787,000 (2003: HK\$154,441,000).

27. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value of HK\$2,124,000 (2003: HK\$3,690,000) at the inception of the finance leases.

During the year ended 30 June 2003, HK\$93,732,000 of CLNs were converted into 300,828,495 ordinary shares of the Company.

28. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Export bills discounted with recourse	8,802	–	–	–
Guarantees given (extent of facilities utilised) to banks in respect of credit facilities granted to subsidiaries	–	–	16,451	20,751
	<u>–</u>	<u>–</u>	<u>16,451</u>	<u>20,751</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

29. PLEDGE OF ASSETS

At 30 June 2004, the Group has pledged certain of its properties with an aggregate carrying value of approximately HK\$751,000 (2003: HK\$877,000) to secure credit facilities granted to the Group.

The Company and certain of its subsidiaries have each executed a debenture in favour of certain banks so that all the assets, including bank balances and cash, and rights of the Company and the related subsidiaries are provided as securities for the continuation of the banking facilities granted to the Group.

30. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	22,452	4,292
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	—	26,898
	<u>22,452</u>	<u>31,190</u>

The Company did not have any significant capital commitments as at the balance sheet date.

31. OPERATING LEASE COMMITMENTS

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
– Within one year	9,720	13,054
– In the second to fifth year inclusive	9,842	13,888
– Over five years	2,645	3,489
	<u>22,207</u>	<u>30,431</u>

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

The Company had no operating lease commitments as at the balance sheet date.

32. RETIREMENT BENEFIT SCHEMES

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

The eligible employees of the Company’s subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

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

33. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with related parties as follows:

Name of related party	Nature of transactions	THE GROUP	
		2004 HK\$’000	2003 HK\$’000
Van de Velde N.V. (“VdV”) (note a)	Sale of finished products (note c)	26,882	24,283
	Interest payable on CLNs	—	223
AIG Asia Direct Investment Fund Ltd. (“AIGA”) (note b)	Interest payable on CLNs	—	1,068
American International Assurance Co. (Bermuda) Ltd. (“AIA”) (note b)	Interest payable on CLNs	—	1,068

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

33. RELATED PARTY TRANSACTIONS – continued

Notes:

- (a) On 9 September 2002, Messrs. Herman Van de Velde and Lucas A.M. Laureys, directors of VdV, were appointed as directors of the Company. Since then, VdV became a related party of the Company and it held an effective interest of 19.17% in the Company as at 30 June 2004. As at 30 June 2004, the balance of trade receivable from VdV amounted to HK\$654,000 (2003: HK\$692,000).
- (b) During the year ended 30 June 2002, AIGA and AIA, each held US\$4.8 million of the CLNs issued by the Company. All of these CLNs were converted or redeemed during the year ended 30 June 2003.
- (c) The sales were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 30 June 2004 are as follows:

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Charming Elastic Fabric Company Limited	Hong Kong	Ordinary – HK\$316,667 Deferred – HK\$810,000	60%	Manufacture of elastic garment straps
Grand Gain Industrial Limited	Hong Kong	Ordinary – HK\$100,000	55%	Laminating business
Long Nan Grand Gain Underwear Co., Ltd. 龍南縣建盈內衣有限公司	PRC [#]	Capital contribution – HK\$5,000,000	55%	Moulding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

34. PRINCIPAL SUBSIDIARIES – continued

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Long Nan County Top Form Underwear Co., Ltd. 龍南縣黛麗斯內衣有限公司	PRC [#]	Capital contribution – HK\$20,000,000	100%	Manufacture of ladies' underwear
Marguerite Lee Limited	Hong Kong	Ordinary – HK\$2,500,000	100%	Retail sales of underwear, sleepwear and other intimate apparel
Marguerite Lee (Overseas) Limited	British Virgin Islands	Ordinary – US\$10	100%	Investment holding
漫多姿服裝(深圳) 有限公司	PRC [#]	Capital contribution – HK\$8,000,000	100%	Manufacture and distribution of ladies' underwear
Meritlux Industries Philippines, Inc.	Republic of Philippines	Ordinary – Peso 17,500,000	100%	Manufacture of ladies' underwear
Foshan Nanhai Top Form Underwear Company Limited 佛山市南海黛麗斯內衣 有限公司 [®]	PRC [^]	Capital contribution – HK\$20,800,000	75%	Manufacture of ladies' underwear
Shenzhen Top Form Underwear Co., Ltd. 深圳黛麗斯內衣 有限公司	PRC [^]	Capital contribution – HK\$8,616,475	70%	Manufacture and distribution of ladies' underwear

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

34. PRINCIPAL SUBSIDIARIES – continued

Name of company	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company	Principal activities
Top Form Brassiere Co., Limited	Thailand	Ordinary – Baht 80,000,000	100%	Manufacture of ladies' underwear
Top Form Brassiere Mfg. Co., Limited	Hong Kong	Ordinary – HK\$100 Deferred – HK\$4,000,000	100%	Manufacture of ladies' underwear
Top Form (B.V.I.) Limited	British Virgin Islands	Ordinary – US\$50,000	100%*	Investment holding
Top Prospect Investment Limited	Hong Kong	Ordinary – HK\$2	100%	Property holding in the PRC
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	97%	Manufacture of ladies' underwear
Unique Form Manufacturing Company Limited	Hong Kong	Ordinary – HK\$1,000 Deferred – HK\$200	100%	Retail sales of underwear, sleepwear and other intimate apparel
Wide Gain Investment Limited	Hong Kong	Ordinary – HK\$2	100%	Investment holding

* Directly held by the Company

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

^ These subsidiaries are registered as contractual joint ventures in the PRC.

@ Formerly known as “Nan Hai Top Form Underwear Co. Ltd 南海市黛麗斯內衣有限公司”

34. PRINCIPAL SUBSIDIARIES – continued

Shenzhen Top Form Underwear Co., Limited 深圳黛麗斯內衣有限公司 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. Foshan Nanhai Top Form Underwear Co., Ltd. 佛山市南海黛麗斯內衣有限公司 is also a joint venture company established in the PRC and was held for a period of ten years from 1 January 1992. On 1 January 2002, an extension agreement was entered into between the Group and the joint venture partner to extend the joint venture period for a further 3 years to 5 September 2004 which was then extended for a further 16 months to 5 January 2006. Pursuant to the agreements under which the joint ventures were established, the Group has contributed 70% and 75% of the nominal registered capital of Shenzhen Top Form Underwear Co., Limited 深圳黛麗斯內衣有限公司 and Foshan Nanhai Top Form Underwear Co., Ltd. 佛山市南海黛麗斯內衣有限公司, respectively. However, under the joint venture agreements, the Group is entitled to 100% of the joint venture companies' profit after deducting a fixed annual amount attributable to assets contributed by the joint venture partners. The Group is entitled to receive its attributable share of the net assets upon liquidation of the joint ventures.

As at 30 June 2004, 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 2004 or at any time during the year.

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

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

FIVE YEAR FINANCIAL SUMMARY

RESULTS

Year ended 30 June	2000	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Restated)	(Restated)	
Turnover	<u>742,158</u>	<u>919,465</u>	<u>846,846</u>	<u>1,094,364</u>	<u>1,217,043</u>
Profit before taxation	38,751	55,846	78,619	158,364	194,397
Taxation	<u>(4,669)</u>	<u>(6,480)</u>	<u>(6,001)</u>	<u>(26,479)</u>	<u>(36,042)</u>
Profit before minority interests	34,082	49,366	72,618	131,885	158,355
Minority interests	<u>(1,576)</u>	<u>(2,651)</u>	<u>(2,733)</u>	<u>(385)</u>	<u>(1,852)</u>
Profit for the year	<u>32,506</u>	<u>46,715</u>	<u>69,885</u>	<u>131,500</u>	<u>156,503</u>

ASSETS AND LIABILITIES

At 30 June	2000	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Restated)	(Restated)	
Total assets	346,886	337,872	382,527	423,809	531,483
Total liabilities	(430,368)	(359,955)	(319,339)	(138,117)	(179,025)
Minority interests	<u>(9,594)</u>	<u>(11,840)</u>	<u>(22,466)</u>	<u>(20,950)</u>	<u>(21,902)</u>
	<u>(93,076)</u>	<u>(33,923)</u>	<u>40,722</u>	<u>264,742</u>	<u>330,556</u>

Note: Certain liabilities as at 30 June 2002 and 2003 and the results for the years ended 30 June 2002 and 2003 have been restated to reflect the adoption of SSAP 12 (Revised) "Income taxes".



