# TOP FORM

INTERNATIONAL LIMITED

STOCK CODE: 333

Annual Report 2012

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Fung Wai Yiu, *Chairman* (3)
Mr. Wong Chung Chong, Eddie,
*Group Managing Director* (3)
Mr. Wong Kai Chi, Kenneth
Mr. Wong Kai Chung, Kevin

## NON-EXECUTIVE DIRECTORS

Mr. Lucas A.M. Laureys
Mr. Herman Van de Velde (2)(3)

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Marvin Bienenfeld (1)(2)(3)
Mr. Chow Yu Chun, Alexander (1)(3)
Ms. Leung Churk Yin, Jeanny (1)(2)(3)
Mr. Leung Ying Wah, Lambert (1)(2)(3)
Mr. Lin Sun Mo, Willy (1)(3)

## COMPANY SECRETARY

Ms. Cheung Yuet Fan, Aries

## REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Nomination Committee

## PRINCIPAL OFFICE

15/F., Tower A,
Manulife Financial Centre,
No. 223-231 Wai Yip Street, Kwun Tong,
Kowloon, Hong Kong

## AUTHORISED REPRESENTATIVES

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

## PRINCIPAL BANKERS

Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

## AUDITORS

Deloitte Touche Tohmatsu

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

# CHAIRMAN'S STATEMENT

Fiscal 2011/12 proved to be an exceptionally challenging year for the Group. The prudent forecast expressed in our interim report and 3rd quarter update were well founded. Not only were our sales compromised by a weak sentiment in the global markets but there were significant operational issues encountered in expanding our Regional Thailand plant. At the end of the fiscal year, we made the decision to exit all the manufacturing activities in Shenzhen, resulted in a significant amount of closure costs impacting the income statement.

As a consequence of the above, we made a profit warning announcement on 3 July 2012. Our preliminary financial data for fiscal 2011/12 was announced on 24 August 2012 as one of the Company's substantial shareholders, Van de Velde N.V., released its interim financial report which included certain information about its share of our Group's unaudited consolidated result for the year ended 30 June 2012.

During the year, sales declined 16% compared to last year and a loss after taxation of HK$61.2 million was recorded compared to a profit of HK$56.7 million in the previous year.

Our expansion in regional Thailand did not go as smoothly as expected with operational issues in our new plant causing, amongst other things, delivery delays, cancelled orders and write off of materials. These operational issues have been addressed at the time of this annual report and I am confident that the measures that we have taken will ensure that these issues are a thing of the past.

We adhere to our strategic plan of trimming down our expensive capacity in China while building low cost production elsewhere outside of China. We have since July permanently ceased all manufacturing activities in Shenzhen where the wage cost was known to be the highest among our operation regions. Some supporting functions, including product development, customer support and procurement, remain at that location. The exit cost of approximately HK$22 million which comprises primarily severance pay was reflected in our result of the fiscal year.

We are comfortable with our developing operation in Phnom Penh, Cambodia. It is expected that when fully operational, it will provide us with significant capacity at a reasonable cost.

There is no reason to expect any business upturn in the next twelve months and beyond. The debt crisis in Europe has not been addressed, and weak market sentiment in US and even Asia continue negatively affecting consumer behavior and business performance. At Top Form, however, we take a positive view in that, with thanks to the strategic changes we have made in the recent years, we have positioned ourselves to take on the challenges confronting us now and in future. With the operational issues in our Thailand plant being put behind us and following the cessation of the manufacturing operation of our most expensive plant in Shenzhen, we are confident that our core OEM business will achieve a positive contribution to the Group's business performance.

Your Board, having taken into account the current business climate, our cash position and reinvestment needs, has decided not to propose a final dividend this year (2011: HK$0.025). An interim dividend of HK$0.01 per share was paid for this year (2011: HK$0.015), representing an aggregate distribution of HK$0.01 per share for this fiscal year (2011: HK$0.04 per share).

In closing, I would like to express my appreciation to our Board members for their counsel and support, to our shareholders for their understanding and our employees for their hard work and diligence during these difficult and transitional times.

**Fung Wai Yiu**
*Chairman*

Hong Kong
6 September 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group's operational focus is in its core Manufacturing activity, together with a Corporate cost centre.

| | Revenue | | Profit (loss/expenses) | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Manufacturing | **1,132,391** | 1,339,798 | **(46,572)** | 86,651 |
| Corporate | **–** | – | **(14,620)** | (14,990) |
| | **1,132,391** | 1,339,798 | **(61,192)** | 71,661 |

For the year ended 30 June 2012, the Group recorded manufacturing sales revenues of HK$1,132 million compared to HK$1,340 million in the previous year.

The loss before taxation amounted to HK$61.2 million against a profit of HK$71.7 million in fiscal 2011. After tax loss was HK$61.2 million compared to a profit of HK$56.7 million.

The loss per share was HK5.6 cents compared to earnings of HK5.1 cents in the previous year. As a consequence of the above, a profit warning was announced on 3 July 2012.

## MANUFACTURING

During the year, our core OEM business recorded global sales of 32.4 million units of brassieres compared to 41.4 million units in 2011.

Our first half accounted for 16.6 million units compared to 23.5 million units in 2011. In our second half, we sold 15.8 million units compared to 17.9 million units in 2011.

In monetary terms, 54% of our sales were to the US market compared to 64% in the previous year. The EU accounted for 28% (21% in the previous year) and the rest of the world 18% (15% in the previous year).

In the fiscal year, China accounted for 55% of our global capacity, regional Thailand 44% and Cambodia 1%.

In November 2011, sparked by a dispute between a worker and a production manager, the workforce of our Shenzhen plant staged a labour strike which ended after three working days upon satisfactory legal and administrative actions taken by the Company.

Towards the end of the fiscal year, we made the decision to cease manufacturing operations in the plant, primarily due to escalating labour costs. A number of supporting functions, including product development, remain at that location. Our exit costs totaled HK$22 million and are described in note 6 to the financial statements.

Production in our plant in Thailand, located in the highlands near the Western border of the country, was not disrupted by the severe autumn flooding. Cargoes were routed around the flooded parts of the country which, however, resulted in additional logistic costs. The expansion of our operations in a nearby location to our existing plant was completed on plan in our first half and represents a 100% increase in our floor space. The expansion, however, encountered unexpected environmental and climate issues leading to a number of cancelled orders which resulted, amongst other things, in write offs of materials. Unscheduled overtime was necessary to meet delivery schedules and, where these were not able to be met, air freight costs were incurred during the year.

Following our strategic plan to pursue low cost production growth opportunities outside China, the Group in September 2011 secured a long term lease of factory premises in Phnom Penh, Cambodia. At the time of this report the plant has some 360 sewing operators.

Gross margin declined from 19% in fiscal 2011 to 15% in the current year, reflecting the escalating cost changes in China and the production issues in our Thailand plant.

## FINANCIAL POSITION

The financial position of the Group remains healthy with shareholders' funds standing at HK$498 million as at 30 June 2012 compared with HK$563 million at the previous year end. Bank balances and cash stood at HK$146 million whilst credit facilities available to the Group amounted to HK$150 million and gearing remained at an insignificant level.

By the end of the year, we had rented out certain owned properties in Shenzhen and accordingly the properties are reclassified as investment properties which are revalued by an external professional valuer at a fair value of approximately HK$49 million, of which HK$37 million (net of tax) is credited to the asset revaluation reserve.

Capital expenditure during the year, which was primarily related to the development of the Cambodian plant, amounted to HK$39.1 million compared to HK$39.4 million in the previous year.

## CORPORATE

The costs attributable to our corporate cost centre amounted to HK$14.6 million compared to HK$15 million in the previous year.

## OUTLOOK

We do not expect an upturn in the business environment in the coming year with markets remaining volatile and challenging. Our market focus remains directed to the less price sensitive business.

We will continue with our strategy of shifting our production to our most effective locations and searching out new low cost facilities in the Asian region.

We are also confident that many of the one off operation issues affecting the performance of our business are now behind us. We shall focus on building up the productivity of our new plant recently set up in Cambodia, and on improving the cost efficiency of the rest of the operations.

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

Hong Kong
6 September 2012

# CORPORATE GOVERNANCE REPORT

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

With the amendments of the Corporate Governance Code (which is set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") coming into effect from 1 April 2012 and amendments to associated Listing Rules, the Company has, throughout the year under review, complied with the former code provisions and, as from the implementation date of the revised code provisions ("Code Provisions"), complied with the Code Provisions and most of the recommended best practices, except for the following deviations:

- A.4.1 – Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at least once every three years in accordance with the Company's Bye-laws.

- A.4.2 – The Chairman and the Group Managing Director are not, while holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board is pleased to present the key corporate governance principles and practices followed by the Group during the year.

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A<br>A.1 | **DIRECTORS**<br>**The Board**<br>***Code Principle***<br>The Board should assume responsibility for leadership and control of the issuer; and be responsible for directing and supervising the company's affairs. The Board should take decisions objectively in the best interests of the issuer, and should regularly review the contribution required from a director to perform his responsibilities to the Company. | | |
| A.1.1 | • Regular board meetings at least four times a year. | ✓ | • The Board held 4 regular meetings during the year.<br>• Details of Directors' attendance records are set out below:<br><br>*Executive Directors* — *Attendance*<br>Fung Wai Yiu *(Chairman)* — 4/4<br>Wong Chung Chong, Eddie *(Group Managing Director)* — 4/4<br>Wong Kai Chi, Kenneth — 4/4<br>Wong Kai Chung, Kevin — 4/4<br><br>*Non-executive Directors*<br>Lucas A.M. Laureys — 2/4<br>Herman Van de Velde — 2/4 |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | | | *Independent Non-executive Directors* — *Attendance*<br>Marvin Bienenfeld 4/4<br>Chow Yu Chun, Alexander 4/4<br>Leung Churk Yin, Jeanny 4/4<br>Leung Ying Wah, Lambert 4/4<br>Lin Sun Mo, Willy 3/4 |
| A.1.2 | • All directors be given an opportunity to include matters in the agenda for regular board meetings. | ✓ | • Regular Board meetings are scheduled at least 3 months in advance to give Directors the opportunity to include matters in the agenda. |
| A.1.3 | • Notice of at least 14 days be given for regular board meetings. | ✓ | • At least 14 days formal notice is given before each regular meeting. |
| A.1.4 | • Minutes of board meetings and board committee meetings should be kept by a duly appointed secretary of the meeting and open for inspection by directors. | ✓ | • The Company Secretary is responsible for taking minutes of Board meetings and Board Committee meetings. Such minutes are open for inspection by Directors. |
| A.1.5 | • Minutes should record in sufficient detail the matters considered and decisions reached.<br>• Draft and final version of minutes should be sent to all directors for comments within a reasonable time. | ✓ | • Minutes recorded in sufficient detail matters considered and decisions reached.<br>• Directors are given an opportunity to comment on draft Board minutes which are sent to Directors within a reasonable time (generally within 14 days) of the relevant meeting.<br>• The signed Board minutes are placed on record after the same have been reviewed and agreed amongst the Board members. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A.1.6 | • Agreed procedure for directors to seek independent professional advice at the company's expense. | ✓ | • Directors have been advised that the Company Secretary can arrange independent professional advice at the expense of the Company if the Company Secretary considers that such seeking of advice is necessary and appropriate. |
| A.1.7 | • If a substantial shareholder or a director has a conflict of interest in a material matter, a physical board meeting be held.<br><br>• Independent non-executive directors who have no material interest in the transaction be present at such meeting. | ✓ | • There is a prescribed list of matters reserved for Board decision which includes approval of material connected transactions and matters involving a conflict of interest for a substantial shareholder or Director.<br><br>• Such matters are considered at a full Board meeting. The Company's Bye-laws provide for voting and quorum requirements conforming with Code Provisions. |
| A.1.8 | • Appropriate insurance cover in respect of legal action against directors. | ✓ | • There is in place appropriate insurance covering Directors' and Officers' liability. |
| A.2 | **Chairman and Chief Executive**<br>***Code Principle***<br>There should be a clear division of responsibilities between the Chairman and the Chief Executive of the issuer to ensure a balance of power and authority. | | |
| A.2.1 | • Roles of chairman and chief executive should be separated and performed by separate individuals.<br><br>• Division of responsibilities between chairman and chief executive should be clearly established and set out in writing. | ✓ | • The positions of the Chairman and the Group Managing Director are held by separate individuals.<br><br>• The Chairman focuses on Group strategic and Board issues. The Group Managing Director has overall Chief Executive responsibility for Group operations and development generally. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A.2.2 | • The chairman should ensure that all directors are properly briefed on issues arising at board meetings. | ✓ | • The Chairman, with the support of the Group Managing Director and the Company Secretary, has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities.<br><br>• Board meetings are structured to encourage open discussion and frank debate. |
| A.2.3 | • The chairman should be responsible for ensuring that directors receive adequate information, which is accurate, clear, complete and reliable in a timely manner. | ✓ | • Board papers are normally sent to Directors at least three days before Board meetings. |
| A.2.4 to A.2.9 | Important roles for chairman including:<br>• Drawing up and approving agenda for each board meeting<br><br>• Ensuring establishment of good corporate governance practices and procedures<br><br>• Encouraging all directors to make a full and active contribution to Board affairs and voice their concerns with different views<br><br>• Holding meeting with non-executive directors and promoting a culture of openness and debate by facilitating effective contribution of non-executive directors<br><br>• Ensuring effective communication between the Board and shareholders | ✓ | • The Chairman, together with the Company Secretary, draws up agenda for each Board meeting after consultation with the relevant parties.<br><br>• The Chairman plays a key role in driving corporate governance development and a leading role in the Corporate Governance Function held by the Board.<br><br>• A Board calendar of meeting dates is normally planned prior to the beginning of a fiscal year. All Directors take active interest in Company affairs and participated in Board meetings with open debates for contribution to the Company.<br><br>• The Chairman meets with Non-executive Directors (including Independent Non-executive Directors) at least annually. They participate in Board meetings with open debates and bring independent judgments and constructive comments to the Board.<br><br>• General meetings are held at least once a year in which the Chairman and the Group Managing Director are present to answer any questions from shareholders. Shareholders can also access the Company's latest information by visiting the Company's website (www.topformbras.com). |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A.3 | **Board Composition**<br>***Code Principle***<br>The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer and shall include a balanced composition of executive and non-executive directors so that independent judgments can effectively be exercised. | | |
| A.3.1 | • Independent non-executive directors should be identified in all corporate communications that disclose the names of directors. | ✓ | • The composition of the Board represents a well balanced mixture of skills and experience appropriate for the requirements of the business of the Company.<br>• Review of the Board composition is made regularly.<br>• The composition of the Board by category is disclosed in all corporate communications and the updated biographical details of the Directors are set out in annual reports under the section headed "Biographical Details of Directors and Senior Management" and on the website of the Company (www.topformbras.com). |
| A.3.2 | • Maintain on the website an updated list of directors identifying their role and function and whether they are independent non-executive directors. | ✓ | • Biographies and designations of Directors are included on the Company's website and are updated periodically. A list of names of Directors and their roles and functions is also published on the HKExnews website (www.hkexnews.hk) and the Company's website. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| A.4 | **Appointments, Re-election and Removal**<br>***Code Principle***<br>These should be a formal, considered and transparent procedure for the appointment of new directors and plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals. | | |
| A.4.1 | • Non-executive directors should be appointed for a specific term and subject to re-election. | *Deviation explained* | • Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at least once every three years in accordance with the Company's Bye-laws. |
| A.4.2 | • All directors appointed to fill a casual vacancy should be subject to election by shareholders at the next general meeting after their appointment. | ✓ | • In accordance with the Company's Bye-laws, newly appointed Directors are required to offer themselves for re-election at the next general meeting following their appointment. |
| | • Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. | *Deviation explained* | • Under the Company's Bye-laws, at each annual general meeting one-third of the Directors for the time being or, if the number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office. The Chairman and the Group Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.<br><br>In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in the roles of Chairman and Group Managing Director and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time. |

# CORPORATE GOVERNANCE REPORT

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A.4.3 | • Election of an independent non-executive director serving more than nine years. Include reason why considered to be independent and why should be re-elected. | ✓ | • The Company strongly supports the principle of Board independence.<br>• None of the Independent Non-executive Directors retiring and offering for re-election at the forthcoming annual general meeting has served the Board as an independent non-executive director for more than nine years. |
| A.5 | **Nomination Committee** | | |
| A.5.1 to A.5.3 | • The Company should establish a nomination committee which is chaired by the Chairman of the Board or an independent non-executive director and comprises a majority of independent non-executive directors. Written terms of reference specifying its authority and duties should be published on Stock Exchange's and the Company's website. | ✓ | • The Company established a Nomination Committee in February 2012, comprising Fung Wai Yiu as Chairman, and other directors namely Eddie Wong Chung Chong, Herman Van de Velde, Marvin Bienenfeld, Alexander Chow Yu Chun, Jeanny Leung Churk Yin, Lambert Leung Ying Wah and Willy Lin Sun Mo, representing a majority of Independent Non-executive Directors.<br>• Written terms of reference which follows closely the requirements of the Code Provisions have been adopted by the Board and are available for review on HKExnews website and the Company's website.<br>• During the year under review, the Committee has reviewed and assessed the independence of all Independent Non-executive Directors and considers all of them to be independent. |
| A.5.4 | • Nomination Committee should be provided with sufficient resources to perform its duties and should seek independent professional advice at the issuer's expense where necessary. | ✓ | • The Committee is authorized by the Board to seek outside legal or other independent professional advice where necessary. It may also secure the attendance of outsiders with relevant experience if it considers appropriate. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A.6 | **Responsibilities of Directors**<br>***Code Principle***<br>All directors (including non-executive directors) are required to keep abreast of their responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. | | |
| A.6.1 | • Every newly appointed director should receive a comprehensive, formal induction to ensure that he has a proper understanding of the business; his responsibilities under the listing rules, applicable regulatory requirements, business and governance policies of the issuer. | ✓ | • The Chairman and Company Secretary will usually brief the newly appointed Director for the duties and responsibilities he/she may perform as a Director of the Company and other regulatory requirements he/she may observe.<br><br>• Directors are provided at quarterly Board meetings with comprehensive reports on the management's strategic plans, updates on business, financial objectives, plans and actions.<br><br>• The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.<br><br>Memos or emails are issued from time to time to keep Directors up to date with changes in Listing Rules and other regulations relevant to Directors in the discharge of their duties. |
| A.6.2 | • Function of non-executive directors include:<br>– participate in board meetings and bring an independent judgment to the board<br>– take the lead where potential conflicts of interest arise<br>– serve on board committees if invited<br>– scrutinise the issuer's performance | ✓ | • Non-executive Directors seek guidance and direction from the Chairman and the Group Managing Director on the future business direction and strategic plans so as to gain a comprehensive understanding of the business of the Company to exercise their independent judgment. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | | | • Non-executive Directors review the financial information and operational performance of the Group on a regular basis.<br><br>• The Audit Committee of the Company is wholly comprised of Independent Non-executive Directors. The Compensation Committee is wholly comprised of Non-executive Directors, with the majority being Independent Non-executive Directors. The Nomination Committee and Corporate Governance Function are comprised of all categories of Directors, with the majority being Independent Non-executive Directors. |
| A.6.3 | • Directors should ensure that they can give sufficient time and attention to the affairs of the issuer. | ✓ | • There was satisfactory attendance for Board and Board Committee meetings during the year.<br><br>Please refer to A.1.1, B.1.2 and C.3.4 for details. |
| A.6.4 | • Directors must comply with the Model Code.<br><br>• Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees. | ✓ | • The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for Directors' dealings in securities of the Company.<br><br>Having made specific enquiries, the Company confirmed that each of the Directors has complied with the required standards during the year.<br><br>• Employees who are likely to be in possession of unpublished price-sensitive information of the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A.6.5 | • Directors should participate in continuous professional development, with appropriate emphasis on the roles, functions and duties of a listed company director. | ✓ | • The Company Secretary has provided all Directors with relevant directors' guides for their discharge of duties and updates on changes of relevant rules and regulations.<br><br>• Directors have attended training sessions conducted by independent professional bodies on corporate governance practices and topics with emphasis on their roles and functions as a listed company director. Presentations on relevant topics are organized from time to time to coincide with Board meetings. The Company has kept a record of this and ensures that the Directors possess the relevant and balanced skills and knowledge to act and contribute to the business and development of the Company. |
| A.6.6 | • Directors should disclose at the time of appointment (and at subsequent times) all offices held in other public companies and other significant commitments. | ✓ | • On appointment Directors have disclosed all relevant information to the Board. They will disclose any change of such information to the Company in a timely manner and such information is updated in annual reports and the Company's website.<br><br>• The Board reviews regularly each Director's performance and contribution to the Company. |
| A.6.7 | • Directors should ensure regular attendance and active participation at board, board committee and general meetings through which to demonstrate their skills, expertise and varied backgrounds and qualifications. | ✓ | • There was satisfactory attendance for Board, Board Committee and general meetings during the year.<br><br>During Board and Board Committee meetings, there were open discussions amongst the Board and Board Committee members and constructive advice was given to the Board. Directors and chairmen of respective Board Committees were available at general meetings to answer questions from shareholders.<br><br>Please refer to A.1.1, B.1.2 and C.3.4 for details. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| A.6.8 | • Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments. | ✓ | • Details on the roles and functioning of as well as the work performed by Non-executive Directors (including Independent Non-executive Directors) are set out above. |
| A.7 | **Supply of and Access to Information**<br>***Code Principle***<br>Directors should be provided in a timely manner with appropriate information so as to enable them to make an informed decision and to perform their duties and responsibilities. | | |
| A.7.1 | • Board papers should be sent to all directors at least three days before regular board or board committee meetings. | ✓ | • Board papers are circulated not less than three days before regular Board or Board Committee meetings. |
| A.7.2 | • Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions.<br>• Each director should have separate and independent access to senior management. | ✓ | • The Chief Financial Officer and Company Secretary are in attendance at all regular Board and Board Committee meetings to advise on corporate governance, statutory compliance, accounting and financial matters.<br>• Senior management is from time to time brought into formal and informal contact with the Board at Board meetings and other events. |
| A.7.3 | • Directors are entitled to have access to board papers and related materials; queries raised by directors should be responded promptly and fully. | ✓ | • Board papers and related materials are circulated to Directors prior to Board meetings and Board Committee meetings and are made available for inspection at any time by Board members and Committee members.<br>• The Executive Directors and Chief Financial Officer, with the support of the Company Secretary, play a leading role in ensuring that queries are answered promptly and fully. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| B | **REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION** | | |
| B.1 | **The Level and Make-up of Remuneration and Disclosure**<br>***Code Principle***<br>A formal and transparent procedure should be established for setting policy on executive director remuneration and remuneration packages for all directors. No director should be involved in deciding his own remuneration. | | |
| B.1.1 | • The remuneration committee should consult the chairman and/or chief executive about their remuneration proposals for other executive directors and have access to independent professional advice if necessary. | ✓ | • The Company established a Compensation Committee in 2001.<br><br>• There is close liaison and consultation between the Committee and the Chairman and the Group Managing Director on all human resource issues.<br><br>• Committee members are aware that access to professional advice is available if considered necessary. |
| B.1.2 | • Terms of reference of the remuneration committee to include:<br>– recommendations to the board on policy and structure for remuneration of all directors and senior management<br>– review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives | ✓ | • The terms of reference of the Compensation Committee follow closely the requirements of the Code Provisions that have been adopted by the Board.<br><br>• The Compensation Committee has the responsibility delegated by the Board to determine the remuneration packages of individual executive directors and senior management.<br><br>• During the year, members of the Committee had held a meeting at which the following issues were reviewed, discussed and approved amongst all the committee members:–<br>– Remuneration policy of the Group for the year ended 2011/2012; and<br>– Remuneration packages of Executive Directors and senior management for the year ended 2011/2012. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
|---|---|---|---|
| | – either to determine, with delegated responsibility, specific remuneration packages of individual executive directors and senior management; or to make recommendations to the Board for this purpose.<br>– make recommendations to the Board on remuneration of non-executive directors.<br>– review and approve the compensation payable on loss or termination of office or appointment.<br>– ensure that no director or any of his associates is involved in deciding his own remuneration. | | • The Committee is comprised of the following members and details of their attendance records at the meeting are set out below:–<br><br>*Independent Non-executive Directors* — *Attendance*<br>Marvin Bienenfeld *(Chairman)* — 1/1<br>Leung Churk Yin, Jeanny — 1/1<br>Leung Ying Wah, Lambert — 1/1<br><br>*Non-executive Director*<br>Herman Van de Velde — 1/1<br><br>• The Committee reviews compensation policies of the Group.<br><br>• The compensation policy of the Group is designed to reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals.<br><br>• The Group's compensation policy for Non-executive Directors is to ensure that they are sufficiently but not excessively compensated for their efforts and time dedicated to the Group.<br><br>• No individual Director is involved in deciding his own remuneration. |
| B.1.3 | • The remuneration committee should make available its terms of reference and the authority delegated to it by the board. | ✓ | • The terms of reference of the Compensation Committee are available on the HKExnews website and the Company's website. |
| B.1.4 | • The remuneration committee should be provided with sufficient resources to perform its duties. | ✓ | • Independent professional advice will be brought to supplement internal resources where appropriate. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| B.1.5 | • Details of remuneration to senior management should be disclosed by band in annual reports. | ✓ | • Details of remuneration paid to members of senior management for the year are as follows:<br><br>HK$<br>Salaries and other benefits: 10,418,607<br>Retirement benefit scheme contributions: 73,500<br><br>• The remunerations were within the following bands:<br><br>Number of individuals<br>HK$500,001 – HK$1,000,000: 3<br>HK$1,000,001 – HK$1,500,000: 3<br>HK$1,500,001 – HK$2,000,000: 1<br>HK$2,000,001 – HK$2,500,000: 0<br>HK$2,500,001 – HK$3,000,000: 1 |
| | ***Recommended Best Practices*** | | |
| B.1.6 | • A significant proportion of executive directors' remuneration should link rewards to corporate and individual performance. | ✓ | • Details of remuneration of Executive Directors are disclosed on an individual basis in the annual report. A significant proportion of the compensation of Executive Directors and senior management is based on individual performance and the financial performance of the Group. |
| C<br>C.1 | **ACCOUNTABILITY AND AUDIT**<br>**Financial Reporting**<br>***Code Principle***<br>The Board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects. | | |
| C.1.1 | • Management to provide explanation and information to the board to enable it to make an informed assessment of financial and other information put forward to the board for approval. | ✓ | • Directors are provided with a review of the Group's major business activities and detailed financial information on a quarterly basis. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| C.1.2 | • Management to provide monthly updates to the Board in sufficient details for its assessment of the issuer's performance, position and prospect. | ✓ | • Management provides monthly accounts or updates to Board members, whenever necessary, facilitating a balanced and understandable assessment and appraisal of the Company's performance, position and prospect. |
| C.1.3 | • The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. | ✓ | • The Directors annually acknowledge their responsibility for preparing the financial statements of the Group.<br><br>• The Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:<br>– select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;<br>– state the reasons for any significant departure from accounting standards; and<br>– prepare the financial statements on a going concern basis, unless it is not appropriate to assume that the Company and the Group will continue in business for the foreseeable future.<br><br>The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention of fraud and other irregularities. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| | • A statement by the auditors regarding their reporting responsibilities in the auditors' report on the financial statements.<br><br>• Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. | | • The Auditors' Report states auditors' reporting responsibilities.<br><br>• Directors are not aware of any matters and uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. |
| C.1.4 | • Directors should explain in annual reports by separate statement the basis on which the issuer generates or preserves value over the longer term (business model) and the strategy for delivering such objectives. | ✓ | • This information is stated in the "Management Discussion and Analysis" section in annual reports. |
| C.1.5 | • The Board should present a balanced, clear and understandable assessment in annual/interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules and other statutory requirements. | ✓ | • The Board aims to present a clear, balanced and understandable assessment of the Group's performance and financial position in all shareholder communications.<br><br>• The Board is aware of the requirements under the Listing Rules about timely disclosure of price-sensitive information regarding the Company and will arrange to issue and publish such announcements as and when the occasions arise. The Company Secretary will consult and seek legal advice on the materiality and sensitivity of certain material and connected transactions and advise the Board accordingly. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| | ***Recommended Best Practices*** | | |
| C.1.6 | • An issuer should announce and publish quarterly financial results, within 45 days from the end of the relevant quarter. | *Deviation explained* | • The Board does not consider the announcement and publication of quarterly financial results to be desirable at the present time. |
| C.1.7 | • Once an issuer has decided to publish its quarterly financial results, it should continue to do so. | *N/A* | • The Board reviews business and operational updates on a quarterly basis. In order to enhance the transparency of the Company and raise the investment community's understanding of the latest situation and performance of the Group, quarterly operational updates are posted on the Company's and the HKExnews websites, bridging the gaps between the publication of the interim and annual results. |
| C.2 | **Internal Controls**<br>***Code Principle***<br>The Board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investments and the issuer's assets. | | |
| C.2.1 | • The directors should at least annually conduct a review of the effectiveness of the internal control systems of the issuer and its subsidiaries and report that they have done so in their Corporate Governance Report.<br>• The review should cover all material controls, including financial, operational and compliance controls and risk management functions. | ✓ | • The Board, with the support of Internal Audit Department, has overall responsibility for maintaining sound and effective internal control and risk management system of the Group.<br>• The Internal Audit department conducts reviews on the internal control systems of the Company and its subsidiaries on a regular basis and then reports their findings to the audit committee. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| | | | • The review covers all material controls, including financial, operational, and compliance controls and risk management functions.<br><br>An annual audit plan will be submitted to the Audit Committee for review and endorsement at the beginning of each financial year. In addition to the planned audit schedule, Internal Audit Department also carries out other review and audit works on an ad hoc basis should there be a material or significant issue arising from business/operational units that would be detrimental to the business objectives and developments of the Group.<br><br>The Board is generally satisfied as to the effectiveness of the internal control systems of the Company and its subsidiaries during the year under review. |
| C.2.2 | • The annual review should consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget. | ✓ | • There have been sufficient and adequate resources put in place within the Group to perform the accounting and financial reporting function.<br><br>The finance team, lead by the Chief Financial Officer, with the support of a group of accounting professionals, is responsible for the oversight of the Group's finance and control function. Monthly operational review meetings are held with each of the regional and business unit heads to evaluate their performance against the targets set in the annual budget and ongoing matters.<br><br>• Adequate training is provided with to the finance team. In addition to the "On-the-job" and internal training, senior staff will regularly attend seminars with topics of relevance to them in discharging their duties, updating their professional knowledge as well as coaching their subordinates. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| | ***Recommended Best Practices*** | | |
| C.2.3 | • The board's annual review should, in particular consider:<br>– the changes since the last annual review in the nature and extent of significant risks, and the issuer's ability to respond to changes in its business and the external environment.<br>– the scope and quality of management's ongoing monitoring of risks and of internal control systems, and where applicable, the work of its internal audit function and other assurance providers.<br>– the extent and frequency of communication of monitoring results to the board which enables it to assess control of the issuer and the effectiveness of risk management.<br>– significant control failings or weaknesses that have been identified during the period.<br>– the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance. | ✓ | • The review by the Board considered all these matters.<br><br>• There were no significant control failings or weakness identified. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| C.2.4 | • Narrative statement on compliance with code provisions on internal control including:<br>– process used to identify, evaluate and manage significant risks<br>– additional information to explain its risk management processes and internal control system<br>– acknowledgement by the board that it is responsible for the internal control system and its effectiveness<br>– process used to review the effectiveness of the internal control system<br>– process used to resolve material internal control defects for any significant problems disclosed in annual reports and accounts. | ✓ | • The Board has overall responsibility for internal control system and reviewing its effectiveness.<br><br>• The Group has in place an internal control system which is designed in light of the nature of the business as well as the organization structure.<br><br>The Group's system of internal control includes a defined management structure with limits of authority and is designed to further the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.<br><br>• Senior management adopts a hands-on approach to the operations of the business and delegation of authority is limited.<br><br>• Detailed operational and financial budgets are prepared and reviewed by the responsible Directors prior to being adopted. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| | | | • Robust controls are in place for the recording of complete, accurate and timely accounting and management information. Comprehensive monthly management accounts are prepared, reviewed with, and distributed to appropriate senior managers. In addition, monthly operational review meetings are held, usually on location at the various operating plants. The Chairman and the Group Managing Director play leading roles in these meetings.<br><br>• The Head of Internal Audit has direct access to the Chairman of the Audit Committee. The work plan of the Internal Audit Department focuses on those areas of the Group's activities with the greatest perceived risk and the plan is reviewed and approved by the Audit Committee. The results of internal audit reviews and corresponding remedial actions taken are reported to the Executive Directors and Audit Committee periodically. |
| C.3 | **Audit Committee**<br>***Code Principle***<br>The board should establish formal and transparent arrangements for considering how it applies the financial reporting and internal controls principles and for maintaining an appropriate relationship with the company's auditors. The audit committee should have clear terms of reference. | | |
| C.3.1 | • Minutes should be kept by a duly appointed secretary and sent to all committee members within a reasonable time. | ✓ | • Minutes are prepared by the Company Secretary and sent to members of the Audit Committee within 14 days of each meeting. |
| C.3.2 | • A former partner of existing auditing firm shall not act as a member of the committee for 1 year after he ceases to be a partner of or to have any financial interest in the firm, whichever is the later. | ✓ | • No member of the Audit Committee is a partner of or has financial interest in the existing auditing firm of the Company. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| C.3.3 and C.3.4 | • The terms of reference of the audit committee should include:<br>– relationship with the external auditors<br>– review of financial information<br>– oversight of the financial reporting system and internal control procedures<br><br>• The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. | ✓ | • The Company established an audit committee in 1998 and all its members are Independent Non-executive Directors.<br><br>• The terms of reference of the Audit Committee follow closely the requirements of the Code Provisions that have been adopted by the Board and are available for review on the HKExnews website and the Company's website.<br><br>• Under its terms of reference, the Committee oversees the Group's financial reporting process; it also reviews the Group's internal controls and risk management system, approves the scope of work of the internal audit department and oversees the relationship with the external auditors.<br><br>• The Audit Committee currently consists of the following members and two meetings have been held during the year. Details of committee members' attendance records are set out below:–<br><br>*Independent Non-executive Directors* — *Attendance*<br>Chow Yu Chun, Alexander *(Chairman)* — 2/2<br>Leung Churk Yin, Jeanny — 2/2<br>Marvin Bienenfeld — 2/2<br>Leung Ying Wah, Lambert — 2/2<br>Lin Sun Mo, Willy — 2/2 |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| | | | • The principal work performed by the committee during the year included:–<br>– review of the Company's financial statements for the year ended 30 June 2011 and for the six months ended 31 December 2011 and recommending such financial statements to the Board for their approval and adoption;<br>– discussions with the external auditors and reporting to the Board any significant matters arising from the interim/annual audit;<br>– review of the audit reports submitted by Internal Audit regarding the systems of internal control and risk management;<br>– review and approval of the audit planning.<br><br>The Committee was satisfied as to the overall effectiveness of the internal controls and risk management process during the year under review.<br><br>During the year, the independent non-executive directors of the Company had conducted reviews on the Company's connected transactions. |
| C.3.5 | • If Audit Committee disagrees with the Board's view on the selection, appointment, resignation or dismissal of external auditors, a statement from the audit committee explaining its recommendation and reason for such disagreement should be included in the Corporate Governance Report. | ✓ | • The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming Annual General Meeting, Deloitte Touche Tohmatsu be re-appointed as the external auditors for the fiscal year 2013.<br><br>• For the year ended 30 June 2012, the external auditors received HK$2,183,000 for audit services and HK$167,000 for non-audit services. |
| C.3.6 | • The audit committee should be provided with sufficient resources to perform its duties. | ✓ | • Independent professional advice will be brought to supplement internal resources where appropriate. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| C.3.7 | • Terms of reference should include:<br>– review of arrangements employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal controls or other matters.<br>– to act as the key representative body for overseeing the issuer's relation with the external auditor. | ✓ | • The terms of reference updated with these items have been adopted by the Board. The Code of Conduct adopted by the Group provides for direct consultation with the Chairman or Group Managing Director on uncertain legal or ethical issues.<br>• The Audit Committee oversees the relationship with the external auditors. |
| D<br>D.1 | **DELEGATION BY THE BOARD**<br>**Management Functions**<br>***Code Principle***<br>An issuer should have a formal schedule of matters specifically reserved for board approval. The board should give clear directions to management on the matters that must be approved by it before decisions are made on behalf of the issuer. | | |
| D.1.1 and D.1.2 | • Board must give clear directions as to the powers of management, including where management should obtain prior board approval before making decisions or entering into any commitments on behalf of the issuer.<br>• Formalize the functions reserved to the board and those delegated to management; and review those arrangements periodically to ensure that they remain appropriate to the needs of the company. | ✓ | • The daily management, operation and administration functions of the Company are delegated to management. The reporting system is designed to ensure that significant issues are reported to the Board on a regular basis.<br>• There is a defined schedule of matters reserved for full Board approval, including:<br>– long-term objectives and strategies;<br>– audited financial statements and associated materials; review and approve interim and final results announcements and quarterly operational updates; convening general meetings;<br>– recommendations as to dividend;<br>– appointment, removal or re-designation of Directors; |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| | | | – remuneration of Non-executive Directors and changes in terms and conditions of employment of Executive Directors;<br>– material connected transactions;<br>– material acquisitions, disposals or joint-venture arrangements;<br>– material raising of external finance;<br>– appointment and removal of external auditors;<br>– matters involving a conflict of interest for a substantial shareholder or Director;<br>– Create, issue, purchase, redeem or otherwise reorganize the Company's share capital. |
| D.1.3 | • An issuer should disclose the respective responsibilities of the board and management. | ✓ | • As set out in D.1.1 and D.1.2. |
| D.1.4 | • Issuers should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. | ✓ | • A formal appointment letter setting out the key terms and conditions relative to their appointment will be prepared for each newly appointed Director. |
| D.2 | **Board Committees**<br>***Code Principle***<br>Board committees should be formed with specific written terms of reference that deal clearly with the committees' authority and duties. | | |
| D.2.1 | • Clear terms of reference to enable proper discharge of committees functions. | ✓ | • Three Board Committees, Audit Committee, Compensation Committee and Nomination Committee have been established with clear and specific terms of reference.<br><br>Please refer to A.5.1 to A.5.3, B.1.2, C.3.3 and C.3.4 for details. |
| D.2.2 | • The terms of reference should require committees to report their decisions and recommendations to the board. | ✓ | • Each Board Committee reports to the Board after the relevant meeting. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| D.3 | **CORPORATE GOVERNANCE FUNCTIONS** | | |
| D.3.1 | • The terms of reference should include developing and reviewing policies and practices on corporate governance; reviewing and monitoring training of directors and senior management, practices on compliance issues and code of conduct. | ✓ | • The terms of reference adopted by the Board follow closely the Code Provision D.3.1. |
| D.3.2 | • The Board should be responsible for performing corporate governance duties set out in D.3.1 or it may delegate the responsibilities to a committee. | ✓ | • Corporate Governance Functions of the Company are held by the Board with Chairman of the Board playing a leading role. The Board places emphasis on good corporate governance practices and has reviewed the Code of Conduct and compliance matters during the year. |
| E<br>E.1 | **COMMUNICATION WITH SHAREHOLDERS**<br>**Effective Communication**<br>***Code Principle***<br>The Board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation. | | |
| E.1.1 | • A separate resolution be proposed by the chairman for each substantially separate issue. | ✓ | • Separate resolutions are proposed at the general meeting on each substantially separate issue, including the election of individual Directors. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| E.1.2 | • The chairman of the board should attend the annual general meeting and invite the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to attend and be available to answer questions at the annual general meeting.<br><br>• The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. An issuer's management should ensure that the external auditor attends the annual general meeting to answer questions. | ✓ | • The Chairman of the Board chaired the 2011 annual general meeting held during the year and was available to answer questions from shareholders.<br><br>• The Chairmen of respective Board Committees attended the 2011 annual general meeting and were available to answer questions from shareholders.<br><br>• No special general meeting was held during the year.<br><br>• All Directors, except Herman Van de Velde and Willy Lin Sun Mo who had another unexpected engagement on that day, attended the 2011 annual general meeting. Herman Van de Velde, Non-executive Director since 2002, and Willy Lin Sun Mo, Independent Non-executive Director since 2006, have been taking active participation in the Company's meetings and affairs. All Directors have a balanced understanding of shareholders' views on the Company.<br><br>• The external auditor attended the annual general meeting to answer questions from shareholders. |
| E.1.3 | • At least 20 clear business days' notice should be given for annual general meetings and at least 10 clear business days' notice should be given for all other general meetings. | ✓ | • The Company complies with this requirement. |

| Code Ref. | Code Provisions | Compliance | Corporate Governance Practices adopted by the Group |
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| E.1.4 | • Board should establish a shareholders' communication policy and review it regularly. | ✓ | • The Company has established a Shareholders' Communication Policy which can be viewed at the Company's website.<br>• Information of shareholders' rights including (i) the way in which shareholders can convene a special general meeting; (ii) procedures with contact details that shareholders can send enquiries to the Board; (iii) procedures for putting forward proposals at general meetings; and (iv) procedures shareholders can use to propose a person for election as a director, is available at the Company's website. |
| E.2 | **Voting by Poll**<br>***Code Principle***<br>The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll | | |
| E.2.1 | The chairman of a meeting should ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. | ✓ | • The Chairman explains the detailed procedures for conducting a poll at the outset of the Annual General Meeting and any general meetings and answers questions from shareholders. |
| F | **COMPANY SECRETARY**<br>***Code Principle***<br>Company Secretary plays an important role in supporting the board by ensuring good information flow within the board, and is responsible for advising the board through the chairman and/or chief executive on governance matters and facilitates induction of directors. | | |
| F.1.1 to F.1.4 | Company secretary should have day-to-day knowledge of the issuer's affairs and should be appointed by the board at a board meeting. All directors should have access to the company secretary's advice and services. | ✓ | • The Company Secretary appointed by the Board has day-to-day knowledge of the Company and reported to the Board Chairman and Group Managing Director.<br>• The Company Secretary is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.<br>• Directors have direct access to the Company Secretary. |

### Business Integrity

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

In summary, executives and employees of the Group are expected to:

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

There is a reporting system for any code violations. The Board reviews the Code and monitors its effective implementation periodically. There are also systems in place for risk assessment, risk identification and management, and timely corrective measures for sustainability and to nourish improvement for the business of the Group.

### Communications with the Investment Community

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

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

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

The Company endeavours to be responsive to all media requests.

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 30 June 2012.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are the design, manufacture and distribution of ladies' intimate apparel, principally brassieres.

The activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2012 are set out in the consolidated income statement on page 47.

An interim dividend of HK$0.01 per share amounting to HK$10,752,000 was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend.

## 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 100.

## FIXED ASSETS

Certain of the Group's leasehold land and buildings were revalued and transferred to investment properties during the year. The revaluation resulted in a surplus over book values amounting to HK$49,033,000, which has been credited directly to the asset revaluation reserve.

During the year, the Group incurred expenditure, principally on its production facilities, totaling approximately HK$39 million. Movements of property, plant and equipment and investment properties of the Group during the year are set out in note 13 and 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of movement in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

# DIRECTORS' REPORT

## DIRECTORS

The Directors of the Company 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)* |
| Wong Kai Chi, Kenneth | |
| Wong Kai Chung, Kevin | |

### Non-executive Directors

Lucas A. M. Laureys
Herman Van de Velde

### Independent Non-executive Directors

Marvin Bienenfeld
Chow Yu Chun, Alexander
Leung Churk Yin, Jeanny
Leung Ying Wah, Lambert
Lin Sun Mo, Willy

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

No director 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 not been appointed for a specific term but will be subject to retirement by rotation in accordance with the Company's Bye-laws.

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

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Fung Wai Yiu**, aged 65, is the Chairman of the Group. Mr. Fung has over 45 years of experience in the apparel industry.

**Wong Chung Chong, Eddie**, aged 67, is the co-founder of the Group. Mr. Wong is the Group Managing Director and is responsible for the operations of the Group. Mr. Wong has over 46 years of experience in the brassiere trade.

**Wong Kai Chi, Kenneth**, aged 38, is the son of Mr. Wong Chung Chong, Eddie and brother of Mr. Wong Kai Chung, Kevin. He joined the Group in 1997 and is a Director of Top Form Brassiere Mfg. Co., Limited. Mr. Wong is responsible for the Group's Sales and Marketing and Product Development activities. He is currently the Chairman of Hong Kong Intimate Apparel Industries' Association. Mr. Wong holds a Bachelor degree in Marketing and Operations Management from School of Management, Boston University in the United States of America and a Master degree in International Business from Asian Institute of Technology in Thailand.

**Wong Kai Chung, Kevin**, aged 36, is the son of Mr. Wong Chung Chong, Eddie and brother of Mr. Wong Kai Chi, Kenneth. He is a Director of various subsidiaries of the Company. He joined the Group in 2001 and has been responsible for the corporate development of the Group. He has over 14 years of experience in business development and organisation and is currently responsible for the Group's development and operations. Mr. Wong graduated from Colby College, the United States of America majoring in Economics in 1998. He is holder of the Chartered Financial Analyst designation.

### Non-executive Directors

**Lucas A. M. Laureys**, aged 67, has been a Non-executive Director of the Company since September 2002. He is the Chairman of the Board of Van de Velde N. V., the shares of which are listed on the NYSE Euronext Brussels stock exchange. Mr. Laureys has over 40 years of experience in the brassiere trade and specialises in marketing. Mr. Laureys holds a degree in Economics from the University of Ghent, a Master Degree in Marketing from the University of Leuven and a Master Degree in Business Administration from the University of Ghent Vlerick Business School. Mr. Laureys is a director of Lucas Laureys N. V. and a board member of Delta Lloyd Bank N. V., and he was formerly the Chairman of the Board of Omega Pharma (a company previously listed on Euronext).

**Herman Van de Velde**, aged 58, has been a Non-executive Director of the Company since September 2002. He is the Managing Director of Van de Velde N. V., the shares of which are listed on the NYSE Euronext Brussels stock exchange. He is also an independent director of Lotus Bakeries N. V., a Belgian listed company. Mr. Van de Velde joined the brassiere industry in 1981 and is well versed in operating the brassiere business in Europe.

## Independent Non-executive Directors

**Marvin Bienenfeld**, aged 80, was appointed as a Non-executive Director of the Company in August 1998 and then re-designated as an Independent Non-executive Director of the Company in September 2004. Mr. Bienenfeld was formerly the Chairman of Bestform Inc. and has over 52 years of experience in the ladies' intimate apparel industry in the United States of America.

**Chow Yu Chun, Alexander**, aged 65, has been an Independent Non-executive Director of the Company since February 1993. He is a Certified Public Accountant ("CPA") of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He has over 35 years of experience in commercial, financial and investment management in Hong Kong and Mainland China. Mr. Chow has been holding directorship in New World China Land Limited and is currently a non-executive director of this company and an independent non-executive director of Playmates Toys Limited and China Strategic Holdings Limited, all these companies are listed on The Stock Exchange of Hong Kong Limited ("SEHK").

**Leung Churk Yin, Jeanny**, aged 47, has been an Independent Non-executive Director of the Company since September 2008. Prior to this, she had been an executive director of the Company since February 1998 and re-designated as a non-executive director in April 1999. Ms. Leung is a seasoned investment banker with over 25 years of corporate finance experience in Hong Kong, Mainland China and Taiwan. Ms. Leung had been holding directorship in Lai Sun Garment (International) Limited and eSun Holdings Limited until August 2011, both of these companies are listed on the SEHK. Ms. Leung was an executive director of each of Lai Sun Development Company Limited and Lai Fung Holdings Limited, from September 2007 to December 2010, both companies are listed on the SEHK.

**Leung Ying Wah, Lambert**, aged 65, has been an Independent Non-executive Director of the Company since May 2006. Mr. Leung is the Chief Executive Officer of a leading construction materials company. He is a fellow member of the ACCA, HKICPA and the Institute of Quarrying (UK). Mr. Leung is currently the Chairman of the Hong Kong Construction Materials Association and the Hong Kong Cement Traders and Producers Association.

**Lin Sun Mo, Willy**, *SBS, MBE, JP,* aged 52, has been an Independent Non-executive Director of the Company since May 2006. He holds a Bachelor of Science degree from Babson College in the United States of America and is the Managing Director of Milo's Knitwear (International) Limited. Mr. Lin is also the Chairman of Board of Governors of the Prince Philip Dental Hospital, Hong Kong Export Credit Insurance Corporation Advisory Board, the Hong Kong Shippers' Council and Textile Council of Hong Kong. He is also the Deputy Chairman of Federation of Hong Kong Industries and a committee member of Council of the Chinese University of Hong Kong.

## Management and Senior Staff

**Michael John Austin**, aged 64, is the Chief Financial Officer of the Group. Mr. Austin is a fellow member of the Institute of Chartered Accountants in England and Wales and a CPA of the HKICPA. He has over 31 years of diverse senior financial and general management experience in Hong Kong and internationally.

**Chan Chi Kwong (C. K. Chan)**, aged 65, is the Managing Director of Top Form Brassiere Mfg. Co., Limited overseeing the business operations of the Company. Mr. Chan has over 42 years of experience in apparel business and manufacturing management.

**Chan Man Ying, Vivian**, aged 37, is the Group Financial Controller. She is a CPA of the HKICPA and a fellow member of the ACCA. She joined the Group in 2004 and has 15 years of experience in accounting, auditing and financial management areas.

**Chen Fu Mei**, aged 65, is a Director of Shenzhen Top Form Underwear Co., Limited. Ms. Chen joined the Group in March 1993 and is responsible for the administration of the Group's companies in Mainland China.

**Cheung Yuet Fan, Aries**, aged 47, is the Company Secretary of the Group. Ms. Cheung joined the Group in July 2010. She is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has over 23 years of relevant experience working in listed companies and an international accounting firm. She holds a Bachelor degree of Arts in Accountancy from the City University of Hong Kong.

**Wan Ho Yau, David**, aged 54, is a 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.

**Wong Chor Wai**, aged 44, joined the Group in 1989 and is a Director of Top Form Brassiere Mfg. Co., Limited. Mr. Wong holds a Bachelor degree in Science from The University of Hong Kong.

**Wong Hei Yin, Henry**, aged 49, is the Managing Director of Charming Elastic Fabric Company Limited and Grand Gain Industrial Limited, subsidiaries of the Company, producing respectively elastic tapes and foam pads and accessories for brassiere manufacturing. Mr. Wong holds a Bachelor degree in Accounting from Lamer University, the United States of America.

## CONNECTED TRANSACTIONS

The Group has been for the past 30 years conducting transactions with Van de Velde N. V. ("VdV") by supplying ladies' intimate apparel to VdV. VdV is a connected person of the Company by virtue of it being a substantial shareholder of the Company and Mr. Lucas A. M. Laureys and Mr. Herman Van de Velde, the Chairman and the Managing Director of VdV respectively, are Non-executive Directors of the Company. All transactions between VdV and the Group would constitute continuing connected transactions ("Continuing Connected Transactions") pursuant to the Listing Rules of the Hong Kong Stock Exchange. Accordingly, a master agreement dated 18 September 2005 (the "Master Agreement") had been entered into between VdV and the Company to govern the Continuing Connected Transactions and to set annual caps for the Continuing Connected Transactions in respect of the three financial years ended 30 June 2008.

The Master Agreement had been renewed by agreement between VdV and the Company on 18 June 2008 for a term of three years ended 30 June 2011, which was further renewed by a renewal agreement (the "Renewal Agreement") entered into between VdV and the Company on 1 April 2011 for a term of three years up to 30 June 2014 for the sale of ladies' intimate apparel by the Group to VdV.

An announcement dated 1 April 2011 and a circular dated 27 April 2011 regarding the renewal of the Continuing Connected Transactions contemplated under the Renewal Agreement and the annual caps for the respective financial years ending 30 June 2012, 2013 and 2014, which are HK$80 million, HK$90 million and HK$100 million respectively, had been duly published and despatched to shareholders and approval had been obtained from independent shareholders of the Company on 16 May 2011.

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

| Name of the Connected Person | Nature of the Continuing Connected Transactions | Amount HK$'000 |
|---|---|---|
| VdV | Sale of ladies' intimate apparel by the Group to VdV | 63,171 |

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

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

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

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

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the continuing connected transactions as set out above which took place during the year.

## DIRECTORS' INTERESTS IN CONTRACTS

Other than the Continuing Connected Transactions as disclosed under the section headed "Connected Transactions" above, there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which any one of the Directors of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Mr. Lucas A. M. Laureys is the Chairman of VdV whose principal business activity is the manufacture and marketing of luxury lingerie. The Board considers that the business of VdV may indirectly compete with the business of the Group.

Mr. Herman Van de Velde, the Managing Director of VdV, has an indirect interest in Van de Velde Holding N. V. which held a direct interest of 56.26% in VdV whose principal business activity is the manufacture and marketing of luxury lingerie. The Board considers the business of VdV may indirectly compete with the business of the Group.

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

## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the consolidated financial statements.

## DIRECTORS' INTERESTS

As at 30 June 2012, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which were notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Long positions:

*Ordinary shares of HK$0.10 each of the Company*

| Name of Director | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Fung Wai Yiu | Beneficial owner and interests held by spouse *(note 1)* | 43,308,521 | 4.03% |
| Wong Chung Chong, Eddie | Beneficial owner and interests held by spouse and trust *(note 2)* | 195,272,118 | 18.16% |
| Wong Kai Chi, Kenneth | Beneficiary of trust *(note 3)* | 175,591,597 | 16.33% |
| Wong Kai Chung, Kevin | Beneficiary of trust *(note 3)* | 175,591,597 | 16.33% |
| Marvin Bienenfeld | Beneficial owner | 870,521 | 0.08% |
| Chow Yu Chun, Alexander | Beneficial owner | 3,400,521 | 0.32% |
| Leung Churk Yin, Jeanny | Beneficial owner | 70,521 | 0.01% |
| Leung Ying Wah, Lambert | Beneficial owner | 400,000 | 0.04% |
| Herman Van de Velde | Interests held by a controlled corporation *(note 4)* | 275,923,544 | 25.66% |

*Notes:*

1. 23,092,521 shares were beneficially owned by Mr. Fung Wai Yiu ("Mr. Fung") whereas 20,216,000 shares were held by the spouse of Mr. Fung.

2. 18,580,521 shares were beneficially owned by Mr. Wong Chung Chong, Eddie ("Mr. Wong") or his nominees whereas 1,100,000 shares were held by the spouse of Mr. Wong and 175,591,597 shares were registered in the name of High Union Holdings Inc., the shares of which were held by Safeguard Trustee Limited, a trustee of a family trust of which the family members of Mr. Wong were eligible beneficiaries.

3. 175,591,597 shares were registered in the name of High Union Holdings Inc., the shares of which were held by Safeguard Trustee Limited, a trustee of Mr. Wong's family trust of which Mr. Wong Kai Chi, Kenneth and Mr. Wong Kai Chung, Kevin were eligible beneficiaries.

4. 275,923,544 shares were held by VdV. Mr. Herman Van de Velde held an indirect equity interest in Van de Velde Holding N. V. which in turn directly held 56.26% of the equity interest of VdV.

Certain nominee shares in the Company's subsidiaries were held by Mr. Wong in trust for the Company's subsidiaries as at 30 June 2012.

Save as disclosed above, none of the Directors or his/her associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO and as far as was known to the Directors of the Company, persons (other than the Directors) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

### Long positions:

*Ordinary shares of HK$0.10 each of the Company*

| Name of Shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| VdV | Beneficial owner | 275,923,544 | 25.66% |
| High Union Holdings Inc. | Beneficial owner | 175,591,597 | 16.33% |
| V. F. Corporation | Beneficial owner | 106,000,000 | 9.86% |

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 30 June 2012.

## 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 which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## MAJOR CUSTOMERS AND SUPPLIERS

The respective percentages of the Group's purchases from major suppliers and revenue attributable to major customers for the year ended 30 June 2012 were as follows:

| | |
|---|---|
| Percentage of purchases attributable to the Group's largest supplier | 7% |
| Percentage of purchases attributable to the Group's five largest suppliers | 22% |
| Percentage of revenue attributable to the Group's largest customer | 33% |
| Percentage of revenue attributable to the Group's five largest customers | 69% |

During the year, Mr. Herman Van de Velde, a director of the Company, has a beneficial interest in VdV, which is one of the Group's five largest customers.

All transactions between the Group and the customer concerned were carried out on normal commercial terms.

## CHARITABLE DONATION

During the year, the Group made charitable donations amounting to HK$57,000.

## EMOLUMENT POLICY

As at 30 June 2012, the Group had employed approximately 7,847 employees (30 June 2011: approximately 8,316 employees).

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

Details of remuneration of Directors on an individual basis are disclosed in this report. A significant proportion of the compensation of the Executive Directors is based on individual performance and the financial performance of the Group. The compensation policy for Non-executive Directors is to ensure that they are sufficiently but not excessively compensated for their efforts and time dedicated to the Group.

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

## RETIREMENT BENEFIT SCHEMES

Information on the Group's retirement benefit schemes is set out in note 24 to the consolidated financial statements.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float throughout the year ended 30 June 2012 as required under the Listing Rules of the Hong Kong Stock Exchange.

## CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices and has throughout the year, except for the deviations stated and explained in the Corporate Governance Report set out on pages 6 to 34 of this report, complied with the former code provisions and, as from 1 April 2012 being the implementation date of the new code provisions, complied with the new code provisions as set out in Appendix 14 to the Listing Rules of the Hong Kong Stock Exchange.

## MODEL CODE

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

## AUDITOR

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

On behalf of the Board

**Fung Wai Yiu**
*Chairman*

Hong Kong
6 September 2012

Deloitte.
德勤

**TO THE SHAREHOLDERS OF TOP FORM INTERNATIONAL LIMITED**
**黛麗斯國際有限公司**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Top Form International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 99, which comprise the consolidated balance sheet as at 30 June 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
6 September 2012

# CONSOLIDATED INCOME STATEMENT

*For the year ended 30 June 2012*

| | NOTES | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **1,132,391** | 1,339,798 |
| Cost of sales | | **(963,910)** | (1,080,724) |
| Gross profit | | **168,481** | 259,074 |
| Other income and gains | | **6,500** | 11,134 |
| Selling and distribution expenses | | **(43,358)** | (22,260) |
| General and administrative expenses | | **(170,014)** | (168,814) |
| Other expenses | 6 | **(22,428)** | (7,441) |
| Finance costs | 7 | **(373)** | (32) |
| (Loss) profit before taxation | 8 | **(61,192)** | 71,661 |
| Income tax credit (expense) | 10 | **28** | (14,955) |
| (Loss) profit for the year | | **(61,164)** | 56,706 |
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | **(60,028)** | 55,241 |
| Non-controlling interests | | **(1,136)** | 1,465 |
| | | **(61,164)** | 56,706 |
| (Loss) earnings per share | 12 | | |
| Basic | | **(5.6 cents)** | 5.1 cents |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 30 June 2012*

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| (Loss) profit for the year | **(61,164)** | 56,706 |
| | | |
| **Other comprehensive (expense) income** | | |
| Exchange differences arising on translation of foreign operations | **(4,190)** | 842 |
| Gain on revaluation of properties upon transfer to investment properties | **49,033** | – |
| Deferred tax liability arising on gain on revaluation of properties | **(12,258)** | – |
| | | |
| Total comprehensive (expense) income for the year | **(28,579)** | 57,548 |
| | | |
| Total comprehensive (expense) income attributable to: | | |
| Owners of the Company | **(27,557)** | 55,297 |
| Non-controlling interests | **(1,022)** | 2,251 |
| | | |
| | **(28,579)** | 57,548 |

# CONSOLIDATED BALANCE SHEET

*At 30 June 2012*

| | NOTES | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **153,654** | 150,128 |
| Prepaid lease payments | 14 | **1,719** | 1,767 |
| Investment properties | 15 | **49,294** | – |
| Prepaid rental payments | 16 | **5,008** | 6,510 |
| Interest in an associate | 17 | **–** | – |
| Deferred tax assets | 25 | **4,422** | 529 |
| | | **214,097** | 158,934 |
| **Current assets** | | | |
| Inventories | 18 | **170,253** | 181,521 |
| Debtors and other receivables | 19 | **116,572** | 132,743 |
| Bills receivable | 20 | **30,960** | 17,231 |
| Prepaid lease payments | 14 | **48** | 48 |
| Tax recoverable | | **4,224** | – |
| Bank balances and cash | 20 | **145,665** | 222,773 |
| | | **467,722** | 554,316 |
| **Current liabilities** | | | |
| Creditors and accrued charges | 21 | **145,683** | 107,443 |
| Taxation | | **2,242** | 15,945 |
| Bank borrowings and other liabilities | | | |
| – due within one year | 22 | **–** | 2,555 |
| Obligations under finance leases | | | |
| – due within one year | 23 | **–** | 11 |
| | | **147,925** | 125,954 |
| **Net current assets** | | **319,797** | 428,362 |
| **Total assets less current liabilities** | | **533,894** | 587,296 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 24 | **3,033** | 2,002 |
| Deferred tax liabilities | 25 | **15,614** | 3,836 |
| | | **18,647** | 5,838 |
| | | **515,247** | 581,458 |

# CONSOLIDATED BALANCE SHEET

*At 30 June 2012*

| | *NOTE* | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *27* | **107,519** | 107,519 |
| Reserves | | **390,307** | 455,496 |
| Equity attributable to owners of the Company | | **497,826** | 563,015 |
| Non-controlling interests | | **17,421** | 18,443 |
| | | **515,247** | 581,458 |

The consolidated financial statements on pages 47 to 99 were approved and authorised for issue by the Board of Directors on 6 September 2012 and are signed on its behalf by:

**Fung Wai Yiu**
*Chairman*

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 30 June 2012*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Special reserve *(note)* | Asset revaluation reserve | Translation reserve | Retained profits | Total | Non-controlling interests | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 July 2010 | 107,519 | 1,499 | 233 | 7,139 | – | 15,448 | 418,888 | 550,726 | 23,822 | 574,548 |
| Exchange difference arising on translation of overseas operations | – | – | – | – | – | 56 | – | 56 | 786 | 842 |
| Profit for the year | – | – | – | – | – | – | 55,241 | 55,241 | 1,465 | 56,706 |
| Total comprehensive income for the year | – | – | – | – | – | 56 | 55,241 | 55,297 | 2,251 | 57,548 |
| Acquisition of additional interest in a subsidiary | – | – | – | – | – | – | – | – | (1,830) | (1,830) |
| Dividend paid to non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | (5,800) | (5,800) |
| Dividends recognised as distribution *(note 11)* | – | – | – | – | – | – | (43,008) | (43,008) | – | (43,008) |
| At 30 June 2011 | 107,519 | 1,499 | 233 | 7,139 | – | 15,504 | 431,121 | 563,015 | 18,443 | 581,458 |
| Exchange difference arising on translation of overseas operations | – | – | – | – | – | (4,304) | – | (4,304) | 114 | (4,190) |
| Gain on revaluation of properties upon transfer to investment properties *(note 13)* | – | – | – | – | 49,033 | – | – | 49,033 | – | 49,033 |
| Deferred tax liability arising on gain on revaluation of properties | – | – | – | – | (12,258) | – | – | (12,258) | – | (12,258) |
| Loss for the year | – | – | – | – | – | – | (60,028) | (60,028) | (1,136) | (61,164) |
| Total comprehensive income (expense) for the year | – | – | – | – | 36,775 | (4,304) | (60,028) | (27,557) | (1,022) | (28,579) |
| Dividends recognised as distribution *(note 11)* | – | – | – | – | – | – | (37,632) | (37,632) | – | (37,632) |
| **At 30 June 2012** | **107,519** | **1,499** | **233** | **7,139** | **36,775** | **11,200** | **333,461** | **497,826** | **17,421** | **515,247** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 30 June 2012*

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| (Loss) profit before taxation | **(61,192)** | 71,661 |
| Adjustments for: | | |
| Provision (reversal of overprovision) of long service payments | **1,306** | (3,920) |
| Decrease in provision for defined benefit obligation | **–** | (4,168) |
| Reversal of allowance for obsolete inventories | **(3,054)** | (3,179) |
| Interest income | **(1,273)** | (897) |
| Finance costs | **373** | 32 |
| Depreciation of property, plant and equipment | **29,518** | 28,574 |
| Release of prepaid lease payments | **48** | 48 |
| Impairment loss on property, plant and equipment | **3,950** | 59 |
| (Gain) loss on disposal of property, plant and equipment | **(10)** | 1,401 |
| Operating cash flows before movements in working capital | **(30,334)** | 89,611 |
| Decrease in prepaid rental payments | **1,254** | 1,303 |
| Decrease in inventories | **12,601** | 47,081 |
| Decrease in debtors and other receivables | **15,820** | 27,414 |
| (Increase) decrease in bills receivable | **(13,729)** | 12,445 |
| Increase (decrease) in creditors and accrued charges | **38,523** | (26,292) |
| Benefits paid of long service payments | **(275)** | (399) |
| Cash generated from operations | **23,860** | 151,163 |
| Hong Kong Profits Tax paid | **(19,807)** | (56,911) |
| Taxation paid in other jurisdictions | **(2,465)** | (3,837) |
| **NET CASH FROM OPERATING ACTIVITIES** | **1,588** | 90,415 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | **(39,102)** | (39,428) |
| Interest income | **1,273** | 897 |
| Proceeds on disposal of property, plant and equipment | **437** | 458 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(37,392)** | (38,073) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 30 June 2012*

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Dividends paid | **(37,632)** | (43,008) |
| Repayment of bank borrowings and other liabilities | **(2,555)** | – |
| Interest paid | **(371)** | (13) |
| Repayment of obligations under finance leases | **(11)** | (139) |
| Finance lease charges paid | **(2)** | (19) |
| Acquisition of additional interest in a subsidiary | **–** | (1,830) |
| Dividend paid to non-controlling interests of a subsidiary | **–** | (5,800) |
| Proceeds from bank borrowings and other liabilities | **–** | 1,727 |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(40,571)** | (49,082) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(76,375)** | 3,260 |
| **CASH AND CASH EQUIVALENTS AT 1 JULY** | **222,773** | 220,646 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **(733)** | (1,133) |
| **CASH AND CASH EQUIVALENTS AT 30 JUNE,** represented by bank balances and cash | **145,665** | 222,773 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2012*

## 1. GENERAL

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

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

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

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKFRSs | Improvements to HKFRSs issued in 2010 in relation to amendments to HKAS 1, HKAS 34, HKFRS 1, HKFRS 7 and HK(IFRIC) – Int 13 |
| Amendments to HKFRS 1 | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets |
| HKAS 24 (as revised in 2009) | Related Party Disclosures |
| Amendments to HK(IFRIC) – Int 14 | Prepayments of a Minimum Funding Requirement |

The application of the new and revised HKFRSs has had no material effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

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

### New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| Amendments to HKFRS | Annual Improvement to HKFRSs 2009 – 2011 Cycle[1] |
| Amendments to HKFRS 1 | Government Loans[1] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| HKFRS 9 | Financial Instruments[2] |
| HKFRS 10 | Consolidated Financial Statements[1] |
| HKFRS 11 | Joint Arrangements[1] |
| HKFRS 12 | Disclosure of Interests in Other Entities[1] |
| HKFRS 13 | Fair Value Measurement[1] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[3] |
| HKAS 19 (Revised 2011) | Employee Benefits[1] |
| HKAS 27 (Revised 2011) | Separate Financial Statements[1] |
| HKAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[5] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

[1] *Effective for annual periods beginning on or after 1 January 2013.*
[2] *Effective for annual periods beginning on or after 1 January 2015.*
[3] *Effective for annual periods beginning on or after 1 January 2012.*
[4] *Effective for annual periods beginning on or after 1 July 2012.*
[5] *Effective for annual periods beginning on or after 1 January 2014.*

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

#### *Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statement only to the extent of interests in the associate that are not related to the Group.

### Revenue recognition

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

Revenue from the sales of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods, or for administrative purposes, other than construction in progress, are stated in the consolidated balance sheet at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than freehold land and construction in progress, over their estimated useful life, using the straight-line method. The estimated useful lives and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

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

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in asset revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

### Inventories

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

### Leasing

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

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Leasing – continued

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

*Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated balance sheet and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rate prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interest as appropriate).

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Retirement benefit costs

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Retirement benefit costs – continued

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

### Termination benefits

Termination benefits are recognised as a liability and an expense when, and only when, the Group is demonstrably committed to either (a) terminate the employment of an employee or group of employees before the normal retirement date; or (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Termination benefits do not provide the Group with future economic benefits and are recognised as an expense immediately.

### Taxation

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in an associate, 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. Deferred tax asset arising from deductible temporary difference associated with such investment is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### *Financial assets*

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

***Financial assets – continued***

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instrument.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debtors, bills receivable, other receivables, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the balance sheet date. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

#### *Financial assets – continued*

*Impairment of financial assets – continued*

For certain categories of financial asset, such as debtors, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

#### *Financial liabilities and equity instruments – continued*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities (including creditors) are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Impairment losses on tangible assets

At the balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that 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 (or a cash-generating unit) 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 standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Allowance for doubtful debts

The Group recognises an allowance for doubtful debts based on assessment of recoverability of trade debtors. The Group has a concentration of risk with the top five customers comprising HK$70 million (2011: HK$77 million) of total trade debtors. The Group's top five customers are domiciled in the United States of America ("USA"), Europe and New Zealand and revenue from these customers comprised 69% (2011: 81%) of the Group's total revenue. Any further adverse changes in the economic environment of the USA, Europe and New Zealand may impact the recoverability of the trade debtors. Any change in circumstances pertaining to one of these customers would have a material effect to the carrying amount of trade debtors. Allowances are applied to trade debtors where events or changes in circumstances provide objective evidence that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates with reference to past performances and current events. Where the actual cash flows are less than expectations, such difference will impact the carrying value of trade debtors and doubtful debts expense. As at 30 June 2012, the carrying amount of trade debtors is approximately HK$99,596,000 (2011: HK$110,799,000), no impairment loss is recognised for the current and prior periods.

### Allowance of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories or that the inventories have no further use. The Group has a concentration of risk with the top five customers domiciled in the USA, Europe and New Zealand comprising 69% (2011: 81%) of the Group's total revenue. Any further adverse changes in the economic environment of the USA, Europe and New Zealand may impact demand for the Group's products and the net realisable value of the inventory. The allowance also depends on management's assessment of the condition and usefulness of the inventories. Where the expectation of the net realisable value or use of inventories is different from the original estimate, such difference will impact the carrying value of inventories and the allowance of inventories in the consolidated income statement. The Group's carrying amount for inventories as at 30 June 2012 was approximately HK$170,253,000 (2011: HK$181,521,000) net of allowance of inventories of HK$38,585,000 (2011: HK$41,639,000).

## 5. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the Group's executive directors, being the Group's chief operating decision makers, review the operations on a plant by plant basis. No discrete financial information is available for each plant and the Group's executive directors review financial information on a consolidated basis. The Group has therefore only one operating segment, namely manufacturing and sale of ladies' intimate apparel, for the years ended 30 June 2012 and 2011.

The accounting policies of the financial information reviewed by executive directors are the same as the Group's accounting policies. Segment revenue is the consolidated revenue of the Group. Segment profit or loss is the consolidated profit or loss after tax.

All the Group's segment assets and liabilities are under the manufacturing business as at 30 June 2012 and 2011.

### Other information

#### (a) *Geographical information*

The following table sets out information about the geographical location of revenue from external customers and information about geographical location of its non-current assets. The geographical location of customers is based on the location to which the goods are delivered.

| | **Revenue from external customers** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 |
| Hong Kong | **29,933** | 19,730 | **8,143** | 10,194 |
| Cambodia | **–** | – | **16,063** | – |
| USA | **605,978** | 862,870 | **–** | – |
| New Zealand | **50,754** | 52,517 | **–** | – |
| France | **72,322** | 72,786 | **–** | – |
| Belgium | **63,171** | 63,181 | **–** | – |
| The Netherlands | **90,650** | 53,724 | **–** | – |
| Canada | **23,070** | 35,899 | **–** | – |
| Germany | **21,794** | 26,809 | **–** | – |
| Spain | **50,703** | 25,213 | **–** | – |
| United Kingdom ("UK") | **15,220** | 32,087 | **–** | – |
| The People's Republic of China ("PRC") | **13,039** | 9,348 | **135,437** | 97,184 |
| Thailand | **642** | 1,896 | **50,032** | 51,027 |
| Japan | **23,137** | 23,896 | **–** | – |
| Sri Lanka | **15,008** | 7,983 | **–** | – |
| Mexico | **12,081** | 6,936 | **–** | – |
| Others | **44,889** | 44,923 | **–** | – |
| | **1,132,391** | 1,339,798 | **209,675** | 158,405 |

*Note:* Non-current assets exclude deferred tax assets.

## 5. SEGMENT INFORMATION – continued

### Other information – continued

#### *(b) Information about major customers*

Revenue from customers contributing over 10% of the total sales of the Group from the manufacturing operating segment are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **235,682** | 548,251 |
| Customer B | **372,211** | 291,869 |

## 6. OTHER EXPENSES

During the year ended 30 June 2012, a decision was made to cease manufacturing operations in Shenzhen, the PRC, resulting in severance payments and other costs amounting to approximately HK$22,428,000 being recognised in the consolidated income statement. The nature of the expenses were as follows:

| | HK$'000 |
|---|---|
| Provision for severance payments to employees | 16,737 |
| Impairment losses recognised in respect of property, plant and equipment | 3,950 |
| Other costs | 1,741 |
| | 22,428 |

During the year ended 30 June 2011, a decision was made to cease manufacturing operations in the Republic of the Philippines resulting in severance payments and other costs amounting to approximately HK$7,441,000 being recognised in the consolidated income statement. The nature of the expenses were as follows:

| | HK$'000 |
|---|---|
| Severance payments to employees | 10,478 |
| Reversal of retirement benefit obligations previously recognised | (4,168) |
| Impairment losses recognised in respect of property, plant and equipment | 59 |
| Other costs | 1,072 |
| | 7,441 |

## 7. FINANCE COSTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **371** | 13 |
| Finance leases | **2** | 19 |
| | **373** | 32 |

## 8. (LOSS) PROFIT BEFORE TAXATION

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| (Loss) profit before taxation has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **2,654** | 2,569 |
| Depreciation of property, plant and equipment | **29,518** | 28,574 |
| Reversal of allowance for obsolete inventories *(note a)* (included in costs of sales) | **(3,054)** | (3,179) |
| Release of prepaid lease payments | **48** | 48 |
| (Gain) loss on disposal of property, plant and equipment | **(10)** | 1,401 |
| Gross rental income from investment properties | **207** | – |
| *Less:* direct operating expenses from investment properties that generate rental income during the year | **(4)** | – |
| | **203** | – |
| Minimum lease payments paid under operating leases in respect of land and buildings *(note b)* | **14,046** | 15,597 |
| Cost of inventories recognised as an expense | **966,964** | 1,083,903 |
| Net exchange loss (gain) | **4,143** | (6,437) |
| Staff costs, including directors' emoluments *(note c)* | **374,513** | 375,672 |
| Interest income | **(1,273)** | (897) |

*Notes:*

(a) Amount was resulted from the utilisation of such obsolete inventories in both years.

(b) Included in the amount are operating lease rentals of HK$409,000 (2011: HK$723,000) in respect of staff quarters.

(c) Details of directors' emoluments included in staff costs are disclosed in note 9. Staff costs included amounts in respect of retirement benefit schemes contributions of HK$23,628,000 (2011: HK$26,516,000) and provision for long service payments of HK$1,306,000 (2011: reversal of provision for long service payments of HK$3,920,000).

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATION

### Directors

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

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Fees to Non-executive Directors | **1,400** | 1,400 |
| Remuneration to Executive Directors: | | |
| Salaries and other benefits | **9,433** | 7,651 |
| Bonus *(Note a)* | **1,400** | – |
| Retirement benefit scheme contributions | **48** | 32 |
| Total Directors' emoluments | **12,281** | 9,083 |

| | **Fees HK$'000** | **Salaries and other benefits HK$'000** | **Bonus HK$'000** *(Note a)* | **Retirement benefit scheme contributions HK$'000** | **2012 Total HK$'000** |
|---|---|---|---|---|---|
| Fung Wai Yiu | **–** | **3,396** | **550** | **12** | **3,958** |
| Wong Chung Chong, Eddie | **–** | **3,412** | **550** | **12** | **3,974** |
| Wong Kai Chi, Kenneth | **–** | **1,476** | **150** | **12** | **1,638** |
| Wong Kai Chung, Kevin | **–** | **1,149** | **150** | **12** | **1,311** |
| Lucas A.M. Laureys | **200** | **–** | **–** | **–** | **200** |
| Leung Churk Yin, Jeanny | **200** | **–** | **–** | **–** | **200** |
| Herman Van de Velde | **200** | **–** | **–** | **–** | **200** |
| Marvin Bienenfeld | **200** | **–** | **–** | **–** | **200** |
| Chow Yu Chun, Alexander | **200** | **–** | **–** | **–** | **200** |
| Leung Ying Wah, Lambert | **200** | **–** | **–** | **–** | **200** |
| Lin Sun Mo, Willy | **200** | **–** | **–** | **–** | **200** |
| | **1,400** | **9,433** | **1,400** | **48** | **12,281** |

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATION – continued

### Directors – continued

| | Fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefit scheme contributions HK$'000 | 2011 Total HK$'000 |
|---|---|---|---|---|
| Fung Wai Yiu | – | 3,396 | 12 | 3,408 |
| Wong Chung Chong, Eddie | – | 3,411 | 12 | 3,423 |
| Wong Kai Chi, Kenneth *(Note b)* | – | 454 | 4 | 458 |
| Wong Kai Chung, Kevin *(Note b)* | – | 390 | 4 | 394 |
| Lucas A.M. Laureys | 200 | – | – | 200 |
| Leung Churk Yin, Jeanny | 200 | – | – | 200 |
| Herman Van de Velde | 200 | – | – | 200 |
| Marvin Bienenfeld | 200 | – | – | 200 |
| Chow Yu Chun, Alexander | 200 | – | – | 200 |
| Leung Ying Wah, Lambert | 200 | – | – | 200 |
| Lin Sun Mo, Willy | 200 | – | – | 200 |
| | 1,400 | 7,651 | 32 | 9,083 |

*Notes:*

(a) Amount represented bonus paid to the Directors during the year ended 30 June 2012. The bonus of HK$1,400,000 is related to the past performance of the Group for the year ended 30 June 2011 and recognised as an expense in the year ended 30 June 2011.

(b) Appointed on 1 March 2011.

No Directors waived any emoluments during both years.

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATION – continued

### Employees

Of the five individuals with the highest emoluments in the Group, three (2011: two) were Directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining two (2011: three) individuals were as follows:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Salaries and other benefits | **4,550** | 5,392 |
| Discretionary performance-based bonus *(Note)* | **200** | 350 |
| Retirement benefit scheme contributions | **12** | 13 |
| | **4,762** | 5,755 |

*Note:* Amount represented bonus paid during the year ended 30 June 2012. The bonus of HK$200,000 (2011: HK$350,000) is related to the past performance of the Group for the year ended 30 June 2011 (2011: for the year ended 30 June 2010) and recognised as an expense in the year ended 30 June 2011 (2011: in the year ended 30 June 2010).

The emoluments were within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2012** | 2011 |
| HK$1,000,001 – HK$1,500,000 | **–** | 1 |
| HK$1,500,001 – HK$2,000,000 | **–** | – |
| HK$2,000,001 – HK$2,500,000 | **1** | 1 |
| HK$2,500,001 – HK$3,000,000 | **1** | 1 |

## 10. INCOME TAX (CREDIT) EXPENSE

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| Hong Kong | **1,905** | 11,555 |
| Other jurisdictions | **2,620** | 3,121 |
| | **4,525** | 14,676 |
| (Over)underprovision in prior years: | | |
| Hong Kong | **(341)** | (283) |
| Other jurisdictions | **161** | 319 |
| | **(180)** | 36 |
| Deferred taxation *(note 25)* | | |
| Current year | **(4,373)** | 243 |
| | **(28)** | 14,955 |

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

## 10. INCOME TAX (CREDIT) EXPENSE – continued

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. The EIT Law provides a five-year transition period from 1 January 2008 for those subsidiaries which were established before the promulgation date of the EIT Law and which are entitled to a preferential lower tax rate under the effective tax laws or regulations and hence the 25% tax rate is applicable to certain subsidiaries from 1 January 2012 onwards.

Certain subsidiaries of the Group operating in the PRC are eligible for tax holidays up to 31 December 2012 in respect of PRC income tax such that they are exempted from PRC income taxes for the two years starting from their first profit-making year, followed by a 50% deduction for the next three years. The PRC income tax charges are arrived at after taking into account of these tax incentives.

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

The tax (credit) charge for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| (Loss) profit before taxation | **(61,192)** | 71,661 |
| Tax at Hong Kong Profits Tax rate of 16.5% | **(10,097)** | 11,824 |
| Tax effect of expenses not deductible for tax purposes | **3,252** | 1,028 |
| Tax effect of income not taxable for tax purposes | **(499)** | (453) |
| Tax effect of tax losses not recognised | **7,904** | 3,072 |
| Tax effect of utilisation of tax losses previously not recognised | **(1,476)** | (1,473) |
| (Over)underprovision in prior years | **(180)** | 36 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **1,052** | 1,161 |
| Effect of tax exemptions granted to PRC subsidiaries | **–** | (208) |
| Others | **16** | (32) |
| Tax (credit) charge for the year | **(28)** | 14,955 |

## 11. DIVIDENDS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2012 Interim –<br>HK$0.01 (2011: 2011 interim dividend HK$0.015) per share | 10,752 | 16,128 |
| 2011 Final –<br>HK$0.025 (2011: 2010 final dividend HK$0.025) per share | 26,880 | 26,880 |
| | 37,632 | 43,008 |

No final dividend has been proposed since the end of the reporting period (2011: HK$0.025 per share).

## 12. (LOSS) EARNINGS PER SHARE

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| (Loss) profit attributable to owners of the Company for the purpose of basic (loss) earnings per share | (60,028) | 55,241 |

| | Number of shares | |
|---|---|---|
| | 2012 | 2011 |
| Number of ordinary shares for the purpose of basic (loss) earnings per share | 1,075,188,125 | 1,075,188,125 |

No diluted (loss) earnings per share has been presented because there are no potential ordinary shares outstanding for both years.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land HK$'000 | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 July 2010 | – | 83,949 | 74,014 | 291,390 | 17,098 | 258 | 466,709 |
| Currency realignment | – | 789 | 1,479 | 4,119 | 162 | 12 | 6,561 |
| Additions | 5,140 | 17,674 | 2,905 | 7,037 | 1,888 | 4,784 | 39,428 |
| Reclassification | – | – | 271 | – | – | (271) | – |
| Disposals/write-off | – | – | (13,004) | (21,451) | (5,495) | – | (39,950) |
| At 30 June 2011 | 5,140 | 102,412 | 65,665 | 281,095 | 13,653 | 4,783 | 472,748 |
| Currency realignment | – | (640) | (283) | (1,015) | (32) | (145) | (2,115) |
| Additions | – | 4,862 | 17,800 | 14,378 | 1,631 | 431 | 39,102 |
| Reclassification | – | 3,663 | 971 | 5 | – | (4,639) | – |
| Surplus on revaluation | – | 49,033 | – | – | – | – | 49,033 |
| Transfer to investment properties | – | (57,280) | – | – | – | – | (57,280) |
| Disposals/write-off | – | (9) | (1,364) | (13,266) | (2,331) | – | (16,970) |
| **At 30 June 2012** | **5,140** | **102,041** | **82,789** | **281,197** | **12,921** | **430** | **484,518** |
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 July 2010 | – | 36,072 | 56,541 | 219,737 | 15,135 | – | 327,485 |
| Currency realignment | – | 204 | 1,057 | 3,194 | 138 | – | 4,593 |
| Charge for the year | – | 4,103 | 6,162 | 17,024 | 1,285 | – | 28,574 |
| Eliminated on disposals/write-off | – | – | (11,595) | (20,942) | (5,495) | – | (38,032) |
| At 30 June 2011 | – | 40,379 | 52,165 | 219,013 | 11,063 | – | 322,620 |
| Currency realignment | – | 71 | (177) | (587) | (2) | – | (695) |
| Charge for the year | – | 5,119 | 6,550 | 16,509 | 1,340 | – | 29,518 |
| Impairment | – | – | 349 | 3,601 | – | – | 3,950 |
| Eliminated on transfer to investment properties | – | (7,986) | – | – | – | – | (7,986) |
| Eliminated on disposals/write-off | – | (9) | (1,137) | (13,073) | (2,324) | – | (16,543) |
| **At 30 June 2012** | **–** | **37,574** | **57,750** | **225,463** | **10,077** | **–** | **330,864** |
| CARRYING VALUES | | | | | | | |
| **At 30 June 2012** | **5,140** | **64,467** | **25,039** | **55,734** | **2,844** | **430** | **153,654** |
| At 30 June 2011 | 5,140 | 62,033 | 13,500 | 62,082 | 2,590 | 4,783 | 150,128 |

## 13. PROPERTY, PLANT AND EQUIPMENT – continued

The above items of property, plant and equipment, except for freehold land and construction in progress, are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold land | Over the terms of the leases |
| Buildings | Over the shorter of the term of the lease, or 2% – 6.5% |
| Leasehold improvements | 20% |
| Furniture, fixtures and equipment | 10% – 33% |
| Motor vehicles | 20% – 30% |

During the year ended 30 June 2012, the directors conducted a review of the Group's property, plant and equipment, and determined that a number of those assets were impaired, due to the Group's decision to cease the manufacturing operations in Shenzhen. Accordingly, impairment losses of HK$349,000 and HK$3,601,000 respectively have been recognised in respect of leasehold improvements and furniture, fixtures and equipment.

*Notes:*

(a) The carrying value of the land and buildings shown above comprises:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Leasehold land and buildings outside Hong Kong: | | |
| Long-term lease | **3,650** | 3,773 |
| Medium-term lease | **60,741** | 57,583 |
| Short-term lease | **53** | 619 |
| Leasehold land and buildings in Hong Kong under medium-term lease | **23** | 58 |
| Freehold land outside Hong Kong | **5,140** | 5,140 |
| | **69,607** | 67,173 |

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Motor vehicles | **–** | 191 |

## 14. PREPAID LEASE PAYMENTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current portion | **48** | 48 |
| Non-current portion | **1,719** | 1,767 |
| | **1,767** | 1,815 |
| The Group's prepaid lease payments comprise: | | |
| Leasehold land outside Hong Kong: | | |
| Medium-term lease | **1,767** | 1,815 |

## 15. INVESTMENT PROPERTIES

| | **Completed investment properties**<br>HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 July 2010 and 30 June 2011 | – |
| Transferred from property, plant and equipment | 49,294 |
| At 30 June 2012 | 49,294 |

During the year, certain land and buildings with carrying amounts of approximately HK$261,000 were transferred to investment properties at fair value of approximately HK$49,294,000 at dates of transfer due to the change of usage as evidenced by end of owner-occupation. The difference between the carrying amount and fair value which amounted to approximately HK$49,033,000 is recognised in the consolidated other comprehensive income.

The fair value of the Group's investment properties at their respective dates of transfer and 30 June 2012 have been arrived at on the basis of a valuation carried out on that date by BMI Appraisals Limited, independent qualified professional valuers not connected with the Group. The valuation was arrived at using the investment approach by taking into account the current passing rents of the properties being held under existing tenancies and the reversionary potential of the tenancies if they have been or would be let to tenant.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The carrying amounts of investment properties shown above are situated on land outside of Hong Kong on medium-term lease.

## 16. PREPAID RENTAL PAYMENTS

At 30 June 2012 and 2011, prepaid rental payments represented the prepaid rent for factories in Thailand for fifteen years until June 2024. The current portion of HK$1,254,000 (2011: HK$1,303,000) is included in debtors and other receivables.

## 17. INTEREST IN AN ASSOCIATE

At 30 June 2012 and 2011, the Group held 30% of the registered capital of Yingkou Xinfa Industrial Park Development Company Limited 營口鑫發工業園開發有限公司. The Group's share of net assets of this associate was fully impaired in previous years.

## 18. INVENTORIES

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Raw materials | **64,851** | 72,052 |
| Work in progress | **66,261** | 53,802 |
| Finished goods | **39,141** | 55,667 |
| | **170,253** | 181,521 |

## 19. DEBTORS AND OTHER RECEIVABLES

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Trade debtors | **99,596** | 110,799 |
| Other receivables | **16,976** | 21,944 |
| Total debtors and other receivables | **116,572** | 132,743 |

## 19. DEBTORS AND OTHER RECEIVABLES – continued

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade debtors presented based on the invoice date at the balance sheet date.

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| 0 – 30 days | **92,937** | 107,674 |
| 31 – 60 days | **4,271** | 2,669 |
| 61 – 90 days | **1,657** | 35 |
| Over 90 days | **731** | 421 |
| | **99,596** | 110,799 |

Before accepting any new customers, the Group will assess the potential customer's credit quality. 93% (2011: 97%) of the trade debtors that are neither past due nor impaired have the best credit quality.

Included in the Group's trade debtor balance are trade debtors with aggregate carrying amount of HK$6,659,000 (2011: HK$3,125,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these amounts is 58 days (2011: 56 days).

Ageing of trade debtors which are past due but not impaired:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| 31 – 60 days | **4,271** | 2,669 |
| 61 – 90 days | **1,657** | 35 |
| Over 90 days | **731** | 421 |
| Total | **6,659** | 3,125 |

## 20. OTHER FINANCIAL ASSETS

### Bills receivable

As at 30 June 2011 and 2012, all bills receivable are aged within 30 days. The Group does not hold any collateral over these balances.

### Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carry interest at market rates which range from 0.001% to 3.25% (2011: 0.001% to 2.85%) per annum.

## 21. CREDITORS AND ACCRUED CHARGES

Included in the balance are trade creditors of HK$59,181,000 (2011: HK$45,495,000).

The following is an aged analysis of trade creditors presented based on the invoice date at the balance sheet date.

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| 0 – 30 days | **55,803** | 43,748 |
| 31 – 60 days | **1,585** | 1,502 |
| 61 – 90 days | **508** | 223 |
| Over 90 days | **1,285** | 22 |
| | **59,181** | 45,495 |

The average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Other creditors and accrued charges mainly represented accrued freight charges, salaries and other operating expenses.

## 22. BANK BORROWINGS AND OTHER LIABILITIES

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Bank borrowings – trust receipts and import loans *(Note)* | – | 2,555 |
| *Less:* Amount due within one year shown in current liabilities | – | (2,555) |
| Amount due after one year | – | – |

*Note:* These bank borrowings were unsecured, repayable within one year and were all denominated in USD.

Trust receipts and import loans were arranged at the Singapore Interbank Rate ("SIBOR") + 0.8% per annum, thus exposing the Group to cash flow interest rate risk.

The effective interest rate for trust receipts and import loans in 2011 was 3% per annum.

## 23. OBLIGATIONS UNDER FINANCE LEASES

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 |
| Amounts payable under finance leases: | | | | |
| Within one year | – | 13 | – | 11 |
| Between one to two years | – | – | – | – |
| | – | 13 | – | 11 |
| *Less:* Future finance charges | – | (2) | – | – |
| Present value of lease obligations | – | 11 | – | 11 |
| *Less:* Amount due within 12 months shown as current liabilities | | | – | (11) |
| Amount due after 12 months | | | – | – |

The Group leased certain of its motor vehicles under finance leases. The average lease term was three years. For the year ended 30 June 2011, the average effective borrowing rate was 12.13% per annum. Interest rates underlying all obligations under finance leases were fixed at respective contract date. All leases were on a fixed repayment basis and no arrangements have been entered into for contingent payments.

## 24. RETIREMENT BENEFIT SCHEMES

### (a) Provision for long service payments

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

The most recent actuarial valuation of the present value of the Group's obligation for long service payments was carried out at 30 June 2012 by AON Hewitt, an independent firm of human resource consultants and actuaries. The present value of the Group's obligation for long service payments, the related current service cost and actuarial gain/loss were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | **2012** | 2011 |
|---|---|---|
| Discount rate | **1% per annum** | 2.3% per annum |
| Expected rate of salary increases | **3% per annum** | 4% per annum |
| Interest return on contributions | **5% per annum** | 5.9% per annum |

Amounts recognised in profit or loss in respect of these long service payments are as follows:

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Current service cost | **(55)** | (173) |
| Interest cost | **44** | 156 |
| Actuarial losses (gains) recognised in the year | **1,315** | (3,903) |
| Past service cost | **2** | – |
| Amount charged (credited) for the year (included in general and administrative expenses) | **1,306** | (3,920) |

The charge for the year of HK$1,306,000 (2011: credit for the year of HK$3,920,000) is included in staff costs in the consolidated income statement.

## 24. RETIREMENT BENEFIT SCHEMES – continued

### (a) Provision for long service payments – continued

Movements in the present value of the long service payments in the current and prior years are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 July | **2,002** | 6,321 |
| Current service cost | **(55)** | (173) |
| Interest cost | **44** | 156 |
| Actuarial losses (gains) | **1,315** | (3,903) |
| Past service cost | **2** | – |
| Benefits paid | **(275)** | (399) |
| At 30 June | **3,033** | 2,002 |

### (b) Defined contribution schemes

The Group has joined the Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong who have 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 rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contributions are available to reduce the contributions payable in the future years.

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

The total cost charged to consolidated income statement of HK$24,934,000 (2011: HK$22,596,000) represents contributions payable to these schemes by the Group in respect of the current year.

## 25. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax asset | **4,422** | 529 |
| Deferred tax liabilities | **(15,614)** | (3,836) |
| | **(11,192)** | (3,307) |

The following are the major deferred tax liabilities and asset recognised and movements thereon during the current and prior years:

| | **Accelerated tax depreciation** | **Revaluation of properties** | **Unrealised loss on inventory** | **Tax losses** | **Total** |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 July 2010 | 2,312 | – | 1,904 | (1,152) | 3,064 |
| (Credit) charge to consolidated income statement | (683) | – | 303 | 623 | 243 |
| At 30 June 2011 | 1,629 | – | 2,207 | (529) | 3,307 |
| Credit to consolidated income statement | (435) | – | (45) | (3,893) | (4,373) |
| Charge to equity | – | 12,258 | – | – | 12,258 |
| At 30 June 2012 | 1,194 | 12,258 | 2,162 | (4,422) | 11,192 |

At the balance sheet date, the Group has unused estimated tax losses of approximately HK$151,049,000 (2011: HK$96,007,000), available for offset against future taxable profits. A deferred tax asset has been recognised in respect of HK$26,794,000 (2011: HK$3,206,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$124,255,000 (2011: HK$92,801,000) due to the unpredictability of future taxable profit streams. During the year, tax losses of HK$7,511,000 were expired and are no longer available to offset against future taxable profit (2011: HK$20,468,000). Included in unrecognised tax losses of the Group are losses of HK$36,112,000 (2011: HK$15,721,000) of subsidiaries in the PRC that will gradually expire up to 2017. Other losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$34,417,000 (2011: HK$37,094,000). No liabilities has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 26. FINANCIAL INSTRUMENTS

### 26a. Categories of financial instruments

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **281,488** | 361,242 |
| **Financial liabilities** | | |
| Amortised cost | **68,491** | 67,508 |

### 26b. Financial risk management objectives and policies

The Group's major financial instruments include debtors, bills receivable, other receivables, creditors, bank balances and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

*(i) Currency risk*

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 9% (2011: 15%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, while almost 11% (2011: 13%) of purchase costs are not denominated in the group entity's functional currency. The Group does not have a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## 26. FINANCIAL INSTRUMENTS – continued

### 26b. Financial risk management objectives and policies – continued

*Market risk – continued*

*(i) Currency risk – continued*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date mainly include trade debtors, trade creditors and bank balances and they are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Euro ("EUR") | **1,164** | 236 | **11,818** | 10,605 |
| Renminbi ("RMB") | **4,039** | 8,957 | **84,293** | 91,406 |
| United States dollar ("USD") | **–** | 1 | **18,823** | 18,374 |
| Hong Kong dollar ("HK$") | **37,618** | 23,267 | **1,057** | 920 |
| Others | **–** | – | **23** | 30 |

The above assets and liabilities include outstanding EUR, RMB, USD and HK$ debtors and creditors, bank balances and cash and bank borrowings.

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of EUR, RMB, USD and HK$. For fluctuations of USD against HK$, there will be no significant impact as HK$ is pegged with USD.

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in functional currency against the relevant foreign currencies. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the balance sheet date for a 5% (2011: 5%) change in foreign currency rates. The sensitivity analysis includes external receivables and payables and also current accounts with the group entities where the denomination of the current accounts is in a currency other than the functional currency of the relevant group entities. A negative number below indicates increase in post-tax loss for the year (2011: decrease in post-tax profit) where functional currencies of relevant group entities strengthens 5% (2011: 5%) against the relevant foreign currencies. For a 5% (2011: 5%) weakening of functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss/profit for the year.

## 26. FINANCIAL INSTRUMENTS – continued

### 26b. Financial risk management objectives and policies – continued

*Market risk – continued*

*(i) Currency risk – continued*

Sensitivity analysis – continued

| | **2012 Increase in loss for the year HK$'000** | 2011 Decrease in profit for the year HK$'000 |
|---|---|---|
| EUR | **(445)** | (433) |
| RMB | **(2,487)** | (3,291) |
| HK$ | **(1,188)** | (1,239) |

*(ii) Interest rate risk*

As at 30 June 2012, the Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances. As at 30 June 2011, the Group was exposed to cash flow interest rate risk in relation to variable bank balances and bank borrowings (see note 22 for details of the borrowings). It was the Group's policy to keep its borrowing at floating rates of interests so as to minimise the fair value interest rate risk.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. In prior year, the Group's cash flow interest rate risk was mainly concentrated on the fluctuation of the SIBOR arising from the Group's USD denominated borrowings.

Sensitivity analysis

As at 30 June 2012 and 2011, the management expects interest rate risk will not have material impact on the Group's operating result. Hence, a sensitivity analysis is not presented.

## 26. FINANCIAL INSTRUMENTS – continued

### 26b. Financial risk management objectives and policies – continued

*Credit risk*

As at 30 June 2012 and 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The bank balances and deposits are concentrated on certain counterparties and the credit risk on liquid funds is limited because the counterparties are banks with high crediting ratings assigned by international credit rating agencies.

In respect of debtors, the Group's exposure to credit risk is influenced mainly by the market demand in intimate apparel industry and economic conditions in the USA, Europe and New Zealand. At the balance sheet date, the Group had a certain concentration risk as approximately 70% (2011: 70%) of trade debtors was due from the top five major customers.

## 26. FINANCIAL INSTRUMENTS – continued

### 26b. Financial risk management objectives and policies – continued

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the balance sheet date.

At 30 June 2012, the Group had undrawn bank borrowing facilities of HK$150,000,000 (2011: HK$147,444,000).

*Liquidity tables*

| | Weighted average interest rate | On demand or less than 1 month | 1-3 months | Total undiscounted cash flows | Carrying amount at 30 June |
|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2012** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Creditors | **–** | **55,085** | **13,406** | **68,491** | **68,491** |
| 2011 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Creditors | – | 22,446 | 42,507 | 64,953 | 64,953 |
| Bank borrowings and other liabilities | 3.0 | – | 2,574 | 2,574 | 2,555 |
| Obligations under finance leases | 12.13 | 13 | – | 13 | 11 |
| | | 22,459 | 45,081 | 67,540 | 67,519 |

The amounts included above for variable interest rate instrument for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the balance sheet date.

## 26. FINANCIAL INSTRUMENTS – continued

### 26c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

## 27. SHARE CAPITAL

| | **2012 Number of shares** | 2011 Number of shares | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|---|---|
| Ordinary shares of HK$0.10 each | | | | |
| Authorised: | | | | |
| At beginning and the end of the year | **1,500,000,000** | 1,500,000,000 | **150,000** | 150,000 |
| Issued and fully paid: | | | | |
| At beginning and the end of the year | **1,075,188,125** | 1,075,188,125 | **107,519** | 107,519 |

## 28. SHARE OPTION SCHEME

Pursuant to a resolution passed on 3 November 2011 (the "Adoption Date"), the Company's share option scheme adopted on 22 November 2001 (the "Old Scheme") was terminated and a new share option scheme (the "Scheme") was adopted for the primary purpose of providing incentives or rewards to the Directors, employees or any other persons at the discretion of the Board, and the Scheme will expire on 2 November 2021. No share options were granted, exercised, cancelled or lapsed for both years.

As at 30 June 2012 and 2011, no share options of the Company were being held by the Directors or anyone else under the Scheme and the Old Scheme.

## 29. OPERATING LEASE COMMITMENTS

### The Group as lessee

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

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **8,938** | 8,581 |
| In the second to fifth year inclusive | **18,061** | 16,402 |
| Over five years | **19,015** | 10,123 |
| | **46,014** | 35,106 |

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

### The Group as lessor

Property rental income earned during the year was HK$174,000. The properties are expected to generate rental yields of 2.5% to 4.5% on an ongoing basis. All of the properties held have committed tenants for the next 1 to 6 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **2,410** | – |
| In the second to fifth year inclusive | **981** | – |
| After five years | **183** | – |
| | **3,574** | – |

## 30. CAPITAL COMMITMENTS

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **112** | 1,589 |

## 31. RELATED PARTY TRANSACTIONS/BALANCES

During the year, the Group processed supplied materials and delivered the finished products to a related company, Van de Velde N.V. ("VdV") for revenue of approximately HK$63,171,000 (2011: HK$63,181,000).

Mr. Herman Van de Velde, a non-executive director of the Company, has a beneficial interest in VdV, which held an effective interest of 25.66% (2011: 25.66%) in the Company as at 30 June 2012.

As at 30 June 2012, the balance of trade receivables from VdV amounted to HK$3,472,000 (2011: HK$2,575,000) which are aged less than 30 days.

### Compensation of key management personnel

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

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Salaries and other benefits | **16,983** | 14,793 |
| Retirement benefit scheme contributions | **60** | 45 |
| | **17,043** | 14,838 |

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

## 32. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 2 December 2010, Top Form (B.V.I.) Limited ("TFBVI"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with a non-controlling interest for the acquisition of 5% equity interest in Grand Gain Industrial Limited ("HKGG"), a non-wholly owned subsidiary of TFBVI. The consideration for this acquisition was satisfied by the cash payment of HK$1,830,000 which approximates the carrying amount of the 5% equity interest acquired. Upon the completion of the acquisition on 2 December 2010, TFBVI and the Group's equity interest in HKGG increased from 55% to 60%.

## 33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The Directors of the Company review the capital structure on a quarterly basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 30 June 2012 and 2011 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 indirectly by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | **2012** **%** | 2011 % | |
| Charming Elastic Fabric Company Limited 綉麗橡根織品有限公司 | Hong Kong | Ordinary – HK$316,667 Deferred – HK$810,000 | **60** | 60 | Manufacture of elastic garment straps |
| Foshan Nanhai Top Form Underwear Company Limited 佛山市南海黛麗斯內衣有限公司 | The PRC# | Capital contribution – HK$20,800,000 | **100** | 100 | Manufacture of ladies' underwear |
| 佛山市南海漫多姿內衣有限公司 | The PRC# | Capital contribution – US$500,000 | **100** | 100 | Manufacture of ladies' underwear |
| HKGG 建盈實業有限公司 | Hong Kong | Ordinary – HK$100,000 | **60** | 60 | Laminating business |
| Long Nan Grand Gain Underwear Company Limited 龍南縣建盈內衣有限公司 | The PRC# | Capital contribution – US$1,000,000 | **60** | 60 | Moulding |
| Long Nan County Top Form Underwear Co., Ltd. 龍南縣黛麗斯內衣有限公司 | The PRC# | Capital contribution – HK$45,000,000 | **100** | 100 | Manufacture of ladies' underwear |
| 漫多姿服裝(深圳)有限公司 | The PRC# | Capital contribution – HK$23,000,000 | **100** | 100 | Manufacture and distribution of ladies' underwear |
| Shenzhen Top Form Underwear Co., Limited 深圳黛麗斯內衣有限公司 | The PRC^ | Capital contribution – RMB4,993,000 | **70** | 70 | Manufacture and distribution of ladies' underwear |
| Top Form Brassiere Mfg. Co., Limited 黛麗斯胸圍製造廠有限公司 | Hong Kong | Ordinary – HK$100 Deferred – HK$4,000,000 | **100** | 100 | Manufacture and wholesale of ladies' underwear |
| Top Form (B.V.I.) Limited | British Virgin Islands | Ordinary – US$50,000 | **100*** | 100* | Investment holding |

## 34. PRINCIPAL SUBSIDIARIES – continued

| Name of company | Place of incorporation/ registration | Nominal value of issued share capital/ registered capital | Proportion of nominal value of issued ordinary share capital/registered capital held indirectly by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | **2012** % | 2011 % | |
| Top Form Brassiere (Maesot) Co., Ltd | Thailand | Ordinary – Baht 56,000,000 | **100** | 100 | Manufacture of ladies' underwear |
| Topfull Development Limited 統富發展有限公司 | Hong Kong | Ordinary – HK$2 | **100** | 100 | Property holding in the PRC |
| Unique Form Manufacturing Company Limited 特麗儂內衣製造廠有限公司 | Hong Kong | Ordinary – HK$1,000 Deferred – HK$200 | **100** | 100 | Wholesale of ladies' underwear |
| Xinfeng County Grand Gain Underwear Co., Ltd. 信豐縣建盈內衣有限公司 | The PRC# | Capital contribution – US$500,000 | **100** | 100 | Manufacture of ladies' underwear |
| Top Form (Cambodia) Company Limited | Cambodia | Ordinary – US$1,000,000 | **100** | – | Manufacture of ladies' underwear |

* *Directly held by the Company.*

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

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

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

## 34. PRINCIPAL SUBSIDIARIES – continued

Shenzhen Top Form Underwear Co., Limited 深圳黛麗斯內衣有限公司 ("SZTF") is a joint venture company established in the PRC and was originally held for a period of twelve years from 28 February 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. On 12 November 2008, the Group entered into a revised joint venture agreement with the joint venture partner to extend the joint venture period for a further 3 years to 28 February 2012. On 27 June 2011, the Group entered into an extension agreement with the joint venture partner to extend the joint venture period for a further 3 years to 28 February 2015. Pursuant to the joint venture agreement and the revised joint venture agreement under which the joint venture were established, the Group has contributed 70% of the registered capital of SZTF. However, under another agreement entered into between the Group and the joint venture partner, the Group is entitled to 100% of this joint venture company's profit after deducting a fixed annual amount attributable to assets contributed by the joint venture partner. The Group is entitled to receive its attributable share of the net assets upon liquidation of the joint venture, and so this joint venture is being accounted for as a subsidiary of the Group.

As at 30 June 2012, 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 trillion has been distributed equally amongst the holders of the ordinary shares.

None of the subsidiaries had any debt securities subsisting as at 30 June 2012 or at any time during the year.

The above table list the subsidiaries of the Group which, in the opinion of the Directors, principally affected 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 | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | **2012<br>HK$'000** |
|---|---|---|---|---|---|
| Revenue | 1,368,682 | 1,370,026 | 1,342,480 | 1,339,798 | **1,132,391** |
| Profit (loss) before taxation | 65,434 | 13,837 | 87,519 | 71,661 | **(61,192)** |
| Income tax (expense) credit | (12,095) | (27,787) | (33,835) | (14,955) | **28** |
| Profit (loss) for the year | 53,339 | (13,950) | 53,684 | 56,706 | **(61,164)** |
| Attributable to: | | | | | |
| Owners of the Company | 57,966 | (12,605) | 46,823 | 55,241 | **(60,028)** |
| Non-controlling interests | (4,627) | (1,345) | 6,861 | 1,465 | **(1,136)** |
| | 53,339 | (13,950) | 53,684 | 56,706 | **(61,164)** |

## ASSETS AND LIABILITIES

| At 30 June | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | **2012<br>HK$'000** |
|---|---|---|---|---|---|
| Total assets | 832,190 | 823,643 | 872,085 | 713,250 | **681,819** |
| Total liabilities | (255,337) | (260,793) | (297,537) | (131,792) | **(166,572)** |
| | 576,853 | 562,850 | 574,548 | 581,458 | **515,247** |
| Equity attributable to: | | | | | |
| Owners of the Company | 558,418 | 545,778 | 550,726 | 563,015 | **497,826** |
| Non-controlling interests | 18,435 | 17,072 | 23,822 | 18,443 | **17,421** |
| | 576,853 | 562,850 | 574,548 | 581,458 | **515,247** |

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