

*“... it is encouraging to see our trend of progressive improvements
in a downturn economy”*

2000/2001 was a challenging year because of the slowing world economy. The Group nevertheless attained another good year in business performance for the twelve months ended 30 June 2001.

Sales was up 24% to HK\$919 million, and profit attributable to shareholders was up 60% to HK\$48 million, resulting in a basic earning of 6.5 cents per share.

Our core business continued to lead the growth of the Group. During the year, OEM operation shipped over 3.8 million pieces of brassiere products and it generated a revenue of HK\$887 million – reflecting an increase of 27% and an increase of 21% in operating profit over the previous year. The strong performance was accomplished by our continued effort to expand our customer base in all markets, and the result of our earlier expansion of manufacturing facilities in Thailand. We were able to save cost by producing the incremental business in Thailand where quota was much less of a cost burden than that in China.

I would like to highlight that our distribution business, which includes retailing and wholesale operations in Asia, has finally been turned around with profit for the first time. This business unit in the past years had been our loss leader and it drained much of the Group's resources. The profit we made was marginal, but it is encouraging to see the trend of our progressive improvements in a downturn economy.

I am also happy to report that during the year, the Group was able to finance its growth internally while at the same time, to reduce its bank debts by HK\$50 million. We have also successfully restructured the remaining bank debts with its lending banks. All these reflect the gradual recovery of the Group's financial health following the financial and business restructuring that took place three years ago.

Looking ahead, the market and social turmoil resulted from the recent terrorist attacks in the U.S., have shattered any hope for a speedy recovery from the already troubled global economy. Consumer spending and production demands will continue to dwindle in the foreseeable future. On the other hand, China's imminent access to WTO, will present new challenges as well as opportunities for business and operations. It is against this backdrop we reviewed our strategic plan and decided on a cautious approach to operate our business.

Our manufacturing business has accomplished three consecutive years of robust growth. We will temporarily hold back any further expansion in the coming year, and focus our energy on the existing facilities for improvements in cost and operating efficiencies. We are looking back to China for opportunities. Over the next twelve months, we will begin to relocate some of our existing manufacturing operations in southern China to the inland regions where labor and operating costs are lower than those in the coastal cities. This development is crucial in our need to maintain our competitiveness in the long term.

As for the Distribution business, we believe we have seen a light in the long tunnel. This is evidenced by our progressive improvements attained every year over the last few years. While this business unit is relatively small within the Group's business structure, we do not expect any significant growth in revenue and profit contribution from it in the near future. We are however looking for different options that would add value to the Group's portfolio in the long term. Our business focus will be placed on the huge consumer market in China. We are devising various marketing strategies with our distributors as well as looking at projects and relationships where we can leverage our excellence in products and low-cost manufacturing.

At Top Form, we are well prepared to move ahead in this highly adverse business environment resulted from the deteriorating world economy, and to continue bettering ourselves for future challenges.

I want to thank our employees for their hard work and the result they brought, and to our customers, suppliers, and our banks, and last but not least, our shareholders for their continued support to the Group.

FUNG WAI YIU

Chairman