

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company and its subsidiaries for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The results of the Group for the year ended 30 June 2006 are set out in the consolidated income statement on page 44.

An interim dividend of HK\$0.025 per share was paid to shareholders during the year. The directors now recommend the payment of a final dividend of HK\$0.03 per share to the shareholders on the register of members on 20 October 2006.

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 88.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure, principally on its production facilities, totalling approximately HK\$33 million. Movements of property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movement in share capital of the Company during the year are set out in note 28 to the financial statements.

DIRECTORS

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

Executive Directors

Fung Wai Yiu	<i>(Chairman)</i>
Wong Chung Chong, Eddie	<i>(Group Managing Director)</i>
Leung Tat Yan	<i>(Appointed on 18 September 2005)</i>

Non-executive Directors

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

Independent Non-executive Directors

Marvin Bienenfeld	
Chow Yu Chun, Alexander	
Lin Sian Zu, John	(resigned on 18 September 2005)
Tse Koon Hang, Ada	(resigned on 18 September 2005)
Lam Ka Chung, William	(passed away on 24 April 2006)
Leung Ying Wah Lambert	(appointed on 3 May 2006)
Lin Sun Mo Willy	(appointed on 3 May 2006)

Chow Yu Chun, Alexander and Leung Churk Yin, Jeanny retire in accordance with Bye-law 87(2) and Leung Ying Wah, Lambert and Lin Sun Mo, Willy retire in accordance with Bye-law 86(2) of the Company's Bye-laws and, being eligible, offer themselves for re-election. All remaining Directors continue in office.

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

All Directors, except Chairman and Group Managing Director, have been appointed for a period up to their retirement by rotation as required by the Company's Bye-laws.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Fung Wai Yiu, 59, the Chairman of the Group, has over 35 years of experience in the apparel industry.

Wong Chung Chong, Eddie, 61, a co-founder of the Group and the Group Managing Director, is responsible for the operations of the Group. Mr. Wong has over 30 years of experience in the brassiere trade.

Leung Tat Yan, aged 49, is currently the Managing Director of Top Form Brassiere Mfg. Co., Limited ("TFB"), a wholly owned subsidiary of the Company, and is the chief executive of the OEM operations of the Group. Mr. Leung joined the Group in 1983, and brings to the Board a broad range of experience in the ladies' intimate apparel industry. He completed his further education in Business Studies in the United Kingdom.

Non-executive Directors

Lucas A.M. Laureys, 61, is the Chairman of Van de Velde N.V. ("VdV"), a listed company in Belgium. Mr. Laureys has over 30 years of experience in the brassiere trade and specialises in marketing.

Leung Churk Yin, Jeanny, 41, is the Managing Director of Access Capital Limited. She has over 15 years of corporate finance experience in the Greater China region.

Herman Van de Velde, 52, is the Managing Director of VdV. He joined the brassiere industry in 1981 and is well versed in operating the brassiere business in Europe.

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Independent Non-executive Directors

Marvin Bienenfeld, 74, was formerly the Chairman of Bestform, Inc., a company of VF Corporation. Mr. Bienenfeld has over 40 years of experience in the ladies' intimate apparel industry in the United States of America ("USA").

Chow Yu Chun, Alexander, 59, is a Fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and has over 25 years of experience in property development in Hong Kong.

Mr. Leung Ying Wah, Lambert, aged 59, is Chief Executive Officer of a leading construction materials company. He is also a Fellow member of the Association of Chartered Certified Accountants, a Fellow member of the HKICPA, a Fellow member of the Institute of Quarrying (UK) and is currently Chairman of the Hong Kong Construction Materials Association and the Hong Kong Cement Association.

Mr. Lin Sun Mo, Willy, aged 47, is Managing Director of Milo's Knitwear (International) Limited. He holds a Bachelor of Science degree from Babson College, the United States of America. He is currently Vice Chairman of the Textile Council of Hong Kong, Chairman of the Hong Kong Shippers' Council and an Honorary Trade Advisor to the Ministry of Commerce of Thailand.

Management and Senior Staff

Michael Austin, 58, is the Chief Financial Officer of the Group and Company Secretary. Mr. Austin is a Fellow member of the Institute of Chartered Accountants in England and Wales and an Associate member of the HKICPA. He has over 25 years of diverse senior financial and general management experience in Hong Kong and worldwide.

Choi Wai Yin, 59, is Director of TFB, joined the Group in 1993. Ms. Choi has over 35 years of experience in apparel manufacturing. She oversees all manufacturing operations within the Group.

Chen Fu Mei, 59, is Director and Deputy General Manager of Shenzhen Top Form Underwear Co., Limited. Ms. Chen joined the Group in 1988 and is responsible for the administration of all the Group's companies in the People's Republic of China ("PRC").

Wong Kai Chi, Kenneth, 32, is Director of Top Form Brassiere Co., Limited. He is the son of Mr. Wong Chung Chong, Eddie. Mr. Wong holds a bachelor degree in Marketing and Operation Management from Boston University, USA. He joined the Group in 1997 and is responsible for the Group's product development activities.

Wong Kai Chung, Kevin, 30, CFA, is Director of Marguerite Lee Ltd. and Unique Form Manufacturing Co. Ltd. and is the Corporate Development Manager of the Group. He is the son of Mr. Wong Chung Chong, Eddie. Mr. Wong graduated from Colby College, majoring in Economics in 1998. He joined the Group in 2001. He is responsible for the Group's corporate affairs as well as development of the branded business in the PRC.

Wong Hei Yin, Henry, 43, is Director and the General Manager of Charming Elastic Fabric Company Limited, a subsidiary of the Company, producing elastic tapes. Mr. Wong holds a bachelor degree in Accounting from Lamer University, USA.

Wan Ho Yau, David, 49, is the Managing Director of Grand Gain Industrial Limited, a subsidiary of the Company, producing foam pads and accessories for brassiere manufacturing. Mr. Wan joined the Group in 1994. He holds degrees in Computer Science and Business Administration from York University, Toronto, Canada.

CONNECTED TRANSACTIONS

The Group has from time to time conducted transactions with VdV and its subsidiaries and/or affiliates which are connected persons of the Company pursuant to the Rules Governing the Listing of the Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 18 September 2005, the Company entered into a master agreement with VdV in respect of the sale of ladies intimate apparel by the Group to VdV and its subsidiaries and/or affiliates ("Master Agreement") and the transactions between the Group and VdV and its subsidiaries and/or affiliates ("VdV Transactions") contemplated under the Master Agreement constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

At the Special General Meeting held on 28 October, 2005, the Company obtained Independent Shareholders' approval of the Master Agreement and the annual caps detailed below by the Independent Shareholders on the following conditions:

- a. the annual caps for the VdV Transactions contemplated under the Master Agreement for the three financial years ending 30 June 2008 will be up to HK\$70 million for the year ending 30 June 2006, HK\$85 million for the year ending 30 June 2007 and HK\$100 million for the year ending 30 June 2008 respectively;
- b. the VdV Transactions have been entered into;
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) either on normal commercial terms or, if there is no available comparison, on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the abovementioned arrangement on the terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- c. the Independent Non-executive Directors will review the VdV Transactions annually and confirm in the Company's next and successive annual reports that the VdV Transactions have been conducted in the manner as stated in paragraphs (a) and (b) above;
- d. the auditors of the Company will be engaged to perform certain agreed upon procedures in respect of the VdV Transactions annually and will issue a letter to the Board, to assist the Board to evaluate whether:
 - (i) the VdV Transactions have been approved by the Board;
 - (ii) the VdV Transactions have been entered into in accordance with the pricing policy as stated above;
 - (iii) the VdV Transactions have been entered into in accordance with the terms as mentioned above; and
 - (iv) the annual caps set out in paragraph (a) above have been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the letter referred to in paragraph (d) above, the Directors will contact the Listing Division of the Stock Exchange immediately; and

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- e. details of the VdV Transactions in each financial year will be disclosed in the annual report of the Company for that financial year together with a statement of the opinion of the Independent Non-executive Directors and confirmation from the auditors of Company referred to in paragraphs (c) and (d) above.

Pursuant to the Independent Shareholders' approval on 28 October 2005, details of the VdV Transactions which have been entered into in the ordinary course of business are not required to be disclosed by press announcements nor is the Company required to obtain prior independent shareholders' approval for the VdV Transactions as each of the relevant transactions arises.

Details of the continuing connected transactions are set out below:

Name of connected person	Nature of transactions	HK\$'000
VdV and its affiliates	Sales of ladies intimate apparel	<u>39,800</u>

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors.

The Independent Non-executive Directors have reviewed the continuing connected transactions and the report of the auditors and confirmed that the connected transactions conducted by the Group during the year ended 30 June 2006 were:

- in the ordinary and usual course of the business of the Group;
- on normal commercial terms;
- entered into in accordance with the relevant agreement governing the transactions on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- within the relevant amounts as stipulated under the designated annual caps.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions as disclosed under the heading of "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' INTEREST IN COMPETING BUSINESS

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

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 29 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2006, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions:

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	Beneficially owned and held by spouse and trust (<i>note 1</i>)	41,952,521	3.90%
Wong Chung Chong, Eddie	Beneficially owned and held by spouse and held by trust (<i>note 2</i>)	176,462,118	16.40%
Chow Yu Chun, Alexander	Beneficial owner	3,400,521	0.32%
Marvin Bienenfeld	Beneficial owner	870,521	0.08%
Leung Churk Yin, Jeanny	Beneficial owner	70,521	0.01%
Leung Ying Wah, Lambert	Beneficial owner	400,000	0.04%
Lucas A. M. Laureys	Held by controlled corporation (<i>note 3</i>)	176,181,544	16.37%
Herman Van de Velde	Held by controlled corporation (<i>note 3</i>)	176,181,544	16.37%

Notes:

- 770,521 shares are beneficially owned by Mr. Fung Wai Yiu ("Mr. Fung") whereas 216,000 shares are held by the spouse of Mr. Fung and 40,966,000 shares are registered in the name of Fung On Holdings Limited ("Fung On"). The shares of Fung On are held by a family trust of which Mr. Fung and his family are eligible beneficiaries.
- 770,521 shares are beneficially owned by Mr. Wong Chung Chong, Eddie ("Mr. Wong") whereas 100,000 shares are held by the spouse of Mr. Wong and 175,591,597 shares are registered in the name of High Union Holdings Inc. on behalf of the trustee of a unit trust. The unit trust is held by a family trust of which the family members of Mr. Wong are eligible beneficiaries.
- 159,339,762 shares are registered in the name of Guliano (HK) Limited which is wholly owned by VdV. 2,442,000 shares are registered in the name of HKSCC Nominees Limited and beneficially owned by VdV. 14,399,782 shares are registered in the name of VdV of which Mr. Lucas A. M. Laureys and Mr. Herman Van de Velde are beneficial owners.

Save as disclosed above, and other than certain nominee shares in subsidiaries held by Directors in trust for the Company's subsidiaries as at 30 June 2006, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions:

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
High Union Holdings Inc.	Beneficial owner	175,591,597	16.31%
Guliano (HK) Limited	Beneficial owner	159,339,762	14.80%
VF Intimates, LP	Beneficial owner	106,000,000	9.85%
Veer Palthe Voute N.V.	Investment manager	97,488,000	9.06%
Chartered Asset Management Pte Ltd.	Investment manager	76,924,000	7.15%

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

Except for the repurchase of the Company's listed shares set out in note 28 to the financial statements, neither the Company nor any of its subsidiaries sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The respective percentages of the Group's purchases from major suppliers and turnover attributable to major customers for the year ended 30 June 2006 were as follows:

Percentage of purchases attributable to the Group's largest supplier	11%
Percentage of purchases attributable to the Group's five largest suppliers	32%
Percentage of turnover attributable to the Group's largest customer	53%
Percentage of turnover attributable to the Group's five largest customers	81%

As at 30 June 2006, VF Intimates LP, a shareholder owning more than 5% of the Company's share capital, is the Group's largest customer. Apart from this, none of the Directors, their associates or other shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) were interested at any time in the year in the above major suppliers or customers.

The aggregate purchases of the Group for the year ended 30 June 2006 amounted to HK\$692,144,000.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$268,000.

RETIREMENT BENEFIT SCHEMES

Information on the Group's retirement benefit schemes is set out in note 26 to the financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

CORPORATE GOVERNANCE

Matters relating to corporate governance, Audit and Compensation Committees are set out in the Corporate Governance Report.

MODEL CODE

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

AUDITORS

A resolution will be proposed to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Fung Wai Yui
Chairman

10 September 2006, Hong Kong