

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 2003.

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 2003 are set out in the consolidated income statement on page 21.

The directors now recommend the payment of a final dividend of 4 HK cents per share and a special dividend of 2 HK cents per share to the shareholders on the register of members on 15 October 2003 amounting to HK\$64,281,000.

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 69.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure, principally on its production facilities, totalling approximately HK\$61 million. Movements of property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 26 to the financial statements.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Marvin Bienenfeld	
Leung Churk Yin, Jeanny	
Lucas A.M. Laureys	(appointed on 9 September 2002)
Herman Van de Velde	(appointed on 9 September 2002)

Independent Non-executive Directors

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

Lin Sian Zu, John and Tse Koon Hang, Ada retire in accordance with Bye-law 87(2) of the Company's Bye-laws and, being eligible, offer themselves for re-election. All remaining Directors continue in office.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Fung Wai Yiu, 56, the Chairman of the Group, has over 30 years of experience in the apparel industry. He was formerly a Director of Kellwood Company, an apparel company listed in the New York Stock Exchange.

Wong Chung Chong, Eddie, 58, a co-founder of the Group and the Group Managing Director, is responsible for the operations of the Group. Mr. Wong has over 30 years of experience in the brassiere trade.

Non-executive Directors

Marvin Bienenfeld, 71, was formerly the Chairman of Bestform, Inc. ("Bestform"), a company of VF Corporation which merged with VF Intimates, LP ("VF Intimates") on 5 January 2003. Mr. Bienenfeld has over 40 years of experience in the ladies intimate apparel industry in the United States of America.

Leung Churk Yin, Jeanny, 38, is the Managing Director of Access Capital Limited. She has over 15 years of corporate finance experience in the Greater China region.

Lucas A.M. Laureys, 58, 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 he is specialised in marketing.

Herman Van de Velde, 49, is the Managing Director of VdV. He joined the brassiere industry in 1981 and he is well versed in operating the brassiere business in Europe.

Chow Yu Chun, Alexander, 56, is a Fellow member of the Hong Kong Society of Accountants ("HKSA") and has over 25 years of experience in property development in Hong Kong.

Lam Ka Chung, William, 51, is a Fellow member of the HKSA and a registered dealer and investment advisor with Hong Kong Securities and Futures Commission. Mr. Lam is the Managing Director of an investment advisory firm and holds directorships of several listed companies in Hong Kong and overseas.

Lin Sian Zu, John, 40, is an Executive Director of the Direct Investment Division of AIG Global Investment Corporation (Asia) Limited ("AIGGIC").

Tse Koon Hang, Ada, 37, is an Executive Director of the Direct Investment Division of AIGGIC.

Management and Senior Staff

Ng Chi Ho, Dennis, 45, the Company Secretary and Group Financial Controller, is an associate member of the HKSA and the Institute of Chartered Accountants in Australia. Mr. Ng has over 15 years of experience in auditing and accounting in Australia and Hong Kong.

Leung Tat Yan, 46, is the Managing Director of Top Form Brassiere Mfg. Co., Limited ("TFB"), a wholly owned subsidiary of the Company. Mr. Leung obtained a diploma in Business Studies from the Business Education Council, Birmingham, UK. He has over 15 years of experience in ladies' intimate apparel industry and is the chief executive of the OEM operations.

Choi Wai Yin, 56, Director of Manufacturing 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.

Yue Chin Chai Ting, 42, is a Director of Unique Form Manufacturing Company Limited and Marguerite Lee Limited. Mrs. Yue holds a bachelor degree in Economics from the University of Lancaster, U.K.. Prior to joining the Group, she had over 10 years of experience in retail and wholesale management in Hong Kong. Mrs. Yue is the chief executive of the Group's retail and wholesale operations.

Chen Fu Mei, 56, is a Director and the Deputy General Manager of Shenzhen Top Form Underwear Co., Limited. She joined the Group in 1988 and is responsible for administration of all the Group's companies in the People's Republic of China ("PRC").

Fung Sau Keung, Andy, 49, is the General Manager of Meritlux Industries Philippines, Inc. Mr. Fung is responsible for operations in the Philippines Region. He joined the Group in 1975 and has over 25 years of experience in intimate apparel manufacturing operations.

Wong Kai Chi, Kenneth, 29, is the Managing Director of Top Form Brassiere Co., Limited, Thailand. He is the son of Mr. Wong Chung Chong, Eddie. Mr. Wong holds a bachelor degree in Marketing and Operation Management from Boston University, the United States of America. He joined the Group in 1997 and is responsible for the Group's manufacturing operations in Thailand.

Wong Hei Yin, Henry, 40, is the General Manager of Charming Elastic Fabric Company Limited, a subsidiary of the Company, producing elastic tapes. Mr. Wong holds a bachelor degree in Accounting from Lamer University, the United States of America.

Wan Ho Yau, David, 46, 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 conduct transactions with VdV and Bestform, their subsidiaries and/or affiliates, which are "connected persons" for the purposes of the Rules Governing the Listing of the Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Stock Exchange granted waivers on 11 December 1999 and 11 November 2002 to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules on connected transactions. The waivers granted on 11 December 1999 was expired on 31 December 2002.

Bestform was originally a beneficial owner of 106,000,000 shares of the Company. Upon the merger of Bestform with VF Intimates on 5 January 2003, all assets of Bestform were contributed to VF Intimates. On 21 May 2003, all of the shares of the Company held by Bestform were transferred to VF Intimates.

Following the appointment of Mr. Herman Van de Velde and Mr. Lucas A.M. Laureys to the Board, VdV has become a connected person to the Company under the Listing Rules.

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

Name of connected person	Nature of transactions	HK\$'000
Bestform and its affiliates	Sales of finished products	397,193
Bestform and its affiliates	Purchase of raw materials or semi-finished products	976
VdV and its affiliates	Sales of finished products	<u>24,283</u>

The Independent Non-executive Directors confirm that the aforesaid connected transactions conducted by the Group during the year ended 30 June 2003 were:

- (a) in the ordinary and usual course of the Group's businesses;
- (b) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

- (c) entered into in accordance with the terms of the agreements governing the transactions or on terms no less favourable than those available to or from independent third parties; and
- (d) within the relevant amounts as stipulated under the relevant waivers.

Save as above, the Group also has the following transactions with Bestform and VdV:

- (a) paid interest expenses of HK\$779,000 and HK\$223,000 on the convertible loan notes ("CLN") held by Bestform and VdV, respectively;
- (b) issued 40,000,000 shares of the Company to Bestform on the conversion of US\$1,604,000 (equivalent to approximately HK\$12,463,000) of CLN;
- (c) issued 21,426,999 shares of the Company to VdV on the conversion of US\$859,000 (equivalent to approximately HK\$6,676,000) of CLN; and
- (d) repaid US\$1,896,000 (equivalent to approximately HK\$14,794,000) and US\$141,000 (equivalent to approximately HK\$1,099,000) to Bestform and VdV on the maturity of CLN.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group had the following transactions with VdV, a company in which Mr. Herman Van de Velde and Mr. Lucas A.M. Laureys have beneficial interests:

- (a) paid interest expenses of HK\$223,000 on US\$1 million of the Company's CLN held by VdV;
- (b) sales of finished goods to VdV of HK\$24,283,000;
- (c) issued 21,426,999 shares of the Company to VdV on the conversion of US\$859,000 of CLN held by VdV; and
- (d) repaid HK\$1,099,000 to VdV upon the maturity of CLN held by VdV.

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors 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 schemes are set out in note 25 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Name of Director	Date of grant	Number of share options		
		At 1 July 2002	Granted during the year	At 30 June 2003
Fung Wai Yiu	9 September 2002	–	770,521	770,521
Wong Chung Chong, Eddie	9 September 2002	–	770,521	770,521
Marvin Bienenfeld	9 September 2002	–	770,521	770,521
Leung Churk Yiu, Jeanny	9 September 2002	–	770,521	770,521
Chow Yu Chun, Alexander	9 September 2002	–	770,521	770,521
Lam Ka Chung, William	9 September 2002	–	770,521	770,521
Lin Sian Zu, John	9 September 2002	–	770,521	770,521
Tse Koon Hang, Ada	9 September 2002	–	770,521	770,521
		–	6,164,168	6,164,168
Total		–	6,164,168	6,164,168

Details of options are as follows:

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

The closing price of the Company's shares immediately before 9 September 2002, the date of grant, was HK\$0.34.

The fair values of the options granted in the current year measured as at the dates of grant on 9 September 2002 was HK\$0.15. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Date of grant	9 September 2002
Expected life of options	10 years
Expected volatility based on historical volatility of share prices	76%
Hong Kong Exchange Fund Notes rate	4.35%
Expected annual dividends	5.3%

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2003, 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Ordinary shares of HK\$0.10 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Fung Wai Yiu	Held by spouse and trust (note 1)	368,120,142	34.36%
Wong Chung Chong, Eddie	Held by trust (note 2)	367,904,142	34.34%
Chow Yu Chun, Alexander	Beneficial owner	1,930,000	0.18%
Lucas A. M. Laureys	Held by controlled corporation (note 3)	389,331,141	36.34%
Herman Van de Velde	Held by controlled corporation (note 3)	389,331,141	36.34%

Notes:

1. 216,000 shares are held by the spouse of Fung Wai Yiu ("Mr. Fung"). 209,191,780 shares are registered in the name of Guliano Pte Limited ("Guliano"). 158,712,362 shares are registered in the name of HKSCC Nominees Limited ("HKSCC") and are beneficially owned by Guliano. Mr. Fung is deemed to be interested in the Company as he has beneficial interest in a family trust which held 9,590 shares of Guliano.
2. 209,191,780 shares are registered in the name of Guliano. 158,712,362 shares are registered in the name of HKSCC and are beneficially owned by Guliano. Wong Chung Chong, Eddie ("Mr. Wong") is deemed to be interested in the Company as he is the founder of a family trust which held 40,411 shares of Guliano.
3. 209,191,780 shares are registered in the name of Guliano. 158,712,362 shares are registered in the name of HKSCC and are beneficially owned by Guliano. 49,999 shares of Guliano are held by VdV. 21,426,999 shares are registered in the name of VdV of which Mr. Lucas A. M. Laureys and Mr. Herman Van de Velde are beneficial owners.

(b) Share options

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

Save as disclosed above, and other than certain nominee shares in subsidiaries held by Directors in trust for the Company's subsidiaries as at 30 June 2003, no Director held any interest in the securities of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, 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.

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Guliano	Beneficial owner	367,904,142	34.34%
VF Intimates	Beneficial owner	106,000,000	9.89%
Value Partners Limited	Beneficial owner	75,662,000	7.06%

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

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The respective percentages of the Group's purchases from major suppliers and turnover attributable to major customers for the year ended 30 June 2003 were as follows:

Percentage of purchases attributable to the Group's largest supplier	16%
Percentage of purchases attributable to the Group's five largest suppliers	51%
Percentage of turnover attributable to the Group's largest customer	62%
Percentage of turnover attributable to the Group's five largest customers	84%

As at 30 June 2003, VF Intimates, a shareholder owning more than 5% of the Company's share capital, is the Group's largest customer. Apart from this, none of the Directors, their associates or other shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) were interested at any time in the year in the above major suppliers or customers.

The aggregate purchases of the Group for the year ended 30 June 2003 amounted to HK\$446,917,000.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$140,000.

AUDIT COMMITTEE

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

COMPENSATION COMMITTEE

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

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on The Stock Exchange of Hong Kong Limited.

AUDITORS

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

On behalf of the Board

FUNG WAI YIU

Chairman

5 September 2003, Hong Kong