



TOP FORM

INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

STOCK CODE: 333

Interim Report 2021



ABOUT TOP FORM

Top Form International Limited (the “Company”) is a leading international intimate apparel manufacturer listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock Code: 333). The Company and its principal subsidiaries (collectively “Top Form” or the “Group”) employs over 8,000 employees across China, Thailand, Cambodia and Myanmar, with our headquarters in Hong Kong. We provide end-to-end service, from material sourcing to finished garments, and our product category ranges from intimate apparel to functional sports bras.

OUR VISION

To be a leading international apparel partner, from ideation to delivery, driven by insights and built on sustainable operations.

OUR MISSION

We strive to make a lasting positive impact through our actions, our relationships and the quality work we do.

OUR VALUES

Integrity
“Can Do” Attitude
Accountability
Courage
Curious & Creative
Care & Respect
Collaborative

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 31 December 2020 - unaudited
(Expressed in Hong Kong dollars)

| | Note | Six months ended 31 December 2020 \$'000 | 2019 \$'000 |
|---|------|---|----------------|
| Revenue | | 638,724 | 644,620 |
| Cost of sales | | (517,073) | (537,271) |
| Gross profit | | 121,651 | 107,349 |
| Other net income | 4 | 45,717 | 7,938 |
| Selling and distribution expenses | | (34,985) | (19,545) |
| General and administrative expenses | | (99,429) | (108,661) |
| Profit/(loss) from operations | | 32,954 | (12,919) |
| Finance costs | 5(a) | (2,919) | (1,606) |
| Share of profit of a joint venture | | 1,419 | 1,553 |
| Share of profit of an associate | | 579 | – |
| Profit/(loss) before taxation | 5 | 32,033 | (12,972) |
| Income tax expense | 6 | (2,727) | (220) |
| Profit/(loss) for the period | | 29,306 | (13,192) |
| Attributable to: | | | |
| Owners of the Company | | 24,699 | (14,539) |
| Non-controlling interests | | 4,607 | 1,347 |
| Profit/(loss) for the period | | 29,306 | (13,192) |
| Earnings/(loss) per share (HK cents) | 8 | | |
| Basic and diluted | | 11.49 | (6.76) |

The notes on pages 10 to 23 form part of this interim financial report. Details of dividends payable to owners of the Company are set out in note 7.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 31 December 2020 - unaudited

(Expressed in Hong Kong dollars)

| | Six months ended | |
|---|-------------------------|----------|
| | 31 December | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Profit/(loss) for the period | 29,306 | (13,192) |
| Other comprehensive income: | | |
| Items that may be subsequently reclassified to profit or loss: | | |
| Exchange differences arising on translation of operations outside Hong Kong | | |
| – subsidiaries | 12,260 | (412) |
| – a joint venture | 1,967 | (340) |
| Other comprehensive income for the period, net of income tax | 14,227 | (752) |
| Total comprehensive income for the period | 43,533 | (13,944) |
| Attributable to: | | |
| Owners of the Company | 38,922 | (15,332) |
| Non-controlling interests | 4,611 | 1,388 |
| Total comprehensive income for the period | 43,533 | (13,944) |

The notes on pages 10 to 23 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020 - unaudited

(Expressed in Hong Kong dollars)

| | Note | At 31 December 2020 \$'000 | At 30 June 2020 \$'000 |
|--|------|-------------------------------------|---------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 227,286 | 231,709 |
| Investment properties | 9 | 143,844 | 132,467 |
| Interest in a joint venture | | 25,545 | 22,159 |
| Interest in an associate | | 4,464 | – |
| Other financial assets | | 2,838 | 2,838 |
| Derivative financial instrument | | 1,403 | 1,403 |
| Deferred tax assets | | 263 | 986 |
| Prepayments and deposits | | 3,593 | 5,682 |
| | | 409,236 | 397,244 |
| Current assets | | | |
| Inventories | | 328,789 | 180,389 |
| Trade and other receivables | 10 | 174,632 | 143,369 |
| Current tax recoverable | | 69 | 157 |
| Bank balances and cash | | 76,425 | 122,903 |
| | | 579,915 | 446,818 |
| Current liabilities | | | |
| Trade payables and accrued charges | 11 | 317,217 | 211,736 |
| Unsecured bank loans | | 91,797 | 97,442 |
| Lease liabilities | | 12,661 | 14,396 |
| Current tax payable | | 4,037 | 2,005 |
| | | 425,712 | 325,579 |
| Net current assets | | 154,203 | 121,239 |
| Total assets less current liabilities | | 563,439 | 518,483 |

| | <i>Note</i> | At 31 December 2020 \$'000 | At 30 June 2020 \$'000 |
|---|-------------|---|---------------------------------|
| Non-current liabilities | | | |
| Lease liabilities | | 17,318 | 21,526 |
| Retirement benefit obligations | | 3,828 | 3,110 |
| Deferred tax liabilities | | 35,329 | 32,485 |
| Other payables | | 6,695 | 12,692 |
| | | 63,170 | 69,813 |
| Net assets | | | |
| | | 500,269 | 448,670 |
| Capital and reserves | | | |
| Share capital | 12 | 107,519 | 107,519 |
| Reserves | | 357,530 | 318,228 |
| Equity attributable to owners of the Company | | | |
| | | 465,049 | 425,747 |
| Non-controlling interests | | | |
| | | 35,220 | 22,923 |
| Total equity | | | |
| | | 500,269 | 448,670 |

The notes on pages 10 to 23 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2020 - unaudited

(Expressed in Hong Kong dollars)

| | Attributable to owners of the Company | | | | | | | | | | | | | | | | | | | | | |
|---|---------------------------------------|---------------|----------------------------|------------------------------------|----------------------|--|---------------------------|---------------------|------------------|---------|---------------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Share capital | Share premium | Capital redemption reserve | Special reserve <i>(Note 7)</i> | Share option reserve | Investment revaluation reserve (non-recycling) | Asset revaluation reserve | Translation reserve | Retained profits | Total | Non-controlling interests | Total | | | | | | | | | | |
| | | | | | | | | | | | | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | | | | | | | | | | | | | | | | | | | | | | |
| At 1 July 2020 | 107,519 | 1,499 | 233 | 7,139 | 380 | (5,883) | 102,890 | 2,759 | 209,211 | 425,747 | 22,923 | 448,670 | | | | | | | | | | |
| Exchange differences arising on translation of operations outside Hong Kong | - | - | - | - | - | - | - | 14,223 | - | 14,223 | 4 | 14,227 | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | - | 24,699 | 24,699 | 4,607 | 29,306 | | | | | | | | | | |
| Total comprehensive income | - | - | - | - | - | - | - | 14,223 | 24,699 | 38,922 | 4,611 | 43,533 | | | | | | | | | | |
| Capital contribution from a non-controlling shareholder | - | - | - | - | - | - | - | - | - | - | 7,686 | 7,686 | | | | | | | | | | |
| Equity-settled share-based transactions | - | - | - | - | 380 | - | - | - | - | 380 | - | 380 | | | | | | | | | | |
| At 31 December 2020 | 107,519 | 1,499 | 233 | 7,139 | 760 | (5,883) | 102,890 | 16,982 | 233,910 | 465,049 | 35,220 | 500,269 | | | | | | | | | | |

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---------------------------------------|---------------|----------------------------|-------------------------------|----------------------|--|---------------------------|---------------------|------------------|----------|---------------------------|----------|
| | Share capital | Share premium | Capital redemption reserve | Special reserve (Note (i)) | Share option reserve | Investment revaluation reserve (non-recycling) | Asset revaluation reserve | Translation reserve | Retained profits | Total | Non-controlling interests | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 July 2019 | 107,519 | 1,499 | 233 | 7,139 | - | - | 102,890 | 9,806 | 286,446 | 515,532 | 7,650 | 523,182 |
| Exchange differences arising on translation of operations outside Hong Kong | - | - | - | - | - | - | - | (793) | - | (793) | 41 | (752) |
| (Loss)/profit for the period | - | - | - | - | - | - | - | - | (14,539) | (14,539) | 1,347 | (13,192) |
| Total comprehensive income | - | - | - | - | - | - | - | (793) | (14,539) | (15,332) | 1,388 | (13,944) |
| Capital contribution from a non-controlling shareholder | - | - | - | - | - | - | - | - | - | - | 15,540 | 15,540 |
| Equity-settled share-based transactions | - | - | - | - | 380 | - | - | - | - | 380 | - | 380 |
| At 31 December 2019 | 107,519 | 1,499 | 233 | 7,139 | 380 | - | 102,890 | 9,013 | 271,907 | 500,380 | 24,578 | 525,158 |

Note (i): 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.

The notes on pages 10 to 23 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 December 2020 - unaudited
(Expressed in Hong Kong dollars)

| | Six months ended | |
|--|-------------------------|---------------|
| | 31 December | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Net cash used in operating activities | (46,247) | (15,438) |
| Investing activities | | |
| Purchase of property, plant and equipment | (20,146) | (30,151) |
| Proceeds from disposal of property, plant and equipment | 28,150 | 463 |
| Interest income | 249 | 311 |
| Purchase of other financial assets | - | (4,004) |
| Net cash generated from/(used in) investing activities | 8,253 | (33,381) |
| Financing activities | | |
| Capital element of lease payments | (7,196) | (5,486) |
| Interest element of lease payments | (631) | (233) |
| Interest paid | (571) | (986) |
| Other bank charges | (1,717) | (387) |
| Proceed from new bank loans | 8,689 | 15,959 |
| Repayment of bank loans | (14,334) | - |
| Proceed from capital contribution from a non-controlling shareholder | 7,686 | 15,540 |
| Net cash (used in)/generated from financing activities | (8,074) | 24,407 |
| Net decrease in cash and cash equivalents | (46,068) | (24,412) |
| Cash and cash equivalents at 1 July | 122,903 | 95,269 |
| Effect of foreign exchange rate changes | (410) | 1,474 |
| Cash and cash equivalents at 31 December, represented by bank balances and cash | 76,425 | 72,331 |

The notes on pages 10 to 23 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 23 February 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements. The 2020 annual financial statements represent the consolidated financial statements for the year ended 30 June 2020, which was approved and authorised for issue by the board of directors on 15 September 2020. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Top Form International Limited (the “Company”) and its subsidiaries (collectively the “Group”) since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by the Company’s Audit Committee.

1 BASIS OF PREPARATION (CONTINUED)

The financial information relating to the financial year ended 30 June 2020 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2020 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 September 2020.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT INFORMATION

Revenue represents the sale value of goods and is within the scope of HKFRS 15, *Revenue from contracts with customers*. The Group manages its business as a single unit and, accordingly, the manufacturing and sale of ladies' intimate apparel is the only reportable segment and virtually all of the revenue and operating profits is derived from this business segment. The consolidated financial statements are already presented in a manner consistent with the way in which information is reported internally to the Company's executive directors, being the chief operating decision maker, for the purposes of resources allocation and operating performance review.

The chief operating decision maker regularly assesses available production capacity on a plant by plant basis, however, no discrete financial information is available for each plant for the purpose of resources allocation and operating performance review. The chief operating decision maker reviews financial information on a consolidated basis. Accordingly, no separate business segment information is disclosed.

The accounting policies adopted for the preparation of the financial information reviewed by executive directors are the same as those adopted in preparing the Group's financial statements. Segment revenue is the consolidated revenue of the Group. Segment profit or loss is the consolidated profit or loss after taxation.

All the Group's assets and liabilities are under the manufacturing business as at 31 December 2020 and 30 June 2020.

4 OTHER NET INCOME

| | Six months ended | |
|--|------------------|--------|
| | 31 December | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Gain on disposal of a property, net (note (i)) | 27,868 | – |
| Government grants (note (ii)) | 10,755 | 1,160 |
| Gross rental income from investment properties | 5,285 | 5,189 |
| Interest income | 249 | 311 |
| Sample income | 757 | 285 |
| Others | 803 | 993 |
| | 45,717 | 7,938 |

Note

- (i) During the six months ended 31 December 2020, the Group disposed of a self-owned property with net book value of \$Nil to an independent third party at a consideration of \$28,000,000 resulting in a net gain on disposal of \$27,868,000 after netting off the related transaction costs.
- (ii) During the six months ended 31 December 2020, the Group received government grants of \$10,755,000 (six months ended 31 December 2019: \$1,160,000) from the Mainland China and Hong Kong Government, of which \$6,667,000 represents funding support from the Employment Support Scheme under the Anti-epidemic Fund set up by the Hong Kong Government.

5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging/(crediting):

| | | Six months ended | |
|------------|--|-------------------------|---------|
| | | 31 December | |
| | | 2020 | 2019 |
| | | \$'000 | \$'000 |
| (a) | Finance costs | | |
| | Interest expense on bank borrowings | 571 | 986 |
| | Interest on lease liabilities | 631 | 233 |
| | Other bank charges | 1,717 | 387 |
| | | 2,919 | 1,606 |
| (b) | Other items | | |
| | Depreciation charge | | |
| | – property, plant and equipment | 18,957 | 15,248 |
| | – right-of-use assets | 7,604 | 5,267 |
| | Reversal of prior year provision | – | (5,200) |
| | Reversal of impairment loss on trade receivable | (2,226) | – |
| | Allowance for obsolete inventories (included in cost of sales) | 54 | 4,473 |
| | Net exchange gain | (591) | (3,673) |
| | Loss on disposal of other property, plant and equipment, net | 147 | 217 |

6 INCOME TAX EXPENSE

| | Six months ended | |
|---|-------------------------|---------|
| | 31 December | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Current tax: | | |
| Hong Kong Profits Tax | 1,936 | 1,260 |
| Other jurisdictions | 71 | 348 |
| | 2,007 | 1,608 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 720 | (1,388) |
| | 2,727 | 220 |

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first \$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits for this subsidiary was calculated at the same basis for both periods.

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

7 DIVIDENDS

No interim dividend declared and paid after the interim period end (six months ended 31 December 2019: \$Nil).

8 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

| | Six months ended 31 December | |
|---|---|------------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Profit/(loss) for the period attributable to the owners of the Company for the purpose of computing basic earnings/(loss) per share | 24,699 | (14,539) |
| | Number of shares | Number of shares |
| Number of weighted average of ordinary shares for the purpose of computing basic earnings/(loss) per share | 215,037,625 | 215,037,625 |

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the periods ended 31 December 2020 and 31 December 2019 are same as the basic earnings/(loss) per share as the share options outstanding during both periods had an anti-dilutive effect.

9 MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 31 December 2020, the Group acquired property, plant and equipment with a cost of \$17,147,000 which was mainly spent on machineries and leasehold improvement for factories in Thailand and Myanmar (six months ended 31 December 2019: \$60,167,000).

During the six months ended 31 December 2020, the Group entered into a number of lease agreements for use of dorm, and therefore recognised the additions to right-of-use assets of \$961,000.

The Group's investment properties were carried at fair value as at the end of the current interim period. These properties were revalued by the directors with reference to the market trend of the rental market and current rents of the properties being held under existing tenancies. There has been no change in fair value of the Group's investment properties for the six months ended 31 December 2020 (six months ended 31 December 2019: \$Nil).

10 TRADE AND OTHER RECEIVABLES

| | At 31 December 2020 \$'000 | At 30 June 2020 \$'000 |
|---|---|---------------------------------|
| Trade receivables at amortised cost, net of loss allowance | 37,920 | 78,937 |
| Trade receivables to be factored at fair value through other comprehensive income (recycling) | 93,573 | 33,695 |
| Other receivables | 43,139 | 30,737 |
| | 174,632 | 143,369 |

10 TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in the balance are trade receivables of \$131,493,000 (at 30 June 2020: \$112,632,000). The Group allows an average credit period of 10 days to 120 days to its trade customers.

As part of Group's management, the Group has practice of factoring some of the trade receivables to financial institutions before the trade receivables are due for repayment and derecognises factored trade receivables on the basis that Group has transferred substantially all risks and rewards to the relevant counterparties.

As at 31 December 2020, the fair value changes on trade receivables at fair value through other comprehensive income ("FVOCI") (recycling) are insignificant and accordingly, no fair value changes are recognised in equity as FVOCI reserve.

Ageing analysis

At the end of the reporting period, the ageing analysis of trade receivables based on the invoice date and net of loss allowance, is as follows:

| | At 31 December 2020 \$'000 | At 30 June 2020 \$'000 |
|---------------|---|---------------------------------|
| 1 - 90 days | 122,707 | 80,085 |
| 91 - 180 days | 8,786 | 32,547 |
| | 131,493 | 112,632 |

11 TRADE PAYABLES AND ACCRUED CHARGES

Included in the balance are trade payables of \$188,032,000 (at 30 June 2020: \$119,760,000). Other payables and accrued charges mainly represented accrued freight charges, salaries and other operating expenses.

An ageing analysis of trade payables, based on the payment due date at the end of the reporting period is as follows:

| | At 31 December 2020 \$'000 | At 30 June 2020 \$'000 |
|-----------------------|---|---------------------------------|
| Current | 145,688 | 86,780 |
| 1 - 30 days past due | 39,278 | 28,342 |
| 31 - 60 days past due | 2,775 | 1,118 |
| Over 60 days past due | 291 | 3,520 |
| | 188,032 | 119,760 |

As the average credit period on purchases of goods is ranged from 30 days to 60 days, a majority of the balances which as disclosed above are within 90 days from the invoice date. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

12 SHARE CAPITAL

| | At 31 December 2020 | | At 30 June 2020 | |
|---|---------------------|----------------|-----------------|---------------|
| | No. of shares | Amount \$'000 | No. of shares | Amount \$'000 |
| Ordinary shares of \$0.50 each | | | | |
| Authorised: | | | | |
| At 1 July 2020/1 July 2019 and end of period/year | 300,000,000 | 150,000 | 300,000,000 | 150,000 |
| Issued and fully paid: | | | | |
| At 1 July 2020/1 July 2019 and end of period/year | 215,037,625 | 107,519 | 215,037,625 | 107,519 |

13 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 30 September 2019, 5,920,000 share options were granted for \$1 consideration to directors and employees of the Company under the Company's share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on 30 September 2022, and then be exercisable until 2024. The exercise price is \$1.172, being the average closing price for the five business days immediately preceding the date of grant.

No options were exercised during the six months ended 31 December 2020 (2019: Nil).

14 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2020 not provided for in the interim financial report:

| | At 31 December 2020 \$'000 | At 30 June 2020 \$'000 |
|----------------|---|---------------------------------|
| Contracted for | 5,969 | 1,247 |

15 MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period, the Group processed supplied materials and delivered the finished products to a related company, Van de Velde N.V. ("VdV"), for revenue of approximately \$41,952,000 (for the six months ended 31 December 2019: \$36,279,000).

As at 31 December 2020, the balance of trade receivables from VdV amounting to approximately \$4,049,000 (at 30 June 2020: \$1,951,000) was included in trade and other receivables.

As at 31 December 2020 and 30 June 2020, 25.66% of the Company's ordinary shares were held by VdV.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

| | Six months ended | |
|---|-------------------------|--------|
| | 31 December | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Salaries and other benefits | 9,456 | 12,234 |
| Retirement benefit scheme contributions | 72 | 72 |
| Share based payment | 380 | – |
| | 9,908 | 12,306 |

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.

16 EVENTS AFTER THE REPORTING PERIOD

On 4 November 2020, the Company proposed to raise approximately \$43,000,000 before expenses, by way of a rights issue (the "Rights Issue") of 86,015,050 new ordinary shares in the capital of the Company (the "Rights Shares") to the shareholders of the Company (the "Shareholders") on the basis of two Rights Shares for every five shares of the Company (the "Shares") in issue at the subscription price of \$0.50 per Rights Share.

The Rights Shares in connection with the Rights Issue were fully subscribed. Proceeds from the Rights Issue of \$43,000,000 was received and dealings in Rights Shares was commenced on 22 February 2021 before the interim financial statements were authorised for issue.

MANAGEMENT DISCUSSION AND ANALYSIS


The board of directors (the “Board”) of Top Form International Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively “Top Form” or the “Group”) for the six months ended 31 December 2020.

BUSINESS REVIEW

While the COVID-19 pandemic made significant impact to the global economy and the Group’s business in the second half of the financial year ended 30 June 2020, the Group’s foresight in building a resilient and flexible manufacturing footprint and in diversifying its product mix has strengthened the Group’s position as the consumers and the global economy have begun adapting to the new normal of life under the pandemic. Over the last 12 months as people are working from home, maintaining social distance, there has been a paradigm shift in consumer preference to more comfort and leisure products which drove a strong rebound in demand for the seamless and fully fused products.

Amidst the strong rebound of sales, the Group’s operation has been severely impacted by the persistent pandemic caused disruptions, including but not limited to the global shortage of containers which caused significant disruption in materials supply and finished products cannot be delivered to customers, cross border travel restrictions which impact the ramp up of our overseas facilities as technicians are not able to provide onsite support, sporadic closure of manufacturing lines due to COVID-19 infection which caused loss of capacity and disruption to production plan.

On 7 October 2020, Top Form Brassiere Mfg. Co., Limited, an indirect wholly-owned subsidiary of the Company, entered into a formal sale and purchase agreement with an independent third party purchaser in relation to the disposal a property in Hong Kong which is being used as warehouse and office premises by the Group immediately before the Disposal for a consideration of HK\$28 million. The transaction was officially completed on 25 November 2020 and the Group has recognized a gain on disposal of HK\$27.9 million.



In view of the global economic uncertainties arising from the impact of the COVID-19 pandemic, the Company has proposed a rights issue on the basis of two rights shares for every five existing shares to finance the Group's long-term strategic investment and also strengthen the Group's balance sheet. The rights issue was completed on 19 February 2021 and the Group has raised HK\$40.5 million net of expenses. Details are set out in the section "the Rights Issue".

During the period, in monetary terms, 78% of sales were to the U.S. market, 13% to the EU and 9% to the rest of the world. From the supply side, the overseas manufacturing facilities in Southeast Asia accounted for 67.9% of the global production output whilst China accounted for the remaining 32.1% during the period.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by 1% from HK\$644.6 million to HK\$638.7 million for the six months ended 31 December 2020. This decrease in revenue was mainly driven by the global shortage of containers which caused HK\$21 million of finished goods not able to ship out as per original schedule. Aside from this, the Group's revenue was boosted by the strong demand of the seamless and fully fused products, and offset by lower sales to retailers in the U.S. and Europe.

Gross Profit

Gross profit increased from HK\$107.3 million to HK\$121.7 million during the six months period with the gross profit margin increased from 17% to 19%. The increase in gross profit was mainly due to improved customer and product mix.

Other Net Income

Other net income increased from HK\$7.9 million to HK\$45.7 million during the six months period. The increase was mainly attributable to the HK\$28 million sales proceeds from the disposal of property in Hong Kong and HK\$6.7 million anti-pandemic subsidies received by the Company's subsidiaries through Hong Kong Government's Employer Support Scheme.

Selling and Distribution Expenses

Selling and distribution expenses primarily comprised of freight and transportation costs, employee benefits of sales and sales support personnel, and customer sample costs. The Group's selling & distribution expenses amounted to HK\$35.0 million for the six months ended 31 December 2020, against HK\$19.5 million for the six months ended 31 December 2019. The significant increase in selling & distribution expenses was mainly driven by the freight costs as a result of persistent and severe disruptions caused by COVID-19.

General and Administrative Expenses

The Group's general and administrative expenses amounted to HK\$99.4 million for the six months ended 31 December 2020, against HK\$108.7 million for the six months ended 31 December 2019. The decrease in general and administrative expenses was mainly attributable to the cost reduction measures undertaken by the management at the onset of pandemic.

Finance Costs

The Group's finance costs mainly represent interest expenses on borrowings, account receivables factoring costs and lease liabilities. The finance costs increased from HK\$1.6 million for the six months ended 31 December 2019 to HK\$2.9 million for the six months ended 31 December 2020. The increase in finance costs was primarily due to (i) the increase in borrowings as a result of continuous investment by the Group and also to increase the Group's liquidity amidst the pandemic; and (ii) the relevant finance costs on lease liabilities recorded upon the adoption of Hong Kong Financial Reporting Standard 16 "Leases".

Profit for the period

The Group recorded a profit of HK\$29.3 million for the six months ended 31 December 2020, as compared to a net loss of HK\$13.2 million in the corresponding period last year.

FINANCIAL POSITION

The Group's bank balances and cash stood at HK\$76.4 million (at 30 June 2020: HK\$122.9 million) whilst the total bank borrowings was HK\$91.8 million as at 31 December 2020 (at 30 June 2020: HK\$97.4 million) and the gearing ratio was 26.1% (at 30 June 2020: 31.30%). As at 30 June 2020 and 31 December 2020, the Group did not have assets pledged for bank borrowings.

The Group strives to improve the working capital management and focus on the overall cash conversion cycle days which are calculated by adding the inventory turnover days and receivables turnover days and subtracting the payables turnover days. For the six months ended 31 December 2020, the cash conversion cycle days were 52 days as compared to 37 days for the year ended 30 June 2020.

| | For the six months/year ended | |
|----------------------------|--|---------------------------|
| | 31 December 2020 (Days) | 30 June 2020 (Days) |
| Inventory turnover days | 91 | 61 |
| Receivables turnover days | 35 | 47 |
| Payables turnover days | 74 | 71 |
| Cash conversion cycle days | 52 | 37 |

The cash conversion cycle days increased from 37 days to 52 days mainly driven by the increase in inventory days as more materials were brought in to accommodate the later Chinese New Year and the global shortage of container at year end also resulted in increase in finished goods.

Capital expenditure during the period amounted to HK\$17.1 million of which the majority was for the expansion of overseas factory capacity.

FOREIGN EXCHANGE RISK

The Group is mainly exposed to fluctuations in exchange rates of Euro, HK dollars, RMB, US dollars and Thai Baht. Majority of the sales revenue are denominated in US dollars, the foreign exchange exposure in respect of US dollars against HK dollars is considered minimal as HK dollars pegged with US dollars. The Group manages its foreign exchange exposure by performing regular review and by taking prudent measures to minimize the currency translation risk.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities.

THE RIGHTS ISSUE

Reference is made to the Company's announcements dated 4 November 2020, 25 November 2020, 2 December 2020 respectively, the circular dated 9 December 2020, the supplemental announcement dated 21 December 2020 and the prospectus dated 25 January 2021.

On 4 November 2020, the Company proposed to raise approximately HK\$43.0 million, before expenses, by way of a rights issue (the "Rights Issue") of 86,015,050 new ordinary shares in the capital of the Company (the "Rights Shares") to the shareholders of the Company (the "Shareholders") on the basis of two Rights Shares for every five shares of the Company (the "Shares") in issue at the subscription price of HK\$0.50 per Rights Share.

EVENT AFTER THE REPORTING PERIOD

A special general meeting of the Company was held on 12 January 2021 to approve, among others, the Rights Issue and the increase in authorised share capital. All the resolutions were duly passed at the meeting. Details of the poll results of the special general meeting are set out in the Company's announcement dated 12 January 2021.

Use of proceeds from Rights Issue

The Company completed the Rights Issue on 19 February 2021, pursuant to which the Company has issued 86,015,050 ordinary Shares as Rights Shares on the basis of two Rights Shares for every five Shares at HK\$0.50 per Rights Share. The net proceeds from the Rights Issue after deducting the expenses were approximately HK\$40.5 million. The Company intended to apply approximately HK\$18.6 million for purchase of additional santoni machines for the seamless manufacturing expansion in Thailand, approximately HK\$13.0 million for the increase of investment in an Indonesian company engaging in the manufacturing of ladies' underwear, approximately HK\$6.4 million for the construction of the Myanmar factory facilities, and approximately HK\$2.5 million for the general working capital to support the daily operations of the Group.

OUTLOOK AND FUTURE DEVELOPMENT

As the global economy slowly emerges from the collapse triggered by the pandemic and vaccines are being distributed in major economies, there are budding signs that the consumers are once again reengaged in making purchases. While the Group continues to see business rebound strongly, the challenges faced in the first half we foresee to remain in the near future, including cross border travel restrictions to sporadic disruption to supply chain, which we believe will bring risk to our prospects.

Geopolitical uncertainty is another risk that we are dealing with. The latest event of a military coup in Myanmar has brought uncertainty to our investment in the country. We will closely monitor the situation and development of the event.

Against the backdrop of all these uncertainties, profitability and cash flow are the top priorities and we will remain focused on the execution of key strategic initiatives, improving operation efficiency and cost control, carefully increase capacity across all our manufacturing facilities, and ramping up the seamless product output.

OTHER INFORMATION

DIRECTORS' OR CHIEF EXECUTIVES' INTERESTS

As at 31 December 2020, the interests and short positions of the Directors or the chief executives of the Company 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 Stock Exchange of Hong Kong Limited (the "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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

LONG POSITIONS:

Ordinary shares of HK\$0.50 each of the Company

| Name of Director | Capacity | Number of issued ordinary shares held | Number of share options held (note 1) | Total interests | Percentage of the issued share capital of the Company (note 7) |
|-----------------------------|---|---------------------------------------|---------------------------------------|-----------------|--|
| Mr. Wong Chung Chong | Beneficial owner and interests held by spouse, a controlled corporation and persons acting in concert (note 2 and note 8) | 147,577,873 | – | 147,577,873 | 68.63% |
| Mr. Wong Kai Chung, Kevin | Interests held by a controlled corporation and persons acting in concert (note 3 and note 8) Beneficial owner | 147,377,873 – | – 200,000 | 147,577,873 | 68.63% |
| Mr. Wong Kai Chi, Kenneth | Persons acting in concert (note 4 and note 8) Beneficial owner | 147,377,873 – | – 200,000 | 147,577,873 | 68.63% |
| Mr. Herman Van de Velde | Interests held by a controlled corporation (note 5 and note 8) | 55,184,708 | – | 55,184,708 | 25.66% |
| Mr. Fung Wai Yiu | Beneficial owner and interests held by spouse (note 6 and note 8) | 8,705,704 | – | 8,705,704 | 4.05% |
| Mr. Leung Ying Wah, Lambert | Beneficial owner (note 8) | 80,000 | – | 80,000 | 0.04% |
| Ms. Leung Chuk Yin, Jeanny | Beneficial owner (note 8) | 14,104 | – | 14,104 | 0.01% |

Notes:

1. Details of the share options granted to the Directors by the Company are set out in the section headed "Share Option Scheme" of this report.
2. 4,624,504 Shares were beneficially owned by Mr. Wong Chung Chong ("Mr. Wong") whereas 220,000 Shares were held by the spouse of Mr. Wong and 52,318,319 Shares were registered in the name of High Union Holdings Inc. ("High Union"), the shares of which were held by Mr. Wong. 4,000,000 Shares were registered in the name of Triple Gains Ventures Limited ("Triple Gains"), 41.36% equity interest of which was held by Mr. Wong Kai Chung, Kevin ("Mr. Kevin Wong"), and deemed to be interested by Mr. Wong who was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply. Pursuant to the Rights Issue and the irrevocable undertakings, (i) 1,849,802 Rights Shares; (ii) 88,000 Rights Shares; and (iii) 20,927,328 Rights Shares, respectively will be offered and subscribed by each of Mr. Wong, spouse of Mr. Wong, and High Union under their respective entitlements. Pursuant to the underwriting agreement, High Union and Triple Gains shall underwrite a maximum of 21,549,920 Rights Shares and 40,000,000 Rights Shares, respectively. Details of which was set out under the section headed "the Rights Issue" in the Management Discussion and Analysis.
3. 4,000,000 shares were held by Triple Gains, 41.36% equity interest of which was held by Mr. Kevin Wong, and 101,777,873 shares were deemed to be interested by Mr. Kevin Wong who was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply. Pursuant to the Rights Issue, 1,600,000 Rights Shares will be offered and subscribed by Triple Gains under its entitlement. Pursuant to the underwriting agreement, Triple Gains shall underwrite 40,000,000 Rights Shares. Details of which was set out under the section headed "the Rights Issue" in the Management Discussion and Analysis.
4. 147,377,873 shares were deemed to be interested by Mr. Kenneth Wong who was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.
5. 55,184,708 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.
6. 4,618,504 shares were beneficially owned by Mr. Fung Wai Yiu ("Mr. Fung") whereas 4,087,200 shares were held by the spouse of Mr. Fung.
7. Shareholding percentage is calculated based on 215,037,625 Shares issued as at 31 December 2020.
8. The interests of the Directors of the Company in the shares of the Company and their respective shareholding percentage immediately after the completion of the Rights Issue were set out in the Company's announcement dated 18 February 2021.

Certain nominee shares in the Company's subsidiaries were held by Mr. Wong in trust for the Company's subsidiaries as at 31 December 2020.

Save as disclosed above, none of the Directors nor 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 31 December 2020, 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\$0.50 each of the Company

| Name of Shareholder | Capacity | Total interests by number of ordinary shares held | Percentage of the issued share capital of the Company <i>(note 4)</i> |
|------------------------|--|---|--|
| High Union | Beneficial owner, persons acting in concert and underwriter <i>(note 1 and note 5)</i> | 147,577,873 | 68.63% |
| Triple Gains | Beneficial owner, persons acting in concert and underwriter <i>(note 2 and note 5)</i> | 147,577,873 | 68.63% |
| VdV | Beneficial owner <i>(note 5)</i> | 55,184,708 | 25.66% |
| Mr. David Michael Webb | Beneficial owner and interests held by a controlled corporation <i>(note 3)</i> | 12,914,000 | 6.01% |

Notes:

- 73,245,647 shares were beneficially owned by High Union whereas 52,782,306 shares were deemed to be interested by High Union which was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply. High Union agreed to underwrite a maximum of 21,549,920 Rights Shares pursuant to the underwriting agreement. Details of which was set out under the section headed "the Rights Issue" in the Management Discussion and Analysis.

2. 5,600,000 shares were beneficially owned by Triple Gains whereas 101,977,873 shares were deemed to be interested by Triple Gains which was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply. Triple Gains agreed to underwrite a maximum of 40,000,000 Rights Shares pursuant to the underwriting agreement. Details of which was set out under the section headed "the Rights Issue" in the Management Discussion and Analysis.
3. 5,244,200 shares were beneficially owned by Mr. David Michael Webb and 7,669,800 shares were held by Preferable Situation Assets Limited, the shares of which were held by Mr. David Michael Webb.
4. Shareholding percentage is calculated based on 215,037,625 Shares issued as at 31 December 2020.
5. The interests of the substantial shareholders in the shares of the Company and their respective shareholding percentage immediately after the completion of the Rights Issue were set out in the Company's announcement dated 18 February 2021.

SHARE OPTION SCHEME

Pursuant to a resolution passed on 3 November 2011 (the "Adoption Date"), a new share option scheme (the "Scheme") of the Company 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 end on 2 November 2021. Under the Scheme, the Board may grant options to eligible employees, including directors, executives or officers of the Company and its subsidiaries and any other persons at the discretion of the Board to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the Adoption Date, being 107,518,812 shares. Following the share consolidation (on the basis of every five issued and unissued shares of HK\$0.10 each consolidated into one share of HK\$0.50 each in the capital of the Company) which became effective on 23 May 2014, the total number of shares which may be issued on exercise of the options which may be granted under the Scheme shall not exceed 21,503,762 shares. The number of shares in respect of which options may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any 12 month period in excess of 0.1% of the Company's issued share capital and with a value in excess of HK\$5 million on the date of offer must be approved in advance by the Company's independent shareholders.

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

During the six months ended 31 December 2020, no share options were granted, exercised, cancelled or lapsed under the Scheme.

Details of movements of the share options granted under the Scheme to the Directors and employees during the six months ended 31 December 2020 were as follows:

| Grantee | Date of grant | Exercise price per share (HK\$) (Note) | Exercise period | Number of share options | | | | Outstanding as at 31 December 2020 (Note) |
|---------------------------|-------------------|--|--|-------------------------------|---------------------------|-----------------------------|-------------------------------------|--|
| | | | | Outstanding as at 1 July 2020 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | |
| Directors | | | | | | | | |
| Mr. Wong Kai Chung, Kevin | 30 September 2019 | 1.172 | 30 September 2022 to 29 September 2024 | 200,000 | - | - | - | 200,000 |
| Mr. Wong Kai Chi, Kenneth | 30 September 2019 | 1.172 | 30 September 2022 to 29 September 2024 | 200,000 | - | - | - | 200,000 |
| Employees | | | | | | | | |
| In aggregate | 30 September 2019 | 1.172 | 30 September 2022 to 29 September 2024 | 5,920,000 | - | - | - | 5,920,000 |
| Total | | | | 5,920,000 | - | - | - | 5,920,000 |

Note:

Upon the completion of the Rights Issue on 19 February 2021, the exercise price of the outstanding share options was adjusted from HK\$1.172 per share to HK\$1.044 per share and the number of outstanding share options was adjusted from 5,920,000 to 6,645,836. Details of which was set out in the Company's Announcement dated 18 February 2021.

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 six months ended 31 December 2020.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2020 (six months ended 31 December 2019: nil).

AUDIT COMMITTEE

The Audit Committee comprises Ms. Leung Churk Yin, Jeanny, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy, all of whom are Independent Non-executive Directors of the Company.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed financial reporting matters, internal controls and risk management systems.

The Company's unaudited interim financial report for the six months ended 31 December 2020 has been reviewed by the Audit Committee of the Company.

CORPORATE GOVERNANCE

The Company has, during the six months ended 31 December 2020, complied with the code provisions as set out in the Corporate Governance Code, Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the following deviations:

Code Provisions A.4.1 and A.4.2

Code Provision A.4.1 provides, inter alia, that Non-executive Directors should be appointed for a specific term, subject to re-election.

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

Code Provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Chairman shall not, while holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire 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 the role of Chairman and, in consequence, the Board is of the view that the Chairman should not be subject to retirement by rotation or hold office for a limited term at the present time.

UPDATES ON DIRECTORS' INFORMATION

There is no change in information of the directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the 2020 annual report up to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Employees who are likely to be in possession of inside information of the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code.

EMPLOYEES

As at 31 December 2020, the Group had employed approximately 8,014 employees (30 June 2020: approximately 7,406 employees). The remuneration policy and package of the Group's employees are structured by reference to the prevailing market conditions 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.

By order of the Board
Top Form International Limited
Wong Chung Chong
Chairman

23 February 2021