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If you are in doubt about any aspect of this circular or as to the action to be taken, you should consult appropriate independent advisers to obtain independent professional advice or your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Top Form International Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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TOP FORM INTERNATIONAL LIMITED

黛麗斯國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 333)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



紅日資本有限公司

RED SUN CAPITAL LIMITED

A letter from the Board is set out on pages 3 to 10 of this circular. A letter from the Independent Board Committee is set out on pages 11 and 12 of this circular. A letter from Red Sun to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 25 of this circular.

The notice convening the SGM is set out on pages 32 and 33 of this circular. The SGM is to be held at 7/F, Port 33, 33 Tseuk Luk Street, San Po Kong, Kowloon, Hong Kong on Thursday, 8 June 2023 at 2:00 p.m. to approve the matters referred to in this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event, not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

* *for identification purpose only*

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“5th Renewal Agreement”	the renewal agreement dated 7 April 2020 entered into between the Company and VDV to renew the terms of the Master Agreement from 1 July 2020 to 30 June 2023
“6th Renewal Agreement”	the renewal agreement dated 17 April 2023 entered into between the Company and VDV to renew the terms of the Master Agreement from 1 July 2023 to 30 June 2026
“associate(s)”	has the meaning as defined under the Listing Rules
“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company
“Company”	Top Form International Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	Director(s) of the Company
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Independent Board Committee”	an independent board committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the terms of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated thereunder
“Independent Financial Adviser” or “Red Sun”	Red Sun Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement

DEFINITIONS

“Independent Shareholders”	Shareholders other than Mr. Herman Van de Velde, Ms. Lien Van de Velde, Mr. Lucas A.M. Laureys, VDV and their respective associates
“Latest Practicable Date”	17 May 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the master agreement dated 18 September 2005 entered into between the Company and VDV with regard to the sale of ladies’ intimate apparel by the Group to VDV
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be held on Thursday, 8 June 2023 at 2:00 p.m. to consider and approve the 6th Renewal Agreement and the annual caps of the underlying transactions contemplated under the 6th Renewal Agreement
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	the ordinary share(s) of HK\$0.50 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VDV”	Van de Velde N. V., a company incorporated in Belgium and the securities of which are listed on the Euronext Brussels stock exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



TOP FORM INTERNATIONAL LIMITED

黛麗斯國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 333)

Executive Directors:

Mr. Wong Chung Chong (*Chairman*)
Mr. Wong Kai Chung, Kevin (*Chief Executive Officer*)
Mr. Wong Kai Chi, Kenneth (*Managing Director*)

Non-executive Directors:

Mr. Herman Van de Velde
Ms. Lien Van de Velde

Independent non-executive Directors:

Ms. Leung Churk Yin, Jeanny
Mr. Leung Ying Wah, Lambert
Mr. Lin Sun Mo, Willy

Registered office:

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

*Principal Place of Business
in Hong Kong:*

7/F, Port 33
33 Tseuk Luk Street
San Po Kong, Kowloon
Hong Kong

22 May 2023

To the Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 17 April 2023 in respect of the continuing connected transactions between the Group and VDV.

The Company entered into the Master Agreement and renewed such agreement five times with VDV with regard to the sale of ladies' intimate apparel by the Group to VDV. Given that the 5th Renewal Agreement will expire on 30 June 2023 and the Group expects that the continuing connected transactions will continue on a recurring basis, the Company entered into the 6th Renewal Agreement with VDV to renew the terms of the Master Agreement for a further three years commencing from 1 July 2023 and ending on 30 June 2026 to continue the sale of ladies' intimate apparel by the Group to VDV.

* *for identification purpose only*

LETTER FROM THE BOARD

Details of the 6th renewal agreement

- Date of the agreement: 17 April 2023
- The subject: Sale of ladies' intimate apparel by the Group to VDV
- Parties involved: (a) the Group, as the seller; and
(b) VDV, as the purchaser
- Duration of the agreement: Three years from 1 July 2023 to 30 June 2026. Thereafter, subject to compliance with the applicable Listing Rules, the 6th Renewal Agreement may be renewed for each and every three-year interval in the future.
- Pricing policy: The 6th Renewal Agreement sets out the framework of the pricing policy. The actual pricing and the terms and conditions of payment shall be determined between the parties on each purchase order basis. The ladies' intimate apparel manufactured by the Group varies in design, features, complexity and manufacturing time. The selling price of each product is determined by reference to the total costs per product, plus a certain range of markup rate of no less than 5%. The markup rate is determined by reference to different product category and will be varied from different value added procedures and manufacturing time of each product in different product category. Such sales will be satisfied in cash within a period of 7 days or 10 days (applicable as the case may be).

All the price quotations to VDV would be prepared by the sales teams of the Group and subject to the review and pre-approval of an executive Director (who does not have any material interests in the transactions). The executive Director will compare the gross profit margin of sales to VDV to those of sales to other independent third party customers of the same product category with similar features, complexity and manufacturing time. If the terms of the orders offered by VDV after the price negotiations are below the lower limit of the markup rate, the Group may choose not to accept the orders placed by VDV. By doing so, the Directors consider that the sales transactions are conducted on normal commercial terms and on terms no more favourable than those charged by the Group to other independent third party customers and not prejudicial to the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

The following table sets out more detailed information about the sales of ladies' intimate apparel by the Group to VDV for the two financial years ended 30 June 2022 and for the period from 1 July 2022 to 31 December 2022:

For the year/period ended	Actual sales of ladies' intimate apparel by the Group to VDV (HK\$ million)	Percentage of the actual sales representing the Group's audited consolidated turnover (%)	Annual caps (HK\$ million)	Respective annual/period percentage change in sales (%)
30 June 2021	97.1	6.8	160	–
30 June 2022	120.9	8.2	170	24.5
From 1 July 2022 to 31 December 2022	67.7 (unaudited)	14.3 (unaudited)	180 (for the financial year ending 30 June 2023)	18.4 (Note 1)

Note 1: Comparing with the sale of ladies' intimate apparel to VDV of HK\$57.2 million for the six months ended 31 December 2021.

Basis for determination of the annual caps

The proposed annual caps for the sale of ladies' intimate apparel by the Group to VDV for the three financial years ending 30 June 2026 will be: HK\$130 million for the year ending 30 June 2024, HK\$140 million for the year ending 30 June 2025 and HK\$150 million for the year ending 30 June 2026, respectively. In determining the above annual caps, the Directors considered:

- (i) the historical sales figures as mentioned above and the estimated sales to VDV for the year ending on 30 June 2023 (“FY2023”). Due to the sustained high levels of inflation worldwide and the inventory gluts caused by global supply chain disruptions during the COVID period, we expect a soften demand from VDV. As a result, we estimate that the sales to VDV for the FY2023 will be slightly lower compared to the sales to VDV for the year ended 30 June 2022 and will be less than HK\$130 million;
- (ii) based on the discussions between the management of the Company and VDV in arriving at the annual caps and the revenue forecast for the three financial years ending 30 June 2026, the estimated sales to VDV in the next 12 months will be at similar level as the estimated sales to VDV for FY2023, therefore we believe an annual cap of HK\$130 million for the year ending 30 June 2024 (“FY2024”) should be sufficient. Given the global macro environment and economic uncertainties, we expect the sales to VDV will have a moderate growth over the next few years, hence the proposed annual caps for the three financial years ending 30 June 2026 are set as HK\$130 million, HK\$140 million and HK\$150 million respectively;

LETTER FROM THE BOARD

- (iii) provision of more value added production procedures and technology which include but not limited to the processing of fabrics in our China factory and relocation of sourcing services from Europe to Asia, and
- (iv) the prevailing and the expected market conditions. As mentioned above, taking into account the global macro environment, high inflation and the economic uncertainties, we expect the sales to VDV will have a moderate growth over the next few years.

The Directors are of the view that the proposed annual caps are fair and reasonable, on normal commercial terms and in the interest of the Company and Shareholders as a whole.

For the avoidance of doubt, these annual caps represent the maximum value of sales by the Group to VDV in each year. There is no minimum or implied value of sales in each of these years.

Internal Control Measures

In order to ensure that the transactions contemplated under the 6th Renewal Agreement will be conducted in accordance with the terms of the 6th Renewal Agreement and the pricing policy, the Company has adopted the following internal control procedures:

- The senior management of the Company will monitor the total transaction amounts and projected sales amount with VDV that may possibly be incurred in the coming months on a monthly basis to ensure the amount of transactions contemplated under the 6th Renewal Agreement will not exceed the proposed annual caps;
- The finance department of the Company will conduct regular checks on the sales transactions with VDV to monitor the transaction amounts and will review and assess the fairness of the transaction terms and pricing terms;
- The Company's external auditors will conduct annual review on the pricing policy and the proposed annual caps of transactions contemplated under the 6th Renewal Agreement; and
- The independent non-executive Directors will conduct annual review on the transactions contemplated under the 6th Renewal Agreement and make annual confirmation in the Company's annual report.

Reasons for and benefits of entering into the 6th Renewal Agreement and the transactions contemplated thereunder

The Company is an investment holding company. The principal business activities of the Group are the design, manufacture and distribution of ladies' intimate apparel, principally brassieres.

VDV is a manufacturer and marketer of luxury lingerie.

LETTER FROM THE BOARD

For the past 41 years, the Group has been supplying ladies' intimate apparel to VDV. VDV is one of the key customers and it is anticipated that the Group will continue to carry out such transactions on a recurring basis. In order to continue the sale of ladies' intimate apparel by the Group to VDV, the Company entered into the 6th Renewal Agreement to renew the terms of the Master Agreement for a period of three years ending 30 June 2026. The Company would consider certain factors such as estimate material usage, time costs for manufacturing processes involved, the design, features and complexity of the different products. Such information is prepared by the sales department and is authorised prior to responding to the subject customer's request for quotation. VDV has a well-developed distribution channel within the lingerie market in Europe and the United States of America, which are significant markets to the Group's business. Given that (i) the Group has established a long term relationship and long-standing business cooperation with VDV; (ii) Europe and the United States of America are significant markets to the Group's business; (iii) the Company has been supplying quality ladies' intimate apparel to VDV for the past 41 years as part of the Group's ongoing business; and (iv) the transactions contemplated under the 6th Renewal Agreement are a furtherance of the Group's core business, the Directors consider that it is beneficial for the Company to enter into the 6th Renewal Agreement. Furthermore, obtaining approval of the proposed annual caps would facilitate the transactions contemplated under the 6th Renewal Agreement to be conducted in an effective and efficient manner and reduce the relevant administrative costs associated with complying with the requirements under the Listing Rules.

The transactions contemplated under the 6th Renewal Agreement are expected to continue on a recurring basis in the ordinary and usual course of business, on normal commercial terms agreed after arm's length negotiations between the Group and VDV. The Directors are not aware of any disadvantage of the transactions contemplated under the 6th Renewal Agreement to the Group. The Directors are of the view that the terms of the 6th Renewal Agreement and the annual caps of the underlying transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Listing Rules implications

Given that (i) Mr. Herman Van de Velde, a non-executive Director of the Company, is the chairman of VDV and Ms. Lien Van de Velde, a non-executive Director of the Company, is an associate of Mr. Herman Van de Velde under Chapter 14A of the Listing Rules; (ii) Mr. Lucas A.M. Laureys, a former non-executive Director of the Company in the last 12 months, is the non-executive director of VDV; (iii) Mr. Herman Van de Velde and the two daughters of Mr. Lucas A.M. Laureys (associates of Mr. Lucas A.M. Laureys under Chapter 14A of the Listing Rules) hold an indirect equity interest of 56.26% in VDV via a jointly controlled corporation; and (iv) VDV, a substantial shareholder of the Company, is beneficially and directly interested in approximately 25.66% of the entire issued share capital of the Company, the transactions between the Group and VDV contemplated under the 6th Renewal Agreement therefore constitute continuing connected transactions for the Company under Rule 14A.31 of the Listing Rules.

LETTER FROM THE BOARD

As one or more of the applicable percentage ratios in respect of the annual cap for each of the three financial years ending 30 June 2024, 2025 and 2026 exceeds 5%, the continuing connected transactions under the 6th Renewal Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements, and annual review by the independent non-executive Directors and the auditors of the Company under Chapter 14A of the Listing Rules. As the continuing connected transactions are of a revenue nature and in the ordinary and usual course of business of the Company, pursuant to Rule 14.04(1)(g) of the Listing Rules, the continuing connected transactions are exempted from the requirements under Chapter 14 of the Listing Rules.

Formation of an independent board committee and appointment of independent financial adviser

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the terms of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated thereunder are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Independent Shareholders as a whole.

Red Sun, an Independent Financial Adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated therein are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Independent Shareholders as a whole.

Directors' interests in the 6th Renewal Agreement

As at the Latest Practicable Date, Mr. Herman Van de Velde, Ms. Lien Van de Velde (associate of Mr. Herman Van de Velde under Chapter 14A of the Listing Rules) and the two daughters of Mr. Lucas A.M. Laureys (associates of Mr. Lucas A.M. Laureys under Chapter 14A of the Listing Rules) were deemed to be interested in 77,258,590 Shares, representing approximately 25.66% of the entire issued share capital of the Company by virtue of their indirect holding of 100% equity interest of Van de Velde Holding N.V., which in turn, directly held 56.26% of the equity interest of VDV. VDV is a substantial shareholder of the Company holding approximately 25.66% of the issued share capital of the Company.

While Mr. Lucas A.M. Laureys has retired as non-executive Director of the Company with effect from 18 November 2022; Mr. Herman Van de Velde and Ms. Lien Van de Velde, who have material interests in the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated thereunder, have abstained from voting on the relevant board resolutions. Save as aforesaid mentioned, no other Directors have material interests in the 6th Renewal Agreement and have abstained from voting on the relevant board resolutions.

As at the Latest Practicable Date, each of Mr. Herman Van de Velde, Ms. Lien Van de Velde, Mr. Lucas A.M. Laureys, VDV and their respective associates who is deemed to be interested in 77,258,590 Shares, representing approximately 25.66% of the entire issued share capital of the Company, will abstain from voting on the resolution in relation to the 6th Renewal Agreement and the relevant annual caps of the underlying transactions to be passed at the SGM.

Save as aforesaid mentioned, no other Shareholders have material interests in the 6th Renewal Agreement and are required to abstain from voting on the relevant resolution at the SGM.

LETTER FROM THE BOARD

CIRCULAR

The purposes of this circular are:

- (i) to provide the Independent Shareholders with details of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement;
- (ii) to set out the view of and the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement;
- (iii) to set out the opinion and recommendation of Red Sun in respect of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement to the Independent Board Committee and Independent Shareholders; and
- (iv) to give notice of the SGM to consider and, if thought fit, to approve the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement.

SPECIAL GENERAL MEETING

A notice convening the SGM to be held at 7/F, Port 33, 33 Tseuk Luk Street, San Po Kong, Kowloon, Hong Kong on Thursday, 8 June 2023 at 2:00 p.m. to approve the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated thereunder is set out on pages 32 and 33 of this circular.

Each of Mr. Herman Van de Velde, Ms. Lien Van de Velde, Mr. Lucas A.M. Laureys, VDV and their respective associates will abstain from voting on the relevant resolution in relation to the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated thereunder at the SGM.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders on the resolutions set out in the notice of the SGM must be taken by poll. The chairman of the SGM will therefore demand a poll for every resolution put forward at the SGM.

Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event, not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be).

LETTER FROM THE BOARD

Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

After the conclusion of the SGM, the results of the poll will be released on the HKExnews website at www.hkexnews.hk and the Company's website at www.topform.group.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 11 and 12 of this circular which contains its recommendation to the Independent Shareholders on the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated thereunder.

Your attention is also drawn to the letter of advice received from Red Sun which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement. The letter from Red Sun is set out on pages 13 to 25 of this circular.

The Directors are of the opinion that the approval of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and recommend you to vote in favour of the ordinary resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of
Top Form International Limited
Wong Chung Chong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders:



TOP FORM INTERNATIONAL LIMITED

黛麗斯國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 333)

22 May 2023

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 22 May 2023 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and to advise the Independent Shareholders whether the terms of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated thereunder the 6th Renewal Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned. Red Sun has been appointed to advise the Independent Board Committee and the Independent Shareholders in the abovementioned context.

We wish to draw your attention to the “Letter from the Board” set out on pages 3 to 10 of the Circular, and the “Letter from Red Sun” set out on pages 13 to 25 of the Circular which contains its advice in respect of the terms of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement.

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of, Red Sun as stated in its aforementioned letter of advice, we are of the opinion that the terms of the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement are on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole.

* *for identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the 6th Renewal Agreement and the relevant annual caps of the underlying transactions contemplated under the 6th Renewal Agreement.

Yours faithfully,

The Independent Board Committee

Leung Churk Yin, Jeanny

Leung Ying Wah, Lambert

Lin Sun Mo, Willy

Independent non-executive Directors

LETTER FROM RED SUN

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders in respect of the 6th Renewal Agreement (including the proposed annual caps) for inclusion in this circular.



紅日資本有限公司
RED SUN CAPITAL LIMITED

Room 310, Floor 3
China Insurance Group Building
141 Des Voeux Road Central
Central, Hong Kong

Tel: (852) 2857 9208
Fax: (852) 2857 9100

22 May 2023

To: *The Independent Board Committee and the Independent Shareholders of
Top Form International Limited*

Dear Sirs or Madams,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 6th Renewal Agreement and the transactions contemplated thereunder (the “**Continuing Connected Transactions**”) as well as the proposed annual caps of the underlying transactions under the 6th Renewal Agreement for the three years commencing from 1 July 2023 and ending on 30 June 2026 (the “**Proposed Annual Caps**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 22 May 2023 (the “**Circular**”) of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the 6th Renewal Agreement and the Proposed Annual Caps. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, in the past, the Company entered into the Master Agreement and renewed such agreement five (5) times with VDV with regard to the sale of ladies’ intimate apparel by the Group to VDV. Given that the 5th Renewal Agreement will expire on 30 June 2023 and the Group expects that the continuing connected transactions will continue on a recurring basis, the Company entered into the 6th Renewal Agreement with VDV to renew the terms of the Master Agreement for a further three years commencing from 1 July 2023 and ending on 30 June 2026 to continue the sale of ladies’ intimate apparel by the Group to VDV.

LETTER FROM RED SUN

It is also noted that as (i) Mr. Herman Van de Velde, a non-executive Director of the Company, is the chairman of VDV and Ms. Lien Van de Velde, a non-executive Director of the Company, is an associate of Mr. Herman Van de Velde under Chapter 14A of the Listing Rules; (ii) Mr. Lucas A.M. Laureys, a former non-executive Director of the Company in the last 12 months, is the non-executive director of VDV; (iii) Mr. Herman Van de Velde and the two daughters of Mr. Lucas A.M. Laureys (associates of Mr. Lucas A.M. Laureys under Chapter 14A of the Listing Rules) hold an indirect equity interest of 56.26% in VDV via a jointly controlled corporation; and (iv) VDV, a substantial shareholder of the Company, is beneficially and directly interested in approximately 25.66% of the entire issued share capital of the Company, the transactions between the Group and VDV contemplated under the 6th Renewal Agreement therefore constitute continuing connected transactions for the Company under Rule 14A.31 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the annual cap for each of the three financial years ending 30 June 2024, 2025 and 2026 exceeds 5%, the Continuing Connected Transactions are subject to the reporting, announcement, and Independent Shareholders' approval requirements, and annual review by the independent non-executive Directors and the auditors of the Company under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, each of Mr. Herman Van de Velde, Ms. Lien Van de Velde, Mr. Lucas A.M. Laureys, VDV and their respective associates who is deemed to be interested in 77,258,590 Shares, representing approximately 25.66% of the entire issued share capital of the Company, will abstain from voting on the resolution in relation to the 6th Renewal Agreement and the relevant annual caps of the underlying transactions to be passed at the SGM.

Save as aforesaid mentioned, based on the Letter from the Board, none of the Directors has material interests in the 6th Renewal Agreement and are required to abstain from voting on the relevant resolution at the SGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Leung Churk Yin, Jeanny, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy, has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on, among other things, whether the 6th Renewal Agreement (together with the Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Our appointment has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to (i) whether the 6th Renewal Agreement (together with the Proposed Annual Caps) are conducted in the ordinary and usual course of business, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the 6th Renewal Agreement and transactions to be contemplated thereunder, including the Proposed Annual Caps, at the SGM.

LETTER FROM RED SUN

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. In the previous two years from the date of the Circular, Red Sun Capital Limited has not acted as an independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company for any transaction. Apart from normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management (for which they are solely and wholly responsible), were true and accurate at the time they were made and continue to be so as at the Latest Practicable Date.

The Directors jointly and severally accept full responsibility for the accuracy of the statements, information and representations contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information in order to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion.

We have not, however, for the purpose of this exercise, conducted any independent verification, investigation or audit into the information provided by the Directors and the Management, business or affairs or future prospects of the Company, VDV and their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions (together with the Proposed Annual Caps) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and Proposed Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Information of the Group

1.1. Background information of the Group

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

1.2. Historical financial performance of the Group

With a view to provide background information on the historical financial performance of the Group, we set out the following financial information of the Group as extracted and summarised from the Group's published annual report for the year ended 30 June 2022 (the "2022 Annual Report") and the Group's published interim report for the six months ended 31 December 2022 (the "2023 Interim Report").

Summary of the Group's revenue by operating segment:

	For the six months ended 31 December		For the year ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)	2022 HK\$'000 (audited)	2021 HK\$'000 (audited)
Revenue	471,912	713,652	1,481,592	1,428,532
Profit for the period/year attributable to the Shareholders	<u>(23,847)</u>	<u>450</u>	<u>3,550</u>	<u>2,797</u>

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For the six months ended 31 December 2022 (“1H2023”) and 31 December 2021 (“1H2022”)

As set out in the 2023 Interim Report, the Group’s total revenue amounted to approximately HK\$471.9 million for 1H2023, representing a decrease of approximately 33.9% compared to approximately HK\$713.7 million for 1H2022. Such decrease was primarily attributable to the decline in sales from the Group’s customers in the United States of America (the “U.S.”). In response, the Management has implemented stringent cost controls to reduce expenses. Unfortunately, these were not enough to offset the entire negative impact of the decrease in sales.

In terms of revenue generated by geographical segment for 1H2023, the largest geographical segment of the of the Group was the U.S., which accounted for approximately 54% of the Group’s sales, followed by the European countries of approximately 25%, with the remaining revenue being generated from sales to the rest of the world.

For 1H2022 and 1H2023, the sales by the Group to VDV amounted to approximately HK\$57.2 million and HK\$67.7 million, representing approximately 8.0% and 14.3% of the Group’s total revenue, respectively.

The Group recorded a loss for the 1H2023 attributable to its Shareholders of approximately HK\$23.8 million compared to a profit for the 1H2022 attributable its Shareholders of approximately HK\$0.5 million. As set out in the 2023 Interim Report, this was attributable to a combination of factors, including inventory gluts in the major customers of the Group which was a result of over purchase coupled with significant delay due to global supply chain disruptions during the COVID period, persistently high inflation in the U.S. and Europe which dampened consumer confidence and eroded disposable income, and multiple rate hikes by the U.S. Federal Reserve which not only increased the financing cost but also reduced company spending and investment.

For the year ended 30 June 2022 (“FY2022”) and 30 June 2021 (“FY2021”)

The Group’s total revenue amounted to approximately HK\$1,481.6 million for FY2022, representing a slight increase of approximately 3.7% compared to approximately HK\$1,428.5 million for FY2021.

In terms of revenue generated by geographical segment for FY2021 and FY2022, the largest geographical segment of the of the Group was the U.S.. In this connection, the Group generated approximately HK\$1,072.6 million and HK\$992.4 million of its sales revenue from the U.S., representing approximately 75.1% and 67.0% of the Group’s total revenue for FY2021 and FY2022, respectively.

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We also noted that the Group derived approximately HK\$149.1 million and HK\$210.2 million in revenue from the combined sales to Germany, Belgium and the Netherlands, for FY2021 and FY2022, respectively, representing an annual growth rate of approximately 41.0%. This accounted for approximately 10.4% and 14.2% of the Group's revenue for the respective financial years.

For FY2021 and FY2022, the sales by the Group to VDV amounted to approximately HK\$97.1 million and HK\$120.9 million, representing approximately 6.8% and 8.2% of the Group's total revenue, respectively.

The Group recorded a profit attributable to the shareholders of the Company of approximately HK\$3.6 million for FY2022, representing an increase of approximately 28.6% as compared to approximately HK\$2.8 million for FY2021 attributable to, among others, cost management exercises and improvement in operation efficiencies.

1.3. Information on the VDV

According to the latest published annual report of VDV¹ for the year ended 31 December 2022 (the "2022 VDV Annual Report"), VDV, together with its subsidiaries, designs, develops, manufactures and markets fashionable luxury lingerie. VDV works closely with about 4,000 independent lingerie boutiques around the globe, as well as having their own retail network and brands. Their primary focus is on the European and North American market.

Set out below is a summary of the VDV's operating results for the financial years ended 31 December 2021 and 2022, extracted from the 2022 VDV Annual Report:

	For the year ended	
	31 December	
	2022	2021
	EUR'000	EUR'000
Turnover (Note 1)	211,745	195,251
– Eurozone (Note 2)	151,333	140,588
– Others (Note 3)	60,412	54,663

Notes:

- (1) For illustration purposes only, EUR is converted into HK\$ at the rate of EUR1: HK\$8.55. On this basis, turnover of VDV group is equivalent to approximately HK\$1.7 billion and HK\$1.8 billion for the year ended 31 December 2021 and 2022, respectively.
- (2) Eurozone markets for VDV mainly comprised of Germany, Belgium and the Netherlands.
- (3) Other market for VDV mainly comprised of United States of America, United Kingdom and Switzerland.

¹ VDV 2022 Annual Report (source: https://assets.ctfassets.net/3zzevkhc8io9/g13AjG5hs6CGKC4Q0yLst/e88f7b9fe379be33b4d9a82bbafda6b9/GB_-_280152_Jaarverslag_2022_UK_interact.pdf)

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As illustrated above, VDV recorded a turnover of approximately EUR211.7 million for the year ended 31 December 2022, representing an increase of approximately 8.4% compared with its revenue of approximately EUR195.3 million for the year ended 31 December 2021. Based on the 2022 VDV Annual Report, both of VDV's business-to-business and direct to customers segments recorded growth, which were attributable to the return of customers to physical stores during the first half of the year, recovery of swimwear sales after two years of travel restrictions and the turnover in the second half of the year was largely in line with the corresponding period last year. It is also noted from the 2022 VDV Annual Report that VDV's strategic plan in 2023 involve (i) investing in three lingerie brands; (ii) focusing on consumers and creating a community for each brand; and (iii) strengthening its optichannel strategy.

1.4. Reasons for and benefits of the 6th Renewal Agreement

It was noted that from the Letter from the Board, the Group has been supplying ladies' intimate apparel to VDV for the past 41 years and it is anticipated that the Group will continue to carry out such transactions on a recurring basis. On this basis and given the expiration of the 5th Renewal Agreement on 30 June 2023, the Company entered into the 6th Renewal Agreement with VDV to renew the terms of the Master Agreement for a further three years ending on 30 June 2026 with a view to continue the sales of ladies' intimate apparel to VDV.

It is noted that the transactions contemplated under the 6th Renewal Agreement are expected to continue on a recurring basis in the ordinary and usual course of business, on normal commercial terms agreed after arm's length negotiations between the Group and VDV. The Directors are of the view that the terms of the 6th Renewal Agreement and the Proposed Annual Caps of the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Given that (i) the Group principally engages in the design, manufacture and distribution of ladies' intimate apparel; (ii) Europe and the U.S. are significant markets to the Group's business; (iii) the Company has been supplying quality ladies' intimate apparel to VDV for the past 41 years as part of the Group's ongoing business; (iv) the Continuing Connected Transactions are a furtherance of the Group's core business; (v) the Continuing Connected Transactions (together with the Proposed Annual Caps), if approved, would facilitate the Continuing Connected Transactions for the three years ending 30 June 2024, 2025 and 2026; and (vi) the Group has the right but not the obligation to confirm sales orders from VDV at terms determined in accordance with the relevant pricing policies, we concur with the Directors' view that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

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2. Terms of the 6th Renewal Agreement

On 17 April 2023, the Company entered into the 6th Renewal Agreement to renew the terms of the Master Agreement for a further three years commencing from 1 July 2023 to 30 June 2026 and facilitates the continuing sales of ladies' intimate apparel to VDV and its subsidiaries by the Group.

Pursuant to the pricing policy set out under the 6th Renewal Agreement, the actual pricing and the terms and conditions of payment shall be determined between the parties on each purchase order basis. Such is attributable to the fact that the ladies' intimate apparel manufactured by the Group varies in design, features, complexity and manufacturing time. Hence, the selling price of each product is determined by reference to the total costs per product, plus a certain range of markup rate of no less than 5%. The markup rate is determined by reference to different product category and will be varied from different value-added procedures and manufacturing time of each product in different product category. In this connection, sales made to VDV will be satisfied in cash within a period of 7 days or 10 days (applicable as the case may be). During the year ended 30 June 2022 and for the six months ended 31 December 2022, the number of purchase orders from VDV placed with the Group were not less than 800 purchase orders and 400 purchase orders, respectively.

In order to assess the reasonableness of the terms under 6th Renewal Agreement, we have obtained and reviewed (i) a total of 12 samples of sales record of ladies' intimate apparel between the Group and its customers, of which six of the samples reviewed by us were sales transactions to VDV during the months falling in the most recent financial year (i.e. the year ending 30 June 2023), selected on a random basis from the sales record obtained from the Company which covered a range of sales transaction size, the amount of which ranged from approximately US\$1,200 to not less than US\$8,500, and the pieces in relation to these sales transactions ranged from not less than 400 pieces to more than 3,000 pieces, with a view to ensure the samples covered different sales transaction sizes over a period of time, and six of the samples were sales transactions to its independent third-party customers, during the year of 2022 and 2023 (for the comparable product type and quantity at the relevant time), which is considered to be sufficient for the purpose of our analysis as we have reviewed and assessed the effectiveness of the relevant internal control procedures and assessed whether under such internal control procedures, the sampled transactions adhered to the pricing policies as a result. Based on our work performed, it is noted that the internal control procedures are carried out on each of the sampled transactions and that the sampled transactions adhered to the relevant pricing policies; and (ii) a list of its customers that contain information in respect of the contribution margins received by the Group (for the comparable product type and quantity at the relevant time) from all of its major customers for the two financial years ended 30 June 2022 and the six months ended 31 December 2022.

The VDV sample selection covered a range of product designs with various complexity, and we have also requested the Company to provide comparable products supplied to independent third-party customers which are comparable to the products supplied to VDV under the six sampled transactions selected on a random basis, for comparison purposes. Given the Group manufactures a wide range of ladies' intimate apparel, which varies in design, features, complexity and manufacturing time, such factors would in turn affect the profit margin of a particular type of

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product. Taking into considering the above factors, the Management divided its ladies' intimate apparel into different product categories. The Management advised that the markup rate is determined by reference to different product category and varied for different product category and value-added procedures carried out by the Group for the subject product in different product categories. Through our discussion with the Management and documents obtained by us, the Company would, when providing price quotations to customers, consider certain factors such as estimate material usage, time costs for manufacturing processes involved, the design, features and complexity of the different products. Such information is prepared by the sales department and is authorised prior to responding to the subject customer's request for quotation.

In addition, for the purpose of our analysis, we have also reviewed sales transactions with independent third-party customers of the similar product category as the sampled VDV sales transactions. We note that the profit margin of the sampled sales to VDV was no less favourable than the profit margin recorded from the comparable sampled sales to independent third-party customers, respectively.

Furthermore, we note that the credit period offered to VDV, as stipulated in the 6th Renewal Agreement, is 7 days or 10 days (applicable as the case may be), which is not less favourable than that offered to independent third-party customers that the average credit period on purchases of goods of the Group ranged from 30 to 60 days as set out in the 2022 Annual Report.

As set out in the Letter from the Board, all the quotations to VDV would be prepared by the sales teams of the Group and subject to the review and pre-approval of an executive Director (who does not have any material interests in the transactions). The executive Director will compare the gross profit margin of sales to VDV to those of sales to other independent third-party customers of the same product category with similar features, complexity and manufacturing time. If the terms of the orders offered by VDV after the price negotiations are below the lower limit of the markup rate, the Group may choose not to accept the orders placed by VDV. By doing so, the Directors consider that the sales transactions under the 6th Renewal Agreement will continue to be conducted on normal commercial terms and on terms no more favourable than those charged by the Group to other independent third-party customers and not prejudicial to the interests of the Company and its Shareholders as a whole. We have obtained and discussed with the Management regarding the quotations to VDV prepared by the sales team of the Group and noted that the sampled transactions were approved by an executive Director.

As set out in the Letter from the Board, we noted that the Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms that are no more favourable than those offered to independent third-party customers, the 6th Renewal Agreement facilitates the Company to transact with VDV (subject to acceptable terms). Based on our analysis and work performed as detailed in this section above, including but not limited to, our review and work performed in relation to the sampled transactions and internal control procedures carried out by the Company, we concur with the view of the Directors that the 6th Renewal Agreement is in the interests of the Company and the Independent Shareholders as a whole and its terms are fair and reasonable so far as the Independent Shareholders are concerned.

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3. Basis for determining the Proposed Annual Caps

The table below sets forth the annual caps for the continuing connected transactions contemplated under the 5th Renewal Agreement for each of the FY2021, FY2022 and FY2023 (defined hereafter), the actual transaction amounts under the 5th Renewal Agreement for each of the FY2021, FY2022 and 1H2023, and the relevant utilisation rate of the existing annual caps:

	Actual sales of ladies' intimate apparel by the Group to VDV <i>(HK\$ million)</i>	Sales to overall revenue for the respective year/period <i>(%)</i>	Annual caps <i>(HK\$ million)</i>	Respective annual/ period cap utilisation rate <i>(%)</i>
For the year ended:				
30 June 2021	97.1	6.8	160	60.7
30 June 2022	120.9	8.2	170	71.1
For the six months ended:				
31 December 2021 <i>(unaudited)</i>	57.2	8.0	170	33.6 <i>(annualised: 67.3)</i> <i>(Note)</i>
31 December 2022 <i>(unaudited)</i>	67.7	14.3	180	37.6 <i>(annualised: 75.2)</i> <i>(Note)</i>

Note: Utilisation rate based on unaudited information for 1H2022 and 1H2023 provided by the Management of the Group, respectively. For illustration purposes only, annualised utilisation rates are calculated based on sales to VDV for the respective six months period.

As set out in the above table, for each of the FY2021, FY2022 and 1H2023, the aggregate value of sales of ladies' intimate apparel to VDV amounted to approximately HK\$97.1 million, HK\$120.9 million and HK\$67.7 million, respectively, representing approximately 6.8%, 8.2% and 14.3% of the Group's revenue of the respective financial year/period. The respective utilisation rate for the annual caps for the two financial years ended 30 June 2022 and the six months period ended 31 December 2022 are approximately 60.7%, 71.1% and 37.6%, respectively. For illustration purposes only, the annualised utilisation rate calculated based on the six months ended 31 December 2022 compared to the annual cap for the year ending 30 June 2023 ("**FY2023**") is approximately 75.2%. As advised by the Management, the aforesaid relatively modest utilisation rate of the annual cap for the financial year ended 30 June 2021 was primarily attributable to the then challenging business environment during the COVID period and the utilisation rate of the annual cap has gradually increased since the re-opening of Europe.

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The following sets forth the Proposed Annual Caps under the 6th Renewal Agreement for the three years ending 30 June 2024, 2025 and 2026:

	For the year ending		
	30 June 2024	30 June 2025	30 June 2026
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Proposed Annual Caps	130	140	150
	(the “ 2024	(the “ 2025	(the “ 2026
	Annual Cap ”)	Annual Cap ”)	Annual Cap ”)

According to the Letter from the Board, the Proposed Annual Caps under the 6th Renewal Agreement were determined after taking into account: (i) the historical sales of ladies’ intimate apparel by the Group to VDV for FY2021, FY2022 and 1H2023; (ii) the estimation made by the Management that the sales to VDV for the FY2023 will be less than HK\$130 million; (iii) the discussions between the Management and VDV in arriving at the annual caps and the revenue forecast for the three financial years ending 30 June 2026, including, among others, the moderate year-on-year growth in expected future demand; (iv) provision of more value added production procedures and technology, such as, the processing of fabrics in the Group’s factory in China and relocation of sourcing services from Europe to Asia; and (v) the prevailing and the expected market conditions, which the Management expects to be a conducive macro environment for steady demand growth over the next few years. The Directors are of the view that the proposed annual caps are fair and reasonable, on normal commercial terms and in the interest of the Company and Shareholders as a whole.

For the avoidance of doubt, the Proposed Annual Caps represent the maximum value of sales by the Group to VDV in each year and there is no minimum or implied value of sales in each of these years.

In order to assess the fairness and reasonableness of the Proposed Annual Caps, we have reviewed and discussed the information provided by the Management, namely the estimated average sales price, the estimated sales volume and a buffer for each of the three years ending 30 June 2026.

Although the overall revenue of the Group for 1H2023 decreased by over 30% period-on-period, as analysed under section headed “1.2. Historical financial performance of the Group” above, it is also noted that the aggregate value of sales of ladies’ intimate apparel to VDV with respect to the Group’s total revenue for FY2021 increased from approximately 6.8% to approximately 8.2% for FY2022. In addition, the aggregate sales value of ladies’ intimate apparel to VDV with respect to the Group’s total revenue for 1H2023 was approximately 14.3%, compared to approximately 8.0% for 1H2022.

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We also noted that the historical sales of ladies' intimate apparel by the Group to VDV represented a year-on-year increase and a period-on-period increase from FY2021 to FY2022 and from 1H2022 to 1H2023, respectively. Such increase represented a year-on-year growth rate and a period-on-period growth rate of approximately 24.5% and 18.3%, respectively (the "**Historical Growth Rate**"). In comparison, the 2025 Annual Cap represents an increase of approximately 7.7% to the 2024 Annual Cap, and the 2026 Annual Cap represents an increase of approximately 7.1% to the 2025 Annual Cap, both of the aforesaid rate of increase in the respective proposed annual caps are below the Historical Growth Rate. Nonetheless, it is noted that VDV has previously communicated to the Management regarding information on their inventory level at the material time. Having considered the abovementioned factors as well as the factors considered for the determination of the Proposed Annual Caps as set out in the Letter from the Board, the Management has adjusted the 2024 Annual Cap, 2025 Annual Cap and 2026 Annual Cap accordingly.

Furthermore, we also noted that the utilisation rate for the annual caps for FY2021 and FY2022 amounted to approximately 60.7% and 71.1%, respectively. For illustration purposes only, if we annualised the actual sales to VDV for the six months ended 31 December 2022 (the "**2022/23 Annualised Amount**") and compared such calculated amount to existing annual cap of HK\$180 million, the calculated utilisation rate based on the annualised sales amount would be approximately 75.2%. In addition, the 2022/23 Annualised Amount would be slightly higher but broadly in line with the 2024 Annual Cap, which was determined by the Management after discussions with VDV regarding their potential demand in the forthcoming year as it is expected that the demand would be at a similar level to that of the year ending 30 June 2023. Based on the forgoing, the Management considered that it is prudent and reasonable to lower the 2024 Annual Cap to HK\$130 million from the existing annual cap of HK\$180 million for the year ending 30 June 2023, and given the reasons set out in the preceding paragraph, the respective growth rate applied to determine the 2025 Annual Cap and 2026 Annual Cap are also considered to be reasonable.

According to the pricing policy of the 6th Renewal Agreement, the selling price of each product is determined by reference to the total costs per product plus a certain range of markup rate and the selling price together with the mark up rate of different product category will be varied from different value-added procedures and manufacturing time of each product in different product category. We have discussed the basis and assumptions with the Management that the additional costs for the value-added production procedures may further increase the costs of production and the selling price. On the aforementioned basis, we consider that it is reasonable for the Directors to make reference to the aforesaid factors as the basis to determine the Proposed Annual Caps of HK\$130 million, HK\$140 million and HK\$150 million for each of the three financial years ending 30 June 2024, 2025 and 2026, respectively.

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Having considered the aforesaid factors, in particular (i) the historical transaction amounts with VDV compared to the Proposed Annual Caps; (ii) the well-developed distribution channel of VDV within the lingerie market in Europe and the U.S., both being important markets of the Group in the past; (iii) the Group's recent financial performance; (iv) the historical utilisation rate of the existing annual caps as well as our analysis on the 2022/23 Annualised Amount; (v) the information and indications from VDV communicated to the Management regarding their inventory level and demand in the next few years; (vi) the sales to VDV shall be conducted on terms no less favourable to the Company than comparable sales to independent third-party customers; (vii) the Proposed Annual Caps, if approved, would facilitate the Continuing Connected Transactions to be conducted in an effective and efficient manner without the need for the Company to seek Shareholders' approval on a transaction-by-transaction basis; and (viii) the Continuing Connected Transactions are a furtherance of the Group's core business, we consider that the Proposed Annual Caps of HK\$130 million, HK\$140 million and HK\$150 million for each of the three financial years ending 30 June 2024, 2025 and 2026 to be fair and reasonable so far as the Independent Shareholders are concerned.

VI. RECOMMENDATION

Having taken into account of the above factors and reasons as set out above, we are of the view that the 6th Renewal Agreement (including the Proposed Annual Caps) is in the ordinary and usual course of business of the Group and on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole, and the terms of the 6th Renewal Agreement and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to approve the 6th Renewal Agreement and the Proposed Annual Caps at the SGM.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors or chief executives of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to 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 underlying Shares held (note 1)	Total interests	Percentage of the issued share capital of the Company
Mr. Wong Chung Chong	Beneficial owner and interests held by spouse and a controlled corporation and persons acting in concert (note 2)	89,952,724	–	89,952,724	29.88%
Mr. Wong Kai Chung, Kevin	Interests held by a controlled corporation and persons acting in concert (note 3)	89,428,202	–	89,952,724	29.88%
Mr. Wong Kai Chi, Kenneth	Beneficial owner Persons acting in concert (note 4)	89,428,202	524,522	89,952,724	29.88%
Mr. Herman Van de Velde	Beneficial owner Interests held by a controlled corporation (note 5)	77,258,590	524,522	77,258,590	25.66%
Mr. Leung Ying Wah, Lambert	Beneficial owner	112,000	–	112,000	0.04%
Ms. Leung Churk Yin, Jeanny	Beneficial owner	19,745	–	19,745	0.01%

Notes:

1. These underlying Shares held by Directors are the share options granted to the Directors on 30 September 2019 and 24 September 2021 under the share option scheme of the Company adopted on 3 November 2011. Details of the said grant are set out in the announcement of the Company on 30 September 2019 and 24 September 2021.
2. 6,474,304 shares were beneficially owned by Mr. Wong Chung Chong (“**Mr. Wong**”) whereas 308,000 shares were held by the spouse of Mr. Wong and 73,245,645 shares were registered in the name of High Union Holdings Inc., the shares of which were held by Mr. Wong, 8,575,731 shares were registered in the name of Triple Gains Ventures Limited (“**TGV**”), 41.36% equity interest of which was held by Mr. Wong Kai Chung, Kevin (“**Mr. Kevin Wong**”), and 9,924,775 shares were 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.
3. 8,575,731 shares were held by TGV, 41.36% equity interest of which was held by Mr. Kevin Wong, and 80,852,471 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.
4. 89,428,202 shares were deemed to be interested by Mr. Wong Kai Chi, Kenneth who was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.
5. 77,258,590 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.

Save as disclosed above, as at the Latest Practicable Date, and other than certain nominee shares in the Company’s subsidiaries were held by Mr. Wong in trust for the Company’s subsidiaries, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders of the Company

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO and so far as was known to the Directors of the Company, persons (other than 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	Number of issued ordinary Shares held	Percentage of the issued share capital of the Company
High Union Holdings Inc.	Beneficial owner and persons acting in concert (<i>note 1</i>)	89,952,724	29.88%
TGV	Beneficial owner and persons acting in concert (<i>note 2</i>)	89,952,724	29.88%
VDV	Beneficial owner	77,258,590	25.66%
David Michael Webb	Beneficial owner and interests held by a controlled corporation (<i>note 3</i>)	27,042,000	8.98%

Notes:

- 73,245,645 shares were beneficially owned by High Union Holdings Inc. whereas 16,707,079 shares were deemed to be interested by High Union Holdings Inc. which was a party to certain agreements to which section 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.
- 8,575,731 shares were beneficially owned by TGV whereas 81,376,993 shares were deemed to be interested by TGV which was a party to certain agreements to which sections 317(1)(a) and/or (b) of the SFO (Cap. 571) apply.
- 15,802,280 shares were beneficially owned by Mr. David Michael Webb and 11,239,720 shares were held by Preferable Situation Assets Limited, the shares of which were held by Mr. David Michael Webb.

Save as disclosed above, as at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO and so far as was known to the Directors, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position 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.

3. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Lucas A.M. Laureys and Ms. Lien Van de Velde, the non-executive director and department head of the innovation team under design department of VDV respectively, whose principal business activity is the manufacture and marketing of luxury lingerie. The Board considers that the business of VDV may indirectly compete with the business of the Group.

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has any interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or proposed to enter into any service contracts with the Company or any member of the Group, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 30 June 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up.

6. QUALIFICATION OF EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Red Sun	Red Sun, a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Red Sun has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and opinion in the form and context in which they respectively appear in this circular.

Red Sun has confirmed that as at the Latest Practicable Date, it did not have any holding, directly or indirectly, of any securities in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities of any member of the Group nor did it have any direct or indirect interests in any assets which have since 30 June 2022 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Pun Chi Wa, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.
- (c) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) The principal office of the Company in Hong Kong is at 7/F, Port 33, 33 Tseuk Luk Street, San Po Kong, Kowloon, Hong Kong.
- (e) As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 30 June 2022 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.
- (f) There is no contract or arrangement entered into by any member of the Group, subsisting as at the date hereof in which any of the Directors is materially interested and which is significant in relation to the business of the Group as a whole.
- (g) In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

8. DOCUMENTS ON DISPLAY

Copies of the following documents are on display and are published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.topform.group) from the date of this circular up to and including the date of the SGM:

- (a) the Master Agreement;
- (b) the 5th Renewal Agreement;
- (c) the 6th Renewal Agreement;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 11 and 12 of this circular;
- (e) the letter from Red Sun, the text of which is set out on pages 13 to 25 of this circular; and
- (f) the written consent from Red Sun referred to in the section headed “6. Qualification of expert and consent” in this appendix.

NOTICE OF SPECIAL GENERAL MEETING



TOP FORM INTERNATIONAL LIMITED

黛麗斯國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 333)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Top Form International Limited (the “**Company**”) will be held at 7/F, Port 33, 33 Tseuk Luk Street, San Po Kong, Kowloon, Hong Kong on Thursday, 8 June 2023 at 2:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as ordinary resolution:

“**THAT:**

the 6th Renewal Agreement, as defined and described in the circular of the Company dated 22 May 2023 (the “**Circular**”), a copy of this agreement is tabled before the meeting and initialled by the chairman of the meeting for identification purpose, and the terms of the transactions contemplated under the 6th Renewal Agreement and the implementation thereof be and are hereby accepted and approved; and the proposed annual caps in relation to the sales to Van de Velde N.V. as described in the 6th Renewal Agreement and the Circular for each of the three financial years ending 30 June 2026 be and are hereby approved.”

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

Hong Kong, 22 May 2023

* *for identification purpose only*

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. In order to determine the qualification of Shareholders who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 5 June 2023 to Thursday, 8 June 2023 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of members of the Company on Thursday, 8 June 2023 will be entitled to attend and vote at the SGM. In order to attend the SGM, any Shareholder whose transfer has not been registered shall lodge the transfer documents together with the relevant share certificates with Tricor Secretaries Limited, the Company's Hong Kong branch share registrar, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:30 p.m. on Friday, 2 June 2023.
2. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him in accordance with the Company's Bye-laws. A proxy need not be a member of the Company but must be present in person to represent the member.
3. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority must be lodged with Tricor Secretaries Limited, the Company's Hong Kong branch share registrar, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should they so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
6. The Directors as at the date of this notice are Mr. Wong Chung Chong, Mr. Wong Kai Chung, Kevin and Mr. Wong Kai Chi, Kenneth as executive Directors, Mr. Herman Van de Velde and Ms. Lien Van de Velde as non-executive Directors, Ms. Leung Churk Yin, Jeanny, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy as independent non-executive Directors.