



High Fashion International Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 608)

2014

INTERIM REPORT

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CHAIRMAN'S STATEMENT

The Group achieved solid operating results in the first half of 2014 amidst mixed global economic climate and softness in the China retail market. Thanks to our strategic focus on continuous transformation and upgrading facilities in the past years, a solid foundation and sustainable platform for our Group's future has been laid. Sales turnover increased by 7.1% to HK\$1.4 billion on the back of moderate growth in the global apparel fashion industry. The Group's gross profit increased by 22% to HK\$387 million during the period under review, reflecting an overall improvement of our core businesses. Such exceptional achievement was nonetheless weighed down by the effects of a generally unexpected interruption in the 5 years trend of appreciation in the RMB exchange rates. The RMB staged a more than 3.3% depreciation during the period from January to June of 2014. The sudden aberration in RMB exchange rates during the period under review has resulted in negative effects on the valuation of our RMB based assets, including certain financial instruments. The RMB exchange rates have shown signs of a slight recovery since the end of the review period, and it could have had a mitigating effect on the valuation of our RMB related assets. We nonetheless remain confident in the prospect of the Chinese economy.

- Net profit for the period decreased from HK\$67.90 million to HK\$30 million
- Basic earnings per share was HK\$0.10
- Net asset per share was HK\$8.23
- An interim dividend per share of HK\$0.05

The first half of 2014 was witnessed by a general weakness in retail sales and uncertain political and macroeconomic conditions. Whilst the outlook of our key export markets, USA and Europe, continues to remain challenging, our successful track record of innovative product development strategy not only will continue to place us in a leading position, but will also facilitate us in exploring additional opportunities for diversification, including but not limited to the silk cultural and tourism industries in China.

With growth, however, comes challenges. Whilst China remains the world's growth engine where we have our strong and dedicated presence since our inception more than 36 years ago, we are not the only one to face the rising pressure on cost and downward pressure on consumer spending especially in China.

CHAIRMAN'S STATEMENT

As the global leader of silk enterprise, High Fashion will continue to focus to transform the silk industry through the attainment of leadership in technology relating to apparel industry, innovation and lifestyle product extension. We are committed to the development of silk culture, gift items, brand business, as well as related property development. We would continue to expand market through new channel development such as e-commerce.

We remain confident about the coming year and believe in our vision for the future, right development direction and team of great people to drive efficiencies to reinforce our leading position in the silk industry.

I am greatly appreciative of the enormous support and advice we constantly receive from our shareholders, banks, customers, suppliers and our fellow Directors. I would also like to thank the management team and all staff members of our Group for their dedication and contribution.

Lam Foo Wah

Chairman & Managing Director

Hong Kong, 28 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Revenue for the six months ended 30 June 2014 increased to HK\$1.44 billion, up 7%. Profit attributable to shareholders for the six months ended 30 June 2014 was HK\$30 million, compared with last corresponding period of HK\$67.9 million. Basic earnings per share were 10 HK cents. Net asset value per share was HK\$8.23.

Review of Operations

The segmental information is as follows:

| | Revenue | | Contribution | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 |
| By principal activity: | | | | |
| Manufacturing and trading | 1,226,353 | 1,084,576 | 94,339 | 131,409 |
| Brand business | 210,096 | 256,588 | (22,222) | (12,785) |
| | 1,436,449 | 1,341,164 | 72,117 | 118,624 |

Because of the rising inflationary cost pressure in our supply chain, we will achieve additional efficiencies through streamlining the operation process continuously in order to limit the impact of rising raw material and other operating overheads and also strategized quality product innovation to enlarge higher end market.

The manufacturing and trading business continued to deliver solid results. The profit for the first half of 2014 included an exceptional loss on fair value change of derivative financial instruments of HK\$64 million (2013: gain of HK\$5 million), which is the financial instruments for hedging RMB for the year from 2014 to 2017 and an increase in fair value of investment properties of HK\$7 million (2013: HK\$50 million) in the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group's total outstanding bank borrowings were increased to HK\$2,668 million at the end of interim reporting period compared to HK\$2,536 million as at 31 December 2013. The increase in bank borrowing was mainly due to our hedging facilities arrangement during the period. Our gearing ratio of non-current liabilities to shareholders' funds was 14% at the end of interim reporting period. Current ratio maintained at a healthy level of 1.2.

The Group's total cash and bank balances including structured deposits of HK\$1,636 million (2013: HK\$1,442 million) were HK\$2,795 million at the end of interim reporting period compared to HK\$2,699 million as at 31 December 2013. Based on the net cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet the operating needs and future growth.

The Group's trade receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars and Hong Kong dollars. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. The Group has taken conservative approach to handle foreign currency risk with adequate hedging reserve. The Group had no borrowings at fixed interest rates during the period.

The Group has no material contingent liabilities. Barring the pledge of trade receivables of certain subsidiaries of HK\$24 million, there were no charges on the Group's assets.

Tax Audit

The Inland Revenue Department (IRD) initiated a tax audit on certain group companies in February 2006 for the years of assessment from 1999/2000 onwards. The management is of the opinion that, in all the years, adequate Hong Kong tax provision were made on the Hong Kong sourced income. Since the tax audit is still at a fact-finding stage, the outcome of the tax audit cannot be readily ascertained. After consulting with professional advisers, the management is of the opinion that the existing provisions are adequate.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

The total number of employees of the Group including joint ventures as at the end of interim reporting period was about 8,100. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the period.

Capital Expenditure

The Group purchased the plant and equipment and construction in progress of HK\$22 million in order to upgrade its manufacturing capabilities during the period. Except for the above, there was no material capital expenditure during the period.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors (the “Board”) of High Fashion International Limited (the “Company”) announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2014 together with the comparative figures.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|---------------------------------|
| | | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| | <i>Notes</i> | | |
| Revenue | 3 | 1,436,449 | 1,341,164 |
| Cost of sales | | (1,049,263) | (1,023,447) |
| Gross profit | | 387,186 | 317,717 |
| Other income | | 64,489 | 59,575 |
| Other gains and losses | 4 | (68,923) | 60,117 |
| Administrative expenses | | (183,654) | (173,111) |
| Selling and distribution expenses | | (125,765) | (145,880) |
| Finance costs | 5 | (36,386) | (29,337) |
| Share of (losses) profits of joint ventures | | (1,216) | 206 |
| Profit before taxation | | 35,731 | 89,287 |
| Income tax expenses | 6 | (11,853) | (22,152) |
| Profit for the period | 7 | 23,878 | 67,135 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income *(Continued)*

For the six months ended 30 June 2014

| | | Six months ended 30 June | |
|---|-----------|---------------------------------|---------------------------------|
| | | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| | Note 8 | | |
| Other comprehensive (expense) income: | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Exchange differences arising on translation to presentation currency | | (91,933) | 56,792 |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | 726 | (786) |
| Fair value (loss) gain on hedging instruments in cash flow hedges | | (85,978) | 70,991 |
| Reclassification to profit or loss on realisation of cash flow hedges | | (33,552) | (9,071) |
| Income tax relating to items that may be reclassified subsequently | | 19,483 | (10,374) |
| | | (99,321) | 50,760 |
| Other comprehensive (expense) income for the period, net of tax | | (191,254) | 107,552 |
| Total comprehensive (expense) income for the period | | (167,376) | 174,687 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income *(Continued)*

For the six months ended 30 June 2014

| | | Six months ended 30 June | |
|---|------|---------------------------------|---------------------------------|
| | | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| | Note | | |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | 30,001 | 67,898 |
| Non-controlling interests | | (6,123) | (763) |
| | | 23,878 | 67,135 |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | (161,255) | 175,392 |
| Non-controlling interests | | (6,121) | (705) |
| | | (167,376) | 174,687 |
| Earnings per share | 9 | | |
| Basic | | 10.09 HK cents | 22.84 HK cents |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position

At 30 June 2014

| | | At 30 June 2014 (Unaudited) HK\$'000 | At 31 December 2013 (Audited) HK\$'000 |
|---|--------------|--|--|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | | 804,332 | 840,607 |
| Prepaid lease payments | | 126,777 | 131,776 |
| Investment properties | 11 | 954,689 | 959,403 |
| Investments in joint ventures | | 18,506 | 20,260 |
| Available-for-sale investments, at cost | | 675 | 675 |
| Deferred tax assets | | 42,740 | 39,728 |
| Long-term deposits and prepayments | 12 | 160,612 | 26,723 |
| Derivative financial instruments | 13 | 14,045 | 67,288 |
| | | 2,122,376 | 2,086,460 |
| Current assets | | | |
| Inventories | | 503,850 | 537,422 |
| Trade receivables | 14 | 484,014 | 426,178 |
| Bills receivable | 14 | 27,768 | 41,855 |
| Prepaid lease payments | | 3,401 | 3,473 |
| Deposits, prepayments and other receivables | | 113,923 | 115,840 |
| Amounts due from joint ventures | | 473 | 945 |
| Tax recoverable | | 121,854 | 121,854 |
| Derivative financial instruments | 13 | 36,721 | 88,364 |
| Structured deposits | 15 | 1,636,229 | 1,442,333 |
| Short-term deposits | | 433,424 | 270,186 |
| Bank balances and cash | | 591,145 | 986,583 |
| | | 3,952,802 | 4,035,033 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position

(Continued)

At 30 June 2014

| | Notes | At 30 June 2014 (Unaudited) HK\$'000 | At 31 December 2013 (Audited) HK\$'000 |
|--|-------|--|--|
| Current liabilities | | | |
| Trade payables | 16 | 320,952 | 356,020 |
| Bills payable | | – | 343 |
| Other payables and accruals | | 206,449 | 215,863 |
| Amount due to an associate | | 589 | 589 |
| Tax payable | | 177,481 | 173,963 |
| Derivative financial instruments | 13 | 39,015 | 2,494 |
| Obligations under finance leases | | 150 | 86 |
| Bank borrowings | 17 | 2,550,165 | 2,417,710 |
| Bank overdrafts | | 589 | – |
| | | 3,295,390 | 3,167,068 |
| Net current assets | | 657,412 | 867,965 |
| Total assets less current liabilities | | 2,779,788 | 2,954,425 |
| Non-current liabilities | | | |
| Obligations under finance leases | | 124 | 78 |
| Bank borrowings | | 117,288 | 117,999 |
| Deferred tax liabilities | | 162,942 | 181,998 |
| Derivative financial instruments | 13 | 48,942 | 5,750 |
| Provision for long service payments | | 3,281 | 3,431 |
| | | 332,577 | 309,256 |
| Net assets | | 2,447,211 | 2,645,169 |
| Capital and reserves | | | |
| Share capital | 18 | 29,721 | 29,721 |
| Share premium and reserves | | 2,410,786 | 2,616,623 |
| Equity attributable to owners of the Company | | 2,440,507 | 2,646,344 |
| Non-controlling interests | | 6,704 | (1,175) |
| Total equity | | 2,447,211 | 2,645,169 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

| | Attributable to owners of the Company | | | | | | | Attributable to non-controlling interests | Total | | | |
|---|---------------------------------------|----------------|---------------------------|---------------|------------------------------|----------------------------|-----------------|---|------------------|------------------|---------------------|------------------|
| | State capital | Share premium | Share Translation reserve | Reserve funds | Property revaluation reserve | Capital redemption reserve | Hedging reserve | | | Other reserve | Accumulated profits | Sub-total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2014 (audited) | 29,721 | 262,871 | 471,218 | 55,289 | 112,607 | 8,511 | 128,175 | 39,853 | 1,538,099 | 2,646,344 | (1,175) | 2,645,169 |
| Profit (loss) for the period | - | - | - | - | - | - | - | - | 30,001 | 30,001 | (6,123) | 23,878 |
| Other comprehensive (expense) income for the period | - | - | (91,209) | - | - | - | (100,047) | - | - | (191,256) | 2 | (191,254) |
| Total comprehensive (expense) income for the period | - | - | (91,209) | - | - | - | (100,047) | - | 30,001 | (161,255) | (6,121) | (167,376) |
| Dividends (note 10) | - | - | - | - | - | - | - | - | (44,582) | (44,582) | - | (44,582) |
| Capital contributed from non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | 14,000 | 14,000 |
| | - | - | - | - | - | - | - | - | (44,582) | (44,582) | 14,000 | (30,582) |
| At 30 June 2014 (unaudited) | 29,721 | 262,871 | 380,009 | 55,289 | 112,607 | 8,511 | 28,128 | 39,853 | 1,523,518 | 2,440,507 | 6,704 | 2,447,211 |
| At 1 January 2013 (audited) | 29,721 | 262,871 | 379,634 | 46,723 | 112,607 | 8,511 | 623 | 39,853 | 1,411,625 | 2,292,168 | 481 | 2,292,649 |
| Profit (loss) for the period | - | - | - | - | - | - | - | - | 67,898 | 67,898 | (763) | 67,135 |
| Other comprehensive income for the period | - | - | 55,946 | - | - | - | 51,546 | - | - | 107,494 | 58 | 107,552 |
| Total comprehensive income (expense) for the period | - | - | 55,946 | - | - | - | 51,546 | - | 67,898 | 175,392 | (705) | 174,687 |
| Dividends (note 10) | - | - | - | - | - | - | - | - | (44,582) | (44,582) | - | (44,582) |
| At 30 June 2013 (unaudited) | 29,721 | 262,871 | 435,582 | 46,723 | 112,607 | 8,511 | 52,169 | 39,853 | 1,434,941 | 2,422,978 | (224) | 2,422,754 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

| | | Six months ended 30 June | |
|-------|---|---------------------------------|---------------------------------|
| | | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Notes | | | |
| | Net cash from operating activities | 15,641 | 2,288 |
| | INVESTING ACTIVITIES | | |
| | New structured deposits placed | (990,000) | (737,500) |
| | New short-term deposits placed | (431,157) | (343,009) |
| | New long-term deposits placed | (130,000) | – |
| | Withdrawal of structured deposits | 809,834 | 659,759 |
| | Withdrawal of short-term deposits | 264,740 | 209,195 |
| | Purchases of property, plant and equipment | (21,885) | (28,232) |
| | Interest received | 12,701 | 12,206 |
| | Deposits paid for acquisition of property, plant and equipment | – | (15,855) |
| | Other investing cash flows | (1,314) | (1,637) |
| | Net cash used in investing activities | (487,081) | (245,073) |
| | FINANCING ACTIVITIES | | |
| | New bank borrowings raised | 859,528 | 946,253 |
| | Repayment in bank borrowings | (726,948) | (545,899) |
| | Dividends paid | – | (44,582) |
| | Interest paid | (34,272) | (19,862) |
| | Capital contribution from non-controlling shareholders | 14,000 | – |
| | Other financing cash flows | (71) | (2,803) |
| | Net cash from financing activities | 112,237 | 333,107 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Cash Flows *(Continued)*

For the six months ended 30 June 2014

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Net (decrease) increase in cash and cash equivalents | (359,203) | 90,322 |
| Cash and cash equivalents at beginning of the period | 986,583 | 767,037 |
| Effect of foreign exchange rate changes, net | (36,824) | 2,135 |
| Cash and cash equivalents at end of the period | 590,556 | 859,494 |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances and cash | 591,145 | 860,637 |
| Bank overdrafts | (589) | (1,143) |
| | 590,556 | 859,494 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment entities |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities |
| Amendments to HKAS 36 | Recoverable amount disclosures for non-financial assets |
| Amendments to HKAS 39 | Novation of derivatives and continuation of hedge accounting |
| HK(IFRIC) – INT 21 | Levies |

The application of the above new interpretation and amendments to HKFRSs in current interim period had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

3. Segment Information

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the six months ended 30 June 2014 (unaudited)

| | Manufacture and trading of garments HK\$'000 | Brand business HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|---|-------------------------------|------------------------------|--------------------------|--------------------------|
| REVENUE | | | | | |
| External sales | 1,226,353 | 210,096 | 1,436,449 | - | 1,436,449 |
| Inter-segment sales (note a) | 61,316 | - | 61,316 | (61,316) | - |
| Segment revenue | <u>1,287,669</u> | <u>210,096</u> | <u>1,497,765</u> | <u>(61,316)</u> | <u>1,436,449</u> |
| RESULT | | | | | |
| Segment profit (loss) (note b) | <u>98,767</u> | <u>(22,222)</u> | <u>76,545</u> | <u>(4,428)</u> | <u>72,117</u> |
| Finance costs | | | | | <u>(36,386)</u> |
| Profit before taxation | | | | | <u>35,731</u> |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

3. Segment Information (Continued)

For the six months ended 30 June 2013 (unaudited)

| | Manufacture and trading of garments HK\$'000 | Brand business HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|---|-------------------------------|------------------------------|--------------------------|--------------------------|
| REVENUE | | | | | |
| External sales | 1,084,576 | 256,588 | 1,341,164 | - | 1,341,164 |
| Inter-segment sales (note a) | 82,393 | - | 82,393 | (82,393) | - |
| Segment revenue | <u>1,166,969</u> | <u>256,588</u> | <u>1,423,557</u> | <u>(82,393)</u> | <u>1,341,164</u> |
| RESULT | | | | | |
| Segment profit (loss) (note b) | <u>136,207</u> | <u>(12,785)</u> | <u>123,422</u> | <u>(4,798)</u> | <u>118,624</u> |
| Finance costs | | | | | <u>(29,337)</u> |
| Profit before taxation | | | | | <u>89,287</u> |

Notes:

- (a) Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.
- (b) Segment profit (loss) included i) fair value gain on investment properties of HK\$4,587,000 and HK\$1,975,000 (2013: fair value gain of HK\$49,549,000 and fair value loss of HK\$13,000); and ii) fair value loss on derivative financial instruments of HK\$63,818,000 and nil (2013: fair value gain of HK\$4,734,000 and nil) attributed to manufacture and trading of garments segment and brand business segment, respectively.

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of finance costs. This is the measure reported to the Company's executive directors for the purposes of resources allocation and performance assessment.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

4. Other Gains and Losses

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Increase in fair value of investment properties | 6,562 | 49,536 |
| Changes in fair value of derivative financial instruments | (63,818) | 4,734 |
| Loss on disposal of property, plant and equipment | (56) | (61) |
| Net foreign exchange (loss) gain | (13,627) | 9,071 |
| Net reversal of allowance for (allowance for) bad and doubtful debts | 2,045 | (2,044) |
| Impairment loss recognised in respect of amount due from a joint venture | (29) | (1,119) |
| | (68,923) | 60,117 |

5. Finance Costs

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Interests on: | | |
| Bank borrowings and overdrafts wholly repayable within five years | 33,165 | 26,629 |
| Finance leases | 8 | 13 |
| Bank charges | 3,213 | 2,695 |
| | 36,386 | 29,337 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

6. Income Tax Expenses

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Current tax charge: | | |
| Hong Kong | 7,550 | 3,168 |
| People's Republic of China (the "PRC") | 4,715 | 6,902 |
| Other jurisdictions | 432 | 1,171 |
| | 12,697 | 11,241 |
| Under(over)provision in prior years: | | |
| Hong Kong | – | (45) |
| The PRC | 1,112 | 6,405 |
| | 1,112 | 6,360 |
| Deferred taxation: | | |
| Current year | (1,956) | 4,551 |
| | 11,853 | 22,152 |

As disclosed in the Group's annual reports published in previous years, the Inland Revenue Department ("IRD") has initiated a tax audit on certain group companies for the years of assessment from 1999/2000 onwards. As a matter of IRD's practice, the IRD has issued estimated/additional assessments ("Assessments") demanding for tax to the relevant group companies for the years of assessment 1999/2000 to 2007/2008. During the course of the tax audit, there may be a possibility that estimated additional assessments for subsequent years be issued by the IRD to these group companies.

Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with reasonable accuracy. Management has in the current period followed the same basis for making provision as adopted in prior years. In the opinion of the directors, the provisions so made are adequate for the purpose mentioned above.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

7. Profit for the Period

Profit for the period has been arrived at after charging (crediting):

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Depreciation and amortisation | | |
| Owned assets | 37,801 | 38,576 |
| Leased assets | 36 | 57 |
| Amortisation of prepaid lease payments | 1,701 | 1,247 |
| | 39,538 | 39,880 |
| Net allowance for (written back of allowance for) inventory obsolescence (included in cost of sales) (note i) | 502 | (4,564) |
| Realisation of cash flow hedges reclassified from other comprehensive income (note ii) | (33,552) | (9,071) |
| Investment income earned on | | |
| – bank interest income | (16,878) | (16,979) |
| – interest income on other receivables | (340) | (2,472) |
| – interest income from structured deposits | (29,175) | (19,791) |

Notes:

- (i) Allowance for inventory obsolescence was written back when the relevant inventory was sold.
- (ii) Gain of HK\$34,853,000 (30 June 2013: HK\$9,709,000) is included in revenue and the remaining balance of a loss of HK\$1,301,000 (30 June 2013: HK\$638,000) is included in finance costs.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

8. Other Comprehensive (Expense) Income

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Cash flow hedges: | | |
| Fair value (loss) gain on hedging instruments | (85,978) | 70,991 |
| Reclassification adjustments upon recognition of hedged items in profit or loss | (33,552) | (9,071) |
| | (119,530) | 61,920 |
| Exchange differences arising on translation | (91,207) | 56,006 |
| Other comprehensive (expense) income | (210,737) | 117,926 |
| Income tax relating to components of other comprehensive income – fair value changes to hedging instruments in cash flow hedges | 19,483 | (10,374) |
| Other comprehensive (expense) income for the period, net of tax | (191,254) | 107,552 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

9. Earnings Per Share

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Profit for the purpose of basic earnings per share attributable to owners of the Company | 30,001 | 67,898 |
| Number of ordinary shares for the purpose of basic earnings per share | 297,213,550 | 297,213,550 |

No diluted earnings per share has been presented as there is no potential ordinary share outstanding during both periods or at the end of the respective reporting period.

10. Dividends

During the current interim period, a final dividend of 15 HK cents (six months ended 30 June 2013: 15 HK cents) was declared to the shareholders for the year ended 31 December 2013 (six months ended 30 June 2013: for the year ended 31 December 2012) and included in other payables. Shareholders have an option to elect and receive in respect of part or all of the final dividends by way of scrip for the year ended 31 December 2013 (six months ended 30 June 2013: HK\$44,582,000 was paid to the shareholders in cash for the year ended 31 December 2012) and will be paid on 11 July 2014.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

10. Dividends (Continued)

The Board declared that an interim dividend of 5 HK cents per share for the six months ended 30 June 2014 (six months ended 30 June 2013: 5 HK cents) which will be paid to shareholders whose names appear in the register of members on 19 September 2014. This dividend was declared after the end of the interim reporting period, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

11. Investment Properties

The fair value of the Group's investment properties at 30 June 2014 and 31 December 2013 have been arrived at on the basis of the valuation carried out by Centaline Surveyors Ltd, 新昌信安達資產評估有限公司 and 杭州蕭審資產評估有限公司, which are independent qualified professional valuers not connected with the Group. An increase in fair value of investment properties of HK\$6,562,000 (six months ended 30 June 2013: HK\$49,536,000) has been recognised directly in the profit or loss for the six months ended 30 June 2014.

12. Long-Term Deposits and Prepayments

| | At 30 June 2014 (Unaudited) HK\$'000 | At 31 December 2013 (Audited) HK\$'000 |
|---|---|--|
| Deposit placed and prepayment of premium for a life insurance | 26,658 | 26,723 |
| Long-term bank deposits (Note) | 133,954 | – |
| | 160,612 | 26,723 |

Note: At 30 June 2014, the long-term bank deposits carry fixed interest at rate of 3.75% per annum and will be matured in September 2015.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

13. Derivative Financial Instruments

| | At 30 June 2014 (Unaudited) HK\$'000 | At 31 December 2013 (Audited) HK\$'000 |
|--|--|--|
| Financial assets | | |
| Cash flow hedges | | |
| – Foreign exchange forward contracts (<i>Note a</i>) | 50,187 | 154,269 |
| – Interest rate swaps | – | 112 |
| | 50,187 | 154,381 |
| Other derivatives (not under hedge accounting) | | |
| – Knock out forward contract (<i>Note b</i>) | – | 817 |
| – Capped forward contracts (<i>Note c</i>) | 579 | 454 |
| | 579 | 1,271 |
| | 50,766 | 155,652 |
| Financial liabilities | | |
| Cash flow hedges | | |
| – Foreign exchange forward contracts (<i>Note a</i>) | 14,006 | – |
| – Interest rate swaps | 2,085 | 754 |
| | 16,091 | 754 |
| Other derivatives (not under hedge accounting) | | |
| – Dual currency interest rate swap | 7,746 | 6,682 |
| – Knock out forward contracts (<i>Note b</i>) | 46,990 | – |
| – Capped forward contracts (<i>Note c</i>) | 17,130 | 808 |
| | 71,866 | 7,490 |
| | 87,957 | 8,244 |
| Analysed for reporting purposes as: | | |
| Non-current assets | 14,045 | 67,288 |
| Current assets | 36,721 | 88,364 |
| | 50,766 | 155,652 |
| Non-current liabilities | 48,942 | 5,750 |
| Current liabilities | 39,015 | 2,494 |
| | 87,957 | 8,244 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

13. Derivative Financial Instruments (Continued)

Notes:

(a) Foreign exchange forward contracts

During the current interim period, the Group continued to enter into foreign exchange forward contracts to sell United States Dollars ("US\$") for Renminbi ("RMB") to manage the Group's foreign currency exposure in relation to foreign currency highly probable forecast sales to end customers denominated in US\$ as disclosed in the Group's annual report published in previous years. At the end of the reporting period, the Group has outstanding foreign exchange forward contracts with an aggregate notional amount of US\$397 million (31 December 2013: US\$394 million) that requires the Group to sell US\$ for RMB at exchange rates ranging from RMB6.192 to RMB6.442 (31 December 2013: RMB6.407 to RMB6.442) for US\$1 with maturity periods up to 30 months (31 December 2013: 24 months).

(b) Knock out forward contracts

The amount represents the fair value of knock out non-deliverable forward contracts with aggregate notional amount of US\$134 million (31 December 2013: US\$24 million) to sell US\$1 million or US\$0.5 million (31 December 2013: US\$1 million), on a monthly interval from July 2014 to February 2017 (31 December 2013: January 2014 to December 2015), for RMB at the contracted rates of US\$1 for RMB6.13 to RMB6.21 (31 December 2013: US\$1 for RMB6.2) where the spot rate on the settlement date is below the contracted rate. Where the spot rate is above the contracted rate, the Group has to sell double the amount of US\$ for RMB at the contracted rate. The contracts will be terminated when the cumulative spot rate at each settlement date exceeds the contracted forward rate by a specific amount set out in the agreements.

(c) Capped forward contracts

The amount represents fair value of capped forward contracts with aggregate notional amount of US\$91 million (31 December 2013: US\$90 million). The Group shall pay if the spot rate of RMB vs US\$ is above the upper contract rate or receive if the spot rate of RMB vs US\$ is below the lower contract rate specified in the relevant agreements on the settlement date. Where the spot rate is above the upper contract rate on the settlement date, the Group shall pay double the amount to respective banks. Where the spot rate falls within the upper and lower contract rates, no settlement will be required. The aforesaid upper and lower contract rates in the relevant agreements are ranging from RMB6.25 to RMB6.48 vs US\$1 and RMB5.98 to RMB6.44 vs US\$1 (31 December 2013: RMB6.27 to RMB6.48 vs US\$1 and RMB6.206 to RMB6.44 vs US\$1) respectively. The contracts will be settled in various dates from July 2014 to July 2016 (31 December 2013: January 2014 to December 2015).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

13. Derivative Financial Instruments (Continued)

The above derivatives are measured at fair values at end of the reporting period. Their fair values are determined based on the valuation carried out by financial institutions, which are measured using the present values of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and quoted forward exchange rates at the end of the reporting period.

14. Trade Receivables and Bills Receivable

The credit terms granted by the Group to its customers normally range from 30 days to 90 days.

The aged analysis of the Group's trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates, is as follows:

| | At 30 June 2014 (Unaudited) HK\$'000 | At 31 December 2013 (Audited) HK\$'000 |
|-----------------|--|--|
| Within 90 days | 423,133 | 391,593 |
| 91 to 180 days | 37,976 | 20,642 |
| 181 to 360 days | 20,035 | 11,940 |
| Over 360 days | 2,870 | 2,003 |
| | 484,014 | 426,178 |

At the end of the reporting period, bills receivable of HK\$27,768,000 (31 December 2013: HK\$41,855,000) are aged within 180 days (31 December 2013: 180 days). Included in the bills receivable is discounted bills with recourse of HK\$18,624,000 (31 December 2013: HK\$31,595,000) of which corresponding financial liabilities are included in bank borrowings.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

15. Structured Deposits

During the current interim period, the Group entered into certain structured deposits with aggregate amount of RMB792,000,000 (equivalent to HK\$990,000,000) (six months ended 30 June 2013: RMB590,000,000 (equivalent to HK\$737,500,000)) which will mature in various dates from July 2014 to May 2015 (six months ended 30 June 2013: July 2013 to July 2014). The structured deposits are designated as fair value through profit or loss at initial recognition. The annual coupon rate is dependent on whether the i) spot rate for conversion of RMB, Euro and Australian dollar for US\$ and US\$ for HK\$ as prevailing in the international foreign exchange market falls under certain ranges as specified in the relevant agreements; ii) whether LOCO London gold prices falls under certain ranges as specified in the relevant agreements; or iii) whether 1 month London Interbank Offered Rate falls within 0% to 3% during the period from inception date to maturity date of the deposits. The issuing banks have a right to early redeem the structured deposits by repaying the principal and any accrued interest on the structured deposits before maturity. Structured deposits with aggregate carrying amount on maturity date of RMB631,671,000 (equivalent to HK\$809,834,000) (six months ended 30 June 2013: RMB531,107,000 (equivalent to HK\$659,759,000)) were settled during the current interim period. At the end of the reporting period, the structured deposits are stated at fair values. The fair values are calculated using discounted cash flow analysis based on the applicable yield curves of the relevant interest rates, exchange rates and LOCO London gold prices index.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

16. Trade Payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | At 30 June 2014 (Unaudited) HK\$'000 | At 31 December 2013 (Audited) HK\$'000 |
|-------------------|--|--|
| Within 90 days | 108,529 | 137,252 |
| 91 to 180 days | 6,679 | 11,300 |
| 181 to 360 days | 2,272 | 2,875 |
| Over 360 days | 6,134 | 5,569 |
| | 123,614 | 156,996 |
| Accrued purchases | 197,338 | 199,024 |
| | 320,952 | 356,020 |

The average credit period on purchases of goods is 90 days.

17. Bank Borrowings

During the current interim period, the Group obtained several new bank borrowings from various banks amounting to HK\$860 million (six months ended 30 June 2013: HK\$946 million) and repaid HK\$727 million (six months ended 30 June 2013: HK\$546 million). The loans carry interest at market rates ranging from 1.31% to 3.08% (31 December 2013: 1.21% to 3.45%) per annum.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

18. Share Capital

| | Number of shares '000 | Amount HK\$'000 |
|--|-----------------------------|--------------------|
| Ordinary shares of HK\$0.10 each | | |
| Issued and fully paid: | | |
| At 1 January 2013 (audited), 30 June 2013 (unaudited), 1 January 2014 (audited) and 30 June 2014 (unaudited) | 297,214 | 29,721 |

19. Capital Commitments

As at 30 June 2014, the Group was committed to capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for HK\$82,281,000 (31 December 2013: HK\$1,846,000).

20. Related Party Transactions

The Group had the following transactions with related parties during the period:

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Purchases of raw materials and finished goods from joint ventures | 5,693 | 11,382 |
| Sales of raw materials and finished goods to joint ventures | 342 | 1,891 |
| Key management personnel compensation (<i>Note</i>) | 5,716 | 5,900 |

Note: The remuneration of directors and key executives during the period were determined by the remuneration committee having regard to the performance of individuals and market trends.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

21. Fair Value Measurements of Financial Instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's derivative financial instruments and structured deposits are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable. For valuation technique using discounted cash flows, the discount rates used take into consideration the credit risk of the relevant counterparties of the Group, as appropriate.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

21. Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

| Financial assets/ financial liabilities | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|--|-------------------------|---|
| | 30 June 2014 | 31 December 2013 | | |
| Foreign exchange forward contracts (designated for hedging) | Assets – HK\$50,187,000 Liabilities – HK\$14,006,000 | Assets – HK\$154,269,000 | Level 2 | Valuation technique: Discounted cash flow. Key inputs: Forward exchange rates, contracted exchange rates and discount rates. |
| Capped forward contracts | Assets – HK\$579,000 Liabilities – HK\$17,130,000 | Asset – HK\$454,000 Liabilities – HK\$808,000 | Level 2 | Valuation techniques: Discounted cash flow and option pricing model. Key inputs: Forward exchange rates, contracted exchange rates, discount rates and volatility of exchange rate of RMB vs US\$. |
| Knock out forward contracts | Liabilities – HK\$46,990,000 | Asset – HK\$817,000 | Level 2 | Valuation techniques: Discounted cash flow and option pricing model. Key inputs: Forward exchange rates, contracted exchange rates, discount rates and volatility of exchange rate of RMB vs US\$. |
| Interest rate swaps (designated for hedging) | Liabilities – HK\$2,085,000 | Asset – HK\$112,000 Liabilities – HK\$754,000 | Level 2 | Valuation technique: Discounted cash flow. Key inputs: Forward interest rates, contracted interest rates and discount rates. |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

21. Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

| Financial assets/ financial liabilities | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|--|---------------------------------------|-------------------------------|-------------------------|---|
| | 30 June 2014 | 31 December 2013 | | |
| Dual currency interest rate swap | Liability – HK\$7,746,000 | Liability – HK\$6,682,000 | Level 2 | Valuation technique: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, contracted interest rates, discount rate and HSBC Dynamic Term Premium Index 10 as published on Bloomberg Screen and its volatility. |
| Structured deposits | Assets – HK\$1,636,229,000 | Assets – HK\$1,442,333,000 | Level 2 | Valuation technique: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, LOCO London gold prices index, contracted interest rates, contracted exchange rates and volatility of exchange rates. |

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

22. Financial Assets and Financial Liabilities Subject to Enforceable Master Netting Arrangements

The Group has entered into certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Netting Agreements (“ISDA Agreements”) signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

22. Financial Assets and Financial Liabilities Subject to Enforceable Master Netting Arrangements (Continued)

Financial assets of the Group subject to ISDA Agreements by counterparty:

| | Carrying amounts of financial assets in the consolidated statement of financial position | | Related amounts not set off in the consolidated statement of financial position – financial liabilities | Net amount |
|----------------------------|---|--|--|----------------|
| | Bank balances HK\$'000 | Derivative financial instruments HK\$'000 | HK\$'000 | HK\$'000 |
| At 30 June 2014 | | | | |
| Bank A | 306 | 22,714 | (12,541) | 10,479 |
| Bank B | 1,048 | 12,964 | (14,012) | – |
| Bank C | 239 | 3,446 | (3,685) | – |
| Bank D | 119 | 579 | (698) | – |
| Bank E | 319 | 6,108 | (6,427) | – |
| Bank F | 1,961 | 4,617 | (6,578) | – |
| Bank G | 69 | – | (63) | 6 |
| Bank H | 606 | 338 | (944) | – |
| Bank I | 1,537 | – | (1,537) | – |
| Total | 6,204 | 50,766 | (46,485) | 10,485 |
| At 31 December 2013 | | | | |
| Bank A | 2,484 | 67,288 | (54) | 69,718 |
| Bank B | 1,573 | 47,248 | (7,161) | 41,660 |
| Bank C | 93 | 9,161 | (180) | 9,074 |
| Bank D | 402 | 454 | – | 856 |
| Bank E | 334 | 16,407 | (15) | 16,726 |
| Bank F | 34,976 | 14,982 | – | 49,958 |
| Bank G | 96 | 112 | – | 208 |
| Bank H | 168 | – | (168) | – |
| Total | 40,126 | 155,652 | (7,578) | 188,200 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements

(Continued)

22. Financial Assets and Financial Liabilities Subject to Enforceable Master Netting Arrangements (Continued)

Financial liabilities of the Group subject to ISDA Agreements by counterparty:

| | Carrying amounts of financial liabilities presented as “Derivative financial instruments” in the consolidated statement of financial position HK\$'000 | Related amounts not set off in the consolidated statement of financial position – financial assets HK\$'000 | Net amount HK\$'000 |
|----------------------------|--|---|------------------------|
| At 30 June 2014 | | | |
| Bank A | (12,541) | 12,541 | – |
| Bank B | (23,303) | 14,012 | (9,291) |
| Bank C | (8,139) | 3,685 | (4,454) |
| Bank D | (7,334) | 698 | (6,636) |
| Bank E | (12,746) | 6,427 | (6,319) |
| Bank F | (10,589) | 6,578 | (4,011) |
| Bank G | (63) | 63 | – |
| Bank H | (6,965) | 944 | (6,021) |
| Bank I | (6,277) | 1,537 | (4,740) |
| Total | (87,957) | 46,485 | (41,472) |
| At 31 December 2013 | | | |
| Bank A | (54) | 54 | – |
| Bank B | (7,161) | 7,161 | – |
| Bank C | (180) | 180 | – |
| Bank E | (15) | 15 | – |
| Bank H | (834) | 168 | (666) |
| Total | (8,244) | 7,578 | (666) |

The gross amounts of the recognised financial assets and financial liabilities disclosed in the above tables, which are subject to enforceable master netting arrangements, are measured as follows:

- Bank balances – amortised cost
- Derivative financial instruments – fair value

OTHER INFORMATION

Interim Dividend

The Board has resolved to declare an interim dividend of 5 HK cents per share for the six months ended 30 June 2014 (six months ended 30 June 2013: interim dividend of 5 HK cents) on the shares in issue amounting to HK\$15,281,000 (six months ended 30 June 2013: HK\$14,861,000), to the shareholders whose names appear on the Register of Members on 19 September 2014. The dividend will be payable on or about 7 October 2014.

Closure of Register of Members

The Register of Members will be closed from Thursday, 18 September 2014 to Friday, 19 September 2014, both days inclusive, during which period no transfer of shares will be registered. In order to determine members who are entitled to qualify for the proposed interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Wednesday, 17 September 2014.

Corporate Governance

The Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period for the six months ended 30 June 2014, except for the following deviations:

Code provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Lam Foo Wah is the Chairman and Managing Director of the Company. The Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the benefit of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

OTHER INFORMATION

Corporate Governance *(Continued)*

Code provision A.6.7

Under the code provision A.6.7 of the CG Code, the independent non-executive directors and non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Professor Yeung Kwok Wing (Non-executive Director) and Mr. Woo King Wai (Independent non-executive Director) were absent from the annual general meeting held on 6 June 2014 due to their other engagements.

Model Code for Securities Transactions by Directors

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. Following a specific enquiry, all directors confirmed that they have complied with the aforesaid Model Code during the six months ended 30 June 2014.

The Company has also adopted a Guideline for Securities Transactions by Relevant Employees to govern securities transactions of those employees who may possess or have access to inside information.

Purchase, Sale or Redemption of the Company’s Listed Securities

During the six months ended 30 June 2014, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s listed securities.

Review of Accounts

The Audit Committee of the Company has reviewed the Group’s unaudited condensed consolidated financial information and interim report for the six months ended 30 June 2014.

OTHER INFORMATION

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2014, the interests and short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been 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 any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

(i) Long Positions in the Company's Shares

| Name of Directors | Notes | Capacity | Nature of interests | Numbers of ordinary shares held | Percentage of the Company's issued capital (Note 3) |
|-----------------------|-------|------------------|---------------------|---------------------------------|--|
| Lam Foo Wah | | Beneficial owner | Personal | 1,706,000 | 0.58% |
| | 1,2 | Other interest | Other | 149,029,986 | 50.14% |
| So Siu Hang, Patricia | | Beneficial owner | Personal | 2,824,309 | 0.95% |

(ii) Long Position in Shares of Associated Corporation

| Name of Directors | Note | Name of associated corporation | Relationship with the Company | Capacity | Number of ordinary shares held | Percentage of the associated corporation's issued capital |
|-------------------|------|--------------------------------|-------------------------------|-------------------------------------|--------------------------------|---|
| Lam Foo Wah | 4 | High Fashion Knitters Limited | Subsidiary | Interest of controlled corporations | 5,339,431 | 35.60% |

OTHER INFORMATION

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Notes:

1. Mr. Lam Foo Wah is deemed to have interests in 112,912,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
2. Mr. Lam Foo Wah is deemed to have interests in 36,117,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
3. The issued share capital of the Company is 297,213,550 shares as at 30 June 2014.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 30 June 2014, none of the directors, chief executives of the Company nor their associates had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

Furthermore, save as disclosed in the "Share Option Scheme" section below, at no time during the six months ended 30 June 2014 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

OTHER INFORMATION

Share Option Scheme

At the annual general meeting of the Company held on 30 May 2012, a share option scheme ("Scheme") of the Company was adopted by the shareholders of the Company. Pursuant to the Scheme, there was no outstanding options at the beginning and at the end of the six months period ended 30 June 2014. During the period, no share options were granted, exercised, cancelled or lapsed.

Apart from the Scheme, during the six months ended 30 June 2014, no rights were granted to the directors, chief executives of the Company or its subsidiaries, or any of their spouses or children under 18 years of age to subscribe for equity or debt securities of the Company or its subsidiaries.

Substantial Shareholders

As at 30 June 2014, the following substantial shareholders, other than directors and chief executives of the Company, had the interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to Section 336 of SFO:

Long Positions in the Company's Shares:

| Name of Shareholders | <i>Notes</i> | Capacity | Number of ordinary shares held | Percentage of the Company's issued share capital <i>(Note 3)</i> |
|--|--------------|--------------------|---------------------------------------|--|
| Hinton Company Limited | 1 | Beneficial owner | 112,912,419 | 37.99% |
| High Fashion Charitable Foundation Limited | 1 | Beneficial owner | 36,117,567 | 12.15% |
| Fundpartner Solutions (Europe) SA | 2 | Investment manager | 14,904,000 | 5.01% |

OTHER INFORMATION

Substantial Shareholders *(Continued)*

Notes:

1. These interests have been disclosed as interests of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
2. These interests are held on behalf of Worldwide Fund, Fcp Sif, Global Equities Sub Fund.
3. The issued share capital of the Company is 297,213,550 shares as at 30 June 2014.

Save as disclosed above, as at 30 June 2014, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Changes in Information of Director

Pursuant to Rule 13.51B(1) of the Listing Rules, there is no change in information of directors of the Company since the disclosure made in the 2013 annual report of the Company up to the date of this report.

CORPORATE INFORMATION

High Fashion International Limited is incorporated in Bermuda with limited liability.

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Foo Wah
(Chairman and Managing Director)
Ms. So Siu Hang, Patricia
Mr. Lam Gee Yu, Will
Mr. Lam Din Yu, Well

Non-executive Directors

Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing

Independent Non-executive Directors

Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

AUDIT COMMITTEE

Mr. Leung Hok Lim *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter

REMUNERATION COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Leung Hok Lim

NOMINATION COMMITTEE

Mr. Lam Foo Wah *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor, High Fashion Centre
1-11 Kwai Hei Street, Kwai Chung,
New Territories, Hong Kong

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22, Hopewell Centre,
183 Queen's Road East, Hong Kong

COMPANY WEBSITE

www.highfashion.com.hk