

HIGH FASHION INTERNATIONAL



**High Fashion International Limited**

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

INTERIM REPORT

**2012**



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## CHAIRMAN'S STATEMENT

The world economy was hampered by the more complicated economic and financial problems in the European Union and the conflicts that can hardly be solved in a short period of time, and has remained weak and unstable since the beginning of 2012. Our results for the first half year were also affected.

- Revenue for the period declined from HK\$1.38 billion to HK\$1.24 billion, representing a decrease of 11%
- Profit for the period decreased from HK\$148 million to HK\$51.84 million
- Basic earnings per share was HK\$0.17
- Net asset per share was HK\$7.12
- An interim dividend per share of HK\$0.05

Although our brand business in the USA and China has suffered considerably, we have immediately made prompt adjustment in response to the market changes, consistent with our culture of prudent operation with proactive and aggressive development. We strongly believe that our strategy for the future which we developed arduously over the past few years is correct, including market development, product technology development, quality human resources development. This has resulted in the growth of a bigger and stronger foundation for strengthening our competitive edges on winning market share. Though our major markets are still facing complicated and unstable economic conditions around the world, we are positive and confident of the future development of our Group.

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, 31 August 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## Results

Revenue for the six months ended 30 June 2012 decreased to HK\$1.24 billion. Profit attributable to shareholders for the six months ended 30 June 2012 was HK\$51.84 million, compared with last corresponding period of HK\$148 million. Basic earnings per share was 17.43 HK cents. Net asset value per share was HK\$7.12.

## Review of Operations

The segmental information is as follows:

|                           | Revenue          |                  | Contribution     |                  |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | 2012<br>HK\$'000 | 2011<br>HK\$'000 | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
| By principal activity:    |                  |                  |                  |                  |
| Manufacturing and trading | <b>931,875</b>   | 1,025,479        | <b>107,704</b>   | 81,413           |
| Brand business            | <b>303,500</b>   | 359,518          | <b>(17,929)</b>  | 23,575           |
|                           | <b>1,235,375</b> | 1,384,997        | <b>89,775</b>    | 104,988          |

Because of the rising inflationary cost pressure in our supply chain, the revenue of our manufacturing export business decreased by 9% in the period of 2012. We will achieve additional efficiencies through streamlining the operation process continuously in order to limit the impact of rising raw material and other operational overheads and also strategized quality product innovation to capture the unexplored higher end market.

The manufacturing and trading business continued to deliver solid results. The profit for the first half of 2012 included an exceptional gain on fair value change of derivative financial instruments of HK\$17 million (2011: HK\$22 million), which is the financial instruments for hedging RMB for the year from 2012 to 2014 and an increase in fair value of investment properties of HK\$44 million (2011: HK\$36 million) in the current period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Liquidity and Financial Resources

The Group's total outstanding bank borrowings were increased to HK\$1,542 million at the end of interim reporting period compared to HK\$1,496 million as at 31 December 2011. 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 8% at the end of interim reporting period. Current ratio maintained at a healthy level of 1.3.

The Group's total cash and bank balances were HK\$1,737 million at the end of interim reporting period compared to HK\$1,688 million as at 31 December 2011. 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\$38 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 jointly-controlled entities as at the end of interim reporting period was about 11,500. 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\$27 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”) is pleased to 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 2012 together with the comparative figures.

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

|   |   | Six months ended |             |
|---|---|------------------|-------------|
|   |   | 30 June          |             |
|   |   | 2012             | 2011        |
|   |   | (unaudited)      | (unaudited) |
|   |   | HK\$'000         | HK\$'000    |
| <b>REVENUE</b>  | 3 | <b>1,235,375</b> | 1,384,997   |
| Cost of sales   |   | <b>(916,205)</b> | (1,038,951) |
| Gross profit  |   | <b>319,170</b>   | 346,046     |
| Other income  |   | <b>49,994</b>    | 36,819      |
| Other gains and losses  | 4 | <b>58,760</b>    | 45,005      |
| Administrative expenses   |   | <b>(178,892)</b> | (179,708)   |
| Selling and distribution expenses   |   | <b>(159,119)</b> | (143,419)   |
| Finance costs   | 5 | <b>(20,758)</b>  | (17,979)    |
| Share of (loss) profit of jointly controlled entities   |   | <b>(138)</b>     | 245         |
| <b>PROFIT BEFORE TAXATION</b>   |   | <b>69,017</b>    | 87,009      |
| Tax overprovision in respect of gain on disposal of property, plant and equipment and prepaid lease payments in prior years | 6 | –                | 72,974      |
| Income tax expense  | 6 | <b>(17,174)</b>  | (12,261)    |
| <b>PROFIT FOR THE PERIOD AND ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>  | 7 | <b>51,843</b>    | 147,722     |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Comprehensive Income

(Continued)

For the six months ended 30 June 2012

|  |            | Six months ended<br>30 June     |                                 |
|--|------------|---------------------------------|---------------------------------|
|  |            | 2012<br>(unaudited)<br>HK\$'000 | 2011<br>(unaudited)<br>HK\$'000 |
| <b>OTHER COMPREHENSIVE INCOME (EXPENSE)</b>  | Notes<br>8 |                                 |                                 |
| Exchange differences arising on translation  |            | 1,321                           | 51,672                          |
| Gain on revaluation of properties  |            | –                               | 81,436                          |
| Fair value loss on hedging instruments<br>in cash flow hedges                                      |            | (8,632)                         | (10,958)                        |
| Reclassification to profit and loss<br>on cash flow hedges   |            | (18,845)                        | (15,043)                        |
| Income tax relating to components<br>of other comprehensive income                                 |            | 2,512                           | (16,448)                        |
| Other comprehensive (expense) income for<br>the period, net of tax                                 |            | <b>(23,644)</b>                 | 90,659                          |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE<br/>PERIOD AND ATTRIBUTABLE TO OWNERS<br/>OF THE COMPANY</b> |            | <b>28,199</b>                   | 238,381                         |
| <b>EARNINGS PER SHARE</b>  | 9          |                                 |                                 |
| Basic  |            | <b>17.43 HK cents</b>           | 48.74 HK cents                  |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Financial Position

At 30 June 2012

|  |    | At<br>30 June<br>2012<br>(unaudited)<br>HK\$'000 | At<br>31 December<br>2011<br>(audited)<br>HK\$'000 |
|--|----|--|--|
| <b>NON-CURRENT ASSETS</b>                    |    |  |  |
| Property, plant and equipment                | 11 | 839,914  | 858,552  |
| Prepaid lease payments                       | 11 | 132,446  | 147,459  |
| Investment properties                        | 11 | 556,595  | 512,295  |
| Investments in jointly controlled entities   |    | 20,800   | 20,938   |
| Available-for-sale investments, at cost      |    | 675  | 675  |
| Deferred tax assets                          |    | 30,538   | 29,108   |
| Long-term deposits and prepayment            |    | 26,899   | 27,479   |
| Derivative financial instruments             | 12 | 3,922  | –  |
|  |    | <b>1,611,789</b>                                 | <b>1,596,506</b>                                   |
| <b>CURRENT ASSETS</b>                        |    |  |  |
| Inventories                                  |    | 399,227  | 448,644  |
| Trade receivables                            | 13 | 374,728  | 408,903  |
| Bills receivable                             | 13 | 42,486   | 53,959   |
| Prepaid lease payments                       | 11 | 2,405  | 2,771  |
| Deposits, prepayments and other receivables  | 14 | 174,299  | 151,462  |
| Amounts due from jointly controlled entities | 15 | 680  | 686  |
| Tax recoverable                              | 6  | 98,818   | 88,443   |
| Derivative financial instruments             | 12 | 58,906   | 75,483   |
| Structured deposits                          | 16 | 501,382  | 417,753  |
| Short-term deposits                          |    | 733,073  | 449,604  |
| Bank balances and cash                       |    | 502,511  | 820,419  |
|  |    | <b>2,888,515</b>                                 | <b>2,918,127</b>                                   |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Financial Position

(Continued)

At 30 June 2012

|  | At<br>30 June<br>2012<br>(unaudited)<br>HK\$'000 | At<br>31 December<br>2011<br>(audited)<br>HK\$'000 |
|--|--|--|
| <b>CURRENT LIABILITIES</b>                   |  |  |
| Trade payables                               | 17 291,601                                       | 304,957  |
| Other payables and accruals                  | 192,781  | 234,720  |
| Amounts due to jointly controlled entities   | 15 1,313   | 1,647  |
| Amount due to an associate                   | 591  | 591  |
| Tax payable                                  | 164,039  | 169,104  |
| Derivative financial instruments             | 12 24,851  | 4,235  |
| Obligations under finance leases             | 159  | 264  |
| Bank borrowings                              | 18 1,542,319                                     | 1,496,123  |
| Bank overdrafts                              | –  | 194  |
|  | <b>2,217,654</b>                                 | <b>2,211,835</b>                                   |
| <b>NET CURRENT ASSETS</b>                    | <b>670,861</b>                                   | <b>706,292</b>                                     |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> | <b>2,282,650</b>                                 | <b>2,302,798</b>                                   |
| <b>NON-CURRENT LIABILITIES</b>               |  |  |
| Obligations under finance leases             | 42   | 80   |
| Deferred tax liabilities                     | 116,415  | 105,824  |
| Derivative financial instruments             | 12 48,116  | 52,234   |
| Provision for long service payments          | 3,397  | 3,375  |
|  | <b>167,970</b>                                   | <b>161,513</b>                                     |
|  | <b>2,114,680</b>                                 | <b>2,141,285</b>                                   |
| <b>CAPITAL AND RESERVES</b>                  |  |  |
| Share capital                                | 19 29,721  | 30,072   |
| Share premium and reserves                   | 2,084,959  | 2,111,213  |
| Equity attributable to owners of the Company | <b>2,114,680</b>                                 | <b>2,141,285</b>                                   |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

|   | Attributable to owners of the Company |                       |                     |               |                              |                            |                 |               |                     |                  |
|---|---------------------------------------|-----------------------|---------------------|---------------|------------------------------|----------------------------|-----------------|---------------|---------------------|------------------|
|   | Share capital                         | Share premium account | Translation reserve | Reserve funds | Property revaluation reserve | Capital redemption reserve | Hedging reserve | Other reserve | Accumulated profits | Total            |
|   | HK\$'000                              | HK\$'000              | HK\$'000            | HK\$'000      | HK\$'000                     | HK\$'000                   | HK\$'000        | HK\$'000      | HK\$'000            | HK\$'000         |
| At 1 January 2012 (audited)                             | 30,072                                | 265,975               | 358,480             | 41,826        | 112,607                      | 8,160                      | (28,655)        | 39,853        | 1,312,967           | 2,141,285        |
| Profit for the period                                   | -                                     | -                     | -                   | -             | -                            | -                          | -               | -             | 51,843              | 51,843           |
| Other comprehensive income (expense) for the period     | -                                     | -                     | 1,321               | -             | -                            | -                          | (24,965)        | -             | -                   | (23,644)         |
| Total comprehensive income (expense) for the period     | -                                     | -                     | 1,321               | -             | -                            | -                          | (24,965)        | -             | 51,843              | 28,199           |
| Shares repurchased and cancelled, included direct costs | (351)                                 | (3,104)               | -                   | -             | -                            | 351                        | -               | -             | (7,118)             | (10,222)         |
| Final dividend paid (Note 10)                           | -                                     | -                     | -                   | -             | -                            | -                          | -               | -             | (44,582)            | (44,582)         |
|   | (351)                                 | (3,104)               | -                   | -             | -                            | 351                        | -               | -             | (51,700)            | (54,804)         |
| <b>At 30 June 2012 (unaudited)</b>                      | <b>29,721</b>                         | <b>262,871</b>        | <b>359,801</b>      | <b>41,826</b> | <b>112,607</b>               | <b>8,511</b>               | <b>(53,620)</b> | <b>39,853</b> | <b>1,313,110</b>    | <b>2,114,680</b> |
| At 1 January 2011 (audited)                             | 30,322                                | 268,184               | 263,872             | 33,136        | 51,530                       | 7,910                      | 24,873          | 39,853        | 1,133,897           | 1,853,577        |
| Profit for the period                                   | -                                     | -                     | -                   | -             | -                            | -                          | -               | -             | 147,722             | 147,722          |
| Other comprehensive income (expense) for the period     | -                                     | -                     | 51,672              | -             | 61,077                       | -                          | (22,090)        | -             | -                   | 90,659           |
| Total comprehensive income (expense) for the period     | -                                     | -                     | 51,672              | -             | 61,077                       | -                          | (22,090)        | -             | 147,722             | 238,381          |
| Shares repurchased and cancelled, included direct costs | (24)                                  | (215)                 | -                   | -             | -                            | 24                         | -               | -             | (529)               | (744)            |
| Final dividend paid (Note 10)                           | -                                     | -                     | -                   | -             | -                            | -                          | -               | -             | (39,387)            | (39,387)         |
|   | (24)                                  | (215)                 | -                   | -             | -                            | 24                         | -               | -             | (39,916)            | (40,131)         |
| At 30 June 2011 (unaudited)                             | 30,298                                | 267,969               | 315,544             | 33,136        | 112,607                      | 7,934                      | 2,783           | 39,853        | 1,241,703           | 2,051,827        |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

|   |    | Six months ended<br>30 June     |                                 |
|---|----|---------------------------------|---------------------------------|
|   |    | 2012<br>(unaudited)<br>HK\$'000 | 2011<br>(unaudited)<br>HK\$'000 |
| <i>Notes</i>  |    |                                 |                                 |
| Net cash from operating activities  |    | 69,437                          | 67,058                          |
| <b>INVESTING ACTIVITIES</b>   |    |                                 |                                 |
| New short-term deposits placed  |    | (524,007)                       | (441,209)                       |
| Withdrawal of short-term deposits   |    | 241,065                         | 278,462                         |
|   | 16 | (325,926)                       | (182,143)                       |
|   | 16 | 255,007                         | 186,905                         |
| Purchases of property, plant and equipment<br>and prepaid lease payments                          |    | (29,917)                        | (21,752)                        |
| Interest received   |    | 14,799                          | 15,698                          |
| Government grant received in respect of<br>acquisition of prepaid lease payments<br>in prior year |    | 7,653                           | –                               |
| Proceeds on disposal of property, plant and<br>equipment and prepaid lease payments               |    | 66                              | 33,660                          |
| Deposits paid for acquisition of property, plant<br>and equipment and prepaid lease payments      |    | –                               | (2,414)                         |
| Net cash used in investing activities   |    | (361,260)                       | (132,793)                       |
| <b>FINANCING ACTIVITIES</b>   |    |                                 |                                 |
|   | 18 | 708,387                         | 329,260                         |
|   | 18 | (666,090)                       | (261,782)                       |
|   | 10 | (44,582)                        | (39,387)                        |
| Interest paid   |    | (14,543)                        | (15,798)                        |
| Payment for repurchase of shares  |    | (10,222)                        | (744)                           |
| Other financing cash flows  |    | (139)                           | –                               |
| Net cash (used in) from financing activities  |    | (27,189)                        | 11,549                          |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Cash Flows *(Continued)*

For the six months ended 30 June 2012

|  | Six months ended<br>30 June     |                                 |
|--|---------------------------------|---------------------------------|
|  | 2012<br>(unaudited)<br>HK\$'000 | 2011<br>(unaudited)<br>HK\$'000 |
| Net decrease in cash and cash equivalents            | (319,012)                       | (54,186)                        |
| Cash and cash equivalents at beginning of the period | 820,225                         | 621,715                         |
| Effect of foreign exchange rate changes, net         | 1,298                           | 16,945                          |
| Cash and cash equivalents at end of the period       | <b>502,511</b>                  | <b>584,474</b>                  |
| Analysis of balances of cash and cash equivalents    |                                 |                                 |
| Bank balances and cash                               | 502,511                         | 584,556                         |
| Bank overdrafts                                      | –                               | (82)                            |
|  | <b>502,511</b>                  | <b>584,474</b>                  |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2012*

### 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 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011 except as described below.

In current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

|                      |   |
|----------------------|---|
| HKFRS 7 (Amendments) | Financial instruments: Disclosures<br>– Transfers of financial assets |
| HKAS 12 (Amendments) | Deferred tax: Recovery of underlying assets                           |

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

*(Continued)*

### 2. Principal Accounting Policies *(Continued)*

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors of the Company reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is therefore rebutted.

In addition, the amendments to HKFRS 7 increase the disclosure requirements for transaction involving transfers of discounted bills with recourses in the consolidated financial statements of the Company for the year ending 31 December 2012. The application of amendments to HKFRS 7 are intended to provide greater transparency around risk exposures when financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The application of the above amendments to HKFRSs in the current interim period has 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.

Furthermore, during the current interim period, the Group received certain government grants in respect of acquisition of assets as set out in note 11. Such government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the condensed consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

# 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 2012 (unaudited)

|                               | Manufacture<br>and trading<br>of garments<br>HK\$'000 | Brand<br>business<br>HK\$'000 | Segment<br>total<br>HK\$'000 | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|-------------------------------|---|-------------------------------|------------------------------|--------------------------|--------------------------|
| <b>REVENUE</b>                |   |                               |                              |                          |                          |
| External sales                | 931,875   | 303,500                       | 1,235,375                    | -                        | 1,235,375                |
| Inter-segment<br>sales (Note) | 89,456  | -                             | 89,456                       | (89,456)                 | -                        |
| Segment revenue               | <u>1,021,331</u>                                      | <u>303,500</u>                | <u>1,324,831</u>             | <u>(89,456)</u>          | <u>1,235,375</u>         |
| <b>RESULT</b>                 |   |                               |                              |                          |                          |
| Segment profit (loss)         | <u>112,140</u>  | <u>(17,929)</u>               | <u>94,211</u>                | <u>(4,436)</u>           | <u>89,775</u>            |
| Finance costs                 |   |                               |                              |                          | <u>(20,758)</u>          |
| Profit before taxation        |   |                               |                              |                          | <u>69,017</u>            |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

(Continued)

### 3. Segment Information (Continued)

For the six months ended 30 June 2011 (unaudited)

|                               | Manufacture<br>and trading<br>of garments<br>HK\$'000 | Brand<br>business<br>HK\$'000 | Segment<br>total<br>HK\$'000 | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|-------------------------------|---|-------------------------------|------------------------------|--------------------------|--------------------------|
| <b>REVENUE</b>                |   |                               |                              |                          |                          |
| External sales                | 1,025,479   | 359,518                       | 1,384,997                    | –                        | 1,384,997                |
| Inter-segment<br>sales (Note) | 102,599   | –                             | 102,599                      | (102,599)                | –                        |
| Segment revenue               | <u>1,128,078</u>                                      | <u>359,518</u>                | <u>1,487,596</u>             | <u>(102,599)</u>         | <u>1,384,997</u>         |
| <b>RESULT</b>                 |   |                               |                              |                          |                          |
| Segment profit                | <u>83,901</u>   | <u>23,575</u>                 | <u>107,476</u>               | (2,488)                  | 104,988                  |
| Finance costs                 |   |                               |                              |                          | <u>(17,979)</u>          |
| Profit before taxation        |   |                               |                              |                          | <u>87,009</u>            |

Note: Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.

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<br>30 June     |                                 |
|--|---------------------------------|---------------------------------|
|  | 2012<br>(unaudited)<br>HK\$'000 | 2011<br>(unaudited)<br>HK\$'000 |
| Increase in fair value of investment properties  | 44,300                          | 36,248                          |
| Changes in fair value of derivative<br>financial instruments                             | 16,895                          | 22,452                          |
| Gain (loss) on disposal of property, plant and<br>equipment and prepaid lease payments   | 4,074                           | (1,875)                         |
| Net foreign exchange (loss) gain   | (1,569)                         | 14,968                          |
| Impairment loss recognised in respect of property,<br>plant and equipment (Note 11)      | (1,988)                         | (25,552)                        |
| Allowance for bad and doubtful debts   | (782)                           | (441)                           |
| Impairment loss recognised in respect of<br>amounts due from jointly controlled entities | (2,170)                         | (795)                           |
|  | <b>58,760</b>                   | <b>45,005</b>                   |

### 5. Finance Costs

|   | Six months ended<br>30 June     |                                 |
|---|---------------------------------|---------------------------------|
|   | 2012<br>(unaudited)<br>HK\$'000 | 2011<br>(unaudited)<br>HK\$'000 |
| Interest on:  |                                 |                                 |
| Bank loans and overdrafts wholly repayable within<br>five years | 18,429                          | 15,770                          |
| Finance leases  | 13                              | 28                              |
| Bank charges  | 2,316                           | 2,181                           |
|   | <b>20,758</b>                   | <b>17,979</b>                   |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

(Continued)

### 6. Taxation

|   | Six months ended<br>30 June     |                                 |
|---|---------------------------------|---------------------------------|
|   | 2012<br>(unaudited)<br>HK\$'000 | 2011<br>(unaudited)<br>HK\$'000 |
| Current tax charge:   |                                 |                                 |
| Hong Kong   | (4,187)                         | (8,127)                         |
| The People's Republic of China (the "PRC")  | (3,852)                         | (8,117)                         |
| Other jurisdictions   | (235)                           | (623)                           |
| Withholding tax paid in respect of distribution of earnings of PRC subsidiaries   | –                               | (7,649)                         |
|   | <b>(8,274)</b>                  | <b>(24,516)</b>                 |
| Over(under)provision in prior years:  |                                 |                                 |
| Hong Kong   | 3,000                           | –                               |
| PRC   | (224)                           | 55,841                          |
|   | <b>2,776</b>                    | <b>55,841</b>                   |
| Deferred taxation:  |                                 |                                 |
| Current year  | (11,676)                        | 6,018                           |
| Overprovision in prior year   | –                               | 23,370                          |
|   | <b>(11,676)</b>                 | <b>29,388</b>                   |
|   | <b>(17,174)</b>                 | <b>60,713</b>                   |
| Analysed for reporting as:  |                                 |                                 |
| Tax overprovision in respect of gain on disposal of property, plant and equipment and prepaid lease payments in prior years | –                               | 72,974                          |
| Income tax expense  | (17,174)                        | (12,261)                        |
|   | <b>(17,174)</b>                 | <b>60,713</b>                   |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

*(Continued)*

### 6. Taxation *(Continued)*

As disclosed in the Group's annual reports published in previous years, the Hong Kong Inland Revenue Department ("IRD") 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 final tax ("Assessments") to these group companies for the years of assessment 1999/2000 to 2005/2006. 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.

Up to 30 June 2012, the Group has purchased tax reserve certificates of HK\$98,065,000 (31 December 2011: HK\$87,690,000) for conditional standover order of objection against the notices of Assessments for the years of assessment 1999/2000 to 2005/2006 and the amount is included in tax recoverable of the condensed consolidated statement of financial position.

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 any degree of 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 of the Company, 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<br>30 June     |                                 |
|---|---------------------------------|---------------------------------|
|   | 2012<br>(unaudited)<br>HK\$'000 | 2011<br>(unaudited)<br>HK\$'000 |
| Depreciation and amortisation   |                                 |                                 |
| Owned assets  | 41,763                          | 37,445                          |
| Leased assets   | 139                             | 175                             |
| Amortisation of trademarks (included in selling and<br>distribution expenses)   | –                               | 344                             |
| Amortisation of prepaid lease payments  | 1,201                           | 1,211                           |
|   | <b>43,103</b>                   | 39,175                          |
| Allowance for (written back of allowance for)<br>inventory obsolescence, net<br>(included in cost of sales)*            | <b>18,570</b>                   | (5,208)                         |
| Gain on derivative financial instruments reclassified<br>from other comprehensive income (included in<br>cost of sales) | <b>(19,506)</b>                 | (16,365)                        |
| Investment income earned on   |                                 |                                 |
| – bank interest income  | <b>(14,763)</b>                 | (11,177)                        |
| – interest income on other receivables  | <b>(1,574)</b>                  | (297)                           |
| – interest income from structured deposits  | <b>(12,710)</b>                 | (6,895)                         |

\* Allowance for inventory obsolescence was written back when the relevant inventory was sold.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

(Continued)

### 8. Other Comprehensive Income (Expense)

|   | Six months ended<br>30 June     |                                 |
|---|---------------------------------|---------------------------------|
|   | 2012<br>(unaudited)<br>HK\$'000 | 2011<br>(unaudited)<br>HK\$'000 |
| Cash flow hedges:   |                                 |                                 |
| Fair value loss on hedging instruments  | (8,632)                         | (10,958)                        |
| Reclassification adjustments to profit or loss  | (18,845)                        | (15,043)                        |
|   | <b>(27,477)</b>                 | (26,001)                        |
| Gain on revaluation of properties   | –                               | 81,436                          |
| Exchange differences arising on translation   | 1,321                           | 51,672                          |
| Other comprehensive (expense) income  | <b>(26,156)</b>                 | 107,107                         |
| Income tax relating to components of<br>other comprehensive income:   |                                 |                                 |
| – fair value changes to hedging instruments/<br>reclassification adjustments to profit or<br>loss on cash flow hedges | 2,512                           | 3,911                           |
| – revaluation of properties   | –                               | (20,359)                        |
|   | <b>2,512</b>                    | (16,448)                        |
| Other comprehensive (expense) income<br>for the period, net of tax  | <b>(23,644)</b>                 | 90,659                          |

# 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 are based on the following data:

|  | <b>Six months ended<br/>30 June</b>      |                                 |
|--|--|---------------------------------|
|  | <b>2012<br/>(unaudited)<br/>HK\$'000</b> | 2011<br>(unaudited)<br>HK\$'000 |
| Profit for the purpose of basic earnings per share attributable to owners of the Company | <b>51,843</b>                            | 147,722                         |
| Weighted average number of ordinary shares for the purpose of basic earnings per share   | <b>297,387,121</b>                       | 303,101,417                     |

No diluted earnings per share have been presented as there were no potential ordinary shares outstanding during both periods.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

*(Continued)*

### 10. Dividends

During current interim period, a final dividend of 15 HK cents (six months ended 30 June 2011: 13 HK cents) per share, amounting to HK\$44,582,000 (six months ended 30 June 2011: HK\$39,387,000), was declared and paid to the shareholders for the year ended 31 December 2011.

The Board declared that an interim dividend of 5 HK cents per share for the six months ended 30 June 2012 (six months ended 30 June 2011: 7 HK cents) which will be paid to shareholders whose names appear in the register of members on 19 September 2012. This dividend was declared after the end of the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

### 11. Property, Plant and Equipment, Prepaid Lease Payments and Investment Properties

During current interim period, the directors of the Company conducted a review of the Group's manufacturing assets and determined that a number of those assets were fully impaired, due to technical obsolescence. Accordingly, an impairment loss of HK\$1,988,000 has been recognised.

During the six months ended 30 June 2011, a cash-generating unit of the Group engaged in brand business activities continued to incur operating losses, the directors of the Company determined that the future cash flows expected to be generated by this cash-generating unit was less than its carrying amounts and an impairment loss of HK\$13,103,000 had been recognised in respect of the leasehold improvements, plant and equipment and furniture and fixtures. The recoverable amount of the aforesaid cash-generating unit had been determined based on value in use calculation, such calculation uses cash flow projections based on financial budget approved by management for one year period and extrapolated using a steady 5% growth rate for further five years. The property, plant and equipment of this cash-generating unit had been fully impaired during the six months ended 30 June 2011.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

*(Continued)*

### 11. Property, Plant and Equipment, Prepaid Lease Payments and Investment Properties *(Continued)*

In addition, during the six months ended 30 June 2011, the directors of the Company decided to renew the decoration work in Hangzhou office. Accordingly, the leasehold improvements and certain furniture and fixtures of the premises with carrying amount of HK\$12,449,000 were fully written off in the six months ended 30 June 2011.

During current interim period, the Group was granted a government grant of HK\$14,227,000 in respect of acquisition of prepaid lease payments in 2011. The government grant is recognised as a deduction from the carrying amount of the prepaid lease payments in the condensed consolidated statement of financial position and recognised over the useful lives of the related land.

The fair value of the Group's investment properties at 30 June 2012 and 31 December 2011 have been arrived at on the basis of the valuation carried out by Centaline Surveyors Ltd. and 新昌信安達資產評估有限公司, independent qualified professional valuers not connected with the Group. An increase in fair value of investment properties of HK\$44,300,000 (six months ended 30 June 2011: HK\$36,248,000) has been recognised directly in the profit or loss for the six months ended 30 June 2012.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

(Continued)

### 12. Derivative Financial Instruments

|  | At<br>30 June<br>2012<br>(unaudited)<br>HK\$'000 | At<br>31 December<br>2011<br>(audited)<br>HK\$'000 |
|--|--|--|
| <b>Financial assets</b>                                |  |  |
| Cash flow hedges                                       |  |  |
| – Interest rate swaps                                  | –  | 9  |
| – Foreign exchange forward contracts ( <i>Note i</i> ) | 3,281  | 14,574   |
|  | <b>3,281</b>                                     | <b>14,583</b>                                      |
| Other derivatives (not under hedge accounting)         |  |  |
| – Dual currency forward contracts                      | 4,341  | 1,684  |
| – Knock out forward contracts                          | –  | 1,211  |
| – Capped forward contracts                             | 55,206   | 58,005   |
|  | <b>59,547</b>                                    | <b>60,900</b>                                      |
|  | <b>62,828</b>                                    | <b>75,483</b>                                      |
| <b>Financial liabilities</b>                           |  |  |
| Cash flow hedges                                       |  |  |
| – Interest rate swaps                                  | 627  | 441  |
| – Foreign exchange forward contracts ( <i>Note i</i> ) | 56,272   | 40,284   |
|  | <b>56,899</b>                                    | <b>40,725</b>                                      |
| Other derivatives (not under hedge accounting)         |  |  |
| – Dual currency interest rate swaps ( <i>Note ii</i> ) | 8,669  | –  |
| – Capped forward contracts                             | 7,399  | 7,676  |
| – Dual currency forward contracts                      | –  | 7,363  |
| – Dual currency knock out forward contracts            | –  | 705  |
|  | <b>16,068</b>                                    | <b>15,744</b>                                      |
|  | <b>72,967</b>                                    | <b>56,469</b>                                      |
| Analysed for reporting purposes as:                    |  |  |
| Non-current assets                                     | 3,922  | –  |
| Current assets   | 58,906   | 75,483   |
|  | <b>62,828</b>                                    | <b>75,483</b>                                      |
| Non-current liabilities                                | 48,116   | 52,234   |
| Current liabilities                                    | 24,851   | 4,235  |
|  | <b>72,967</b>                                    | <b>56,469</b>                                      |

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

*(Continued)*

### 12. Derivative Financial Instruments *(Continued)*

*Notes:*

(i) Foreign exchange forward contracts

During the current interim period, the Group continued to enter into foreign exchange forward contracts to manage the Group's foreign currency exposure in relation to foreign currency forecast sales as disclosed in the Group's annual financial statements for the year ended 31 December 2011. At the end of the reporting period, the Group has outstanding foreign exchange forward contracts with an aggregate notional amount of US\$480 million (31 December 2011: US\$320 million) that requires the Group to sell US\$ for RMB at exchange rates ranging from RMB6.251 to RMB6.442 (31 December 2011: RMB6.251 to RMB6.420) for US\$1 with maturity periods from July 2012 to December 2014 (31 December 2011: January 2012 to December 2013).

(ii) Dual currency interest rate swaps

The amount represents fair value of a dual currency interest rate swaps agreement. In accordance with the term of swap agreement, the Group shall pay fixed interest of 1% per annum on the notional amount of HK\$70 million on 20 January 2014. Commence on 20 January 2014 to 20 January 2019, the Group shall pay fixed interest at 2.1% per annum on the notional amount of HK\$70 million annually. In return, the Group shall receive floating interest at Hong Kong Interbank Offered Rate on the notional amount of HK\$70 million on quarterly basis from 20 April 2012 to 20 January 2019. In addition, the Group shall pay or receive interest on the notional amount of US\$9,014,000 annually at a floating interest rate based on the formula set out in the agreement, while the interest rate that the Group may be required to pay is capped as 2% per annum.

The above derivatives are measured at fair value at end of the reporting period. Their fair values are determined based on the valuation carried out by financial institutions, which is measured using the present value 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.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

(Continued)

### 13. 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 is as follows:

|                 | At<br>30 June<br>2012<br>(unaudited)<br>HK\$'000 | At<br>31 December<br>2011<br>(audited)<br>HK\$'000 |
|-----------------|--|--|
| Within 90 days  | 330,573  | 359,834  |
| 91 to 180 days  | 38,733   | 46,176   |
| 181 to 360 days | 4,730  | 2,616  |
| Over 360 days   | 692  | 277  |
|                 | <b>374,728</b>                                   | <b>408,903</b>                                     |

At the end of the reporting period, bills receivable of HK\$37,629,000 (31 December 2011: HK\$53,959,000) are aged within 90 days and the remaining amount of HK\$4,857,000 (31 December 2011: nil) are aged between 91 days and 180 days. Included in the bills receivable are approximately HK\$31,541,000 (31 December 2011: HK\$43,422,000) discounted bills with recourse, the respective bank borrowings are included in Note 18.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

*(Continued)*

### 14. Deposits, Prepayments and Other Receivables

Included in deposits, prepayments and other receivables are unsettled sales proceeds from disposal of certain property, plant and equipment and prepaid lease payments during current interim period amounting to HK\$8,642,000 (31 December 2011: nil) and government grant receivable of HK\$6,574,000 (31 December 2011: nil) in respect of acquisition of prepaid lease payments in 2011. The aforesaid government grant receivable has been received in July 2012.

### 15. Amounts Due from and to Jointly Controlled Entities

The amounts due from and to jointly controlled entities are unsecured, interest-free and are repayable on demand. All amounts due from and to jointly controlled entities are in trade nature and aged within 90 days (31 December 2011: within 90 days).

### 16. Structured Deposits

During the current interim period, the Group entered into certain principal protected structured deposits with aggregate amount of RMB264,000,000 (equivalent to HK\$325,926,000) (six months ended 30 June 2011: RMB153,000,000 (equivalent to HK\$182,143,000)) which will mature in January and April 2013. The structured deposits are designated as fair value through profit or loss at initial recognition. The annual coupon rate ranging from 3% to 6% per annum is dependent on whether the spot rate for conversion of Euro and Australian dollar for United States dollar as prevailing in the international foreign exchange market falls under certain ranges as specified in the relevant agreements during the period from inception date to maturity date of the relevant agreements. 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 RMB206,555,000 (equivalent to HK\$255,007,000) (six months ended 30 June 2011: RMB157,000,000 (equivalent to HK\$186,905,000)) were settled during the current interim period.

At the end of the reporting period, the structured deposits are stated at fair values based on valuation reports provided by respective issuing banks. The fair values are calculated using discounted cash flow analyses based on the applicable yield curves of the relevant interest rates and exchange rates.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

(Continued)

### 17. Trade Payables

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

|                   | At<br>30 June<br>2012<br>(unaudited)<br>HK\$'000 | At<br>31 December<br>2011<br>(audited)<br>HK\$'000 |
|-------------------|--|--|
| Trade payables:   |  |  |
| Within 90 days    | 86,380   | 131,732  |
| 91 to 180 days    | 10,103   | 5,082  |
| 181 to 360 days   | 2,671  | 1,965  |
| Over 360 days     | 7,426  | 4,526  |
|                   | <b>106,580</b>                                   | 143,305  |
| Accrued purchases | <b>185,021</b>                                   | 161,652  |
|                   | <b>291,601</b>                                   | 304,957  |

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

### 18. Bank Borrowings

During the current interim period, the Group obtained several new bank loans from various banks amounting to approximately HK\$708 million (six months ended 30 June 2011: approximately HK\$329 million) and repaid approximately HK\$666 million (six months ended 30 June 2011: approximately HK\$262 million). The loans carry interest at market rates ranging from 1.24% to 3.22% (31 December 2011: 1.18% to 2.31%) per annum.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

(Continued)

### 19. Share Capital

|  | Number<br>of shares<br>'000 | Amount<br>HK\$'000 |
|--|-----------------------------|--------------------|
| Ordinary shares of HK\$0.10 each                 |                             |                    |
| Issued and fully paid:                           |                             |                    |
| At 31 December 2011 and 1 January 2012 (audited) | 300,724                     | 30,072             |
| Shares repurchased and cancelled                 | (3,510)                     | (351)              |
| <b>At 30 June 2012 (unaudited)</b>               | <b>297,214</b>              | <b>29,721</b>      |
| At 1 January 2011 (audited)                      | 303,222                     | 30,322             |
| Shares repurchased and cancelled                 | (244)                       | (24)               |
| At 30 June 2011 (unaudited)                      | 302,978                     | 30,298             |

### 20. Capital Commitments

As at 30 June 2012, the Group was committed to capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for in the condensed consolidated financial statements amounting to HK\$6,430,000 (31 December 2011: HK\$4,434,000).

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to the Condensed Consolidated Financial Statements

(Continued)

### 21. Related Party Transactions

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

|  | <b>Six months ended<br/>30 June</b>      |                                 |
|--|--|---------------------------------|
|  | <b>2012<br/>(unaudited)<br/>HK\$'000</b> | 2011<br>(unaudited)<br>HK\$'000 |
| Purchases of raw materials and finished goods from jointly controlled entities | <b>8,121</b>                             | 15,556                          |
| Sales of raw materials and finished goods to jointly controlled entities       | <b>2,888</b>                             | 3,356                           |
| Key management personnel compensation ( <i>Note</i> )                          | <b>5,900</b>                             | 5,798                           |

*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.

## 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 2012 (six months ended 30 June 2011: 7 HK cents) on the shares in issue amounting to HK\$14,861,000 (six months ended 30 June 2011: HK\$21,208,000), to the shareholders whose names appear on the Register of Members on 19 September 2012. The dividend will be payable on or about 28 September 2012.

### Closure of Register of Members

The Register of Members will be closed from Monday, 17 September 2012 to Wednesday, 19 September 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's sub-registrar and transfer agent in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Friday, 14 September 2012.

### Corporate Governance Code

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") (previously known as Code on Corporate Governance Practices) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the accounting period for the six months ended 30 June 2012, except for the following deviation:

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

### 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.

The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2012, and they all confirmed that they have fully complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

### Purchase, Sale or Redemption of the Company's Listed Securities

During the period, the Company repurchased a total of 3,510,000 shares (six months ended 30 June 2011: 244,000 shares) of HK\$0.10 each of the Company on the Stock Exchange as follows:

| Month of the repurchase | Number of shares repurchased | Highest price paid per share<br>HK\$ | Lowest price paid per share<br>HK\$ | Aggregate consideration paid (including direct costs)<br>HK\$ |
|-------------------------|------------------------------|--------------------------------------|-------------------------------------|---|
| January 2012            | 3,510,000                    | 2.90                                 | –                                   | 10,222,561  |

The above repurchase shares were cancelled during the period and the issued share capital of the Company was reduced by the par value thereof. An amount equivalent to the par value of the shares cancelled has been transferred from the accumulated profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the period was effected by the Directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value and earnings per share of the Group.

Save as disclosed herein, the Company had not redeemed any of the Company's listed securities, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the period.

## OTHER INFORMATION

### 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 2012.

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

As at 30 June 2012, 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                       | 0.57%                                      |
|                       | 1,2   | Other interest   | Other               | 144,919,986                     | 48.76%                                     |
| So Siu Hang, Patricia |       | Beneficial owner | Personal            | 2,824,309                       | 0.95%                                      |

#### (ii) Long Position in Shares of Associated Corporation

| Name of Director | 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 108,802,419 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 2012.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 30 June 2012, 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 2012 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

The share option scheme of the Company adopted on 26 March 2002 (the “Old Scheme”) was expired on 25 March 2012. At the annual general meeting of the Company held on 30 May 2012, the shareholders of the Company approved the adoption of a new share option scheme (the “New Scheme”) in substantially similar terms as those of the Old Scheme. Following the Old Scheme, the purposes of the New Scheme are to (a) provide alternative recognition to the contributions or services of employees, executives and non-executive directors; (b) strengthen the relationship between the Group and its employees and executives; (c) attract and retain key and important employees and executives; and (d) motivate employees and executives to strive for future development and expansion of the Group. Unless otherwise terminated or amended, the New Scheme is enforceable for a period of 10 years ending 29 May 2022.

Pursuant to the Old Scheme, there was no outstanding options at the beginning and at the end of the six months period ended 30 June 2012. During the period, no share options were granted, exercised, cancelled or lapsed under the Old Scheme and after the adoption of the New Scheme.

Apart from the Old Scheme and New Scheme, during the six months ended 30 June 2012, 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.

## OTHER INFORMATION

### Substantial Shareholders

As at 30 June 2012, 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                       | Notes | Capacity           | Number of ordinary shares held | Percentage of the Company's issued share capital<br>(Note 3) |
|--|-------|--------------------|--------------------------------|--|
| Hinton Company Limited                     | 1     | Beneficial owner   | 108,802,419                    | 36.61%   |
| 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%  |

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 2012.

Save as disclosed above, as at 30 June 2012, 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 Directors

There is no change in information of directors of the Company since the disclosure made in the 2011 annual report of the Company up to the date of this report pursuant to Rule 13.51B(1) of the Listing Rules.

## 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

#### 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

### SUB-REGISTRAR AND TRANSFER AGENT IN HONG KONG

Tricor Secretaries Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East, Hong Kong

### COMPANY WEBSITE

[www.highfashion.com.hk](http://www.highfashion.com.hk)