



High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

Interim Report **2009**



CONTENTS

Chairman's Statement	2
Management Discussion and Analysis	4
Condensed Consolidated Financial Statements	
Condensed Consolidated Statement of Comprehensive Income	7
Condensed Consolidated Statement of Financial Position	9
Condensed Consolidated Statement of Changes in Equity	12
Condensed Consolidated Statement of Cash Flows	15
Notes to the Condensed Consolidated Financial Statements	17
Other Information	41
Corporate Information	50

The net profit attributable to shareholders for the six months ended 30 June 2009 was HK\$48.3 million. The Board of Directors declared an interim dividend of 3 HK cents per share for the six months ended 30 June 2009.

The global financial crisis in 2008 that triggered a downturn in the world economy appears to be stabilizing with improving market sentiment in the second half of 2009. The financial market, however, will continue to be unstable with structural correction in economic fundamentals being underway, leading to uncertainty in sustainable recovery on a broader base. We view this unprecedented market difficulty as an opportunity to accelerate our strategic initiatives that we have been formulating for our long term growth, to excel from our quality silk apparel leadership to brand building global enterprise. This is our goal.

At times of economic downturn, impaired market confidence added tremendous pressure to fashion apparel market with USA and Europe being hard hit the most. Continuous sluggish market demand dominated by price conscious consumers is inevitable and will prevail in the foreseeable future. In anticipation of market changes, we have swiftly enriched our product mix to reposition ourselves as the market leader in the ladies apparel industry. We will continue to leverage on our solid foundation with clear and focused strategy on new and innovative silk product development, technology advancement and investment in branded products for the Chinese market to lessen the impact as a result of the financial tsunami.

While consumer sentiment in the US remains weak, our pursuit of market diversification did show some encouraging result. Improvement in European business through new marketing strategy has provided us a solid platform to maximize the upside potential when the market recovers. With the Mainland economy proven to be more resilient than the rest of the world, our strategic direction on brand building in China presents us an exciting opportunity to benefit from the continuous growth of the China economy. Retail operations in the PRC will be strengthened through innovation in marketing, merchandising, distinctive product and quality customer service. We are confident that a strong retail presence in China will add good value to the Group as a whole.

Theme has been undergoing several restructuring exercises in the past but with disappointing results. In view that the unit can hardly turn profitable, we have introduced significant corporate restructuring to turn it around. This move will not only bring benefits to shareholders of both High Fashion and Theme, it will also facilitate the build-up of the Group's presence in the China market through structured deployment and integration of resources.



On 8 September 2009, High Fashion was among the 146 companies awarded the accreditation of “Backbone Enterprise in the Leading Industries of Zhejiang Province” from the Zhejiang provincial government. The objective of this accreditation is to encourage, assist, and promote the escalation of industrial transformation among the awardees in terms of technologies, markets, human resources, taxation and funding, turning them into first class international enterprises. This can be viewed as High Fashion’s second significant achievement further to similar support from the municipal government of Hangzhou. We are running an in-depth analysis into our organization, structure and strategic direction to prepare ourselves in order to take full advantage of the provincial government’s most important new policy. It is expected that it will help to speed up our transformation into a world class enterprise.

Last but not least, I would like to take this opportunity to express our gratitude to shareholders, customers, suppliers and my fellow Directors for their support. I would also like to thank our talented and dedicated staff for their loyalty and contributions to the Group.

Lam Foo Wah
Chairman

Hong Kong, 21 September 2009

Results

Turnover for the six months ended 30 June 2009 decreased to HK\$1.1 billion. The operating profit for the six months ended 30 June 2009 was HK\$31.5 million, compared with last corresponding period operating profit of HK\$32.2 million. There were exceptional gain on disposal of a land in Hangzhou of HK\$45 million and an impairment loss on goodwill of HK\$28 million in the current period profit. The net profit attributable to shareholders for the six months ended 30 June 2009 was HK\$48.3 million, compared with a reported profit of HK\$41.6 million of last corresponding period. Basic earnings per share were 15.2 HK cents. Net asset value per share was HK\$4.8.

Review of Operations

The segmental information is as follows:

	Revenue		Contribution	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
By principal activity:				
Manufacturing and trading	1,032,020	1,212,002	126,380	101,378
Retailing	111,679	167,645	(38,656)	(8,738)
	1,143,699	1,379,647	87,724	92,640
By geographical segments:				
USA	656,125	850,117	55,331	65,827
Europe	242,714	217,449	17,712	10,203
Greater China	208,583	262,150	10,653	11,991
Others	36,277	49,931	4,028	4,619
	1,143,699	1,379,647	87,724	92,640

Review of Operations *(Continued)*

The Group recorded a drop in revenue for our core manufacturing and trading business when compared with last corresponding period because of the economic slowdown from subprime crisis and financial tsunami but the contribution improved. The profit for the Greater China of the first half of 2009 included an exceptional gain on disposal of a land in Hangzhou of HK\$45 million and an impairment loss on goodwill of HK\$28 million in the current period profit. The profit for the Greater China of the first half of 2008 included a fair value gain on investment properties of HK\$9.3 million.

Geographically, the United States continued to be the Group's major export market, accounting for 57% of turnover for 2009. Our branded business, August Silk accounted for 22% (2008: 22%) of the Group's turnover. August Silk's operation reported profit for two consecutive periods.

Sales to the European market recorded a healthy growth in both revenue and contribution. It contributed 21% (2008: 16%) of total turnover for 2009, an encouraging sign of improvement in our geographical segmentation for a well-balance business portfolio. We will intensify our business activities through aggressive marketing strategies to enhance our market share in Europe.

The turnover of retailing amounted to HK\$112 million, decreasing by 33% when compared with 2008. The loss on retailing was mainly from the impairment loss on non current assets and the poor performance of the business of a distribution agency. The retailing business recorded a net operating loss of HK\$38.7 million for 2009 (2008: HK\$8.7 million). The loss for the first half of 2009 included an allowance for an amount due from a jointly controlled entity of HK\$11 million and an impairment loss on property, plant and equipment of HK\$10 million.

Liquidity and Financial Resources

The Group's total outstanding bank borrowings were decreased to HK\$853 million at the end of interim reporting period compared to HK\$1,185 million as at 31 December 2008. Our gearing ratio of non-current liabilities to shareholders' funds was 10% 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\$976 million at the end of interim reporting period compared to HK\$1,004 million as at 31 December 2008. Based on the comfortable cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet the operating needs.

Liquidity and Financial Resources *(Continued)*

The Group's trade receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. 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\$67 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.

Human Resources

The total number of employees of the Group including jointly-controlled entities as at the end of interim reporting period was about 12,000. 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 of HK\$66.8 million in order to upgrade its manufacturing capabilities during the period. Except for the above, there was no material capital expenditure during the period.

Event after the end of interim period

On 8 August 2009, the wholly-owned subsidiary of the Company and the immediate holding company of Theme International Holdings Limited ("Theme"), Navigation Limited ("Navigation"), entered into an agreement with Theme to acquire Theme International Holdings (BVI) Limited and its subsidiaries (other than Taiwan Vision Company Limited and Da Hua Li Company Limited).

On 8 August 2009, Navigation entered into an agreement with an independent third party to sell its 63.28% interests in Theme at a consideration of HK\$110.6 million.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

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 2009 together with the comparative figures.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
REVENUE	3	1,143,699	1,379,647
Cost of sales		(775,525)	(1,008,016)
Gross profit		368,174	371,631
Other income		28,773	48,013
Other gains and losses	4	10,289	21,265
Administrative expenses		(173,594)	(173,514)
Selling and distribution expenses		(145,918)	(174,755)
Finance costs	5	(24,698)	(33,313)
Share of profit (loss) of jointly controlled entities		220	(1,294)
PROFIT BEFORE TAXATION		63,246	58,033
Income tax expense	6	(30,201)	(20,425)
PROFIT FOR THE PERIOD	7	33,045	37,608

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Comprehensive Income (Continued)

For the six months ended 30 June 2009

	Note	Six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Other comprehensive income (expense)			
Surplus on revaluation of properties		–	11,700
Share of other comprehensive income of jointly controlled entities		–	1,079
Exchange difference arising on translation		342	83,077
Increase (decrease) in fair value changes on cash flow hedges		2,917	(7,430)
Transfer to profit and loss on cash flow hedges		(41,249)	(33,282)
Income tax relating to components of other comprehensive income		6,520	5,623
		<hr/>	<hr/>
Other comprehensive (expense) income for the period, net of tax		(31,470)	60,767
		<hr/>	<hr/>
Total comprehensive income for the period		1,575	98,375
		<hr/>	<hr/>
Profit for the period attributable to:			
Owners of the Company		48,348	41,573
Minority interests		(15,303)	(3,965)
		<hr/>	<hr/>
		33,045	37,608
		<hr/>	<hr/>
Total comprehensive income (expense) attributable to:			
Owners of the Company		17,272	98,449
Minority interests		(15,697)	(74)
		<hr/>	<hr/>
		1,575	98,375
		<hr/>	<hr/>
EARNINGS PER SHARE			
Basic	8	15.20 HK cents	12.66 HK cents

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Financial Position

At 30 June 2009

	Notes	At 30 June 2009 (Unaudited) HK\$'000	At 31 December 2008 (Audited) HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	10	918,066	911,227
Prepaid lease payments	10	76,898	78,443
Deposits for acquisition of land use rights	11	56,038	18,148
Investment properties	10	102,800	102,700
Goodwill	12	–	28,215
Intangible assets		1,546	1,890
Investments in associates		–	–
Investments in jointly controlled entities		20,082	19,862
Available-for-sale investments		675	675
Deferred tax assets		5,162	7,101
Derivative hedging instruments		–	22,239
Long-term receivables	13	54,540	–
Structured deposit	14	53,003	–
		1,288,810	1,190,500
CURRENT ASSETS			
Inventories		299,199	371,815
Trade receivables	15	250,513	296,917
Bills receivable	15	33,473	71,447
Prepaid lease payments	10	1,429	1,509
Deposits, prepayments and other receivables	16	274,024	399,131
Amounts due from jointly controlled entities	15	1,072	17,713
Tax recoverable	6	60,570	49,141
Derivative hedging instruments		59,344	76,623
Structured deposits	14	236,654	226,753
Short-term deposits		90,909	376,704
Pledged bank deposits		–	142
Bank balances and cash		595,461	400,454
		1,902,648	2,288,349

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2009

	Notes	At 30 June 2009 (Unaudited) HK\$'000	At 31 December 2008 (Audited) HK\$'000 (Restated)
CURRENT LIABILITIES			
Trade payables	17	247,882	263,565
Bills payable	17	100,362	3,807
Other payables and accruals		146,498	155,926
Amount due to a jointly controlled entity		–	25,630
Amount due to an associate		595	595
Tax payable		180,582	171,393
Derivative financial instruments		22,298	23,166
Obligations under finance leases		84	88
Bank borrowings	18	759,080	1,007,578
Bank overdrafts		–	447
		1,457,381	1,652,195
NET CURRENT ASSETS			
		445,267	636,154
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,734,077	1,826,654

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2009

	Notes	At 30 June 2009 (Unaudited) HK\$'000	At 31 December 2008 (Audited) HK\$'000 (Restated)
NON-CURRENT LIABILITIES			
Obligations under finance leases		62	81
Bank borrowings	18	94,000	177,000
Deferred tax liabilities		57,384	54,487
Provision for long service payments		1,399	1,770
		152,845	233,338
		1,581,232	1,593,316
CAPITAL AND RESERVES			
Share capital	19	31,722	31,998
Share premium and reserves		1,500,111	1,496,055
		1,531,833	1,528,053
Equity attributable to owners of the Company		49,399	65,263
Minority interests			
TOTAL EQUITY		1,581,232	1,593,316

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium account HK\$'000	Translation reserve HK\$'000	Reserve funds HK\$'000 (Note i)	Property revaluation reserve HK\$'000 (Note ii)	Capital redemption reserve HK\$'000	Hedging reserve HK\$'000 (Note iii)	Other reserve HK\$'000 (Note iv)	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2009 (audited)	31,998	283,007	189,655	18,690	19,594	6,234	81,009	39,853	858,013	1,528,053	65,263	1,593,316
Profit (loss) for the period	-	-	-	-	-	-	-	-	48,348	48,348	(15,303)	33,045
Increase (decrease) in fair value changes on cash flow hedges	-	-	-	-	-	-	3,260	-	-	3,260	(343)	2,917
Deferred taxation in relation to cash flow hedges	-	-	-	-	-	-	6,520	-	-	6,520	-	6,520
Exchange difference arising on translation	-	-	302	-	-	-	-	-	-	302	40	342
Transfer to profit or loss on cash flow hedges	-	-	-	-	-	-	(41,158)	-	-	(41,158)	(91)	(41,249)
Total comprehensive income and expense for the period	-	-	302	-	-	-	(31,378)	-	48,348	17,272	(15,697)	1,575
Decrease in minority interest as a result of acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	(167)	(167)
Repurchase of shares, include direct costs	(276)	(2,446)	-	-	-	276	-	-	(1,530)	(3,976)	-	(3,976)
Final dividend paid (Note 9)	-	-	-	-	-	-	-	-	(9,516)	(9,516)	-	(9,516)
	(276)	(2,446)	-	-	-	276	-	-	(11,046)	(13,492)	(167)	(13,659)
At 30 June 2009 (unaudited)	<u>31,722</u>	<u>280,561</u>	<u>189,957</u>	<u>18,690</u>	<u>19,594</u>	<u>6,510</u>	<u>49,631</u>	<u>39,853</u>	<u>895,315</u>	<u>1,531,833</u>	<u>49,399</u>	<u>1,581,232</u>

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2009

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium account HK\$'000	Translation reserve HK\$'000	Reserve funds HK\$'000 (Note i)	Property revaluation reserve HK\$'000 (Note ii)	Capital redemption reserve HK\$'000	Hedging reserve HK\$'000 (Note iii)	Other reserve HK\$'000 (Note iv)	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2008 (audited)	32,881	290,822	107,928	14,101	9,707	5,351	259,703	39,853	842,895	1,603,241	89,639	1,692,880
Profit (loss) for the period	-	-	-	-	-	-	-	-	41,573	41,573	(3,965)	37,608
(Decrease) increase in fair value changes on cash flow hedges	-	-	-	-	-	-	(9,526)	-	-	(9,526)	2,096	(7,430)
Share of other comprehensive income of jointly controlled entities	-	-	1,079	-	-	-	-	-	-	1,079	-	1,079
Exchange difference arising on translation	-	-	81,282	-	-	-	-	-	-	81,282	1,795	83,077
Surplus on revaluation of properties	-	-	-	-	11,700	-	-	-	-	11,700	-	11,700
Deferred taxation in relation to property revaluation and cash flow hedges	-	-	-	-	(1,930)	-	7,553	-	-	5,623	-	5,623
Transfer to profit or loss on cash flow hedges	-	-	-	-	-	-	(33,282)	-	-	(33,282)	-	(33,282)
Total comprehensive income and expense for the period	-	-	82,361	-	9,770	-	(35,255)	-	41,573	98,449	(74)	98,375
Decrease in minority interest as a result of acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	(11,634)	(11,634)
Repurchase of shares, include direct costs	(223)	(1,979)	-	-	-	223	-	-	(4,407)	(6,386)	-	(6,386)
Final dividend paid (Note 9)	-	-	-	-	-	-	-	-	(16,378)	(16,378)	-	(16,378)
Special dividend paid (Note 9)	-	-	-	-	-	-	-	-	(32,756)	(32,756)	-	(32,756)
	(223)	(1,979)	-	-	-	223	-	-	(53,541)	(55,520)	(11,634)	(67,154)
At 30 June 2008 (unaudited)	32,658	288,843	190,289	14,101	19,477	5,574	224,448	39,853	830,927	1,646,170	77,931	1,724,101

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Changes in Equity *(Continued)*

For the six months ended 30 June 2009

Notes:

- (i) As stipulated by the relevant laws and regulations of The People's Republic of China ("PRC"), before distribution of the profit each year, the subsidiaries established in the PRC with limited liability shall set aside 10% of their profit to the statutory surplus reserve. The statutory surplus reserve can only be used upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.
- (ii) Property revaluation reserve represents the revaluation reserve arising upon the transfer of owner-occupied property and respective prepaid lease payments to investment property, net of deferred tax. The property revaluation reserve will be transferred to accumulated profits when the relevant properties are disposed of.
- (iii) Hedging reserve represents fair value of foreign currency contracts designated as cash flow hedges. During the period, the deferred tax liability in relation to hedging reserve has been taken into account and the comparative information has been restated. The deferred tax liabilities at 31 December 2008 was increased by HK\$16,941,000 and the hedging reserve was decreased by HK\$16,941,000.
- (iv) Other reserve represents capitalisation of accumulated profits of a subsidiary as capital contribution to another subsidiary.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

		Six months ended 30 June	
	Notes	2009 (unaudited) HK\$'000	2008 (unaudited) HK\$'000
Net cash from operating activities		337,106	64,869
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	10	(66,847)	(149,138)
Increase in structured deposits		(57,329)	(122,728)
Acquisition of additional interest in a subsidiary		(76)	(17,804)
Deposits paid for acquisition of land use rights	11	(37,890)	–
Decrease in short-term deposits		285,795	–
Proceeds on disposal of property, plant and equipment and prepaid lease payments	10	332	1,338
Increase in long-term receivables		(22,727)	(22,727)
Interest received		5,881	32,070
Repayment of loan receivables		113,636	–
Other investing cash flows, net		5,471	4,060
Net cash from (used in) investing activities		226,246	(274,929)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2009

		Six months ended 30 June	
	Notes	2009 (unaudited) HK\$'000	2008 (unaudited) HK\$'000
FINANCING ACTIVITIES			
New bank borrowings raised	18	135,750	806,304
Repayment in bank borrowings	18	(467,248)	(261,923)
Interest paid		(23,042)	(28,749)
Dividend paid	9	(9,516)	(49,134)
Payment for repurchase of shares		(3,976)	(6,386)
Other financing cash flows, net		–	(337)
		(368,032)	459,775
Net cash (used in) from financing activities			
Net increase in cash and cash equivalents		195,320	249,715
Cash and cash equivalents at beginning of the period		400,007	671,077
Effect of foreign exchange rate changes, net		134	38,774
Cash and cash equivalents at end of the period		595,461	959,566
Analysis of balances of cash and cash equivalents			
Bank balances and cash		595,461	960,185
Bank overdrafts		–	(619)
		595,461	959,566

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

1. Basis of Preparation

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

2. Principal Accounting Policies

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

In the current period, the Group has applied a number of new and revised standards, amendments and interpretations that are effective for the Group’s financial year beginning on 1 January 2009. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2008.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments. However, the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss and amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8 (see note 3).

Notes to the Condensed Consolidated Financial Statements *(Continued)*

2. Principal Accounting Policies *(Continued)*

HKAS 1 (revised 2007) Presentation of financial statements

HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) has had no impact on the reported results or financial position of the Group.

HKAS 23 (Revised 2007) Borrowing costs

HKAS 23 (Revised 2007) removes the option available under the previous version of the standard to recognise all borrowing costs as expenses immediately and requires all such borrowing costs to be capitalised as part of the cost of the qualifying asset. The Group has applied the transitional requirements in HKAS 23 (Revised 2007) and applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. As the Group did not incur borrowing costs for the qualifying assets, the change has had no impact on amounts reported in prior and current accounting periods.

Improvements to HKFRSs issued in 2008

HKAS 1 *Presentation of Financial Statements* has been amended to clarify whether derivatives that are classified as held for trading in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* should be presented as current or non-current. The amendment requires derivatives that are held primarily for trading purposes to be presented as current regardless of their maturity dates. In addition, the amendment requires derivatives that are not held for trading purposes to be classified as current or non-current on the basis of their settlement dates. Prior to the amendment, the Group presented all derivative hedging instruments that are financial assets not classified as held for trading in accordance with HKAS 39. The amendment has had no impact on the Group's results for the reported periods. However, the amendment has resulted in derivative hedging instruments with carrying amount of HK\$22,239,000, as at 31 December 2008, being reclassified from current to non-current based on their maturity dates. As at 30 June 2009, all derivative hedging instruments have been presented as current as they are due within twelve months after the end of the reporting period.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

2. Principal Accounting Policies *(Continued)*

The adoption of the other new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no other prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised 2008)	Consolidated and separate financial statements ¹
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ³
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ³
HKFRS 3 (Revised 2008)	Business combinations ¹
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) – INT 18	Transfers of assets from customers ⁴

¹ Effective for annual periods beginning on or after 1 July 2009.

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for transfers on or after 1 July 2009.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

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

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. **Segment Information**

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The Group's executive directors are the chief operating decision maker as they collectively make strategic decisions towards the Group's operation. In contrast, the predecessor standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

In prior years, the Group's primary segment information was analysed on the basis of the types of business carried out by the Group including two operating divisions – (i) manufacture and trading of garments and (ii) retailing of garments. And in fact, information reported to the Group's executive directors for the purposes of resource allocation and assessment of performance also focuses on these two operating divisions. Accordingly, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. However, the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss and amounts reported for the prior period have been restated to conform to the requirements of HKFRS 8.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

3. Segment Information *(Continued)*

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2009 (unaudited)

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	1,032,020	111,679	–	1,143,699
Inter-segment sales (Note)	–	13,491	(13,491)	–
	<u>1,032,020</u>	<u>125,170</u>	<u>(13,491)</u>	<u>1,143,699</u>
Total	<u>1,032,020</u>	<u>125,170</u>	<u>(13,491)</u>	<u>1,143,699</u>
RESULT				
Segment profit (loss)	<u>126,380</u>	<u>(38,656)</u>	–	87,724
Finance costs				(24,698)
Share of profit of jointly controlled entities				220
Profit before taxation				<u>63,246</u>

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

3. Segment Information *(Continued)*

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2008 (unaudited)

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	1,212,002	167,645	–	1,379,647
Inter-segment sales (Note)	–	7,613	(7,613)	–
Total	<u>1,212,002</u>	<u>175,258</u>	<u>(7,613)</u>	<u>1,379,647</u>
RESULT				
Segment profit (loss)	<u>101,378</u>	<u>(8,738)</u>		92,640
Finance costs				(33,313)
Share of loss of jointly controlled entities				<u>(1,294)</u>
Profit before taxation				<u>58,033</u>

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

3. Segment Information *(Continued)*

Segment profit (loss) represents the profit (loss) earned or incurred by each segment without allocation of share of profit or loss of jointly controlled entities and finance costs. This is the measure reported to the Group's executive directors for the purposes of resources allocation and performance assessment. In previous period, the segment profit (loss), under HKAS 14, also excluded unallocated administrative expenses, directors' salaries, other income and other gains and losses.

The total assets of the Group as at the interim report date do not differ significantly since the latest annual report date.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

4. Other Gains and Losses

	Six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Gain (loss) on disposal of property, plant and equipment and prepaid lease payments	53,387	(130)
Reversal of allowance (allowance) for bad and doubtful debts	4,986	(8,727)
Changes in fair value of derivative financial instruments	868	(16,459)
Net foreign exchange gain	845	37,261
Increase in fair value of investment properties	100	9,320
Discount on acquisition of additional interest in a subsidiary	91	–
Impairment loss on property, plant and equipment	(10,460)	–
Allowance for amount due from a jointly controlled entity	(11,313)	–
Impairment loss on goodwill	(28,215)	–
	<hr/>	<hr/>
	10,289	21,265

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

5. Finance Costs

Interest on:

Bank loans and overdrafts wholly repayable within five years

Finance leases

Bank charges

Six months ended 30 June	
2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
21,201	30,096
6	21
3,491	3,196
<hr/>	<hr/>
24,698	33,313

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

6. Income Tax Expense

	Six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Current tax charge:		
Hong Kong	11,000	1,394
Other jurisdictions	7,845	13,843
	<u>18,845</u>	<u>15,237</u>
Underprovision in prior years:		
Other jurisdictions	–	3,265
Deferred taxation:		
Current period	11,356	2,446
Attributable to a change in tax rate	–	(523)
	<u>11,356</u>	<u>1,923</u>
	<u>30,201</u>	<u>20,425</u>

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

6. **Income Tax Expense** *(Continued)*

As disclosed in the annual reports published in respect of previous year, the 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 to these group companies for the years of assessment 1999/2000 to 2002/2003. 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 2009, the Group has purchased tax reserve certificates of HK\$60,570,000 (31 December 2008: HK\$48,476,000), in aggregate, for conditional standover order of objection against the notices of estimated additional assessment for the years of assessment 1999/2000 to 2002/2003 and the amount is included in tax recoverable.

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. In the opinion of the directors, the provisions made in previous years are adequate for the purpose mentioned above.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the current and prior periods.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

6. Income Tax Expense *(Continued)*

During both periods, the PRC enterprise income tax ("PRC Enterprise Income Tax") was calculated based on the statutory rate of 25% of the assessable profits for subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except for certain PRC subsidiaries enjoying preferential income tax as set out below:

- (i) Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. Therefore, the applicable tax rate of these PRC subsidiaries is 12.5% for both periods.
- (ii) During the period ended 30 June 2008, pursuant to the relevant laws and regulations in the PRC, High Fashion (China) Co. Ltd. ("High Fashion China"), a principal subsidiary of the Company, was entitled to a preferential income tax rate of 13.2%.

In December 2008, High Fashion China has been recognised as an advanced technology enterprise in the PRC and it is entitled to a preferential income tax rate of 15% during the period from year 2009 to year 2010.

Taxation arising in other jurisdictions is recognised at the rates prevailing in the relevant jurisdictions for the six months ended 30 June 2009 and 2008.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

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	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation and amortisation		
Owned assets	40,510	34,916
Leased assets	136	179
Amortisation of trademarks (included in selling and distribution expenses)	344	846
Amortisation of prepaid lease payments	754	1,172
	41,744	37,113
Allowance (reversal of allowance) for inventory obsolescence (included in cost of sales)	1,154	(1,428)
Gain on derivative hedging instruments transferred from equity (included in cost of sales)	(41,249)	(32,564)
Investment income earned on		
– bank deposits	(10,244)	(15,427)
– structured deposits	(5,575)	(3,593)
– derivative financial instruments	(3,334)	(13,050)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

8. Earnings Per Share

The calculation of basic earnings per share attributable to the owners of the Company for the six months ended 30 June 2009 together with the comparative figures for 2008 are based on the following data:

	Six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Profit for the purpose of basic earnings per share attributable to owners of the Company	<u>48,348</u>	<u>41,573</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>318,154,657</u>	<u>328,294,012</u>

There was no diluted earnings per share presented for both periods as there were no dilutive ordinary shares outstanding.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

9. Dividends

During the current interim period, a final dividend of 3 HK cents (six months ended 30 June 2008: final and special dividends of 5 HK cents and 10 HK cents respectively) per share, amounting to HK\$9,516,000 (six months ended 30 June 2008: in aggregate HK\$49,134,000), was declared and paid to the shareholders for the year ended 31 December 2008.

The Board declared that an interim dividend of 3 HK cents per share for the six months ended 30 June 2009 (six months ended 30 June 2008: 3 HK cents) which will be paid to shareholders whose names appear in the register of members on 9 October 2009. 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.

10. Movements in Property, Plant and Equipment, Prepaid Lease Payments and Investment Properties

During the period, the Group disposed of certain property, plant and equipment and prepaid lease payments to independent third parties with an aggregated carrying amount of HK\$10,070,000 (six months ended 30 June 2008: HK\$1,468,000) for total sales proceeds of HK\$72,485,000 (six months ended 30 June 2008: HK\$1,338,000), resulting in a gain on disposal of HK\$53,387,000 (six months ended 30 June 2008: loss on disposal of HK\$130,000), net of removal costs of HK\$9,028,000 (six months ended 30 June 2008: nil). The Group has received sales proceeds of HK\$332,000 (six months ended 30 June 2008: HK\$1,338,000) during the period. The remaining unsettled sale proceeds are included as long-term receivables and deposits, prepayments and other receivables according to their maturity dates.

In addition, during the period, the Group spent approximately HK\$66.8 million (six months ended 30 June 2008: HK\$149 million) on the acquisition of plant and equipment, in order to upgrade its manufacturing capabilities.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

10. Movements in Property, Plant and Equipment, Prepaid Lease Payments and Investment Properties *(Continued)*

During the six months ended 30 June 2009, the directors of the Company decided to lease a Group's office premise to outsiders. Accordingly, certain furniture and fixtures of the premises were written down to their estimated recoverable amounts. As a result, impairment loss of HK\$10,460,000 (six months ended 30 June 2008: nil) has been provided in the condensed consolidated statement of comprehensive income.

The fair value of the Group's investment properties at 30 June 2009 and 2008 have been arrived at on the basis of the valuation carried out by Centaline Surveyors Ltd., an independent qualified professional valuer not connected with the Group. An increase in fair value of investment properties of HK\$100,000 (six months ended 30 June 2008: HK\$9,320,000) has been recognised directly in the condensed consolidated statement of comprehensive income for the period.

11. Deposits of Acquisition of Land Use Rights

During the period, the Group spent HK\$37,890,000 (six months ended 30 June 2008: nil) on the acquisition of land use rights for two pieces of land located in the PRC. At 30 June 2009, the Group is still in the process of obtaining the land use right certificates.

12. Goodwill

As disclosed in the Group's annual report for the year ended 31 December 2008, an impairment on goodwill arose when the estimated recoverable amount of goodwill is less than its carrying amount. The recoverable amount is determined by reference to the value-in-use calculation, of which the calculation used cash flow projections based on five years financial budgets approved by the management.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

12. Goodwill *(Continued)*

With the increasing market competition over the region of the PRC during the six months ended 30 June 2009, the actual cash flows generated during the current period were much less than the expected cash flows for the same period in the projections for assessing the impairment on goodwill at 31 December 2008. The directors of the Company accordingly revised the cash flow projection for assessing the impairment on goodwill at 30 June 2009. During the period, the carrying amount of goodwill in respect of an identifiable retail business line amounting to HK\$28,215,000 (six months ended 30 June 2008: nil) has been fully impaired as the estimated recoverable amount of the goodwill is less than its carrying amount. In the opinion of the directors, no impairment for other assets of the retail business line is necessary.

13. Long-term Receivables

Included in the long-term receivables of approximately RMB20 million (equivalent to approximately HK\$22.7 million) represents a loan to an independent party, of which the amount is unsecured, carries interest at prevailing market rate and will be recovered on 31 December 2010.

The remaining amount represents unsettled sales proceeds from disposal of property, plant and equipment and prepaid lease payments due in January 2011.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

14. Structured Deposits

The structured deposits are placed with banks in the PRC and contain embedded derivatives, the returns of which are determined by reference to the change in certain exchange rates, interest rates or commodity price quoted in the market. The structured deposits contain embedded derivatives with their interest components linked to certain market rates movements which are not closely related to the host contracts. The entire structured deposits are designated as financial assets at fair value through profit or loss at initial recognition.

Major terms of the structured deposits at 30 June 2009 are as follows:

Principal amount	Maturity date (Note (a))	Annual coupon rate	Notes
RMB30,000,000	20 August 2009	6.00% or 2.90% or 1.71%	(b)
RMB88,000,000	11 September 2009	4.34% or 4.14%	(c)
RMB20,000,000	14 December 2009	6.30% or 0%	(d)
RMB50,000,000	1 February 2010	2.75% or 0%	(e)
RMB15,000,000	1 June 2010	6.00% or 3.50% or 2.25%	(b)
RMB45,000,000	2 July 2010	6.00% or 3.65% or 2.25%	(b)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

14. Structured Deposits *(Continued)*

Notes:

- (a) Subject to the option for early termination by issuing banks.
- (b) The annual coupon rate is dependent on whether the spot rate for conversion of Euro for United States dollars ("USD") as prevailing in the international foreign exchange market falls within ranges as specified in the relevant agreements during the period from inception date to maturity date of the relevant agreements.
- (c) The annual coupon rate is dependent on whether the price per troy ounce of gold for delivery in London falls within range of USD200 to USD2,000 during the period from inception date to maturity date.
- (d) The annual coupon rate is dependent on whether the spot rate for conversion of USD for HK\$ as prevailing in the international foreign exchange market falls within ranges during the period from inception date to maturity date.
- (e) The annual coupon rate is dependent on whether the USD 3 months London Inter Bank Offered Rate falls within 0% to 8% during the period from inception date to maturity date.

At 30 June 2009, the structured deposits are stated at fair values based on valuation provided by respective counterparties. The fair values are calculated using discounted cash flow analyses based on the applicable yield curves of relevant interest rates, exchange rates and commodity prices.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements (Continued)

15. Trade Receivables, Bills Receivable and Amounts Due From Jointly Controlled Entities

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 30 June 2009 (Unaudited) HK\$'000	At 31 December 2008 (Audited) HK\$'000
Within 90 days	237,332	269,471
91 to 180 days	9,674	22,218
181 to 360 days	2,512	4,218
Over 360 days	995	1,010
	<hr/> 250,513 <hr/>	<hr/> 296,917 <hr/>

All bills receivable are aged within 90 days.

All amounts due from jointly controlled entities are trade nature. Other than the amount of HK\$460,000 (31 December 2008: HK\$460,000) which is aged over 360 days, the remaining balances are aged within 90 days.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements (Continued)

16. Deposits, Prepayments and Other Receivables

The amount included approximately RMB179 million (equivalent to approximately HK\$204 million) (31 December 2008: RMB148 million (equivalent to approximately HK\$170 million)) representing proceeds from disposal of property, plant and equipment and prepaid lease payments which have not yet been received at 30 June 2009. The directors of the Company considered such amount is recoverable within 1 year and therefore is classified as current asset.

17. Trade Payables and Bills Payable

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

	At 30 June 2009 (Unaudited) HK\$'000	At 31 December 2008 (Audited) HK\$'000
Trade payables:		
Within 90 days	147,148	137,792
91 to 180 days	21,923	6,963
181 to 360 days	12,055	6,759
Over 360 days	11,714	18,599
	<hr/>	<hr/>
Accrued purchases	192,840 55,042	170,113 93,452
	<hr/>	<hr/>
	247,882	263,565

The average credit period on purchase of goods is 90 days. All bills payable are aged within 90 days.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

18. Bank Borrowings

During the period, the Group obtained several new bank loans from various banks amounting to approximately HK\$136 million (six months ended 30 June 2008: HK\$806 million) and repaid approximately HK\$467 million (six months ended 30 June 2008: HK\$262 million). The loans carry interest at market rates ranging from 0.99% to 4.34% (six months ended 30 June 2008: 2.65% to 5.48%) per annum.

19. Share Capital

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Issued and fully paid:		
At 1 January 2009 (audited)	319,980	31,998
Shares repurchased and cancelled	(2,764)	(276)
At 30 June 2009 (unaudited)	<u>317,216</u>	<u>31,722</u>
At 1 January 2008 (audited)	328,816	32,881
Shares repurchased and cancelled	(2,236)	(223)
At 30 June 2008 (unaudited)	<u>326,580</u>	<u>32,658</u>

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

20. Capital Commitments

As at 30 June 2009, the Group was committed to capital expenditure of approximately HK\$26 million (31 December 2008: HK\$29 million) for the acquisition of property, plant and equipment.

21. Related Party Transactions

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

	Six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Purchases of raw materials and finished goods from jointly controlled entities	27,685	15,859
Sales of raw materials and finished goods to jointly controlled entities	1,517	2,755
Professional fees paid to Wilkinson & Grist (Note i)	81	533
Training fee paid to Clothing Industry Training Authority (Note ii)	235	425
Brokerage commission paid to Taifook Securities Co., Ltd. (Note iii)	–	8
Key management compensation (Note iv)	5,348	6,128

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

High Fashion International Limited
Interim Report 2009

Notes to the Condensed Consolidated Financial Statements *(Continued)*

21. Related Party Transactions *(Continued)*

Notes:

- (i) Mr. Chan Wah Tip, Michael, a director of the Company, is also a partner of Wilkinson & Grist.
- (ii) Professor Yeung Kwok Wing, a director of the Company, is also a director of Clothing Industry Training Authority.
- (iii) Mr. Wong Shiu Hoi, Peter, a director of the Company, is also a director of Taifook Securities Co., Ltd.
- (iv) The remuneration of directors and key management executives were determined by the remuneration committee having regard to the performance of individuals and market trends.

22. Events After the End of the Interim Period

On 8 August 2009, Navigation Limited (“Navigation”), a wholly-owned subsidiary of the Group, entered into a disposal agreement with a non wholly-owned subsidiary of the Group, Theme International Holdings Limited (“Theme”), pursuant to which Navigation has conditionally agreed to purchase the entire equity interest in Theme International Holdings (BVI) Limited and its subsidiaries and its shareholders’ loans owed to Theme (“Share Purchase”). The consideration of the Share Purchase is approximately HK\$152 million and subject to adjustment. Details of these are disclosed in the joint announcement (“Joint Announcement”) dated 18 August 2009 issued by Golden Bright Energy Limited (“Golden Bright”), Theme and the Company.

Pursuant to the share purchase agreement dated 8 August 2009, Navigation has conditionally agreed to, upon the completion of the above Share Purchase, sell its entire equity interest in Theme, representing 63.28% of the issued share capital of Theme at 30 June 2009, to Golden Bright, a third party not connected with the Group, at a consideration of HK\$110,612,000 (“Disposal”).

Completion of the Share Purchase and the Disposal are subject to certain conditions, details of which are disclosed in the Joint Announcement. The Share Purchase and the Disposal have not yet been completed as at the date of this report.

Interim Dividend

The Board has resolved to declare an interim dividend of 3 HK cents per share for the six months ended 30 June 2009 (six months ended 30 June 2008: interim dividend of 3 HK cents) on the shares in issue amounting to HK\$9,516,000 (six months ended 30 June 2008: HK\$9,723,000), to the shareholders whose names appear on the Register of Members on 9 October 2009. The dividend will be payable on or about 19 October 2009.

Closure of Register of Members

The Register of Members will be closed from Wednesday, 7 October 2009 to Friday, 9 October 2009, 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 Tuesday, 6 October 2009.

Code on Corporate Governance Practices

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Listing Rules throughout the accounting period for the six months ended 30 June 2009, except for the following deviation:

Under the code provision A.2.1 of the 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.

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 2009, 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 Listed Securities of the Company

During the period, the Company repurchased a total of 2,764,000 shares (six months ended 30 June 2008: 2,236,000 shares) of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of the repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration paid (including direct costs) HK\$
January 2009	900,000	1.58	1.48	1,375,756.21
February 2009	840,000	1.45	1.38	1,195,162.25
April 2009	546,000	1.37	1.29	728,652.30
May 2009	478,000	1.40	1.38	671,904.58
	<u>2,764,000</u>			<u>3,971,475.34</u>

Purchase, Sale or Redemption of the Listed Securities of the Company *(Continued)*

The above repurchased 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.

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 2009.

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

As at 30 June 2009, 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 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 shares held	Percentage of the Company's issued capital (Note 3)
Lam Foo Wah	1,2	Other interest	Other	143,719,986	45.31%
So Siu Hang, Patricia		Beneficial owner	Personal	2,824,309	0.89%

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

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest 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 an interest in 34,917,567 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 317,215,550 shares as at 30 June 2009.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

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

Save as disclosed above, as at 30 June 2009, none of the directors, chief executives of the Company nor their associates had or was deemed to have any interests or short positions 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 above mentioned Model Code of the Listing Rules.

Furthermore, save as disclosed in the "Share Option Schemes" section below, at no time during the six months ended 30 June 2009 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.

Share Option Schemes

(A) Share option scheme of the Company

Pursuant to the share option scheme adopted by the Company on 26 March 2002 (the "2002 Share Option Scheme"), there was no outstanding options at the beginning and at the end of the six months period ended 30 June 2009. No options were granted, exercised, cancelled or lapsed under the 2002 Share Option Scheme during the period.

Share Option Schemes *(Continued)*

(B) Share option scheme of Theme International Holdings Limited (“Theme”)

Pursuant to the share option scheme of Theme, a subsidiary of the Company, there were no outstanding options at the beginning and at the end of the six months period ended 30 June 2009. No options were granted, exercised, cancelled or lapsed under the existing share option scheme of Theme during the period.

Apart from the share option schemes of the Company and Theme, during the six months ended 30 June 2009, 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 2009, the interests and short positions of the following substantial shareholders, other than directors and chief executives of the Company, 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:

Substantial Shareholders *(Continued)*

Long Positions in the Company's Ordinary Shares:

Name of Shareholders	Notes	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital (Note 3)
Hinton Company Limited	1	Beneficial owner	108,802,419	34.30%
High Fashion Charitable Foundation Limited	1	Beneficial owner	34,917,567	11.01%
Dresdner VPV N.V. ("VPV")	2	Investment manager	28,433,400	8.96%
Dresdner Bank Aktiengesellschaft ("DBAG")	2	Interest of controlled corporations	28,433,400	8.96%
Commerzbank Aktiengesellschaft ("CAG")	2	Interest of controlled corporations	28,433,400	8.96%

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. The 28,433,400 ordinary shares are held directly by VPV, of which is indirectly controlled by CAG and DBAG and therefore are deemed to have an indirect interest in the 28,433,400 ordinary shares.
3. The issued share capital of the Company is 317,215,550 shares as at 30 June 2009.

Substantial Shareholders *(Continued)*

Save as disclosed above, as at 30 June 2009, 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

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of directors of the Company since the date of 2008 annual report of the Company are set out below:

Mr. WONG Shiu Hoi, Peter, an Independent Non-Executive Director

- Cessation as the chairman of The Hong Kong Institute of Directors
- Appointment as a director of Hong Kong Securities Institute.

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

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