



# High Fashion International limited

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



Interim Report **2007**

# CONTENTS

• Chairman's Statement	<b>2</b>
• Management Discussion And Analysis	<b>4</b>
• Condensed Consolidated Financial Statements	
• Condensed Consolidated Income Statement	<b>8</b>
• Condensed Consolidated Balance Sheet	<b>10</b>
• Condensed Consolidated Statement of Changes in Equity	<b>13</b>
• Condensed Consolidated Cash Flow Statement	<b>14</b>
• Notes to Condensed Consolidated Financial Statements	<b>15</b>
• Other Information	<b>27</b>
• Corporate Information	<b>36</b>

## CHAIRMAN'S STATEMENT

The net profit attributable to shareholders for the six months ended 30 June 2007 was HK\$ 302.8 million. As such, the Board of Directors declared an interim dividend of 5 HK cents per share for the six months ended 30 June 2007. Because of the exceptional gain during the period, the Board of Directors also declared a special dividend of 10 HK cents per share, making a total dividend of 15 HK cents per share for the first half year.

In 2007, a few exceptional and special events occurred in which strengthened our financial position. Capitalizing on the opportunities arising from Hong Kong's booming stock market, we managed to sell down part of the shares in Theme (including shares following the exercise of our right under the convertible notes of Theme held by us) for proceeds of approximately HK\$304 million. At present, the Group still holds 51.13% of the interest in Theme. In view of the buoyant stock market subsequently, we launched an open offer of the shares in Theme and raised a total of HK\$179 million. Subscription proceeds by minority shareholders of Theme, which totalled approximately HK\$87 million, served to improve the overall financial position and enhance the competitiveness of Theme.

On 29 August 2007, the land located at Liuxia Street, Hangzhou, was auctioned satisfactorily and our share of the proceed at RMB412.2 million will be received. We would like to take this opportunity to thank the Hangzhou Municipal Government for its enormous support and encouragement to the Group's mission on establishing the world's first-class production base of ladies' silk apparels thus enabling us to work for the future fulfillment of our mission with confidence and inspiration. The above three items added a total of approximately HK\$818 million to the Group's cash inflow.

In view of the continuing appreciation of Renminbi, the lowering of the export rebate rate, and the progressive increase in the domestic inflation pressure, we shall continue our stringent control of overall production cost, continue to take advantage of the Group's underlying strength and maintain the Group's competitive edge under such challenging environment.

With the strong economic growth of the Mainland and the positive outlook of the global apparel market, we firmly believe that our core businesses in manufacturing and brand operation, our vision being one of the world's recognised leaders in ladies apparel and the leader in the silk apparel industry and concrete financial position have established a solid platform for the continuous sustainable growth of the Group. We are committed to deliver results to our shareholders and staff members of the Group. We are confident in the continuous prosperity of the Group.

## **CHAIRMAN'S STATEMENT**

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 the staff from various regions for their dedication and contribution in achieving the corporate goals.

**Lam Foo Wah**

*Chairman*

Hong Kong, 6 September 2007

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

Turnover for the six months ended 30 June 2007 increased to HK\$1.3 billion, up 18%. Net profit attributable to shareholders for the six months ended 30 June 2007 was HK\$302.8 million, compared with a reported profit of HK\$42.2 million of last corresponding period. Including in the net profit for the six months ended 30 June 2007 was a net gain on partial disposal of a subsidiary of HK\$250.5 million. Basic earnings per share were 90.75 HK cents. Net asset value per share was HK\$3.7.

### Review of Operations

The segmental information is as follows:

	Turnover		Operating profit	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
By principal activity:				
Manufacturing and trading	<b>1,159,230</b>	981,635	<b>84,189</b>	67,906
Retailing	<b>148,908</b>	127,703	<b>(4,395)</b>	562
	<b><u>1,308,138</u></b>	<u>1,109,338</u>	<b><u>79,794</u></b>	<u>68,468</u>
By geographical segments:				
United States of America	<b>902,165</b>	684,193	<b>60,743</b>	52,512
Europe	<b>182,885</b>	198,647	<b>6,056</b>	5,596
Greater China	<b>197,010</b>	210,346	<b>10,113</b>	8,670
Others	<b>26,078</b>	16,152	<b>2,882</b>	1,690
	<b><u>1,308,138</u></b>	<u>1,109,338</u>	<b><u>79,794</u></b>	<u>68,468</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Operations *(Continued)*

The Group recorded healthy growth in both turnover and operating profit for our core manufacturing and trading business when compared with last corresponding period. There was no fair value change on investment properties in the first half of 2006 whereas the profit for the first half of 2007 included a fair value change on investment properties of HK\$3.4 million.

Geographically, the United States continued to be the Group's major export market, accounting for 69% of turnover for 2007 as compared to 62% with last corresponding period. Our branded business, August Silk accounted for 31% (2006: 35%) of our turnover in the USA. August Silk's operation reported profit for two consecutive periods.

Sales to the European market contributed 14% (2006: 18%) of total turnover for 2007. We are now set to accelerate our business expansion in the European market with new products and intensified marketing activities.

The turnover of retailing amounted to HK\$149 million, increasing by 17% when compared with 2006. The brand "CSLR" acquired last year continued to be a profit contributor. The loss on retailing was mainly from the operation of Taiwan because of political unrest and we have downsized its operation to minimize the operating loss. The retailing business recorded a net operating loss of HK\$4.4 million for 2007.

### Liquidity and Financial Resources

The Group's total outstanding bank borrowings were HK\$452 million at the balance sheet date compared to HK\$461 million as at 31 December 2006. Our gearing ratio of non-current liabilities to shareholders' funds was 8% at the balance sheet date. Current ratio has been maintained at a healthy level of 1.6.

The Group's total cash and bank balances were HK\$400 million at the balance sheet date compared to HK\$219 million as at 31 December 2006. 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources *(Continued)*

The Group's 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. Foreign exchange risks on the recent revaluation of Renminbi is managed by the Group with the use of forward contracts to hedge against the exchange fluctuation. The gain on cashflow hedge which was credited to hedging reserve was HK\$114 million at the balance sheet date. The Group had no borrowings at fixed interest rates during the period.

The Group had no material contingent liabilities. Barring the pledge of trade receivables of certain subsidiaries of HK\$89 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, full 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.

### Post Balance Sheet Events

Theme International Holdings Limited, being a subsidiary of the Company raised HK\$179 million before expenses by issuing the 2,988,183,199 new shares of Theme on the basis of one offer share for every two existing shares at the subscription price of HK\$0.06 per offer share.

The relocation from and handover of Liuxia Street of Hangzhou City by two subsidiaries of the Company, Hangzhou Xiwu Chun Lui Silk Co Ltd. ("Chun Lui") and High Fashion (China) Co., Ltd. ("High Fashion (China)") to Hangzhou Tu Di Chu Bei Zhong Xin for sale by public auction was bidden at a consideration of RMB916 million on 29 August 2007. Chun Lui and High Fashion China are expected to receive RMB412.2 million. Subject to year-end audit by the auditors of the Company, it is estimated that the Group will book a profit of RMB271 million in this financial year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Human Resource

The total number of employees of the Group including jointly-controlled entities as at the balance sheet date was about 12,300. 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 entered into construction contracts to construct the production complex and living quarters at the Xiaoshan district in Hangzhou leading to the increase in the construction in progress by HK\$114 million in this financial 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 2007 together with the comparative figures.

### Condensed Consolidated Income Statement

		<b>Six months ended 30 June</b>	
	Notes	<b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2006 (Unaudited) HK\$'000
TURNOVER	3	<b>1,308,138</b>	1,109,338
Cost of sales		<b>(940,003)</b>	(774,797)
Gross profit		<b>368,135</b>	334,541
Other income		<b>26,221</b>	12,731
Selling and distribution expenses		<b>(159,876)</b>	(132,462)
Increase in fair value of investment properties		<b>3,418</b>	–
Gain on partial disposal of a subsidiary		<b>278,353</b>	–
Special bonus provision in respect of partial disposal of a subsidiary		<b>(27,835)</b>	–
Administrative expenses		<b>(158,104)</b>	(146,342)
Finance costs	4	<b>(18,064)</b>	(17,104)
Share of results of jointly-controlled entities		<b>889</b>	232
PROFIT BEFORE TAXATION	5	<b>313,137</b>	51,596
Taxation	6	<b>(10,345)</b>	(9,408)
PROFIT FOR THE PERIOD		<b>302,792</b>	42,188

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Income Statement *(continued)*

		<b>Six months ended 30 June</b>	
		<b>2007</b>	2006
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
	Notes		
Attributable to			
Equity holders of the Company		<b>302,792</b>	42,188
Minority interests		–	–
		<hr/>	<hr/>
		<b>302,792</b>	42,188
		<hr/>	<hr/>
DIVIDENDS	7		
Interim		<b>16,573</b>	10,028
Special		<b>33,147</b>	–
		<hr/>	<hr/>
		<b>49,720</b>	10,028
		<hr/>	<hr/>
EARNINGS PER SHARE	8		
Basic		<b>90.75 cents</b>	12.65 cents
		<hr/>	<hr/>
Diluted		<b>90.71 cents</b>	12.60 cents
		<hr/>	<hr/>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Balance Sheet

	Notes	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>620,012</b>	490,635
Prepaid lease payments		<b>79,767</b>	76,404
Investment properties		<b>72,470</b>	68,000
Intangible assets		<b>13,740</b>	14,565
Interests in associates		–	–
Interests in jointly-controlled entities		<b>18,940</b>	16,459
Available-for-sale investments		<b>675</b>	675
Deferred tax assets		<b>3,896</b>	3,908
		<b>809,500</b>	670,646
<b>CURRENT ASSETS</b>			
Inventories		<b>396,544</b>	406,410
Trade receivables	9	<b>337,346</b>	330,547
Bills receivable		<b>40,265</b>	39,960
Prepaid lease payments		<b>1,760</b>	2,203
Deposits, prepayments and other receivables		<b>91,981</b>	96,585
Tax reserve certificate		<b>32,381</b>	15,582
Derivatives financial instruments		<b>114,294</b>	6,513
Pledged bank deposits		<b>100</b>	100
Bank balances and cash		<b>399,505</b>	219,126
		<b>1,414,176</b>	1,117,026

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Balance Sheet *(continued)*

	Notes	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>250,870</b>	249,713
Bills payable		<b>450</b>	4,026
Other payables and accruals		<b>229,567</b>	214,729
Amounts due to jointly-controlled entities		<b>1,600</b>	9,234
Amount due to an associate		<b>597</b>	600
Tax payable		<b>51,282</b>	42,597
Obligations under finance leases		<b>358</b>	406
Bank borrowings		<b>364,154</b>	400,814
Bank overdrafts		<b>74</b>	1,051
		<b>898,952</b>	923,170
<b>NET CURRENT ASSETS</b>			
		<b>515,224</b>	193,856
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>1,324,724</b>	864,502

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Balance Sheet *(continued)*

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Obligations under finance leases	72	220
Bank borrowings	87,694	59,500
Deferred tax liabilities	9,115	8,560
Provision for long service payments	1,230	1,315
	<hr/>	<hr/>
	<b>98,111</b>	69,595
	<hr/>	<hr/>
	<b>1,226,613</b>	794,907
	<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>		
Share capital	33,412	33,416
Reserves	1,167,552	755,472
	<hr/>	<hr/>
Equity attributable to equity holders of the Company	1,200,964	788,888
Minority interests	25,649	6,019
	<hr/>	<hr/>
<b>TOTAL EQUITY</b>	<b>1,226,613</b>	794,907
	<hr/>	<hr/>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium account HK\$'000	Translation reserve HK\$'000	Reserve funds HK\$'000	Capital redemption reserve HK\$'000	Hedging reserve HK\$'000	Other reserve HK\$'000 (Note)	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2007	33,416	296,041	30,425	5,733	4,714	6,513	39,853	372,193	788,888	6,019	794,907
Exchange realignment	-	-	26,069	-	-	-	-	-	26,069	-	26,069
Gain on cashflow hedges	-	-	-	-	-	114,294	-	-	114,294	-	114,294
Net profit for the period	-	-	-	-	-	-	-	302,792	302,792	-	302,792
Final dividend for 2006 declared and paid	-	-	-	-	-	-	-	(23,390)	(23,390)	-	(23,390)
Exercise of share options	102	413	-	-	-	-	-	-	515	-	515
Repurchase of shares	(106)	(936)	-	-	106	-	-	(755)	(1,691)	-	(1,691)
Realisation of hedging reserve	-	-	-	-	-	(6,513)	-	-	(6,513)	-	(6,513)
Partial disposal of a subsidiary	-	-	-	-	-	-	-	-	-	24,849	24,849
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	(5,219)	(5,219)
<b>At 30 June 2007</b>	<b>33,412</b>	<b>295,518</b>	<b>56,494</b>	<b>5,733</b>	<b>4,820</b>	<b>114,294</b>	<b>39,853</b>	<b>650,840</b>	<b>1,200,964</b>	<b>25,649</b>	<b>1,226,613</b>
At 1 January 2006	33,315	295,684	8,180	6,332	4,703	4,000	-	353,128	705,342	800	706,142
Exchange realignment	-	-	(1,257)	-	-	-	-	-	(1,257)	-	(1,257)
Net profit for the period	-	-	-	-	-	-	-	42,188	42,188	-	42,188
Final dividend for 2005 declared and paid	-	-	-	-	-	-	-	(16,707)	(16,707)	-	(16,707)
Exercise of share options	100	405	-	-	-	-	-	-	505	-	505
Realisation of hedging reserve	-	-	-	-	-	(3,485)	-	-	(3,485)	-	(3,485)
At 30 June 2006	33,415	296,089	6,923	6,332	4,703	515	-	378,609	726,586	800	727,386

Note: Other reserve represents capitalisation of accumulated profits of a subsidiary as capital contribution to another subsidiary.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Cash Flow Statement

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash from operating activities	<b>77,149</b>	129,383
Net cash generated from/(used in) investing activities	<b>129,958</b>	(25,790)
Net cash (used in)/generated from financing activities	<b>(51,284)</b>	23,857
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>155,823</b>	127,450
Cash and cash equivalents at beginning of the period	<b>218,075</b>	204,033
Effect of foreign exchange rate changes, net	<b>25,533</b>	(1,141)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>399,431</b>	330,342
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>399,505</b>	330,992
Bank overdrafts	<b>(74)</b>	(650)
	<hr/>	<hr/>
	<b>399,431</b>	330,342
	<hr/>	<hr/>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements

### 1. Basis of preparation

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

### 2. Principal accounting policies

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

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, new Hong Kong Financial Reporting Standards (“HKFRSs”) (which also included HKASs and Interpretations) issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2007. The adoption of the new HKFRSs had no material effect on how the results for the current and/or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

#### *Potential impact arising from the recently issued Accounting Standards*

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKFRSs will have no material impact on the financial statements of the Group.

HKFRS 8	Operating Segments <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC)-INT 12	Service Concession Arrangements <sup>3</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for accounting periods beginning on or after 1 March 2007.

<sup>3</sup> Effective for accounting periods beginning on or after 1 January 2008.



# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements (continued)

### 3. Segment information

	Turnover		Profit before taxation	
	Six months ended 30 June		Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
By principal activity:				
Manufacturing and trading	1,159,230	981,635	84,189	67,906
Retailing	148,908	127,703	(4,395)	562
	<u>1,308,138</u>	<u>1,109,338</u>	<u>79,794</u>	<u>68,468</u>
Gain on partial disposal of a subsidiary, net of special bonus provision in respect thereof			250,518	–
Finance costs			(18,064)	(17,104)
Share of results of jointly-controlled entities			889	232
			<u>313,137</u>	<u>51,596</u>
By geographical area:				
United States of America	902,165	684,193		
Europe	182,885	198,647		
Greater China	197,010	210,346		
Others	26,078	16,152		
	<u>1,308,138</u>	<u>1,109,338</u>		

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### 4. Finance costs

Interest on bank loans and overdrafts wholly repayable within five years  
 Interest on finance leases  
 Factoring expenses  
 Bank charges

#### Six months ended 30 June

<b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2006 (Unaudited) HK\$'000
<b>13,724</b>	12,515
<b>25</b>	19
<b>1,205</b>	1,703
<b>3,110</b>	2,867
<b>18,064</b>	17,104

### 5. Profit before taxation

The Group's profit before taxation is arrived at after charging:

Depreciation of property, plant and equipment  
 Amortisation of trademarks  
 Amortisation of prepaid lease payments

#### Six months ended 30 June

<b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2006 (Unaudited) HK\$'000
<b>33,567</b>	26,144
<b>346</b>	345
<b>1,282</b>	662

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements (continued)

### 6. Taxation

Current tax – Hong Kong  
Current tax – Other jurisdictions  
Deferred tax

Tax charge for the period

#### Six months ended 30 June

<b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2006 (Unaudited) HK\$'000
<b>1,820</b>	2,419
<b>7,914</b>	7,140
<b>611</b>	(151)
<hr/>	<hr/>
<b>10,345</b>	9,408
<hr/>	<hr/>

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 assessments to these group companies for the years of assessment 1999/2000 and 2000/2001 and, during the course of the tax audit, there may be a possibility that assessments for subsequent years be issued by the IRD to these group companies.

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

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### **6. Taxation** *(continued)*

Up to 30 June 2007, the Group has purchased tax reserve certificate of approximately HK\$32,381,000 (31 December 2006 : HK\$15,582,000) for conditional standover order of objection against the notice of assessment for the years of assessment 1999/2000 and 2000/2001. Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30 June 2007 and 2006. Taxation arising elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The tax rates of the People's Republic of China (the "PRC") corporate income tax are ranging from 13.2% to 33%. PRC corporate income tax is calculated in accordance with the income tax law in the PRC for both periods. Certain subsidiaries operating in the PRC are entitled to a tax exemption for two years commencing from its first profit-making year followed by a 50% reduction in the PRC corporate income tax for three years.

### **7. Interim and special dividends**

The Board declared an interim dividend of 5 HK cents per share for the six months ended 30 June 2007 (Six months ended 30 June 2006: 3 HK cents) on the shares in issue aggregating a total of HK\$16,573,000 (Six months ended 30 June 2006: HK\$10,028,000) and a special dividend of 10 HK cents per share for the six months ended 30 June 2007 on the shares in issue aggregating a total of HK\$33,147,000.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### 8. Earnings per share

The calculation of basic and diluted earnings per share for the period ended 30 June 2007 together with the comparative figures for 2006 are based on the following basis:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Profit for the purpose of basic and diluted earnings per share	<b><u>302,792</u></b>	<u>42,188</u>
	<b>Number</b>	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>333,672,810</b>	333,483,042
Effect of dilutive potential ordinary shares assumed exercise of share options	<b><u>122,658</u></b>	<u>1,243,641</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>333,795,468</u></b>	<u>334,726,683</u>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### 9. Trade receivables

An aged analysis of the trade receivables as at the balance sheet date is as follows:

Within 90 days  
91 to 180 days  
181 to 360 days  
Over 360 days

<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
<b>318,230</b>	295,824
<b>14,664</b>	31,394
<b>4,187</b>	1,945
<b>265</b>	1,384
<hr/>	<hr/>
<b>337,346</b>	330,547
<hr/>	<hr/>

The Group allows an average credit period of 30 to 90 days to its trade debtors.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### 10. Trade payables

An aged analysis of the trade payables as at the balance sheet date is as follows:

Trade payables:

Within 90 days  
91 to 180 days  
181 to 360 days  
Over 360 days

Accrued purchases

<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
<b>143,755</b>	171,589
<b>9,842</b>	6,575
<b>3,330</b>	6,559
<b>13,642</b>	13,425
<hr/>	<hr/>
<b>170,569</b>	198,148
<b>80,301</b>	51,565
<hr/>	<hr/>
<b>250,870</b>	249,713
<hr/>	<hr/>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### 11. Related party transactions

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

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2006 (Unaudited) HK\$'000
Purchases of finished goods from jointly-controlled entities	<i>(i)</i>	<b>47,926</b>	20,857
Professional fees to Wilkinson & Grist	<i>(ii)</i>	<b>170</b>	13
Brokerage commission to Taifook Securities Company Limited	<i>(iii)</i>	<b>761</b>	–
Training fees to Clothing Industry Training Authority	<i>(iv)</i>	<b>700</b>	–
Key management compensation	<i>(v)</i>	<b>10,825</b>	10,045
		<b>10,825</b>	10,045

Notes:

- (i) The purchases of finished goods were made according to the published prices and conditions offered to the major customers of the supplier, except that a longer credit period was usually granted.
- (ii) The professional fees related to the provision of legal advisory services were charged according to the fee rates and conditions similar to those offered to other customers of Wilkinson & Grist. Mr. Chan Wah Tip, Michael, a non-executive director of the Company, is a partner of Wilkinson & Grist.
- (iii) The brokerage commission paid to Taifook Securities Company Limited, a member of Taifook Securities Group Limited (“Taifook Group”), were charged according to the commission rates and conditions similar to those offered to other customers of Taifook Securities Group Limited. Mr. Wong Shiu Hoi, Peter, an independent non-executive director of the Company, is a director of Taifook Group.



# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### 11. Related party transactions *(continued)*

*Notes: (continued)*

- (iv) The training fees related to the provision of training services and were charged according to the fee rates and conditions similar to those offered to other customers of Clothing Industry Training Authority. Professor Yeung Kwok Wing, a non-executive director of the Company, is an executive director of Clothing Industry Training Authority.
- (v) The remuneration of directors and key executive were determined by the remuneration committee having regard to the performance of individuals and market trends.

### 12. Contingent liabilities

As at 30 June 2007, there was no material contingent liability (31 December 2006: Nil).

### 13. Post balance sheet events

#### *Repurchase of Shares*

Subsequent to the balance sheet date and up to the date of approval of these financial statements, the Company repurchased a total of 2,476,000 ordinary shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited in July and August 2007 at market prices ranging from HK\$3.45 to HK\$3.75 per share resulting in an aggregate cash consideration of HK\$8,851,160. The above repurchased shares were cancelled in July and August 2007.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### 13. Post balance sheet events *(continued)*

#### *Open Offer of Theme*

On 20 July 2007, Theme International Holdings Limited (“Theme”), being a subsidiary of the Company, proposed to raise approximately HK\$179 million before expenses by issuing the 2,988,183,199 new shares of Theme (“Offer Share”) on the basis of one Offer Share for every two existing shares held by Qualifying Shareholders at the subscription price of HK\$0.06 per Offer Share by way of the Open Offer.

Navigation Limited, a wholly owned subsidiary of the Company, entered into the Underwriting Agreement dated 16 July 2007 with Theme in relation of the underwriting and others arrangements in respect of the Open Offer amounting to approximately HK\$88 million which constituted a discloseable transaction of the Company under the Listing Rules.

#### *Handover of Land for Sale by Public Auction*

The agreements were entered into by two subsidiaries of the Company, namely 杭州西湖春雷絲綢有限公司 (Hangzhou Xiwu Chun Lui Silk Co. Ltd.\*) (“Chun Lui”) and 達利(中國)有限公司 (High Fashion (China) Co., Ltd.\*) (“High Fashion China”) with 杭州工業項目推進領導小組辦公室 (The Office of Hangzhou Industrial Projects\*) and 杭州市土地儲備中心 (Hangzhou Tu Di Chu Bei Zhong Xin\*), both of which were acted pursuant to the direction of the local government of Hangzhou City, in relation to the relocation from and handover of Liuxia Street of Hangzhou City (the “Land”) by Chun Lui and High Fashion China to 杭州市土地儲備中心 (Hangzhou Tu Di Chu Bei Zhong Xin\*) for sale by public auction.

In August 2007, the Land was sold by public auction by 杭州市國土資源局 (Hangzhou Municipal Land and Resources Bureau\*) for a consideration of approximately RMB916 million. Accordingly, Chun Lui and High Fashion China are expected to receive a total sum of approximately RMB412.2 million as a compensation referred to above.

Subject to year-end audit by the auditors of the Group, it is estimated that the Group will book a profit of approximately RMB271 million on this transaction for the year ending 31 December 2007.

\* For identification purpose only.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Notes to Condensed Consolidated Financial Statements *(continued)*

### **14. Approval of the interim financial report**

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 6 September 2007.

## OTHER INFORMATION

### Interim and Special Dividends

The Board declared an interim dividend of 5 HK cents per share for the six months ended 30 June 2007 (Six months ended 30 June 2006: 3 HK cents) on the shares in issue aggregating a total of HK\$16,573,000 (Six months ended 30 June 2006: HK\$10,028,000) and a special dividend of 10 HK cents per share for the six months ended 30 June 2007 on the shares in issue aggregating a total of HK\$33,147,000, which will be payable on or about 10 October 2007 to shareholders whose names appear on the Register of Members on 28 September 2007.

### Closure of Register of Members

The Register of Members will be closed from 24 September 2007 (Monday) to 28 September 2007 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and special dividends, 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 (formerly known as Secretaries Limited) of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 21 September 2007.

### 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 2007, 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.

## 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 2007, 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 1,236,000 (Six months ended 30 June 2006: Nil) ordinary shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares	Price per share		Total paid HK\$
		Highest HK\$	Lowest HK\$	
January 2007	580,000	1.50	1.45	869,900
February 2007	78,000	1.60	1.46	119,880
March 2007	380,000	1.70	1.62	627,700
June 2007	198,000	3.55	3.40	675,900
	<u>1,236,000</u>			<u>2,293,380</u>

## OTHER INFORMATION

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

The above repurchased shares were cancelled during the period except 180,000 shares were cancelled in July 2007. The premium paid on the repurchase of the shares of HK\$2,169,780 (Six months ended 30 June 2006: Nil) has been charged to the share premium account and accumulated profits. 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 per share and earnings per share of the Group.

Save as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

### **Review of Accounts**

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules.

The Audit Committee of the Company assisted by independent professional accounting firm has reviewed the accounting principles and practices adopted by the Group and in the course has discussed with the management and internal auditor the internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2007.

## OTHER INFORMATION

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

As at 30 June 2007, 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 of Hong Kong Limited (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	Number of ordinary shares held	Percentage of the Company's issued capital (Note 3)
Lam Foo Wah	1, 2	Other interest	Other	143,719,986	43.01%
Hui Yip Wing		Interest of spouse	Family	2,652,007	0.79%
So Siu Hang, Patricia		Beneficial owner	Personal	2,824,309	0.85%

#### (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 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 334,125,550 shares as at 30 June 2007.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 30 June 2007, 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 2007 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 Schemes

#### (A) Share option schemes of the Company

For the six months ended 30 June 2007, details of outstanding share options granted to directors or certain employees on 5 May 1999 under the old share options scheme adopted by the Company on 18 March 1994 (the “Old Scheme”) are disclosed below:

Name of director and employee	Number of Share Options			Exercise price HK\$	Weighted average closing price (Note (i)) HK\$
	At 1 January 2007	Exercised during the period	At 30 June 2007		
So Siu Hang, Patricia	720,000	720,000	–	0.505	2.03
Aggregate for directors	720,000	720,000	–		
Aggregate for other employees	300,000	300,000	–	0.505	2.03
	<u>1,020,000</u>	<u>1,020,000</u>	<u>–</u>		

Notes:

- (i) The weighted average closing price is the price of the Company’s shares disclosed as at the prior date of exercise of share options.
- (ii) Under the Old Scheme, 40% of the options granted are exercisable during the period from 5 May 2002 to 4 May 2009, a further 30% of the options granted are exercisable during the period from 5 May 2003 to 4 May 2009 and the remaining 30% of the options granted are exercisable during the period from 5 May 2004 to 4 May 2009.
- (iii) On 26 March 2002, the Old Scheme was terminated and a new scheme (the “New Scheme”) was adopted by the shareholders of the Company, but without prejudice to any share options previously granted prior to such termination. After the adoption of the New Scheme, no further options can be granted under the Old Scheme. Up to 30 June 2007, no share options were granted under the New Scheme.

## OTHER INFORMATION

### **Share Option Schemes** *(Continued)*

#### **(A) Share option schemes of the Company** *(Continued)*

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Company's share option schemes during the period.

#### **(B) Share option scheme of Theme International Holdings Limited**

Pursuant to the share option scheme of Theme International Holdings Limited ("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 2007. 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 2007, 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 2007, the interests 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:

Long Positions in the Company's Ordinary Shares:

<b>Name of Shareholders</b>	<i>Notes</i>	<b>Capacity</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b> <i>(Note 3)</i>
Hinton Company Limited	1	Beneficial owner	108,802,419	32.56%
Veer Palthe Voute NV ("VPV")	2	Investment manager	49,337,000	14.77%
Dresdner Bank Aktiengesellschaft ("DBAG")	2	Interest of controlled corporations	49,337,000	14.77%
Allianz Aktiengesellschaft ("AAG")	2	Interest of controlled corporations	49,337,000	14.77%
High Fashion Charitable Foundation Limited	1	Beneficial owner	34,917,567	10.45%
Excel Investments Ltd.		Beneficial owner	25,800,000	7.72%

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 49,337,000 ordinary shares are held directly by VPV, of which is indirectly controlled by AAG and DBAG and therefore are deemed to have an indirect interest in the 49,337,000 ordinary shares.
3. The issued share capital of the Company is 334,125,550 shares as at 30 June 2007.

## OTHER INFORMATION

### **Substantial Shareholders** *(Continued)*

Save as disclosed above, as at 30 June 2007, 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.

## CORPORATE INFORMATION

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

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Lam Foo Wah (*Chairman and Managing Director*)

Ms. So Siu Hang, Patricia

Mr. Hui Yip Wing (resigned on 1 August 2007)

#### 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

(formerly known as Secretaries Limited)

26th Floor, Tesbury Centre,

28 Queen's Road East, Hong Kong

### COMPANY WEBSITE

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