High Fashion International Limited

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

ANNUAL REPORT 2011


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AUGUST SILK

AUGUST SILK

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CHAIRMAN'S STATEMENT

Facing major upheavals in global economies and market situation in 2011, we capitalized on correct strategies and timely and speedy alignment with market trend and demand, thereby attaining satisfactory results.

- Revenue for the year was HK$2.78 billion.
- Net profit for the year was HK$254 million.
- Basic earnings per share were HK$0.84.
- Net asset value per share was HK$7.10.
- Proposed final dividend per share is HK$0.15 and the total dividend for the year will amount to HK$0.22 per share as compared with last year of HK$0.18 per share.

We have embarked upon our journey to maintain strong growth sustainability for our business. With our positive targets of "growth through establishing strength" and "advancement by transformation and innovation" over the years and our diligent pursuit of such targets, we have achieved promising result. Our efforts included focusing on the PRC market as a solid foundation for our future expansion, and continuous training to establish an excellent team with outstanding talents. Today, we have become an innovative and creative enterprise with strong competitive strengths. With our powerful base and our efforts to refresh our products, technologies and market strategies based on innovation and creativity, we were able to bring out our competitive advantages in high-end apparel markets in Europe and the USA and achieve sound results.

BRAND BUSINESS

The Group continued to expand the PRC market with full efforts, using a multi-brand strategy, forging a unique competitive brand position that focused on medium to high-end customers, and expanding our powerful retail network. Leveraging our position as the number one silk enterprise in the world, we utilized our unique strength to proactively develop our silk brand business, including , , , and silk fashion brands of , , .

In October 2011, the Group's High Fashion Silk Industrial Park, which is located in Xinchang, made a great breakthrough: it was honored as the "State's AAAA Level Scenic Spot for Industrial Tourism" and "Model Enterprise for Industrial Tourism in Zhejiang Province" by the National Tourism Scenic Spot Quality Rating Commission (全國旅遊景區品質等級評定委員會). We are the first and the only silk and textile manufacturer in the Zhejiang Province as well as in the silk and garment business in the PRC, to have won the status of the "State's AAAA Level Scenic Spot of the Industrial Tourism" area. We are pleased to receive these accreditations. In this regard, we will promote the beautiful stories in history behind the fascinating verse, "people travel millions of miles to Hangzhou for West Lake and silk". Blending our silk industry with tourism, we will fully promote our silk brand in China. In particular, we will change the verse to "people travel millions of miles to Hangzhou for West Lake and High Fashion Silk". With this as our goal to promote our silk brand, our powerful base and unique strength and competitiveness as the number one silk enterprise in the world will gain prominence. We will also devote our full attention in developing our number one silk gift brand in the PRC, with a view to becoming the first choice of gift preferred by Chinese people, thereby consolidating the Group's powerful diversified successful brand business.

MANUFACTURING BUSINESS

Major economic upheavals in Europe and the USA in 2011 had a deep impact on consumers' confidence in the world. Together with the rise in material price and labor cost in the PRC, appreciation of RMB, and sluggish demand from abroad, the operating environment and situation has become even more difficult. Thanks to our progress due to transformation and innovation, our swift and proactive response to market has resulted in a steady growth in our export manufacturing business. In particular, we have established remarkable competitive strengths in the high-end product market. In this way, we have continued to expand our Group's manufacturing business to enhance our efficiency and the core value of our Group in the long run.

PROSPECTS

Global economies are not yet stabilized. China will still remain one of the fastest growing economies, and the China's 12th Five-Year Plan will further stimulate domestic market. We are prepared for these. With our targets of "growth through establishing strength" and "advancement by transformation and innovation", we have established solid foundations to develop ourselves as the number one silk enterprise in the world over the years. We are confident of our well diversified, quality business portfolio and will strategically develop and expand the Group's business with more initiatives in the future.

Last but not least, I would like to take this opportunity to express my gratitude to the shareholders, banks, customers, suppliers and our fellow Directors for their continuous support and precious opinions. I would also like to thank the management team and all staff members of our Group for their dedication and contribution to the Group throughout the year.

LAM FOO WAH
Chairman & Managing Director
Hong Kong
27 March 2012

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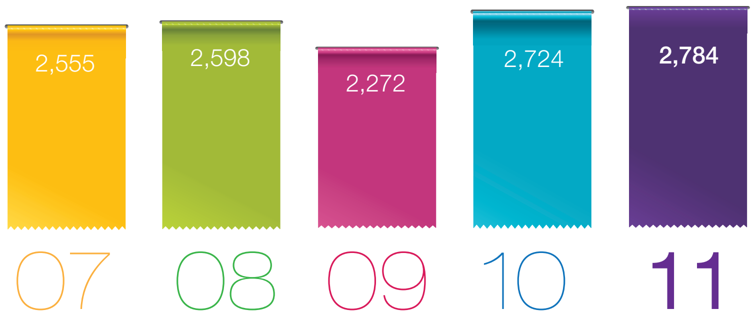
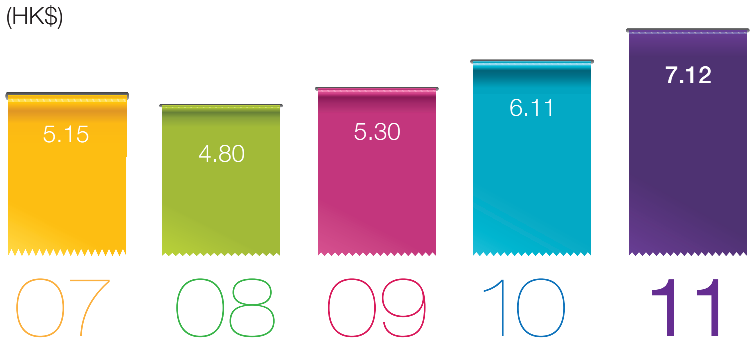
FINANCIAL HIGHLIGHTS

Turnover
(HK$ Million)



Net Asset Value Per Share
(HK$)



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MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Revenue for the year ended 31 December 2011 was HK$2.78 billion. Net profit attributable to shareholders for the year ended 31 December 2011 was HK$254 million, compared with a profit of HK$217 million of 2010, up 17%. Basic earnings per share were HK$0.84, up 18%. Net asset value per share increased from HK$6.1 to HK$7.1.

Management Discussion and Analysis

REVIEW OF OPERATIONS

The segment information is as follows:

	Revenue		Contribution	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activity:				
Manufacturing and trading	**2,056,223**	1,896,599	**260,890**	283,644
Brand business	**727,943**	827,700	**11,564**	26,624
	2,784,166	2,724,299	**272,454**	310,268
By geographical segments:				
USA	**1,423,024**	1,461,382	**94,537**	105,874
Europe	**587,160**	585,718	**25,188**	29,066
Greater China	**631,375**	566,401	**144,140**	169,893
Others	**142,607**	110,798	**8,589**	5,435
	2,784,166	2,724,299	**272,454**	310,268

China consumer market continued to prosper in 2011, which helped in facilitating the growth of our retail brands in China. The Group would further expand the multi-brand portfolios to major cities, streamline the operation process, enhance the brand value to capture the new tastes of customers, and leverage the competitive advantages of the Group. We have already developed a strong foothold through our increasingly powerful brands as our perceived growth driver especially in the lucrative China retailing market.

In spite of the immense inflationary pressure with rising raw material costs and other operational overheads, the Group continued to deliver solid results in our manufacturing export business, through implementation of a series of effective measures to enhance our efficiency and competitiveness over the years.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were increased to HK$1,496 million at the end of reporting period compared to HK$1,390 million as at 31 December 2010. The increase in bank borrowing was mainly due to our hedging arrangement during the year. Our gearing ratio of non-current liabilities to shareholders' funds was only 8% at the end of reporting period. Current ratio has been maintained at a healthy level of 1.32.

The Group's total cash and bank balances were HK$1,688 million at the end of reporting period compared to HK$1,515 million as at 31 December 2010. Based on the net cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet the operating needs and future growth.

The Group's trade receivables were mainly denominated in US dollar. Bank borrowings were denominated in US dollar and Hong Kong dollar. 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 year.

The Group has no material contingent liabilities. Barring the pledge of trade receivables and bills receivables of certain subsidiaries of HK$80 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 provisions 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 the reporting period was about 9,100. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group has purchased the plant and equipment and the leasehold improvement and construction in progress of around HK$85 million in order to upgrade its manufacturing capabilities during the year. Except for the above, there was no material capital expenditure during the year.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 63, is the founder of the Group. Mr. Lam is the Chairman and the Managing Director and the chairman of the Nomination Committee of the Company. Mr. Lam is the visionary leader and is responsible for the overall strategic planning with goals setting for the Group to pursue aggressively. He has over 30 years of experience in manufacturing of apparel industry and marketing of brand and retail management. Mr. Lam is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He was an executive director, the chairman and CEO of Theme International Holdings Limited. He is the father of Mr. Lam Gee Yu, Will and Mr. Lam Din Yu, Well.

Ms. SO Siu Hang, Patricia, aged 53, joined the Group in 1990. Ms. So is an Executive Director of the Company and is responsible for the Group's strategic planning, implementation and global business development. She has extensive knowledge in the apparel industry with focus on total quality management. She holds a bachelor degree in commerce and finance from the University of Toronto and a master degree in business administration from York University in Canada. Prior to joining the Group, she worked for an international bank for 4 years. She was an executive director of Theme International Holdings Limited.

NON-EXECUTIVE DIRECTORS

Mr. CHAN Wah Tip, Michael, aged 59, joined the Group as Company Secretary in 1992. Mr. Chan is a Non-Executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Chan was an Independent Non-executive Director of the Company prior to his re-designation as a Non-executive Director of the Company in October 2004. He has been practising as a solicitor in Hong Kong for over 30 years. Mr. Chan is a partner of Wilkinson & Grist which is the legal adviser of the Company and an independent non-executive director of L.K. Technology Holdings Limited. He was a non-executive director of Shougang Concord Technology Holdings Limited.

Professor YEUNG Kwok Wing, aged 64, joined the Group in 2000. Professor Yeung is a Non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He is currently the Executive Director of Clothing Industry Training Authority ("CITA") in Hong Kong. He holds a PhD from the Queen's University of Belfast, Northern Ireland. Professor Yeung specializes in textile product development, quality assurance and management and serves as various honorary fellows and members of international associations of textile, dyers and colorists as well. He has a long and distinguished academic career and was associated with The Hong Kong Polytechnic University ("PolyU") for more than 30 years before joining CITA in June 2006. His administrative ability is also highly appreciated in PolyU when he was posted as its Vice President overseeing academic development from 2002 to 2005. He was an independent non-executive director of Theme International Holdings Limited and SRE Group Limited.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WOO King Wai, aged 67, joined the Group in 1992. Mr. Woo is an Independent Non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He holds a bachelor degree in architecture (Honours) from the University of California, Berkeley, the USA. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects. He served as an executive member of the Hainan Political Consultative Conference, the People's Republic of China.

Mr. WONG Shiu Hoi, Peter, aged 71, joined the Group in 2004. Mr. Wong is an Independent Non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. He holds a Master of Business Administration Degree from the University of East Asia, Macau (currently known as the "University of Macau"). Mr. Wong possesses over 38 years of experience in the financial services industry. He is an overseas business advisor of Haitong Securities Company Limited and a director of Hong Kong Securities Institute. He was an executive director, deputy chairman and chief executive of Haitong International Securities Group Limited, an independent non-executive director of Theme International Holdings Limited and the chairman of The Hong Kong Institute of Directors.

Mr. LEUNG Hok Lim, *FCPA (Aust.), CPA (Macau), FCPA (Practising),* aged 76, joined the Group in 2004. Mr. Leung is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company. Mr. Leung is the founding and senior partner of PKF, Accountants and Business Advisers. Mr. Leung is a non-executive director of Beijing Hong Kong Exchange of Personnel Centre Limited, and the independent non-executive director of a number of listed companies namely Fujian Holdings Limited, Phoenix Satellite Television Holdings Limited, S E A Holdings Limited, Yangtzekiang Garment Limited and YGM Trading Limited.

SENIOR MANAGEMENT

Mr. CHAN Chun Man, Benedict, aged 57, joined the Group in 1992. He is the Chief Operating Officer and Chief Financial Officer of August Silk Inc. and High Fashion International (USA) Inc. He is responsible for overseeing the Group's affairs in USA. He graduated from the University of Hong Kong with a bachelor degree in economics and pure mathematics. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

Ms. CHAN Wai Wei, Cynthia, aged 39, joined the Group in 2000. Ms. Chan is the Company Secretary of the Company and has over 10 years' experience in accounting and auditing. Prior to joining the Group, she worked for an international accounting firm. She is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators.

Biographical Details of Directors and Senior Management

Ms. Ellen DAWSON-BRUCKENTHAL, aged 55, is the Executive Vice President and Chief Merchandise Officer of August Silk Inc. She began her career in the Executive Training Program at Bloomingdales, a division of Federated Dept. Stores in 1978 where she consequently held the positions of Store Manager, Senior Buyer and Divisional Merchandise Manager. She is a graduate of Berkeley College and holds a degree in Fashion Marketing & Management. She joined August Silk Inc. in 1994.

Mr. Daniele FURLAN, aged 55, joined the Group in 2004 as a consultant. He is primarily responsible for the sales and marketing of fabrics and garments to European market and provides technical, organizational and industrial knowhow to the Group's factories. He is responsible for the product development of the Group and is the CEO of Advance Textile Centre of High Fashion (China) Co., Ltd., the supplier of finished fabrics and circular knit. He holds a diploma in business administration and a master in psychology from Padova University. Previously, he worked as a manager in the Benetton Group for more than 25 years and was responsible for various production units and sourcing divisions. In particular, he was responsible for the worldwide production licensing, fabric mill, garment, accessories and shoes outsourcing department of the Benetton Group. He was the managing director of Lanificio di Follina and also, for seven years, the managing director of Benetton (Far East) Limited in Hong Kong.

Mr. Donald Michael HORNING, aged 65, joined the Group as vice president of High Fashion Garments, Inc. in 1999. Currently, he is the President and CEO of August Silk Inc. and High Fashion Garments, Inc. He has held senior management positions in the apparel industry for the past 30 years, including Jones Apparel Group, Bugle Boy, J.H. Collectibles, and David Crystal/Izod. He graduated from Syracuse University with a bachelor degree in business administration and attended the MBA program at The University of Chicago.

Ms. HU Ze Lin, aged 61, joined the Group in 1993. She is a director and the deputy general manager of High Fashion Silk (Zhejiang) Co. Ltd. and responsible for the production of that company. She attained matriculated education and is the economist in China. She has over 30 years of experience in textile industry and extensive experience in quality control in silk weaving production management.

Mr. LAM Din Yu, Well, aged 27, joined the Group in 2006. He is the general manager of the Advanced Textile Centre of High Fashion (China) Co Ltd. He holds a bachelor degree of Business Administration from Boston University. He is a son of Mr. Lam Foo Wah and a brother of Mr. Lam Gee Yu, Will.

Mr. LAM Gee Yu, Will, aged 29, joined the Group in 2010. He is a director of High Fashion Garments Company Limited, High Fashion (China) Co. Ltd. and High Fashion Silk (Zhejiang) Co. Ltd. He is also the CEO of Apparel Brand Center, and responsible for the garment retail operation and administration. He serves as a vice president of S.G.I.A. He holds a Bachelor of Science Degree from Chinese University of Hong Kong and a Master of Finance Degree from Princeton University. Prior to joining the Group, he worked for an international bank and an international investment bank in Asia and United States. He is a son of Mr. Lam Foo Wah and a brother of Mr. Lam Din Yu, Well.

Biographical Details of Directors and Senior Management

Ms. LEUNG Suk Yin, Hilda, aged 55, has been with the Group since its inception. She is a director of High Fashion Garments Company Limited and the Chief Executive Officer of Garment Centre of High Fashion (China) Co., Ltd. Ms. Leung holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 30 years of experience in the merchandising, marketing and production of garments.

Mr. LIN Ping, aged 51, joined the Group in 1993. He is the Chairman and the CEO of High Fashion Silk (Zhejiang) Co., Ltd. and responsible for the operation and administration. He is also a Vice Chairman of High Fashion (China) Co., Ltd. He serves as a Vice President of China Fashion Colour Association, Vice President of Silk Branch of China Textile Chamber of Commerce, Vice President of China Silk Quilt Association, Vice President of Zhejiang Textile Association, an executive member of China Silk Association, Vice President of Zhejiang Province Silk Association, Vice President of Zhejiang Silk Association, Vice President of Shaoxing Textile Association, Representative of 6th and 7th NPC of Shaoxing, Part-time Professor of Zhejiang Sci-Tech University and Honorary Professor of Hangzhou Vocational Technical College. He attains EMBA education and is the senior economist in China. He has over 30 years' experience in textile industry and extensive experience in product design and development, silk weaving production and management.

Mr. LIN Yuet Man, Edwin, aged 51, joined the Group in 1997. He is the Finance Director of a subsidiary of the Company and a Director and the General Manager of High Fashion (China) Co., Ltd. He has over 30 years' experience in accounting field. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators. He also holds a master degree in business administration.

Mr. Daniele PACHERA, aged 56, joined the Group in 2008. He is the Technical Director of Advanced Textile Centre of High Fashion (China) Co., Ltd. He holds a diploma in textile chemistry from the Como Silk Textile School and a master degree in silk textile management from the Polytechnic University in Milan (Italy). He has extensive experience in the luxury fashion sector (Ferragamo, Louis Vuitton) having worked for 14 years as senior manager for Mantero Seta Company in Como – Italy. His strong focus is the manufacturing of men's accessories, woman's accessories and textile for garment and bags, with a specialization in quality upgrade and product development. He has over 28 years experience in silk textile industry.

Biographical Details of Directors and Senior Management

Mr. PANG Kin Wah, Julian, aged 39, joined the Group in 2004. He is the Chief Financial Officer of Garment Centre of High Fashion (China) Co., Ltd. He is a member of the Hong Kong Institute of Certified Public Accountants and has Certified of Internal Auditors (CIA) professional designation. He holds a bachelor degree of Business Administration (Honours) in Accountancy from the Hong Kong Polytechnic University and a master degree in Business Administration from the Chinese University of Hong Kong. Prior to joining the Group, he worked for a financial institution and an international accounting firm.

Mr. RUAN Gen Yao, aged 51, joined the Group in 2001. He is the General Manager of Hangzhou Dalifu Silk Finishing Co., Ltd. and responsible for the operation of that company. He is the politician engineer in China and Labour Model of Hangzhou and the representation of the People's Congress of Tonglu, China. He has over 10 years' experience in silk finishing and dyeing industry and extensive experience in business management.

Mr. Nicholas E. G. WRIGHT, aged 57, joined the Group in 1993. He is the Managing Director of High Fashion (U.K.) Limited. He has over 25 years of experience in the clothing industry.

Mr. ZHANG Shan Pu, aged 56, joined the Group in 1999. He is the General Manager of Suzhou High Fashion Garments Co., Ltd. and responsible for the operation of that company. He graduated from an institution. Mr. Zhang has over 10 years of experience in silk knitting garments management and extensive experience in business management.

Report of the Directors

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 44 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the statement of financial position of the Group at that date are set out in the consolidated financial statements on pages 36 to 117.

An interim dividend of 7 HK cents per ordinary share was paid on 30 September 2011. The directors recommended the payment of a final dividend of 15 HK cents per ordinary share in respect of the year to shareholders on the register of members on 7 June 2012.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 118. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 15 and 17 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, is set out in note 35 to the consolidated financial statements.

SHARE OPTION SCHEME

A summary of the share option scheme during the year is set out in note 36 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased 2,498,000 (2010: 5,912,000) ordinary 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 repurchases	Number of shares repurchased	Highest price paid per share *HK$*	Lowest price paid per share *HK$*	Aggregate consideration paid (including direct costs) *HK$*
March 2011	20,000	2.94	2.94	59,052
April 2011	224,000	3.05	3.02	685,105
September 2011	1,780,000	3.25	2.85	5,663,123
October 2011	350,000	2.95	2.80	1,021,775
November 2011	64,000	2.85	2.76	180,969
December 2011	60,000	2.80	2.78	167,995
	2,498,000			**7,778,019**

The above repurchased shares were cancelled during the year 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 year 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 year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended), amounted to HK$147,462,000, of which HK$44,582,000 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$265,975,000 may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK$1,542,000 (2010: HK$1,995,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 30% of the total sales for the year and sales to the largest customer included therein amounted to 8.5%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Lam Foo Wah
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

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Chan Wah Tip, Michael, Mr. Lam Foo Wah and Mr. Wong Shiu Hoi, Peter will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

INDEPENDENCE CONFIRMATION

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), each independent non-executive director re-affirmed his independent status with the Company as at 31 December 2011, and the Company considered that they are independent.

DIRECTORS' EMOLUMENT

Particulars as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in note 9 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed under the section "Related Party Transactions" in note 43 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2011 are disclosed in note 43 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to the provision of 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 for securities transactions by directors of listed issuers ("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 share capital *(Note 3)*
Lam Foo Wah		Beneficial owner	Personal	1,706,000	0.57%
	1, 2	Other interest	Other	144,919,986	48.19%
So Siu Hang, Patricia		Beneficial owner	Personal	2,824,309	0.94%

(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 share 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 interests in 108,802,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

2. Mr. Lam Foo Wah is deemed to have interests in 36,117,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

3. The issued share capital of the Company is 300,723,550 shares as at 31 December 2011.

4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Save as disclosed above, as at 31 December 2011, none of the directors, chief executives of the Company nor their associates had or was deemed to have any interest 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 Model Code of the Listing Rules.

At no time during the year ended 31 December 2011 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following substantial shareholders, other than directors and chief executives of the Company, had the interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to the provision of 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:

Name of Shareholders	*Note*	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital *(Note 2)*
Hinton Company Limited	*1*	Beneficial owner	108,802,419	36.18%
High Fashion Charitable Foundation Limited	*1*	Beneficial owner	36,117,567	12.01%

Notes:

1. Such 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 issued share capital of the Company is 300,723,550 shares as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, 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 a long 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the accounting year ended 31 December 2011, except code provision A.2.1 on the separate roles of the chairman and CEO.

Details of the Company's corporate governance report are set out on pages 24 to 33.

AUDITOR

The consolidated financial statements for the year ended 31 December 2011 were audited by Deloitte Touche Tohmatsu.

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LAM FOO WAH
Chairman & Managing Director
Hong Kong
27 March 2012

Corporate Governance Report

The Board of Directors ("Board") and the management of the Company are committed to establishment and maintaining of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management and enhancing shareholders' value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and accountability and transparency to all shareholders.

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31 December 2011, except code provision on A.2.1 on the separate roles of the chairman and chief executive officer as described below.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

Board Composition

At the year end, the Board of the Company consisted of a total of seven directors, comprising two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. One of the three Independent Non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. The names of directors and their positions are as follows:

Name of Director	Position
Executive directors:	
Mr. Lam Foo Wah	Chairman and Managing Director
Ms. So Siu Hang, Patricia	Executive Director
Non-executive directors:	
Mr. Chan Wah Tip, Michael	Non-Executive Director
Professor Yeung Kwok Wing	Non-Executive Director
Mr. Woo King Wai	Independent Non-Executive Director
Mr. Wong Shiu Hoi, Peter	Independent Non-Executive Director
Mr. Leung Hok Lim	Independent Non-Executive Director

The Directors' biographical information are set out on pages 12 to 13.

More than one-third member in the Board is Independent Non-executive Director. During the financial year, each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

BOARD COMPOSITION AND BOARD PRACTICES (Cont'd)

Board Process

During the year, four regular Board meeting were held for facilitating the function of the Board. In any event all Directors were available for consultation by management from time to time during the year. The attendance of individual director to the Board meeting is set out on page 26 of this report.

Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

In order to ensure that the Board is able to fulfill its responsibilities, it has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on pages 28 to 30 of this report.

The Company provides at least 14 days' notices of every Board meeting to all Directors. Board papers are circulated not less than 3 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

During the financial year, the Group Chief Financial Officer and the Company Secretary attended the regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors had full access to information on the Group and were able to seek independent professional advice whenever deemed necessary by the Directors. The Company Secretary prepared minutes and kept records of matters discussed and decisions resolved at all Board meetings.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Corporate Governance Report

BOARD COMPOSITION AND BOARD PRACTICES (Cont'd)

Appointment and Re-election of Directors

In accordance with the Company's Bye-Laws, newly appointed director(s) is/are required to retire and can offer themselves for re-election at the first general meeting following their appointment.

The Company's Bye-Laws provide that every Director shall be subject to retirement by rotation at least once every three years and that one-third (or the number nearest to one-third) of the Directors shall retire from office every year at annual general meeting of the Company. Retiring Directors are eligible for re-election.

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Chan Wah Tip, Michael, Mr. Lam Foo Wah and Mr. Wong Shiu Hoi, Peter will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company to be held on 30 May 2012.

Directors' attendance records

During the year ended 31 December 2011, details of Directors' attendance at the Board and respective Board Committees Meetings and the annual general meeting held on 2 June 2011 ("2011 AGM") are as follows:

	Meetings Attended/held			
Name of Directors	Board	Audit Committee	Remuneration Committee	2011 AGM
Executive directors:				
Mr. Lam Foo Wah	4/4	N/A	N/A	1/1
Ms. So Siu Hang, Patricia	2/4	N/A	N/A	1/1
Non-executive directors:				
Mr. Chan Wah Tip, Michael	3/4	2/2	1/1	0/1
Professor Yeung Kwok Wing	3/4	2/2	1/1	1/1
Independent non-executive directors:				
Mr. Woo King Wai	3/4	2/2	1/1	1/1
Mr. Wong Shiu Hoi, Peter	4/4	2/2	1/1	1/1
Mr. Leung Hok Lim	2/4	2/2	1/1	0/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman of the Board ("Chairman") and the Managing Director are held and performed by Mr. Lam Foo Wah, the same individual. Although it deviates from the code provision A.2.1 of the CG Code, 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 given the conditions of the Group and its stage of development.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman ensure that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chairman who is also the Managing Director. The Managing Director, working with the other executive directors and the executive management team of each business division, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All Directors have made full and active contribution to the affairs of the Board and it always acts in the best interests of the Group.

With the support from Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Apart from the regular Board meetings, the Chairman may hold meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions.

Confirmation has been sought from all Directors and they have complied with the required standard set out in the Model Code for the year ended 31 December 2011.

The Company has established the written guidelines on no less exacting terms than the Model Code relating to securities transactions for the relevant employees.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with support from the Finance Department, the consolidated financial statements of the Group.

The Directors are responsible for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2011, the Directors believe that they have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable, and ensured the financial statements are prepared on a "going concern" basis.

The final and interim results of the Company are announced in a timely manner within the limits of three months and two months respectively after the end of the relevant year or period.

A statement by the Auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 34 to 35.

Auditors' Remuneration

The Group's external auditor is Deloitte Touche Tohmatsu who perform audit and non-audit services for the year ended 31 December 2011.The Company paid or payable to Deloitte Touche Tohmatsu in respect of audit services fee of approximately HK$2,831,000 and non-audit services fee of approximately HK$627,000.

AUDIT COMMITTEE

During the financial year, the Audit Committee comprises two Non-executive Directors namely, Mr. Chan Wah Tip, Michael and Professor Yeung Kwok Wing and three Independent Non-executive Directors, namely, Mr. Leung Hok Lim (Chairman of the Audit Committee), Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter.

In March 2012, the Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2011.

The Company has complied with the requirement of the Listing Rules in establishing an audit committee comprising at least three members who must be Non-executive Directors only, and the majority thereof must be Independent Non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee adopted the terms of reference with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the requirements of the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

AUDIT COMMITTEE (Cont'd)

The main duties of the Audit Committee are set out below:

(i) to recommend to the Board on the appointment, reappointment and removal of the external auditor, and any questions of resignation or dismissal of the auditor;

(ii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(iii) to develop and implement policy on the engagement of external auditor to supply non-audit services;

(iv) to monitor integrity of financial statements of the Company and the Company's annual and interim reports and accounts, and to review significant financial reporting judgments contained in such reports;

(v) to review the Company's financial controls, internal control and risk management systems; and

(vi) to review the Group's financial and accounting policies and practices.

The Audit Committee held two regular meetings during the year to review and provide supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditor of the Company. The members' attendance to the Committee meeting is listed out on page 26.

Minutes drafted by the secretary of Audit Committee are circulated to members of the Audit Committee within a reasonable time after each meeting.

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

REMUNERATION COMMITTEE

The Remuneration Committee was established by the Board in August 2005. During the year, the Remuneration Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman of the Remuneration Committee), Mr. Chan Wah Tip, Michael, Professor Yeung Kwok Wing, Mr. Woo King Wai and Mr. Leung Hok Lim. A regular meeting of Remuneration Committee has been convened in March 2011 and members' attendance to the Remuneration Committee meeting is listed out on page 26.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. Terms of reference of the Remuneration Committee are posted on the Company's website.

Corporate Governance Report

REMUNERATION COMMITTEE (Cont'd)

The Remuneration Committee consulted the Chairman about their proposals relating to remuneration package and other human resources issues of the directors and senior management of the Company. The emoluments of directors and senior management are based on the skill, knowledge and involvement in the Company's affairs of each director and senior management and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

In addition, no share options of the Company were granted to directors and senior management during the year nor outstanding as at the end of the reporting period.

NOMINATION OF DIRECTORS

The Board has approved the establishment of the Nomination Committee of the Company effective on 27 March 2012 in compliance with amendments to the CG Code.

Prior to its establishment, the Board has not established any nomination committee and would not consider establishing a nomination committee owing to the small size of the Board. The Chairman of the Board is responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition and the management of board succession. The Board carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board conducts reviews of the effectiveness of the internal control system for the year ended 31 December 2011 covering all material controls, including financial, operational and compliance controls and risk management functions by considering reviews performed by the Audit Committee, executive management and both the group internal audit department and external auditor. The Group's system of internal control comprises a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

INTERNAL CONTROL (Cont'd)

The criteria for the Board to assess the effectiveness of the system of internal control are listed below:

(i) **Organisational Structure**

An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been already established.

(ii) **Authority and Control**

The relevant Executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. The Board is responsible for handling and dissemination of price sensitive information through discussion and delegation of authority to the Company Secretary.

(iii) **Budgetary Control and Financial Reporting**

Budgets are prepared annually by the senior management and are subject to review and approval of the Executive Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the Executive Directors. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of consolidated financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

(iv) **Systems and Procedures**

Systems and procedures are set to identify, measure, manage and control risks including business, compliance, operational, financial and information services risks that may have an impact on the Group and each principal division. Exposure to these risks is monitored by the Executive Directors and the management of the respective principal divisions.

(v) **Internal Audit**

The group internal audit department performs independent reviews of the controls and risks identified to provide reasonable assurance to management of the Company and principal divisions and the Audit Committee that controls have been set in place and adequately addressed.

Corporate Governance Report

INTERNAL CONTROL (Cont'd)

The group internal audit department monitors compliance with policies and procedures as well as the effectiveness of internal control structures across the Company and the Group. To preserve the independence of the group internal audit department, the group internal audit department reports directly to the Audit Committee. The group internal audit department plans its internal audit schedules annually in consultation with, but independent of, management of the Group and the principal divisions. In addition to its agreed annual schedule of work, the group internal audit department conducts other special reviews as required. As a key criterion of assessing the effectiveness of the internal control system, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the group internal audit department and also the corrective actions taken by relevant departments.

According to the 2011 internal audit reports, the Group's internal control system is functioning effectively and there was no significant weakness found in the course of the audits carried out during the year. The Board, through the Audit Committee and the internal audit function, has reviewed the effectiveness of the Group's internal control system and is of the view that there are no suspected frauds, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations that cause the Board to believe that the systems are ineffective or inadequate. The Board is satisfied that the Company and the Group have fully complied with the code provisions on internal control as set forth in the CG Code for the year ended 31 December 2011.

COMMUNICATION WITH SHAREHOLDERS

General Meeting

At 2011 AGM held:

(i) A separate resolution was proposed by the Chairman of that meeting in respect of each separate issue, including the re-election of directors.

(ii) The Chairman of the Board, and Chairmen of the Audit Committee and Remuneration Committee, or in absence of the chairman of such committees, any member from the respective committees, attended the 2011 AGM to address shareholders queries.

(iii) The Chairman demanded poll on all resolutions. Tricor Secretaries Limited, the Company's Hong Kong branch share registrar and transfer office, was engaged as scrutineer to ensure the votes were properly counted.

The Board resolved that the 2012 annual general meeting ("2012 AGM") will be held at 10th Floor, High Fashion Centre, 1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong on Wednesday, 30 May 2012 at 10:30 a.m. The notice of the 2012 AGM will be sent to all shareholders at least 20 clear business days before the said meeting.

COMMUNICATION WITH SHAREHOLDERS (Cont'd)

Voting by Poll

It was properly explained at the commencement of the 2011 AGM the procedures for conducting a poll.

At the 2012 AGM, the Chairman of the meeting will demand a poll on all the resolutions in accordance with the requirements of the Listing Rules. The poll results will be posted on the websites of the Stock Exchange and the Company on the same day following the meeting.

Shareholders' Rights and Investor Relations

The Company establishes different communication channels with shareholders and investors: (i) shareholders can receive printed copies of corporate information, (ii) the general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) the Company's website offers communication channel between the Company and its shareholders and investors; and (iv) the Company's Hong Kong branch share registrar and transfer office serve the shareholders respecting all share registration matters.

Shareholders Communication Policy

The Company has adopted a shareholders communication policy to set out the Company's processes to provide shareholders and investment public with equal and timely information on the Company for them to make informed assessments of the Company's strategy, operations and financial performance.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of High Fashion International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 117, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED (Cont'd)

(Incorporated in Bermuda with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	5	**2,784,166**	2,724,299
Cost of sales		**(2,104,741)**	(2,060,386)
Gross profit		**679,425**	663,913
Other income		**141,560**	71,364
Other gains and losses	7	**122,983**	161,738
Administrative expenses		**(362,039)**	(310,534)
Selling and distribution expenses		**(309,323)**	(275,918)
Finance costs	8	**(31,882)**	(39,287)
Share of losses of jointly controlled entities	19	**(152)**	(295)
Profit before taxation		**240,572**	270,981
Taxation	10		
Overprovision in respect of gain on disposal of property, plant and equipment and prepaid lease payments in prior years		**72,974**	–
Income tax expenses		**(59,721)**	(53,969)
Profit for the year attributable to owners of the Company	11	**253,825**	217,012
Other comprehensive income (expense)	12		
Gain on revaluation of properties		**81,436**	–
Exchange difference arising on translation of jointly controlled entities		**1,047**	718
Exchange difference arising on translation		**93,561**	69,493
Fair value (loss) gain on hedging instruments in cash flow hedges		**(22,875)**	32,744
Reclassification to profit and loss on cash flow hedges		**(36,751)**	(31,583)
Income tax relating to components of other comprehensive income		**(14,261)**	(4,266)
Other comprehensive income for the year, net of tax		**102,157**	67,106
Total comprehensive income for the year attributable to owners of the Company		**355,982**	284,118
Earnings per share	14		
Basic		**HK$0.84**	HK$0.71

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	15	858,552	852,372
Prepaid lease payments	16	147,459	91,799
Investment properties	17	512,295	268,035
Intangible assets	18	–	516
Investments in jointly controlled entities	19	20,938	20,043
Available-for-sale investments, at cost		675	675
Deferred tax assets	33	29,108	21,503
Long-term deposits and prepayment	20	27,479	43,960
Derivative financial instruments	21	–	48,108
Structured deposits	22	–	52,941
		1,596,506	1,399,952
Current assets			
Inventories	23	448,644	455,785
Trade receivables	24	408,903	425,429
Bills receivable	25	53,959	39,702
Prepaid lease payments	16	2,771	2,436
Deposits, prepayments and other receivables	26	151,462	184,317
Amounts due from jointly controlled entities	27	686	2,931
Tax recoverable		88,443	75,684
Derivative financial instruments	21	75,483	80,993
Structured deposits	22	417,753	351,765
Short-term deposits	28	449,604	488,615
Bank balances and cash	28	820,419	622,156
		2,918,127	2,729,813

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Current liabilities			
Trade payables	29	304,957	337,577
Bills payable	29	–	340
Other payables and accruals		234,720	223,208
Amounts due to jointly controlled entities	27	1,647	3
Amount due to an associate	30	591	592
Tax payable		169,104	229,848
Derivative financial instruments	21	4,235	10,728
Obligations under finance leases	31	264	273
Bank borrowings	32	1,496,123	1,389,382
Bank overdrafts	32	194	441
		2,211,835	2,192,392
Net current assets		706,292	537,421
Total assets less current liabilities		2,302,798	1,937,373
Non-current liabilities			
Obligations under finance leases	31	80	333
Deferred tax liabilities	33	105,824	80,971
Derivative financial instruments	21	52,234	–
Provision for long service payments	34	3,375	2,492
		161,513	83,796
		2,141,285	1,853,577
Capital and reserves			
Share capital	35	30,072	30,322
Share premium and reserves		2,111,213	1,823,255
Equity attributable to owners of the Company		2,141,285	1,853,577

The consolidated financial statements on pages 36 to 117 were approved and authorised for issue by the Board of Directors on 27 March 2012 and are signed on its behalf by:

Lam Foo Wah
DIRECTOR

So Siu Hang, Patricia
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	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
At 1 January 2010	30,913	273,413	193,661	22,160	51,530	7,319	27,978	39,853	992,636	1,639,463
Profit for the year	–	–	–	–	–	–	–	–	217,012	217,012
Exchange differences arising on translation	–	–	69,493	–	–	–	–	–	–	69,493
Fair value gain on hedging instruments in cash flow hedge	–	–	–	–	–	–	32,744	–	–	32,744
Deferred tax related to fair value gain recognised in other comprehensive income	–	–	–	–	–	–	(9,731)	–	–	(9,731)
Reclassified to profit or loss	–	–	–	–	–	–	(31,583)	–	–	(31,583)
Deferred tax related to amounts reclassified to profit or loss	–	–	–	–	–	–	5,465	–	–	5,465
Exchange difference arising on translation of jointly controlled entities	–	–	718	–	–	–	–	–	–	718
Other comprehensive income (expense) for the year	–	–	70,211	–	–	–	(3,105)	–	–	67,106
Total comprehensive income (expense) for the year	–	–	70,211	–	–	–	(3,105)	–	217,012	284,118
Transfer to reserve funds	–	–	–	10,976	–	–	–	–	(10,976)	–
Repurchase of shares, include direct costs	(591)	(5,229)	–	–	–	591	–	–	(9,951)	(15,180)
Dividends recognised as distribution *(note 13)*	–	–	–	–	–	–	–	–	(54,824)	(54,824)
	(591)	(5,229)	–	10,976	–	591	–	–	(75,751)	(70,004)
At 31 December 2010	30,322	268,184	263,872	33,136	51,530	7,910	24,873	39,853	1,133,897	1,853,577

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	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
At 1 January 2011	30,322	268,184	263,872	33,136	51,530	7,910	24,873	39,853	1,133,897	1,853,577
Profit for the year	–	–	–	–	–	–	–	–	253,825	253,825
Exchange differences arising on translation	–	–	93,561	–	–	–	–	–	–	93,561
Fair value loss on hedging instruments in cash flow hedge	–	–	–	–	–	–	(22,875)	–	–	(22,875)
Deferred tax related to fair value gain recognised in other comprehensive income	–	–	–	–	–	–	(2,265)	–	–	(2,265)
Gain on revaluation of properties	–	–	–	–	81,436	–	–	–	–	81,436
Deferred tax arising on revaluation of properties	–	–	–	–	(20,359)	–	–	–	–	(20,359)
Reclassified to profit or loss	–	–	–	–	–	–	(36,751)	–	–	(36,751)
Deferred tax related to amounts reclassified to profit or loss	–	–	–	–	–	–	6,722	–	–	6,722
Effect of changes in tax rates	–	–	–	–	–	–	1,641	–	–	1,641
Exchange difference arising on translation of jointly controlled entities	–	–	1,047	–	–	–	–	–	–	1,047
Other comprehensive income (expense) for the year	–	–	94,608	–	61,077	–	(53,528)	–	–	102,157
Total comprehensive income (expense) for the year	–	–	94,608	–	61,077	–	(53,528)	–	253,825	355,982
Transfer to reserve funds	–	–	–	8,690	–	–	–	–	(8,690)	–
Repurchase of shares, include direct costs	(250)	(2,209)	–	–	–	250	–	–	(5,569)	(7,778)
Dividends recognised as distribution *(note 13)*	–	–	–	–	–	–	–	–	(60,496)	(60,496)
	(250)	(2,209)	–	8,690	–	250	–	–	(74,755)	(68,274)
At 31 December 2011	**30,072**	**265,975**	**358,480**	**41,826**	**112,607**	**8,160**	**(28,655)**	**39,853**	**1,312,967**	**2,141,285**

Notes:

(i) As stipulated by the relevant People's Republic of China ("PRC") laws and regulations, before distribution of the profit each year, the subsidiaries established in the PRC with limited liability shall set aside 10% of their net 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 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 cumulative fair value changes of foreign exchange forward contracts designated as effective hedging instruments in cash flow hedges.

(iv) Other reserve represents capitalisation of accumulated profits of a subsidiary as capital contribution to another subsidiary.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	240,572	270,981
Adjustments for:		
Allowance for inventory obsolescence	25,177	15,688
Allowance for bad and doubtful debts	4,489	8,158
Amortisation of trademarks	516	687
Amortisation of prepaid lease payments	2,390	1,669
Finance costs	31,882	39,287
Share of losses of jointly controlled entities	152	295
Interest income	(44,671)	(30,282)
Increase in fair value of investment properties	(136,897)	(52,598)
Depreciation of property, plant and equipment	89,603	72,951
Loss on disposal of property, plant and equipment and prepaid lease payments	3,100	1,333
Impairment loss recognised in respect of amounts due from jointly controlled entities	1,509	2,828
Impairment loss recognised in respect of property, plant and equipment	29,139	40,373
Impairment loss recognised in respect of deposits, prepayments and other receivables	–	2,056
Exchange difference on settlement of intra group balances	(19,963)	–
Operating cash flows before movements in working capital	226,998	373,426
Increase in inventories	(18,036)	(137,509)
Decrease (increase) in trade receivables	12,037	(140,751)
(Increase) decrease in bills receivable	(14,257)	24,166
Decrease (increase) in deposits, prepayments and other receivables	24,734	(102,362)
(Decrease) increase in trade payables	(32,620)	85,854
Decrease in bills payable	(340)	(20,381)
Increase in other payables and accruals	11,512	28,761
Increase (decrease) in amounts due to jointly controlled entities	1,644	(4,634)
Provision for long service payments	1,601	87
Long service payments utilised	(718)	(543)
Net change in derivative financial instruments	39,733	(94,040)
Cash generated from operations	252,288	12,074
Hong Kong Profits Tax paid	(12,759)	(15,114)
Overseas taxes paid	(45,937)	(4,268)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	193,592	(7,308)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES		
New short-term deposits placed	(462,867)	(582,732)
New structured deposits placed	(356,021)	(404,706)
Purchases of property, plant and equipment and prepaid lease payments	(150,497)	(81,250)
Advance to an independent third party	(24,774)	–
Increase in long-term bank deposit	(527)	–
Withdrawal of short-term deposits	525,675	395,831
Withdrawal of structured deposits	360,241	288,113
Interest received	44,671	22,432
Proceeds on disposal of property, plant and equipment and prepaid lease payments	34,084	245,812
Decrease (increase) in amounts due from jointly controlled entities	736	(3,774)
Deposits paid for land use rights	–	(16,899)
Payment on deposits placed for a life insurance policy	–	(12,817)
NET CASH USED IN INVESTING ACTIVITIES	(29,279)	(149,990)
FINANCING ACTIVITIES		
New bank borrowings raised	1,089,682	1,504,414
Repayment of bank borrowings	(982,941)	(1,105,386)
Dividends paid by the Company	(60,496)	(54,824)
Interest paid	(26,746)	(33,821)
Payment for repurchase of shares	(7,778)	(15,180)
Bank charges paid	(5,089)	(5,428)
Repayments of obligations under finance leases	(262)	(102)
Interest paid on obligations under finance leases	(47)	(38)
NET CASH FROM FINANCING ACTIVITIES	6,323	289,635
NET INCREASE IN CASH AND CASH EQUIVALENTS	170,636	132,337
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	621,715	452,074
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	27,874	37,304
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	820,225	621,715
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	820,419	622,156
Bank overdrafts	(194)	(441)
	820,225	621,715

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed on page 119 to the annual report.

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its major subsidiaries operates. For the purpose of the preparation of the consolidated financial statements and conveniences of the financial statements users, the results and financial position of the Group are presented in Hong Kong dollars ("HK$").

The Company acts as investment holding company. The principal activities of the Group are the manufacture, retailing and trading of garments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related party disclosures
HKAS 32 (Amendments)	Classification of rights issues
HK(IFRIC) – INT 14	Prepayments of a minimum funding requirement
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs issued but not yet effective

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

HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[1] Disclosures – Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[5]
HKAS 12 (Amendments)	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (Revised)	Employee benefits[2]
HKAS 27 (Revised)	Separate financial statements[2]
HKAS 28 (Revised)	Investments in associates and joint ventures[2]
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs issued but not yet effective (Cont'd)

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability that is designated as at fair value through profit or loss attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2015 and the application will have impact on amounts reported in respect of the Group's available-for-sale investments and may affect the classification and measurement of the Group's other assets. Specifically, HKFRS 9 requires available-for-sale investments be measured at fair values, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs issued but not yet effective (Cont'd)

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to HKAS 12 Deferred tax – Recovery of underlying assets

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

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. If the presumption rebutted, it is expected the application of the amendments to HKAS 12 in future accounting periods may not result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties as the Group is in objective to hold all its investment properties so as to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs issued but not yet effective (Cont'd)

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The application of HKFRS 7 will result in more extensive disclosures on derivative financial instruments in the consolidated financial statements. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required. The application of HKAS 32 is not expected to have material impact on the presentation of the Group's financial instruments.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Jointly controlled entities (Cont'd)

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods, or for administrative purposes, other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating lease in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure (Cont'd)

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

The Group's financial assets include loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for loans and receivables.

Financial assets at FVTPL

Financial assets classified as financial assets at FVTPL when it is designated as at FVTPL on initial recognition and it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in the profit or loss excludes any interest earned on the financial assets and is included in other income line item in the consolidated statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, amounts due from jointly controlled entities, short-term deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables or financial assets at FVTPL. The Group classified financial instruments that the Group acquired for long term investments as available-for-sale financial assets.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities at FVTPL

Financial liabilities classified as financial liabilities at FVTPL when it is a derivative that is not designated and effective as hedging instruments and designated as at FVTPL upon initial recognition.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, amounts due to jointly controlled entities, amount due to an associate, bank overdrafts and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derivative financial instruments and hedging (Cont'd)

Hedge accounting

The Group designates certain derivatives as hedges of cash flow hedges, which are hedges of highly probable forecast intragroup transactions for foreign currency risk exposure and hedges of interest rate risk associated with the Group's floating rate bank borrowings. For hedges of foreign currency exposure, the hedged item represents highly probable forecast intragroup transactions which are denominated in a currency other than the functional currency of respective group entity entering into the transactions and the foreign currency risk under the hedging arrangement will affect the profit or loss. For hedges of interest rate risk, the hedged item is the Group's floating rate bank borrowing and the risk being hedged represents the volatility in interest payments resulted from changes in interest rates.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for inventories

Management of the Group reviews an aging analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are not suitable for use in current production. Management estimates the net realisable value for such raw materials, work in progress and finished goods based primarily on the latest invoice prices and current market conditions. However, given the competitiveness of the industry, these prices may subsequently be affected. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for these items. At end of the reporting period, the carrying amount of inventories is HK$448,644,000 (2010: HK$455,785,000).

Income taxes

The Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain group companies for the years of assessment 1999/2000 onwards. 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 cases where the tax charged by IRD are different from the estimated amounts, a material tax charge may arise (see note 10 for details).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Impairment on property, plant and equipment

Determining whether its property, plant and equipment are impaired requires an estimation of their recoverable amounts. The recoverable amount calculation requires the Group to estimate the future cash flows expected to arise from those assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of property, plant and equipment is HK$858,552,000 (2010: HK$852,372,000).

Allowance for trade receivables

Management of the Group reviews an aging analysis, repayment history of its trade receivables and takes into consideration the estimation of future cash flows to determine allowance for trade receivables. Where the actual future cash flows are less than expected, impairment loss may arise. As at 31 December 2011, the carrying amount of trade receivable is HK$408,903,000 (net of allowance for doubtful debts of HK$28,870,000) (2010: carrying amount of HK$425,429,000, net of allowance for doubtful debts of HK$81,964,000).

Fair value of investment properties

The Group appointed independent qualified professional valuers to determine the fair values of investment properties of the Group. The valuers have applied a market value basis which involves, inter-alia, certain estimates, including comparable market transactions, appropriate capitalisation rates and reversionary income potential and redevelopment potential. In relying on the valuation, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions. As at 31 December 2011, the carrying amount of investment properties is HK$512,295,000 (2010: HK$268,035,000).

5. REVENUE

Revenue represents the amount received and receivable for goods sold by the Group, net of discount and sales related tax. An analysis of the Group's revenue is as follows:

	2011 HK$'000	2010 HK$'000
Manufacture and trading of garments	2,056,223	1,896,599
Brand business	727,943	827,700
	2,784,166	2,724,299

6. SEGMENT INFORMATION

Information reported to the chief operating decision maker, the Group's executive directors, for the purposes of resources allocation and performance assessment, is analysed based on the types of goods sold, including (i) manufacture and trading of garments and (ii) brand business, representing sales of garments which are branded in the Group's developed branding.

The Group's operating and reportable segments are (i) manufacture and trading of garments and (ii) brand business.

Segment revenues and results

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

For the year ended 31 December 2011

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	2,056,223	727,943	2,784,166	–	2,784,166
Inter-segment sales *(Note)*	217,564	–	217,564	(217,564)	–
Segment revenue	2,273,787	727,943	3,001,730	(217,564)	2,784,166
RESULT					
Segment profit	263,689	11,564	275,253	(2,799)	272,454
Finance costs					(31,882)
Profit before taxation					240,572

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. SEGMENT INFORMATION (Cont'd)

Segment revenues and results (Cont'd)

For the year ended 31 December 2010

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE					
External sales	1,896,599	827,700	2,724,299	–	2,724,299
Inter-segment sales *(Note)*	330,043	–	330,043	(330,043)	–
Segment revenue	2,226,642	827,700	3,054,342	(330,043)	2,724,299
RESULT					
Segment profit	286,340	26,624	312,964	(2,696)	310,268
Finance costs					(39,287)
Profit before taxation					270,981

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of finance costs. This is the measure reported to the Company's executive directors for the purposes of resources allocation and performance assessment. Furthermore, as the assets and liabilities for operating segments are not provided to the Company's executive directors for the purposes of resources allocation and performance assessment, no segment assets and liabilities are presented accordingly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. SEGMENT INFORMATION (Cont'd)

Other segment information

For the year ended 31 December 2011

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	81,722	7,881	89,603
Amortisation of trademarks	516	–	516
Amortisation of prepaid lease payments	2,390	–	2,390
Allowance for bad and doubtful debts	2,775	1,714	4,489
Allowance for inventory obsolescence	18,459	6,718	25,177
Impairment loss in respect of amounts due from jointly controlled entities	1,312	197	1,509
Impairment loss in respect of property, plant and equipment	15,878	13,261	29,139
Changes in fair value of derivative financial instruments	2,526	–	2,526
Increase in fair value of investment properties	119,945	16,952	136,897
Loss on disposal of property, plant and equipment and prepaid lease payments	2,636	464	3,100

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. SEGMENT INFORMATION (Cont'd)

Other segment information (Cont'd)

For the year ended 31 December 2010

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	63,459	9,492	72,951
Amortisation of trademarks	687	–	687
Amortisation of prepaid lease payments	1,669	–	1,669
Allowance for bad and doubtful debts	2,745	5,413	8,158
Allowance for inventory obsolescence	4,847	10,841	15,688
Impairment loss in respect of amounts due from jointly controlled entities	1,532	1,296	2,828
Impairment loss in respect of property, plant and equipment	9,050	31,323	40,373
Impairment loss in respect of deposits, prepayments and other receivables	–	2,056	2,056
Changes in fair value of derivative financial instruments	116,758	–	116,758
Increase in fair value of investment properties	30,000	22,598	52,598
Loss on disposal of property, plant and equipment and prepaid lease payments	1,283	50	1,333

6. SEGMENT INFORMATION (Cont'd)

Geographical information

The Group's operations are located in the United States of America ("USA"), Europe, Greater China and other areas.

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
USA	**1,423,024**	1,461,382	**2,536**	3,585
Europe	**587,160**	585,718	**1,583**	2,445
Greater China	**631,375**	566,401	**1,514,585**	1,276,354
Others	**142,607**	110,798	**129**	178
	2,784,166	2,724,299	**1,518,833**	1,282,562

Note: Non-current assets excluded investments in jointly controlled entities, available-for-sale investments, deferred tax assets, deposit placed and prepayment of premium for a life insurance and derivative financial instruments.

Information about major customer

During the year ended 31 December 2011, there is no customer from either manufacture and trading of garments segment or brand business segment which contributed over 10% of the total revenue of the Group.

During the year ended 31 December 2010, there was a customer from manufacture and trading of garments segment contributed over 10% of the total sales of the Group whose revenue was approximately HK$361 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. OTHER GAINS AND LOSSES

	2011 HK$'000	2010 HK$'000
Loss on disposal of property, plant and equipment and prepaid lease payments	**(3,100)**	(1,333)
Allowance for bad and doubtful debts	**(4,489)**	(8,158)
Government compensation income *(note)*	**–**	38,236
Changes in fair value of derivative financial instruments	**(2,526)**	116,758
Net foreign exchange gains	**26,849**	8,894
Increase in fair value of investment properties	**136,897**	52,598
Impairment loss recognised		
– property, plant and equipment	**(29,139)**	(40,373)
– amounts due from jointly controlled entities	**(1,509)**	(2,828)
– deposits, prepayments and other receivables	**–**	(2,056)
	122,983	161,738

Note: Pursuant to an agreement entered into with Hangzhou government on 3 August 2010, the Group received a compensation for relocation from Hangzhou government of RMB30,000,000 (equivalent to HK$34,482,000). The compensation related to leasehold improvements and buildings on Liuxia Street which the Group vacated and accounted as disposal in 2007.

8. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**26,746**	33,821
Finance leases	**47**	38
Bank charges	**5,089**	5,428
	31,882	39,287

9. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of seven (2010: seven) directors were as follows:

		Other emoluments			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Performance related incentive payments	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2011					
Lam Foo Wah	200	5,058	12	3,700	8,970
So Siu Hang, Patricia	200	2,328	12	1,300	3,840
Chan Wah Tip, Michael	200	–	–	–	200
Woo King Wai	200	–	–	–	200
Wong Shiu Hoi, Peter	200	–	–	–	200
Leung Hok Lim	200	–	–	–	200
Yeung Kwok Wing	200	–	–	–	200
Total for 2011	1,400	7,386	24	5,000	13,810

		Other emoluments			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Performance related incentive payments	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010					
Lam Foo Wah	200	5,058	12	4,000	9,270
So Siu Hang, Patricia	200	2,328	12	1,300	3,840
Chan Wah Tip, Michael	200	–	–	–	200
Woo King Wai	200	–	–	–	200
Wong Shiu Hoi, Peter	200	–	–	–	200
Leung Hok Lim	200	–	–	–	200
Yeung Kwok Wing	200	–	–	–	200
Total for 2010	1,400	7,386	24	5,300	14,110

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9. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (Cont'd)

Directors' emoluments (Cont'd)

The performance related incentive payments is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

During both years, no emoluments were paid by the Group to the directors as compensation for loss of office or an inducement to join or upon joining the Group. None of the directors has waived any emoluments in both years.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2010: two) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2010: three) individuals were as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefits	4,683	4,423
Retirement benefits scheme contributions	36	36
Performance related incentive payments	3,000	2,933
	7,719	7,392

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
HK$2,000,001 to HK$2,500,000	1	1
HK$2,500,001 to HK$3,000,000	2	2
	3	3

10. TAXATION

	2011 HK$'000	2010 HK$'000
Current tax charge:		
Hong Kong	**(11,500)**	(18,900)
PRC	**(14,018)**	(29,007)
Other jurisdictions	**(240)**	(6,017)
Withholding tax paid in respect of distribution of earnings of PRC subsidiaries	**(10,282)**	(3,725)
Over(under)provision in prior years:		
Hong Kong	**(315)**	443
PRC *(Note)*	**50,450**	5,077
Other jurisdictions	**712**	100
	14,807	(52,029)
Deferred taxation *(note 33)*:		
Current year	**(18,994)**	(1,940)
Overprovision in prior years *(Note)*	**23,370**	–
Attributable to change in tax rate	**(5,930)**	–
	(1,554)	(1,940)
	13,253	(53,969)

	2011 HK$'000	2010 HK$'000
Analysed for reporting as:		
Overprovision in respect of gain on disposal of property, plant and equipment and prepaid lease payments in prior years	**72,974**	–
Income tax expenses	**(59,721)**	(53,969)
	13,253	(53,969)

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10. TAXATION (Cont'd)

Note: Included in the PRC tax overprovision in prior years is an amount of HK$49,604,000 (2010: nil) and a reversal of deferred tax liability of HK$23,370,000 (2010: nil) related to gain on disposal of property, plant and equipment and prepaid lease payments in prior years. In 2007 and 2009, the Group disposed of property, plant and equipment and prepaid lease payments in Liuxia Street and Deng Yun Road under the city development plan formulated by the Hangzhou government (the "Disposals") and recognised gain on disposal of HK$361 million and HK$53 million in 2007 and 2009, respectively. The deferred tax liabilities in respect of the gains on disposal related to the deferred sale proceeds were provided as taxes relating to the Disposals are payable upon receipt of the proceeds. In March 2010 and January 2011, the Group received in full the sale proceeds from the respective Disposals. On 31 December 2010, the Group filed the audited statement on the costs incurred for the Disposals to clarify the nature and amounts of the costs incurred under the Disposals with the local tax bureau. Pursuant to 國家稅務總局《關於企業政策性搬遷或處置收入有關企業所得稅處理問題的通知》(國稅函〔2009〕118號) ("Tax Interpretation (2009) No.118"), proceeds from sales of property, plant and equipment and prepaid lease payments resulted from city redevelopment plan formulated by government is subject to enterprise income tax after deduction of related costs incurred for reallocating manufacturing plants, provided the respective costs met the criteria set out in this rule. In 2011, the local tax bureau refunded RMB1,150,000 (equivalent to HK$1,369,000) to the Group in respect of previous tax paid by the Group in relation to the Disposals. Based on the statement of costs and the tax refund received by the Group, the directors of the Company considered that the capitalised expenses incurred for the acquired and/or improved assets under the relocation plan were deductible for calculation of enterprise income tax under Tax Interpretation (2009) No.118. Accordingly, the Group reversed the respective excess tax payable and deferred tax recognised for the Disposals in current year, which were previously provided on the basis that the capitalised expenses were not deductible.

The IRD initiated a tax audit on certain group companies for the years of assessment from 1999/2000 onwards. As a matter of IRD's practice, the IRD has issued estimated/additional assessments/assessments demanding final tax ("Assessments") to these group companies for the years of assessment 1999/2000, 2000/2001, 2001/2002, 2002/2003, 2003/2004, 2004/2005 and 2005/2006. During the course of the tax audit, there may be a possibility that estimated additional assessments for subsequent years be issued by the IRD to these group companies.

Up to 31 December 2011, the Group has purchased tax reserve certificates of approximately HK$87,690,000 (2010: HK$75,684,000) for conditional standover order of objection against the notices of Assessments for the years of assessment 1999/2000, 2000/2001, 2001/2002, 2002/2003, 2003/2004 and 2004/2005 and the amount is included in tax recoverable.

Other than the tax audit, one of the companies of the Group has also purchased tax reserve certificates of approximately HK$753,000 (2010: nil) for conditional standover order of objection against the notice of Assessment for the year 2006/07 and the amount is included in tax recoverable.

10. TAXATION (Cont'd)

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards, except for High Fashion Silk (Zhejiang) Co., Ltd. and High Fashion (China) Co., Ltd..

High Fashion (China) Co., Ltd. and High Fashion Silk (Zhejiang) Co., Ltd. had been recognised as advanced technology enterprises in the PRC in 2011 and 2009, respectively. They are subject to an income tax rate of 15% for three years starting from the year being recognised as advanced technology enterprises.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2011 HK$'000	2010 HK$'000
Profit before taxation	240,572	270,981
Tax at the income tax rate of 16.5%	(39,694)	(44,712)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(9,350)	4,968
Tax effect of share of results of jointly controlled entities	(25)	(49)
Tax effect of income not taxable for tax purpose	8,257	8,542
Tax effect of expenses not deductible for tax purpose	(9,657)	(19,555)
Tax effect of deferred tax assets not recognised	(2,838)	(2,922)
Withholding tax on undistributed earnings of the PRC subsidiaries *(Note 33)*	(9,376)	(15,261)
Utilisation of tax losses previously not recognised	666	7,755
Overprovision in prior years	74,217	5,620
Tax relief relates to additional tax deductions on research and development costs incurred and amount spent on acquisition of plant and equipment made in the PRC	11,824	–
Effect on deferred taxation resulting from a change in tax rate	(5,930)	–
Others	(4,841)	1,645
Taxation	13,253	(53,969)

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11. PROFIT FOR THE YEAR

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

	2011 HK$'000	2010 HK$'000
Cost of inventories recognised as expenses (included in cost of sales)	2,118,749	2,078,290
Depreciation and amortisation		
Owned assets	89,261	72,668
Leased assets	342	283
Amortisation of trademarks (included in selling and distribution expenses)	516	687
Amortisation of prepaid lease payments	2,390	1,669
	92,509	75,307
Allowance for inventory obsolescence (included in cost of sales)	25,177	15,688
Auditor's remuneration	4,915	4,853
Minimum lease payments in respect of land and buildings	28,676	28,336
Contingent rental expense *(Note i)*	37,740	24,843
Staff costs (including directors' emoluments)		
Wages, salaries and bonuses	546,127	497,335
Retirement benefits scheme contributions	8,514	8,221
	554,641	505,556
Gain on derivative financial instruments reclassified from other comprehensive income (included in cost of sales)	(39,185)	(33,591)
Loss on derivative financial instruments reclassified from other comprehensive income (included in finance costs)	2,434	2,008
Research and development costs recognised as an expense (included in cost of sales)	87,885	83,873
Gross rental income from investment properties	(20,638)	(16,797)
Less: Outgoings for investment properties rented out	2,686	2,459
Net rental income	(17,952)	(14,338)
Government grants (included in other income) *(Note ii)*	(51,623)	(10,396)
Investment income earned on loans and receivables (included in other income)		
– bank interest income	(22,494)	(12,424)
– interest income on other receivables	(686)	(344)
	(23,180)	(12,768)
Investment income earned on derivative financial instruments (included in other income)		
– interest income from structured deposits	(21,491)	(17,514)

11. PROFIT FOR THE YEAR (Cont'd)

Notes:

(i) The contingent rental expenses are determined based on a certain percentage of the gross sales of the relevant shops when the sales meet certain specified level.

(ii) The amounts represent subsidies received from PRC government for the purposes of encouraging the Group to expand its business in PRC. There are no conditions attached to the subsidies granted to the Group and the grants are not related to capital expenditure.

12. OTHER COMPREHENSIVE INCOME (EXPENSE)

	2011 HK$'000	2010 HK$'000
Cash flow hedges:		
Fair value (loss) gain on hedging instruments	(22,875)	32,744
Reclassification adjustments to profit or loss	(36,751)	(31,583)
	(59,626)	1,161
Gain on revaluation of properties	81,436	–
Exchange difference arising on translation of jointly controlled entities	1,047	718
Exchange differences arising on translation	93,561	69,493
Other comprehensive income	116,418	71,372
Income tax relating to components of other comprehensive income:		
– revaluation of properties	(20,359)	–
– fair value changes on hedging instruments on cash flow hedge	(2,265)	(9,731)
– reclassification adjustments to profit or loss	6,722	5,465
– effect of change in tax rate	1,641	–
	(14,261)	(4,266)
Other comprehensive income for the year, net of tax	102,157	67,106

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13. DIVIDENDS

	2011 **HK$'000**	2010 HK$'000
Dividend recognised as distribution and paid during the year:		
Interim dividend – 7 HK cents per ordinary share for 2011 (2010: 5 HK cents for 2010)	**21,109**	15,165
Final dividend – 13 HK cents per ordinary share for 2010 (2010: 5 HK cents for 2009)	**39,387**	15,253
Special final dividend – None for 2010 (2010: 8 HK cents for 2009)	**–**	24,406
	60,496	54,824

The final dividend of HK 15 cents (2010: HK 13 cents) per ordinary share has been proposed by the directors and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2011 **HK$'000**	2010 HK$'000
Profit for the purpose of basic earnings per share attributable to owners of the Company	**253,825**	217,012

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**302,402,077**	305,448,107

No presentation of diluted earnings per share as there is no potential ordinary shares outstanding during the years or at the end of the respective reporting periods.

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15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000	Buildings (Hong Kong) HK$'000	Buildings (elsewhere) HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST									
At 1 January 2010	5,058	13,886	524,706	9,082	139,593	471,994	145,102	29,198	1,338,619
Additions	–	–	714	40,853	4,683	19,375	16,372	3,524	85,521
Transfers	–	–	11,829	(31,602)	3,154	15,417	1,202	–	–
Disposals	–	–	–	–	(837)	(29,136)	(15,872)	(773)	(46,618)
Exchange realignment	–	–	17,684	321	4,385	14,380	3,891	490	41,151
At 31 December 2010	5,058	13,886	554,933	18,654	150,978	492,030	150,695	32,439	1,418,673
Additions	–	–	24,217	31,804	4,728	25,996	18,559	2,703	108,007
Transfers	–	–	8,504	(21,709)	136	1,840	11,229	–	–
Transfer to investment properties	–	–	(14,797)	–	–	–	–	–	(14,797)
Disposals	–	–	(117)	–	–	(16,210)	(12,217)	(5,205)	(33,749)
Exchange realignment	–	–	20,435	830	6,816	23,173	4,930	1,029	57,213
At 31 December 2011	**5,058**	**13,886**	**593,175**	**29,579**	**162,658**	**526,829**	**173,196**	**30,966**	**1,535,347**
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 January 2010	1,071	3,955	56,587	–	31,314	250,328	109,506	23,016	475,777
Provided for the year	104	278	11,777	–	12,834	32,938	12,837	2,183	72,951
Eliminated on disposals	–	–	–	–	(410)	(23,019)	(12,057)	(688)	(36,174)
Impairment loss recognised in the profit or loss	–	–	–	–	37,104	2,142	1,127	–	40,373
Exchange realignment	–	–	2,278	–	1,071	6,955	2,607	463	13,374
At 31 December 2010	1,175	4,233	70,642	–	81,913	269,344	114,020	24,974	566,301
Provided for the year	104	278	12,786	–	22,131	36,835	15,162	2,307	89,603
Eliminated on disposals	–	–	(57)	–	–	(13,107)	(12,035)	(4,302)	(29,501)
Transfer to investment properties	–	–	(3,490)	–	–	–	–	–	(3,490)
Impairment loss recognised in the profit or loss	–	–	–	3,279	25,860	–	–	–	29,139
Exchange realignment	–	–	5,167	81	4,850	11,738	2,201	706	24,743
At 31 December 2011	**1,279**	**4,511**	**85,048**	**3,360**	**134,754**	**304,810**	**119,348**	**23,685**	**676,795**
CARRYING VALUES									
At 31 December 2011	**3,779**	**9,375**	**508,127**	**26,219**	**27,904**	**222,019**	**53,848**	**7,281**	**858,552**
At 31 December 2010	3,883	9,653	484,291	18,654	69,065	222,686	36,675	7,465	852,372

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15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	2011 HK$'000	2010 HK$'000
Medium-term leases:		
Land and buildings in Hong Kong	13,154	13,536
Buildings outside Hong Kong	508,127	484,291
	521,281	497,827

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Land and buildings	2% to 5%
Leasehold improvements	The shorter of lease terms and 5 years
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	9% to 25%

The carrying value of the motor vehicles includes an amount of HK$711,000 (2010: HK$1,042,000) in respect of assets held under finance leases.

As the cash-generating unit in which certain leasehold improvements, plant and equipment and furniture and fixtures attached to incurred operating losses, the directors of the Company determined that the future cash flows expected to be generated by this cash-generating unit is less than its carrying amounts and an impairment loss of HK$13,261,000 (2010: HK$30,196,000) has been recognised during the year ended 31 December 2011. The property, plant and equipment of this cash-generating unit has been fully impaired during the year.

During the year ended 31 December 2011, the directors of the Company considered the leasehold improvements in Hangzhou office were deteriorated and decided to carry out renovation work to Hangzhou office. Accordingly, leasehold improvements with carrying amounts of HK$12,599,000 (2010: nil) were fully written off.

In addition, included in the construction in process was a software under development for inventory management of which management considered that was technical obsolescence. Accordingly, an impairment loss of approximately HK$3,279,000 (2010: nil) has been recognised.

During the year ended 31 December 2010, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to technical obsolescence. Accordingly, an impairment loss of approximately HK$10,177,000 had been recognised.

16. PREPAID LEASE PAYMENTS

	2011 HK$'000	2010 HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land outside Hong Kong	**150,230**	94,235
Analysed for reporting purposes as:		
Non-current asset	**147,459**	91,799
Current asset	**2,771**	2,436
	150,230	94,235

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2010	211,568
Increase in fair value recognised in profit or loss	52,598
Exchange realignment	3,869
At 31 December 2010	268,035
Transfer from property, plant and equipment and prepaid leases payments	93,747
Increase in fair value recognised in profit or loss	136,897
Exchange realignment	13,616
At 31 December 2011	**512,295**

The carrying value of investment properties shown above comprises:

	2011 HK$'000	2010 HK$'000
Land and buildings in Hong Kong under medium-term lease	**162,000**	147,000
Land and buildings outside Hong Kong under long leases	**350,295**	121,035
	512,295	268,035

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17. INVESTMENT PROPERTIES (Cont'd)

The fair value of the Group's investment properties at 31 December 2011 and 2010 have been arrived at on the basis of a valuation carried out by Centaline Surveyors Limited and 新昌信安達資產評估有限公司, both are independent qualified professional valuers not connected with the Group. Centaline Surveyors Limited are members of the Institute of Valuers. 新昌信安達資產評估有限公司 is a certified public valuer in the PRC. The valuations were arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions and on the basis of capitalisation of net income with due allowance for the reversionary income and redevelopment potential.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

18. INTANGIBLE ASSETS

	Trademarks HK$'000
COST	
At 1 January 2010, 31 December 2010 and 31 December 2011	16,873
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2010	15,670
Provided for the year	687
At 31 December 2010	16,357
Provided for the year	516
At 31 December 2011	**16,873**
CARRYING VALUES	
At 31 December 2011	**–**
At 31 December 2010	516

The trademarks are amortised over 10 years.

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19. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2011 HK$'000	2010 HK$'000
Cost of unlisted investments in jointly controlled entity	9,982	9,982
Share of post-acquisition profits	6,285	6,437
Exchange realignment	4,671	3,624
	20,938	20,043

As at 31 December 2011 and 2010, the Group had interests in the following jointly controlled entities:

Name	Form of business structure	Place of registration and operations	Percentage of Ownership interest 2011 %	Percentage of Ownership interest 2010 %	Percentage of Voting power 2011 %	Percentage of Voting power 2010 %	Percentage of Profit sharing 2011 %	Percentage of Profit sharing 2010 %	Principal activities
Hangzhou Dalifu Silk Finishing Co., Ltd.	Incorporated	PRC	51	51	50	50	51	51	Dyeing, printing and sandwashing of fabric
Suzhou High Fashion Garment Co., Ltd. ("Suzhou High Fashion") *(Note)*	Incorporated	PRC	51	51	60	60	51	51	Garment manufacturing
The Silk Passion Company Limited ("Silk Passion") *(Note)*	Incorporated	Hong Kong	51	51	60	60	51	51	Trading, marketing and promoting silk products
Flaming China Limited	Incorporated	Hong Kong	50	50	50	50	50	50	Retailing of garments

Note: The Group holds 51% of the registered capital and 60% voting power of Suzhou High Fashion and Silk Passion. However, under the terms of memorandum and articles of association of Suzhou High Fashion and joint venture agreement of Silk Passion, all significant events, including operating and financial decisions must require unanimous consent by the Group and the other shareholder. Therefore, Suzhou High Fashion and Silk Passion are classified as jointly controlled entities of the Group.

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19. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2011 HK$'000	2010 HK$'000
Current assets	43,335	39,418
Non-current assets	17,046	17,873
Current liabilities	19,326	17,991
Group's share of net assets of jointly controlled entities	20,938	20,043
Income recognised in profit or loss	62,989	48,072
Expenses recognised in profit or loss	63,287	48,650
Group's share of results of jointly controlled entities for the year	(152)	(295)

The Group has discontinued recognition of its share of loss of certain jointly controlled entities.

The amount of unrecognised share of results of jointly controlled entities is as follows:

	2011 HK$'000	2010 HK$'000
Unrecognised share of losses of jointly controlled entities for the year	1,075	993
Accumulated unrecognised share of losses of these jointly controlled entities	2,068	993

20. LONG-TERM DEPOSITS AND PREPAYMENT

	2011 HK$'000	2010 HK$'000
Deposit placed and prepayment of premium for a life insurance	26,952	27,061
Deposits for acquisitions of non-current assets	–	16,899
Long-term bank deposit	527	–
	27,479	43,960

20. LONG-TERM DEPOSITS AND PREPAYMENT (Cont'd)

Deposit placed and prepayment of premium for a life insurance

During the year ended 31 December 2010, the Group entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the beneficiary and policy holder is High Fashion Garments Management Limited ("HFGML"), a wholly owned subsidiary of the Company, and the total insured sum is approximately US$10,000,000 (equivalent to HK$77,500,000). HFGML paid a gross premium of US$3,582,000 (equivalent to HK$27,763,000), including a premium charge at inception of the policy amounting to US$214,941 (equivalent to HK$1,666,000). HFGML may request a partial surrender or full surrender of the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus insurance premium charged at inception. In addition, if withdrawal is made between the 1st to 15th policy year, there is a specified surrender charge. At the inception date, the gross premium was separated into deposit placed and prepayment of life insurance premium. The prepayment of life insurance premium is amortised to profit or loss over the insured period and the deposit placed is carried at amortised cost using the effective interest method. The insurance company will pay HFGML a guaranteed interest rate of 5.2% per annum for the first year, followed by minimum guaranteed interest rate of 3% per annum for the following years.

The effective interest rate for the deposit placed on initial recognition is 4.61% per annum, which was determined by discounting the estimated future cash receipts through the expected life of the policy of 15 years, excluding the financial effect of surrender charge. At 31 December 2011, the expected life of the policy remained unchanged from the initial recognition and the directors considered that the financial impact of the option to terminate the policy was insignificant.

Deposits for acquisitions of non-current assets

As at 31 December 2010, the amount paid represented deposit paid for acquisition of land and building located in the PRC. The acquisition has been completed during the year ended 31 December 2011.

Long-term bank deposit

The long-term bank deposit carries fixed interest at rate of 5.0% per annum and will be matured on 7 January 2013.

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21. DERIVATIVE FINANCIAL INSTRUMENTS

	2011 HK$'000	2010 HK$'000
Financial assets		
Cash flow hedges		
– Interest rate swaps	9	–
– Foreign exchange forward contracts	14,574	34,534
	14,583	34,534
Other derivatives (not under hedge accounting)		
– Dual currency forward contracts	1,684	13,449
– Knock out forward contracts	1,211	30,007
– Dual currency knock out forward contracts	–	1,287
– Capped forward contracts	58,005	48,632
– Non deliverable foreign exchange forward contracts	–	759
– Deliverable foreign exchange forward contracts	–	433
	60,900	94,567
	75,483	129,101
Financial liabilities		
Cash flow hedges		
– Interest rate swaps	441	928
– Foreign exchange forward contracts	40,284	96
	40,725	1,024
Other derivatives (not under hedge accounting)		
– Interest rate swaps	–	5,585
– Dual currency forward contracts	7,363	–
– Capped forward contracts	7,676	–
– Dual currency knock out forward contracts	705	436
– Non deliverable foreign exchange forward contracts	–	3,407
– Deliverable foreign exchange forward contracts	–	276
	15,744	9,704
	56,469	10,728
Analysed for reporting purposes as:		
Non-current assets	–	48,108
Current assets	75,483	80,993
	75,483	129,101
Non-current liabilities	52,234	–
Current liabilities	4,235	10,728
	56,469	10,728

21. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cash flow hedges

Foreign exchange forward contracts

At the end of the reporting period, the Group had foreign exchange forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency forecast sales. The Company requires its PRC subsidiaries (of which the functional currency is RMB) to use foreign exchange forward contracts to hedge its foreign currency exposure on forecast sales in HK$ to group entities of which the sales to end customers are mainly denominated in United States Dollars ("US$"). Management considered the hedges made by the PRC subsidiaries are highly effective and at the Group level, the hedges are effectively hedging its cost of sales which are mainly denominated in RMB affected by the movements of RMB relative to the sales to end customers, which are mainly denominated in US$. Certain foreign exchange forward contracts are entered to sell HK$ for RMB considering that HK$ is pegged with US$ and the exposures between HK$ and US$ are not significant.

At the end of the reporting period, the Group has outstanding foreign exchange forward contracts with aggregate notional amount of HK$411 million (2010: HK$1,539 million) that requires the Group to sell HK$ for RMB at exchange rates ranging from RMB0.8346 to RMB0.8435 (2010: RMB0.8346 to RMB0.8697) for HK$1 with remaining maturity periods up to 5 months (2010: 17 months) from 31 December 2011. In addition, the Group has outstanding foreign exchange forward contracts with an aggregate notional amount of US$320 million (2010: US$13 million) that requires the Group to sell US$ for RMB at exchange rates ranging from RMB6.251 to RMB6.420 (2010: RMB6.6285 to RMB6.6769) for US$1 with maturity periods up to 24 months (2010: 9 months) from the end of the respective reporting periods. The terms of the foreign exchange contracts have been negotiated to match the terms of the forecast sales.

As at 31 December 2011, the cumulative net fair value loss of approximately HK$25,710,000 (2010: net fair value gain of HK$34,438,000) recognised in other comprehensive income and accumulated in hedging reserve is expected to be released to the profit or loss at various dates from January 2012 to December 2013 (2010: January 2011 to May 2012), the period in which the forecast sales are expected to take place. Included in the net loss was HK$40,284,000 (2010: net gain of HK$8,117,000) that is expected to be reclassified to profit or loss in more than twelve months after the end of the reporting period.

During the year, the effective portion of cash flow hedges on foreign currency forward contracts amounting to HK$39,185,000 (2010: HK$33,591,000) is reclassified from other comprehensive income upon occurrence of the sales to end customers which affected the profit or loss and deducted from cost of sales in the profit or loss.

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21. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cash flow hedges (Cont'd)

Interest rate swaps

The Group used interest rate swaps to manage its exposure to volatility in interest payments relating to certain floating rate bank borrowings. The floating-to-fixed interest rate swaps locked the interest rates ranging from 1.32% to 1.52% (2010: 1.37% to 1.58%) per annum. The interest rate swaps match the major terms of the hedged underlying bank borrowings such that management considered that the interest rate swaps are highly effective hedging instruments.

As at 31 December 2011, the fair value loss of HK$432,000 (2010: HK$928,000) of interest rate swap contracts has been recognised in other comprehensive income and accumulated in hedging reserve, and are expected to be released to profit or loss at various dates during the lives of the swaps when the hedged interest expenses are recognised and impacts profit or loss. The aggregate notional amount of interest rate swap contracts are HK$1,050,000,000 (2010: HK$900,000,000) and will mature within one year after the end of the reporting period.

The effective portion of cash flow hedges on interest rate swaps amounting to HK$2,434,000 (2010: HK$2,008,000) is reclassified from other comprehensive income to profit and loss and included in finance costs during the year.

Other derivatives (not under hedge accounting)

Dual currency forward contracts

The amount represents fair value of dual currency forward contracts that the Group shall exchange RMB and US$ at exchange rates ranging from RMB6.466 to RMB6.88 (2010: RMB6.5175 to RMB6.88) for US$1 with an aggregated notional amount of US$99 million (2010: US$75 million) to be settled monthly from January 2012 to December 2013 (2010: January 2011 to April 2012). The contracts will be settled on a net basis in either HK$ or US$ dependent on the spot rate on maturity date or at banks' discretions. The fair value loss of HK$9,229,000 (2010: a fair value gain of HK$16,685,000) is recognised in profit and loss.

Knock out forward contracts

The amount represents fair value of knock out forward contracts with aggregate notional amount of US$12 million (2010: US$120 million) that the Group shall pay to respective banks when RMB for US$ at exchange rates below RMB6.255 for US$1 while the Group shall receive from respective banks when RMB for US$ fall within the range of RMB6.255 to RMB6.88 for US$1 on specified monthly fixing date from January 2012 to April 2012 (2010: January 2011 to December 2011). There will be no settlement when the spot rate is over RMB6.88 for US$1 on fixing date. The fair value loss of HK$2,588,000 (2010: a fair value gain of HK$30,009,000) is recognised in profit and loss.

21. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Other derivatives (not under hedge accounting) (Cont'd)

Dual currency knock out forward contracts

At 31 December 2011, the amount represents fair value of dual currency knock out forward contracts that the Group shall exchange RMB and US$ with notional amount of US$6.5 million at specific exchange rate in January 2012. At 31 December 2010, the amounts represented fair value of dual currencies knock out forward contracts that the Group should exchange RMB and US$ with notional amounts of US$19.4 million and US$6.5 million at specific exchange rate in January 2011 and September 2011, respectively. The contracts would be settled on a net basis in either RMB or US$ dependent on the spot rate on maturity date. In addition, the contracts would be terminated when the spot rate is above exchange rate specified in respective contracts. The fair value loss of HK$1,632,000 (2010: a fair value gain of HK$1,548,000) is recognised in profit and loss.

Capped forward contracts

The amount represents fair value of non deliverable capped forward contracts with aggregate notional amount US$228 million (2010: US$219 million). The Group shall pay/receive if the exchange rate of RMB vs US$ above/below the upper contract rate specified in the relevant agreements on the settlement date. Where the spot rate is above the upper contract rate on the settlement date, the Group should pay the amount multiple by two to respective banks. The aforesaid upper contract rate in the relevant agreements are ranging from RMB6.45 to RMB6.9 vs US$1 (2010: RMB6.85 to RMB6.9 vs US$1). The contracts will be settled in various dates from January 2012 to December 2013 (2010: January 2011 to December 2012). The fair value gain of HK$11,056,000 (2010: HK$50,466,000) is recognised in profit and loss.

Non deliverable foreign exchange forward contracts

At 31 December 2010, the amount represented fair value of foreign exchange forward contracts with aggregate notional amount of US$60 million that required the Group to sell RMB for US$ at exchange rates ranging from RMB6.436 to RMB6.723 for US$1 with various maturity dates from January to October 2011. The fair value loss of HK$5,525,000 (2010: a fair value gain of HK$13,410,000) is recognised in profit and loss.

Deliverable foreign exchange forward contracts

At 31 December 2010, the amount represented fair value of foreign exchange forward contracts with aggregate notional amount of US$30 million that required the Group to sell US$ for RMB at exchange rates ranging from RMB6.498 to RMB6.553 for US$1 with various maturity dates from September to October 2011. The fair value gain of HK$5,542,000 (2010: HK$1,048,000) is recognised in profit and loss.

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

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22. 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 or interest rates quoted in the market. The structured deposits are designated as FVTPL at initial recognition.

Major terms of the structured deposits at the end of the reporting period are as follows:

At 31 December 2011:

Principal amount	**Maturity** *(Note a)*	**Annual coupon rate** *(Note b)*
RMB45,000,000	4 January 2012	6% or 3.7% or 2.2%
RMB44,000,000	30 January 2012	6% or 3.8% or 2.4%
RMB84,000,000	27 April 2012	6% or 4.6% or 2.9%
RMB25,000,000	11 June 2012	6% or 4.8% or 2.9%
RMB42,000,000	20 July 2012	6% or 5% or 3.2%
RMB42,000,000	26 July 2012	6% or 5% or 3.2%
RMB45,000,000	13 August 2012	6% or 5% or 3.2%

At 31 December 2010:

Principal amount	**Maturity** *(Note a)*	**Annual coupon rate** *(Note b)*
RMB44,000,000	19 January 2011	6% or 3.7% or 2%
RMB88,000,000	21 April 2011	6% or 3.5% or 2%
RMB25,000,000	3 June 2011	6% or 3.5% or 2%
RMB45,000,000	8 July 2011	6% or 3.5% or 2%
RMB44,000,000	18 July 2011	6% or 3.5% or 2%
RMB45,000,000	5 August 2011	6% or 3.5% or 2%
RMB45,000,000	4 January 2012	6% or 3.7% or 2.2%

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 European dollar for US$ 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.

22. STRUCTURED DEPOSITS (Cont'd)

At the end of the reporting period, 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 and exchange rates.

23. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	165,467	159,461
Work in progress	114,796	145,158
Finished goods	168,381	151,166
	448,644	455,785

24. TRADE RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	437,773	507,393
Less: Allowance for doubtful debts	(28,870)	(81,964)
	408,903	425,429

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:

	2011 HK$'000	2010 HK$'000
Within 90 days	359,834	395,040
91 to 180 days	46,176	27,983
181 to 360 days	2,616	2,126
Over 360 days	277	280
	408,903	425,429

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24. TRADE RECEIVABLES (Cont'd)

The Group has policy of making allowance for bad and doubtful debts which is based on the evaluation of collectability and age of accounts and on management's judgement including credit worthiness and past collection history of each customer. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers are reviewed twice a year.

At the end of the reporting period, trade receivables with an aggregate carrying amount of HK$280,958,000 (2010: HK$316,543,000) which are neither past due nor impaired for which management consider these amounts are of good credit quality.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$127,945,000 (2010: HK$108,886,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as these trade receivables are either settled subsequent to the end of the reporting period or the respective customers have good repayment history. Accordingly, the directors of the Company believe that there is no further provision required in excess of the allowance of doubtful debts as at the end of the reporting period. The average age of these receivables is 60 days (2010: 61 days).

Ageing of trade receivables which are past due but not impaired:

	2011	2010
	HK$'000	HK$'000
Within 90 days	**109,588**	93,312
91 – 180 days	**16,103**	13,487
181 – 360 days	**1,977**	1,806
Over 360 days	**277**	281
Total	**127,945**	108,886

Movement in the allowance for doubtful debts

	2011	2010
	HK$'000	HK$'000
Balance at beginning of the year	**81,964**	74,490
Exchange adjustment	**184**	62
Impairment losses recognised on receivables *(Note i)*	**7,610**	8,542
Amounts written off as uncollectible *(Note ii)*	**(57,767)**	(746)
Amounts recovered during the year	**(3,121)**	(384)
Balance at end of the year	**28,870**	81,964

24. TRADE RECEIVABLES (Cont'd)

Notes:

(i) The impairment losses recognised on receivables are individual trade receivables that are past due at the end of the reporting date and the Group believes that those amounts are unlikely to be recoverable based on past collection history and credit worthiness of each customer. The Group does not had any collateral over these balance.

(ii) The amounts written off as uncollectible are individually impaired trade receivable which are in severe financial difficulties.

25. BILLS RECEIVABLE

At 31 December 2011, bills receivable of HK$53,959,000 are aged within 90 days. At 31 December 2010, bills receivable of HK$38,803,000 were aged within 90 days and the remaining amount of HK$899,000 were aged between 91 days and 180 days.

Included in the bills receivable is discounted bills with recourse of HK$43,422,000 (2010: HK$29,651,000) which corresponding financial liabilities are included in bank borrowings disclosed in note 32.

26. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Included in deposits, prepayments and other receivables is a loan receivable of RMB20,000,000 (equivalent to HK$24,774,000) (2010: nil) to an independent third party through a bank in the PRC, which carries fixed interest at 12% per annum and will be matured on 5 June 2012.

27. AMOUNTS DUE FROM AND TO JOINTLY CONTROLLED ENTITIES

The amounts due from and to jointly controlled entities are unsecured, interest free and are repayable on demand. Amounts due to jointly controlled entities are payables for purchases of raw materials and finished goods and aged within 90 days.

28. SHORT-TERM DEPOSITS AND BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.001% to 5.0% (2010: 0.001% to 1.8%) per annum. The short-term deposits carry fixed interest at rates ranging from 1.7% to 3.5% (2010: 1.7% to 2.25%) per annum.

Bank balances are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. Short-term deposits are deposits with banks with more than three months to maturity when acquired. Both bank balances and short-term deposits are matured within 12 months from the end of the reporting period and are therefore classified as current assets.

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29. TRADE PAYABLES AND BILLS PAYABLE

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

	2011 HK$'000	2010 HK$'000
Within 90 days	131,732	154,814
91 to 180 days	5,082	5,509
181 to 360 days	1,965	1,706
Over 360 days	4,526	4,064
	143,305	166,093
Accrued purchases	161,652	171,484
	304,957	337,577

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

At 31 December 2010, all bills payable were aged within 90 days.

30. AMOUNT DUE TO AN ASSOCIATE

The amount due to an associate is unsecured, interest-free and is repayable on demand.

31. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Amounts payable under finance leases:				
Within one year	282	303	264	273
In the second year	86	282	80	255
In the third to fifth year inclusive	–	86	–	78
	368	671	344	606
Less: Future finance charges	(24)	(65)	–	–
Present value of lease obligations	344	606	344	606
Less: Amount due for settlement within twelve months (shown under current liabilities)			(264)	(273)
Amount due for settlement after twelve months (shown under non-current liabilities)			80	333

The Group leases certain of its motor vehicles under finance lease. The average lease term is five (2010: five) years. For the year ended 31 December 2011, the average effective borrowing rate was 8.5% (2010: 6.2%) per annum. Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligation under finance leases are secured by the lessor's charge over the leased assets.

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32. BANK BORROWINGS AND BANK OVERDRAFTS

	2011 HK$'000	2010 HK$'000
Bank loans	**1,496,123**	1,389,382
Analysed as:		
Secured	**43,423**	54,682
Unsecured	**1,452,700**	1,334,700
	1,496,123	1,389,382
Carrying amount repayable*:		
Within one year	**1,326,123**	1,147,982
More than one year, but not exceeding two years	**64,800**	236,400
More than two years, but not exceeding five years	**45,200**	5,000
Over five years	**60,000**	–
	1,496,123	1,389,382
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**170,000**	241,400

* The amounts due are based on scheduled repayment dates set out in the loan agreements. All loan agreements contained a repayment on demand clause.

The Group's bank overdrafts and bank borrowings carry variable interest rates ranging from 1.18% to 2.31% (2010: 0.95% to 3.07%) per annum.

At 31 December 2011, the Group undertakes to the banks that structured deposits of HK$385,796,000 (HK$374,516,000) and short-term deposits of HK$430,703,000 (2010: HK$466,933,000) are maintained with respective banks during the life of certain bank loans.

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33. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

	Deferred tax assets					
	Unrealised profit arising on intra-group transactions	Bad and doubtful debts	Allowance on obsolete inventories	Impairment loss on property, plant and equipment	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	317	2,061	1,552	5,076	58	9,064
Credit (charge) to profit or loss	128	1,820	440	9,602	(58)	11,932
Exchange realignment	–	44	1	462	–	507
At 31 December 2010	445	3,925	1,993	15,140	–	21,503
Credit to profit or loss	17	117	5,458	7,285	817	13,694
Effect of change in tax rate	–	(1,532)	(327)	(5,270)	–	(7,129)
Exchange realignment	–	63	213	764	–	1,040
At 31 December 2011	**462**	**2,573**	**7,337**	**17,919**	**817**	**29,108**

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33. DEFERRED TAXATION (Cont'd)

	Deferred tax liabilities							
	Accelerated tax depreciation	Revaluation of investment properties	Revaluation of property and prepaid lease payments transferred to investment property	Unsettled sales proceed on disposal of property, plant and equipment and prepaid lease payments	Withholding tax in respect of undistributed earnings of PRC subsidiaries	Interest receivables	Fair value gain on derivative instruments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	1,214	6,907	11,513	32,356	5,745	501	4,340	62,576
Charge (credit) to profit or loss	–	9,470	–	(8,986)	15,261	1,852	–	17,597
Reversal upon payment of withholding tax	–	–	–	–	(3,725)	–	–	(3,725)
Exchange realignment	(2)	(9)	268	–	–	–	–	257
Charge to hedging reserve	–	–	–	–	–	–	4,266	4,266
At 31 December 2010	1,212	16,368	11,781	23,370	17,281	2,353	8,606	80,971
Charge (credit) to profit or loss	–	32,949	–	(23,370)	9,376	645	–	19,600
Reversal upon payment of withholding tax	–	–	–	–	(10,282)	–	–	(10,282)
Exchange realignment	–	1,075	1,393	–	–	–	5	2,473
Effect of change in tax rate	–	–	–	–	–	(1,199)	(1,641)	(2,840)
Credit to hedging reserve	–	–	–	–	–	–	(4,457)	(4,457)
Charge to property revaluation reserve	–	–	20,359	–	–	–	–	20,359
At 31 December 2011	**1,212**	**50,392**	**33,533**	**–**	**16,375**	**1,799**	**2,513**	**105,824**

The ultimate realisation of these deferred tax assets depend principally on certain subsidiaries in the PRC achieving profitability and generating sufficient taxable profits to utilise the underlying deferred tax assets. Based on the taxable profit and loss projections of these businesses, it is more probable that the Group can fully utilise the deferred tax assets recognised. It may be necessary for some or all of these deferred tax assets be reduced and charged to profit or loss if there is a significant adverse change in the projected performance and projected taxable profit of the business.

33. DEFERRED TAXATION (Cont'd)

The Group has estimated tax losses arising in Hong Kong of HK$473,573,000 (2010: HK$504,192,000), tax losses arising in overseas of HK$25,099,000 (2010: HK$25,507,000), allowance on obsolete inventories of HK$18,789,000 (2010: HK$14,136,000) and fair value loss on hedging instruments of HK$39,538,000 (2010: nil) for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

As the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$8 million (2010: HK$19 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

34. PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
At 1 January 2010	2,948
Amount utilised during the year	(543)
Amount provided during the year	87
At 31 December 2010	2,492
Amount utilised during the year	(718)
Amount provided during the year	1,601
At 31 December 2011	**3,375**

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision represents management's best estimate of the probable future payments which have been earned by the employees from their service to the Group up to the end of the reporting period.

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35. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2010, 31 December 2010 and 31 December 2011	1,000,000	100,000
Issued and fully paid:		
At 1 January 2010	309,134	30,913
Shares repurchased and cancelled *(Note)*	(5,912)	(591)
At 31 December 2010	303,222	30,322
Shares repurchased and cancelled *(Note)*	(2,498)	(250)
At 31 December 2011	**300,724**	**30,072**

All the issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

Note: The Company repurchased its own shares through the Stock Exchange as follows:

Year ended 31 December 2011

Month of repurchase	No. of ordinary shares of HK$0.10 each '000	Price per share Lowest HK$	Price per share Highest HK$	Aggregate consideration paid HK$'000
March 2011	20	2.94	2.94	59
April 2011	224	3.02	3.05	685
September 2011	1,780	2.85	3.25	5,663
October 2011	350	2.80	2.95	1,022
November 2011	64	2.76	2.85	181
December 2011	60	2.78	2.80	168
	2,498			7,778

35. SHARE CAPITAL (Cont'd)

Note: The Company repurchased its own shares through the Stock Exchange as follows: (Cont'd)

Year ended 31 December 2010

Month of repurchase	No. of ordinary shares of HK$0.10 each	Price per share		Aggregate consideration paid
		Lowest	Highest	
	'000	HK$	HK$	HK$'000
January 2010	50	1.80	1.80	90
February 2010	1,652	1.78	1.90	3,087
April 2010	460	2.73	2.79	1,276
May 2010	2,348	2.73	2.90	6,689
July 2010	182	2.40	2.46	446
September 2010	608	2.90	2.90	1,770
October 2010	538	2.85	2.99	1,605
November 2010	74	2.90	2.90	217
	5,912			15,180

The above shares were cancelled upon repurchase. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during both years.

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36. SHARE OPTION SCHEME

The purpose of the share option scheme adopted on 26 March 2002 (the "Scheme") is to enable the Company to grant options to eligible participants, thereby (a) providing alternative recognition of their contributions; (b) strengthening the relationship between the Group and its employees and executives; (c) attracting and retaining key employees and executives; and (d) motivating employees and executives. Eligible participants of the Scheme include the directors and employees of the Group. Unless otherwise terminated or amended, the Scheme will remain in force for 10 years from date of adoption.

Pursuant to the Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and options granted and yet to be exercised under any other schemes will not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the Company's shares in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The exercisable period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the highest of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the option; and (3) the par value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted under the Scheme during the year nor outstanding as at the end of the reporting period.

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 32, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, the share buy-backs, the issue of new shares as well as the issue of new debt or the redemption of existing debt.

38. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Derivative financial instruments	75,483	129,101
Financial assets at FVTPL	417,753	404,706
Loans and receivables (including cash and cash equivalents)	1,819,502	1,688,168
Available-for-sale investments	675	675
Financial liabilities		
Derivative financial instruments	56,469	10,728
Amortised cost	1,919,041	1,850,348

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, derivative financial instruments, amounts due from and to jointly controlled entities, structured deposits, short-term deposits, bank balances and cash, trade and bills payables, other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases. The carrying amounts of major foreign currency denominated monetary assets and monetary liabilities (including foreign currency denominated intra group balances) which expose the Group to foreign currency risk at the end of the reporting period are as follows:

	Liabilities		Assets	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
HK$	87,000	130,000	137	938
US$	332,103	386,828	379,628	332,173

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Currency risk (Cont'd)

The Group has entered into certain foreign exchange forward contracts as set out in note 21 to hedge against the potential currency exposure arising on the forecast intragroup sales. It is the Group's policy to negotiate the terms of the foreign exchange forward contracts to match the terms of the hedged item to maximise hedge effectiveness.

The Group also entered into certain structured deposits as set out in note 22, of which the coupon rate is dependent on exchange rate of US$ and European dollar. The directors of the Company considered currency risk arising from structured deposits is insignificant.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2010: 5%) strengthen in the group entities' functional currency against the relevant foreign currencies. 5% (2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, foreign exchange forward contracts, dual currency forward contracts, knock out forward contracts, dual currency knock out forward contracts and capped forward contracts, and adjusts their translation at the end of the reporting period for a 5% (2010: 5%) change in foreign currency rates and forward exchange rates. A positive/negative number below indicates an increase/decrease in post-tax profit for the year and hedging reserve.

	Impact on HK$		Impact on US$	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit or loss (i)	**3,692**	(28)	**(30,931)**	(26,328)
Hedging reserve (ii)	**16,950**	75,558	**106,132**	5,059

(i) This is mainly attributable to the exposure outstanding on foreign currencies denominated monetary items, foreign exchange forward contracts, dual currency forward contracts, knock out forward contracts, dual currency knock out forward contracts and capped forward contracts, which are not subject to cash flow hedges at the end of the reporting period.

(ii) This is a result of changes in fair value of foreign exchange forward contracts designated as cash flow hedges in relation to the Group's foreign currency forecast sales.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

38. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate bank deposits, a loan receivable and long-term bank deposit. The Group is also exposed to cash flow interest rate risk relating to the variable rate bank borrowings, derivative financial instruments including receive-floating and pay-fixed interest rate swaps, which mainly concentrated on fluctuation of Hong Kong Inter Bank Offered Rate. Management monitors interest rate exposure and consider hedging significant interest rate exposure should the need arise. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 21 for details).

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments. The analysis include the variable rate bank borrowings which assumes borrowings outstanding balances at the end of the reporting period were outstanding for the whole year, and interest rate swaps. A 50 basis point (2010: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate. The sensitivity analysis below indicates 50 basis points (2010: 50 basis point) increase in interest rate. A negative number below indicates a decrease in post-tax profit.

	2011 **HK$'000**	2010 HK$'000
Profit or loss (i)	**(6,243)**	(6,107)
Hedging reserve (ii)	**(1,367)**	(1,913)

(i) This is mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings and interest swaps not under hedge accounting outstanding at the end of the reporting period.

(ii) This is a result of changes in fair value of interest rates swaps designated as cash flow hedges in relation to the Group's variable rate bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on the major customers, loan receivable and structured deposits and liquid funds which are deposited with several banks and insurance company with high credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers, spread across geographical areas. In order to minimise the credit risk from the major customers, the term of payment of the major customers are under bank's letter of credit. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2011, the Group has available unutilised banking facilities of approximately HK$2,289 million (2010: HK$3,566 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

38. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity tables

	Weighted average interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2011 HK$'000
2011						
Non-derivative financial liabilities						
Trade payables	–	304,957	–	–	304,957	304,957
Other payables	–	115,185	–	–	115,185	115,185
Amounts due to jointly controlled entities	–	1,647	–	–	1,647	1,647
Amount due to an associate	–	591	–	–	591	591
Bank overdrafts	1.78	194	–	–	194	194
Bank borrowings	1.78	1,496,123	–	–	1,496,123	1,496,123
Obligations under finance leases	8.5	71	211	86	368	344
		1,918,768	211	86	1,919,065	1,919,041
Derivative – net settlement						
Derivative financial instruments, other than foreign exchange forward contracts under cash flow hedges	–	1,660	2,575	11,950	16,185	16,185
Derivative – gross settlement						
Foreign exchange forward contracts under cash flow hedges						
– inflow	–	(301,495)	(1,116,079)	(1,447,716)	(2,865,290)	(2,865,290)
– outflow	–	291,000	1,112,000	1,488,000	2,891,000	2,891,000
		(10,495)	(4,079)	40,284	25,710	25,710

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

	Weighted average interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2010 HK$'000
2010						
Non-derivative financial liabilities						
Trade and bills payables	–	337,917	–	–	337,917	337,917
Other payables	–	121,407	–	–	121,407	121,407
Amounts due to jointly controlled entities	–	3	–	–	3	3
Amount due to an associate	–	592	–	–	592	592
Bank overdrafts	1.38	441	–	–	441	441
Bank borrowings	1.38	1,389,382	–	–	1,389,382	1,389,382
Obligations under finance leases	6.2	75	228	368	671	606
		1,849,817	228	368	1,850,413	1,850,348
Derivative – net settlement						
Derivative financial instruments, other than foreign exchange forward contracts under cash flow hedges and deliverable foreign exchange forward contracts not under hedge accounting	–	1,095	9,261	–	10,356	10,356
Derivative – gross settlement						
Foreign exchange forward contracts under cash flow hedges and deliverable foreign exchange forward contracts not under hedge accounting						
– inflow	–	(317,225)	(1,170,503)	(419,117)	(1,906,845)	(1,906,845)
– outflow	–	309,250	1,152,000	411,000	1,872,250	1,872,250
		(7,975)	(18,503)	(8,117)	(34,595)	(34,595)

38. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

The table below follows the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand or less than 3 months" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Weighted average interest rate	On demand or less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying Amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2011	**1.78**	**1,259,150**	**74,284**	**187,591**	**1,521,025**	**1,496,123**
31 December 2010	1.38	1,115,891	39,562	247,609	1,403,062	1,389,382

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair values

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities at amortised costs (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- the fair value of foreign exchange forward contracts designated as hedging instruments are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;

- the fair value of structured deposits are measured using discounted cash flow analyses based on the applicable yield curves of relevant interest rates and exchange rates;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

38. FINANCIAL INSTRUMENTS (Cont'd)

Fair values (Cont'd)

- the fair value of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and

- the fair value of foreign exchange forward contracts, dual currency forward contracts, knock out forward contracts, dual currency knock out forward contracts and capped forward contracts are determined by the discounted cash flow analysis using the applicable yield curve derived from quoted exchange rates and interest rates for the duration of the instruments or option pricing models.

The Group's financial instruments that are measured subsequent to initial recognition at fair value include derivative financial instruments are grouped into level 2, which are derived from inputs other than quoted prices (unadjusted) in active market for identical assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

39. PLEDGE OF ASSETS

At the end of the reporting period, the Group has pledged the following assets to secure credit facilities granted to the Group.

	2011 **HK$'000**	2010 HK$'000
Trade receivables	**36,392**	75,968
Bills receivable	**43,422**	29,651
	79,814	105,619

40. OPERATING LEASES

(a) The Group as lessor

The Group leases its investment properties under operating lease arrangements with average lease term of one to two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2011 HK$'000	2010 HK$'000
Within one year	16,524	12,076
In the second to fifth years, inclusive	45,397	30,562
Over five years	60,928	27,059
	122,849	69,697

(b) The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 HK$'000	2010 HK$'000
Within one year	22,804	26,905
In the second to fifth years, inclusive	37,665	43,709
Over five years	4,513	5,385
	64,982	75,999

Operating lease payments represent rental payable by the Group for certain of its office premises, rental shops and factories. Leases are negotiated for terms ranging from one to ten years and rentals are fixed over the lease terms. In addition to the fixed rentals which are disclosed above, pursuant to the terms of certain leasing agreements, the Group has to pay a rental based on certain percentage of the gross sales of the relevant shop.

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For the year ended 31 December 2011

41. CAPITAL COMMITMENTS

	2011 HK$'000	2010 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	4,434	6,902

42. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The contributions are charged to the profit or loss as incurred. The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on a certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

43. RELATED PARTY TRANSACTIONS

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

	2011 HK$'000	2010 HK$'000
Purchases of raw materials and finished goods from jointly controlled entities	23,893	22,587
Sales of raw materials and finished goods to jointly controlled entities	4,637	1,422

Compensation of key management personnel

The remuneration of directors and key executive during the year are set out in note 9, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
			2011	2010	
			%	%	
Angel Star Investment Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	**100** **100**	100 100	Holding of trademarks
Anway Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
August Silk Inc.	USA	US$10	**100**	100	Marketing and garment trading
Bramead International Inc.	British Virgin Islands ("BVI")/USA	US$1	**100**	100	Holding of trademarks
Cantabian Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	**100** **100**	100 100	Investment holding
Dongguan Dalisheng Fashion Co., Ltd. *(Note 1)*	PRC	HK$28,000,000	**100**	100	Garment manufacturing
Dongguan Yihao Fashions Limited *(Note 1)*	PRC	HK$20,500,000	**100**	100	Garment manufacturing
Eminent Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Guangdong Theme-Huayu Fashion Company Limited *(Note 1)*	PRC	RMB5,000,000	**100**	100	Garment retailing
High Fashion Accessories and Gifts Limited	Hong Kong	HK$2	**100**	100	Accessories and gifts trading and manufacturing

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2011 %	2010 %	Principal activities
High Fashion Apparel Limited	BVI/Hong Kong	US$1,000	**100**	100	Investment holding
High Fashion (China) Co., Ltd. *(Note 1)*	PRC	US$106,865,779	**100**	100	Dyeing, printing and sandwashing of fabrics and garment manufacturing
High Fashion Commerce Limited	Hong Kong	HK$1	**100**	100	Provision of procurement and undertaking services
High Fashion Garments Company Limited	Hong Kong	HK$2 ordinary HK$10,000,000 Non-voting deferred	**100** **100**	100 100	Garment trading
High Fashion Garments, Inc.	USA	US$5,000	**100**	100	Marketing and garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macau	MOP100,000	**100**	100	Garment trading agency
HFGML	Hong Kong	HK$20 Ordinary HK$20 Non-voting deferred	**100** **100**	100 100	Provision of management services
High Fashion International (USA) Inc.	USA	US$1,800	**100**	100	Investment holding

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
			2011 %	2010 %	
High Fashion Knit Company Limited	Hong Kong	HK$2	100	100	Garment trading
High Fashion Knitwear Company Limited (previously known as Theme International Limited)	Hong Kong	HK$2 Ordinary HK$1,000,000 Non-voting deferred	100 100	100 100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK$2 Ordinary HK$10,000 Non-voting deferred	100 100	100 100	Garment trading
High Fashion Silk (Zhejiang) Co., Ltd. *(Note 1)*	PRC	US$52,500,000	100	100	Silk weaving
High Fashion (UK) Limited	United Kingdom	GBP20,000	70.5	70.5	Garment trading
Navigation Limited	BVI/Hong Kong	US$1	100	100	Investment holding
Stage II Limited	Hong Kong	HK$800,000	100	100	Garment retailing
The King Garment Limited	Hong Kong	HK$2	100	100	Garment trading
Theme Corporate Fashion (Asia) Limited	Hong Kong	HK$1	100	100	Garment trading
Theme Corporate Fashion (China) Limited	Hong Kong	HK$1	100	100	Investment holding
Theme Corporate Fashion (Overseas) Limited	Hong Kong	HK$1	100	100	Garment trading

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
			2011 %	2010 %	
Theme Garments (Shenzhen) Company Limited *(Note 1)*	PRC	RMB60,000,000	**100**	100	Garment retailing and trading
Theme Fashion (Singapore) Pte. Ltd.	Singapore	S$100,000	**100**	100	Garment retailing
Theme International Holdings (B.V.I.) Limited	BVI	US$10,001	**100**	100	Investment holding
Xinchang Augustmoon Silk Production Technology Consultant Co., Ltd. *(Notes 1 and 2)*	PRC	US$3,000,000	**–**	100	Provision of consultancy services of silk production technology
Winsmart Overseas Limited	Hong Kong	HK$2	**100**	100	Garment trading

Notes:

(1) These companies are registered as a wholly-owned foreign enterprise.

(2) Xinchang Augustmoon Silk Production Technology Consultants Co., Ltd. was deregistered during the year ended 31 December 2011.

High Fashion Apparel Limited is a directly held wholly owned subsidiary of the Company. Except High Fashion Apparel Limited, all subsidiaries listed above are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 HK$'000	2010 HK$'000
Unlisted investments in subsidiaries	**126,671**	126,671
Amount due from a subsidiary	**341,153**	350,032
Other current assets	**150**	150
Bank balances	**307**	208
Total assets	**468,281**	477,061
Less: liabilities	**93**	92
Net assets	**468,188**	476,969
Capital and reserves		
Share capital *(see note 35)*	**30,072**	30,322
Reserves	**438,116**	446,647
Total equity	**468,188**	476,969

Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last five financial periods, as extracted from the audited financial statements and reclassified and adjusted as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**2,784,166**	2,724,299	2,271,566	2,598,031	2,554,781
Profit before taxation	**240,572**	270,981	192,457	96,904	712,692
Taxation	**13,253**	(53,969)	(35,007)	(18,551)	(157,315)
Profit for the year	**253,825**	217,012	157,450	78,353	555,377
Profit for the year attributable to					
Owners of the Company	**253,825**	217,012	165,507	90,635	566,616
Non-controlling interests	**–**	–	(8,057)	(12,282)	(11,239)
	253,825	217,012	157,450	78,353	555,377

ASSETS AND LIABILITIES

	At 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**4,514,633**	4,129,765	3,367,662	3,478,849	3,311,276
Total liabilities	**(2,373,348)**	(2,276,188)	(1,728,199)	(1,885,533)	(1,618,396)
	2,141,285	1,853,577	1,639,463	1,593,316	1,692,880

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Lam Foo Wah
(Chairman and Managing Director)
Ms. So Siu Hang, Patricia

Non-executive Directors
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing

Independent Non-executive Directors
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

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

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

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

* established on 27 March 2012

COMPANY SECRETARY
Ms. Chan Wai Wei, Cynthia

LEGAL ADVISER IN HONG KONG
Wilkinson & Grist

LEGAL ADVISER ON BERMUDA LAW
Conyers Dill & Pearman

AUDITOR
Deloitte Touche Tohmatsu

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
11th Floor, High Fashion Centre
1-11 Kwai Hei Street, Kwai Chung
New Territories, Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE
Westbroke Limited
Clarendon House, Church Street
Hamilton HM11, Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE
Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Hong Kong

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
CITIC Bank International Limited
Industrial and Commercial Bank of China (Asia) Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

Shareholders & Investor Relation Information

RESULTS ANNOUNCEMENT DATE:

2011 Final	27 March 2012
2011 Interim	31 August 2011
2010 Final	30 March 2011
2010 Interim	26 August 2010

2012 ANNUAL GENERAL MEETING

30 May 2012

CLOSURE OF REGISTER OF MEMBERS

For determining entitlement to attend and vote at 2012 AGM:
Period from 28 May 2012 to 30 May 2012

For determining entitlement to the proposed final dividend:
Period from 5 June 2012 to 7 June 2012

DIVIDENDS:

2011 Final	15 HK cents per share payable on or about 18 June 2012
2011 Interim	7 HK cents per share paid on 30 September 2011
2010 Final	13 HK cents per share paid on 15 June 2011
2010 Interim	5 HK cents per share paid on 27 September 2010

AUTHORISED SHARES

1,000,000,000 shares

ISSUED SHARES

300,723,550 shares (as at 31 December 2011)

BOARD LOT

2,000 shares

PAR VALUE

HK$0.1000

FINANCIAL YEAR END

December 31

STOCK CODE

608

COMPANY WEBSITE

www.highfashion.com.hk

LISTING DATE

4 August 1992