# High Fashion International Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 608)**

**FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009**

## CHAIRMAN'S STATEMENT

The net profit attributable to shareholders of the Company for the year ended 31 December 2009 was HK$166 million. The Board of Directors recommended the payment of a final dividend of 5 HK cents per share and a special dividend of 8 HK cents per share. When taking into account of the interim dividend of 3 HK cents per share paid in October 2009, the total dividend payment for the year will amount to 16 HK cents per share. The Company's net assets value per share at the year-end was HK$5.3.

The global economy in 2009 has stabilized and improved with the result that individual regions present different opportunities and directions. China's economy, being the main driver for both the regional and global recovery, has achieved great resilience thereby presenting good growth opportunities for sustainable economic development. We have proactively prepared ourselves with timely implementation of strategic measures to capture the golden opportunities that emerge in China.

Over the past two years, we spared no efforts to establish a strong team for building its brands in the China market. Leveraging on its long established product and service quality and market competitiveness, we are fully confident to be able to promote and develop its own brand business successfully in the not too distant future. This is in line with our strategy to become the leading enterprise in the silk industry:

- The establishment of a silk brand business, for achieving our mission of being the No. 1 silk enterprise, and fully promoting our own brands including SILK WORLD, SILK LEGEND and August moon;
- The establishment of a fashion brand business, for fully promoting our brands such as AUGUST SILK, august silk, Theme and Cslr;
- The establishment of a silk fabric business, under the brand name of Highfashion (a prestigious brand of China-based silk fabric brand business) and together with our constantly strengthened and advanced silk weaving, printing, dyeing, finishing technologies, to develop, design and lead new fashionable fabrics and promote the China market with proactive exploration.

We have achieved encouraging results in the first quarter of 2010. We believe that our brand business would boost the future business of the Group significantly.

The manufacturing exports business will continue to consolidate after the financial tsunami. It is likely to be another difficult year for the developed markets in both the U.S and Europe, and recovery shall remain fragile in the early stage. However, we have confidence in enhancing our partnership relationship with our long term customers through product innovation and comprehensive services to ensure a prosperous future together.

I would like to take this opportunity to express my gratitude to the shareholders, customers, suppliers and my fellow Directors for their support. I would also like to thank our staff from various regions for their dedication and contribution in furthering the mission of the Group.

## RESULTS

The Board of Directors (the "Board") of High Fashion International Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 together with the comparative figures for the year ended 31 December 2008 are set out as follows: -

**Consolidated Statement of Comprehensive Income**
*For the year ended 31 December 2009*

| | *Notes* | **2009** *HK$'000* | 2008 *HK$'000* |
|---|---|---|---|
| REVENUE | *3* | **2,271,566** | 2,598,031 |
| Cost of sales | | **(1,581,413)** | (1,874,324) |
| Gross profit | | **690,153** | 723,707 |
| Other income | | **68,516** | 82,544 |
| Other gains and losses | | **82,622** | 19,073 |
| Administrative expenses | | **(323,250)** | (330,253) |
| Selling and distribution expenses | | **(278,931)** | (329,659) |
| Finance costs | *5* | **(45,900)** | (68,299) |
| Share of losses of jointly controlled entities | | **(753)** | (209) |
| PROFIT BEFORE TAXATION | | **192,457** | 96,904 |
| Income tax expense | *6* | **(35,007)** | (18,551) |
| PROFIT FOR THE YEAR | *7* | **157,450** | 78,353 |
| **Other comprehensive income (expense)** | | | |
| Gain on revaluation of properties | | **39,577** | 11,700 |
| Share of other comprehensive income of jointly controlled entities | | **1** | 1,078 |
| Exchange difference arising on translation | | **(2,282)** | 81,717 |
| Reclassification of translation reserve to profit and loss on disposal of subsidiaries | | **6,287** | - |
| Gain (loss) on fair value changes on cash flow hedges | | **10,915** | (124,209) |
| Reclassification to profit and loss on cash flow hedges | | **(77,457)** | (92,783) |
| Income tax relating to components of other comprehensive income | | **4,958** | 37,397 |
| Other comprehensive income (expense) for the year, net of tax | | **(18,001)** | (85,100) |
| Total comprehensive income (expense) for the year | | **139,449** | (6,747) |

| | Note | **2009** | 2008 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **165,507** | 90,635 |
| Minority interests | | **(8,057)** | (12,282) |
| | | **157,450** | 78,353 |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | **148,418** | 3,555 |
| Minority interests | | **(8,969)** | (10,302) |
| | | **139,449** | (6,747) |
| EARNINGS PER SHARE | | | |
| Basic and diluted | *8* | **HK$0.52** | HK$0.28 |

## Consolidated Statement of Financial Position
*At 31 December 2009*

| | Notes | **31/12/2009** **HK$'000** | 31/12/2008 HK$'000 (Restated) | 1/1/2008 HK$'000 (Restated) |
|---|---|---|---|---|
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | | **858,855** | 911,227 | 733,011 |
| Prepaid lease payments | | **71,013** | 78,443 | 76,207 |
| Deposit for land use right | | **31,877** | 18,148 | 17,172 |
| Investment properties | | **211,568** | 102,700 | 85,920 |
| Goodwill | | **-** | 28,215 | 23,808 |
| Intangible assets | | **1,203** | 1,890 | 11,094 |
| Investments in associates | | **-** | - | - |
| Investments in jointly controlled entities | | **19,620** | 19,862 | 19,537 |
| Available-for-sale investments, at cost | | **675** | 675 | 675 |
| Deferred tax assets | | **9,064** | 7,101 | 6,347 |
| Long-term receivables | | **31,813** | - | - |
| Derivative financial instruments | | **2,422** | 22,239 | 252,572 |
| | | **1,238,110** | 1,190,500 | 1,226,343 |
| CURRENT ASSETS | | | | |
| Inventories | | **333,964** | 371,815 | 407,756 |
| Trade receivables | *10* | **292,836** | 296,917 | 328,431 |
| Bills receivable | | **63,868** | 71,447 | 59,997 |
| Prepaid lease payments | | **1,272** | 1,509 | 1,441 |
| Deposits, prepayments and other receivables | | **302,799** | 399,131 | 508,446 |
| Amounts due from jointly controlled entities | | **1,985** | 17,713 | 10,014 |
| Tax recoverable | | **63,532** | 49,141 | 32,382 |
| Derivative financial instruments | | **34,850** | 76,623 | 64,682 |
| Structured deposits | | **280,607** | 226,753 | - |
| Short-term deposits | | **301,714** | 376,704 | - |
| Pledged bank deposits | | **-** | 142 | 108 |
| Bank balances and cash | | **452,125** | 400,454 | 671,676 |
| | | **2,129,552** | 2,288,349 | 2,084,933 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *11* | **251,723** | 263,565 | 296,077 |
| Bills payable | | **20,721** | 3,807 | 4,468 |
| Other payables and accruals | | **194,447** | 155,926 | 176,707 |
| Amounts due to jointly controlled entities | | **4,637** | 25,630 | - |
| Amount due to an associate | | **595** | 595 | 597 |
| Tax payable | | **185,049** | 171,393 | 116,663 |
| Derivative financial instruments | | **10,209** | 23,166 | 17,506 |
| Obligations under finance leases | | **297** | 88 | 337 |
| Bank borrowings | | **908,354** | 1,007,578 | 374,167 |
| Bank overdrafts | | **51** | 447 | 599 |
| | | **1,576,083** | 1,652,195 | 987,121 |

| | 31/12/2009 | 31/12/2008 | 1/1/2008 |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| | | *(Restated)* | *(Restated)* |
| NET CURRENT ASSETS | **553,469** | 636,154 | 1,097,812 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **1,791,579** | 1,826,654 | 2,324,155 |
| NON-CURRENT LIABILITIES | | | |
| Obligations under finance leases | **411** | 81 | 231 |
| Bank borrowings | **82,000** | 177,000 | 483,000 |
| Deferred tax liabilities | **62,576** | 54,487 | 145,715 |
| Derivative financial instruments | **4,181** | - | 1,400 |
| Provision for long service payments | **2,948** | 1,770 | 929 |
| | **152,116** | 233,338 | 631,275 |
| | **1,639,463** | 1,593,316 | 1,692,880 |
| CAPITAL AND RESERVES | | | |
| Share capital | **30,913** | 31,998 | 32,881 |
| Share premium and reserves | **1,608,550** | 1,496,055 | 1,570,360 |
| Equity attributable to owners of the Company | **1,639,463** | 1,528,053 | 1,603,241 |
| Minority interests | **-** | 65,263 | 89,639 |
| TOTAL EQUITY | **1,639,463** | 1,593,316 | 1,692,880 |

## Notes to the Consolidated Financial Statements

### 1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("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.

### 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 standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of financial statements |
| HKAS 23 (Revised 2007) | Borrowing costs |
| HKAS 32 & 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation |

| | |
|---|---|
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an investment in a subsidiary, jointly controlled entity or associate |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations |
| HKFRS 7 (Amendment) | Improving disclosures about financial instruments |
| HKFRS 8 | Operating segments |
| HK(IFRIC) - INT 9 & HKAS 39 (Amendments) | Embedded derivatives |
| HK(IFRIC) - INT 13 | Customer loyalty programmes |
| HK(IFRIC) - INT 15 | Agreements for the construction of real estate |
| HK(IFRIC) - INT 16 | Hedges of a net investment in a foreign operation |
| HK(IFRIC) - INT 18 | Transfer of assets from customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual period beginning or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS39 |

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and changes in format and content of the financial statement.

In addition, the adoption of HKAS 1 (Revised 2007) has resulted in the presentation of the consolidated statement of financial position as at 1 January 2008 as the Group has reclassified items in its financial statements on application of amendments to HKAS 1 Presentation of financial statements (see below).

HKAS 23 (Revised 2007) Borrowing costs

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

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purposes of allocating resources between segments and assessing their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments. However, the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss and amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8 (see note 4).

Improving disclosures about financial instruments (amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

Amendments to HKAS 1 Presentation of financial statements

HKAS1 “Presentation of Financial Statements” has been amended to clarify whether derivatives that are classified as held for trading in accordance with HKAS 39 “Financial Instruments: Recognition and Measurement” should be presented as current or non-current. The amendment requires derivatives that are held primarily for trading purposes to be presented as current regardless of their maturity dates. In addition, the amendment requires derivatives that are not held for trading purposes to be classified as current or non-current on the basis of their settlement date. Prior to the amendment, the Group presented all derivative financial instruments as current assets or liabilities. The amendment has had no impact on the Group’s results for the reported periods. The amendment has resulted in derivative financial instruments designated as cash flow hedges with carrying amounts of HK$252,572,000 and HK$22,239,000 as at 1 January 2008 and 31 December 2008 being reclassified from current assets to non-current assets and derivative financial instruments designated as cash flow hedges with carrying amounts of HK$1,400,000 as at 1 January 2008 being reclassified from current liabilities to non-current liabilities. In addition, as at 31 December 2009, all derivative financial instruments that are not held for trading purposes have been presented based on their maturity dates of which derivative financial instruments of HK$2,422,000 and HK$4,181,000 have been presented as non-current assets and non-current liabilities, respectively.

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

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related party disclosures[6] |
| HKAS 27 (Revised) | Consolidated and separate financial statements[1] |
| HKAS 32 (Amendment) | Classification of rights issues[4] |
| HKAS 39 (Amendment) | Eligible hedged items[1] |
| HKFRS 1 (Amendment) | Additional exemptions for first-time adopters[3] |

| | |
|---|---|
| HKFRS 1 (Amendment) | Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5] |
| HKFRS 2 (Amendment) | Group cash-settled share-based payment transactions[3] |
| HKFRS 3 (Revised) | Business combinations[1] |
| HKFRS 9 | Financial instruments[7] |
| HK(IFRIC) - INT 14 (Amendment) | Prepayments of a minimum funding requirment[6] |
| HK(IFRIC) - INT 17 | Distributions of non-cash assets to owners[1] |
| HK(IFRIC) - INT 19 | Extinguishing financial liabilities with equity instrument[5] |

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. This standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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. 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:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Manufacture and trading of garments | **2,045,013** | 2,325,193 |
| Retailing of garments | **226,553** | 272,838 |
| | **2,271,566** | 2,598,031 |

## 4. Segment Information

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. However, the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss and amounts reported for the prior period have been restated to conform to the requirements of HKFRS 8.

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

Segment revenue and results

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

*For the year ended 31 December 2009*

| | **Manufacture and trading of garments** | **Retailing of garments** | **Elimina-tions** | **Consoli-dated** |
|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| REVENUE | | | | |
| External sales | **2,045,013** | **226,553** | **-** | **2,271,566** |
| Inter-segment sales (Note) | **-** | **25,262** | **(25,262)** | **-** |
| Segment revenue | **2,045,013** | **251,815** | **(25,262)** | **2,271,566** |
| RESULT | | | | |
| Segment profit (loss) | **277,367** | **(39,010)** | **-** | **238,357** |
| Finance costs | | | | **(45,900)** |
| Profit before taxation | | | | **192,457** |

*For the year ended 31 December 2008*

| | Manufacture and trading of garments *HK$'000* | Retailing of garments *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| REVENUE | | | | |
| External sales | 2,325,193 | 272,838 | - | 2,598,031 |
| Inter-segment sales (Note) | - | 28,169 | (28,169) | - |
| Segment revenue | 2,325,193 | 301,007 | (28,169) | 2,598,031 |
| RESULT | | | | |
| Segment profit (loss) | 196,238 | (31,035) | - | 165,203 |
| Finance costs | | | | (68,299) |
| Profit before taxation | | | | 96,904 |

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

Segment profit (loss) represents the profit (loss) earned or incurred 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. In previous period under HKAS 14, the segment profit (loss) also excluded unallocated administrative expenses, directors' salaries, other income and other gains and losses. 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.

Other segment information

| | **Manufacture and trading of garments** *HK$'000* | **Retailing of garments** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|
| *For the year ended 31 December 2009* | | | |
| Amounts included in the measure of segment profit or loss: | | | |
| Depreciation of property, plant and equipment | **84,980** | **13,141** | **98,121** |
| Amortisation of trademarks | **687** | **-** | **687** |
| Amortisation of prepaid lease payments | **894** | **478** | **1,372** |
| Allowance for bad and doubtful debts | **4,813** | **112** | **4,925** |
| Allowance for (write back of) inventory obsolescence * | **2,489** | **(2,290)** | **199** |
| Impairment loss in respect of amount due from a jointly controlled entity | **-** | **3,250** | **3,250** |
| Impairment loss in respect of goodwill | **28,215** | **-** | **28,215** |
| Impairment loss in respect of property, plant and equipment | **10,540** | **10,460** | **21,000** |
| Changes in fair value of derivative financial instruments | **8,756** | **-** | **8,756** |
| Increase (decrease) in fair value of investment properties | **5,900** | **(1,273)** | **4,627** |
| Gain (loss) on disposal of property, plant and equipment and prepaid lease payments | **54,921** | **(4,618)** | **50,303** |
| *For the year ended 31 December 2008* | | | |
| Amounts included in the measure of segment profit or loss: | | | |
| Depreciation of property, plant and equipment | 64,013 | 17,187 | 81,200 |
| Amortisation of trademarks | 690 | 1,000 | 1,690 |
| Amortisation of prepaid lease payments | 2,118 | 574 | 2,692 |
| Allowance for bad and doubtful debts | 10,581 | 651 | 11,232 |
| Allowance for (write back of) inventory obsolescence * | 7,564 | (3,120) | 4,444 |
| Impairment loss in respect of amount due from a jointly controlled entity | - | 3,326 | 3,326 |
| Impairment loss in respect of goodwill | - | 1,800 | 1,800 |
| Impairment loss in respect of property, plant and equipment | 10,418 | - | 10,418 |
| Impairment loss in respect of an intangible asset | - | 7,500 | 7,500 |
| Changes in fair value of derivative financial instruments | 5,660 | - | 5,660 |
| Increase in fair value of investment properties | 2,200 | - | 2,200 |
| Loss on disposal of property, plant and equipment and prepaid lease payments | 2,066 | 444 | 2,510 |
| Gain on disposal of a jointly controlled entity | - | 1,456 | 1,456 |

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

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 | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| USA | **1,277,251** | 1,501,270 | **4,561** | 5,732 |
| Europe | **446,099** | 442,110 | **2,813** | 2,638 |
| Greater China | **457,459** | 564,277 | **1,167,124** | 1,132,226 |
| Others | **90,757** | 90,374 | **18** | 27 |
| | **2,271,566** | 2,598,031 | **1,174,516** | 1,140,623 |

Note : Non-current assets excluded investments in associates, investments in jointly controlled entities, available-for-sale investments, deferred tax assets and derivative financial instruments.

Information about major customer

There is a single (2008 : single) customer contributed over 10% of the total sales of the Group whose revenue is approximately HK$332 million (2008: HK$324 million).

Additional information regarding new structure

In January 2010, the Group changes the structure of internal organisation which results in changes in the composition of its reportable segments. Under the new structure of internal organisation, the information reported to the chief operating decision maker is now analysed on the types of goods sold, including (i) manufacture and trading of garments and (ii) brand business. Information regarding these two segments is reported below.

Segment revenue and results

*For the year ended 31 December 2009*

| | **Manufacture and trading of garments** | **Brand business** | **Elimina-tions** | **Consoli-dated** |
|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| REVENUE | | | | |
| External sales | **1,487,653** | **783,913** | **-** | **2,271,566** |
| Inter-segment sales | **247,288** | **-** | **(247,288)** | **-** |
| Segment revenue | **1,734,941** | **783,913** | **(247,288)** | **2,271,566** |
| RESULT | | | | |
| Segment profit (loss) | **245,512** | **(7,155)** | **-** | **238,357** |

*For the year ended 31 December 2008*

| | Manufacture and trading of garments *HK$'000* | Brand business *HK$'000* | Elimina-tions *HK$'000* | Consoli-dated *HK$'000* |
|---|---|---|---|---|
| REVENUE | | | | |
| External sales | 1,738,698 | 859,333 | - | 2,598,031 |
| Inter-segment sales | 265,328 | - | (265,328) | - |
| Segment revenue | 2,004,026 | 859,333 | (265,328) | 2,598,031 |
| RESULT | | | | |
| Segment profit (loss) | 176,585 | (11,382) | - | 165,203 |

## 5. Finance Costs

| | **2009** ***HK$'000*** | 2008 *HK$'000* |
|---|---|---|
| Interest on: | | |
| Bank loans and overdrafts wholly repayable within five years | **40,645** | 60,903 |
| Finance leases | **24** | 31 |
| Bank charges | **5,231** | 7,365 |
| | **45,900** | 68,299 |

## 6. Income Tax Expense

| | **2009** ***HK$'000*** | 2008 *HK$'000* |
|---|---|---|
| Current tax charge: | | |
| Hong Kong | **6,080** | 1,546 |
| The People's Republic of China ("PRC") | **19,212** | 25,134 |
| Other jurisdictions | **4,033** | 33,721 |
| (Over) underprovision in prior years: | | |
| Hong Kong | **-** | 13,971 |
| PRC | **(4,872)** | (1,116) |
| Other jurisdictions | **1,100** | (137) |
| | **25,553** | 73,119 |
| Deferred taxation: | | |
| Current year | **9,747** | (22,184) |
| Attributable to a change in tax rate | **(293)** | (32,384) |
| | **9,454** | (54,568) |
| | **35,007** | 18,551 |

The Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain group companies for the years of assessment from 1999/2000 onwards. As a matter of IRD's practice, the IRD has issued estimated additional assessments to these group companies for the years of assessment 1999/2000, 2000/2001, 2001/2002, 2002/2003 and 2003/2004. 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 2009, the Group has purchased tax reserve certificates of approximately HK$60,570,000 (31/12/2008: HK$48,476,000) for conditional standover order of objection against the notices of estimated additional assessment for the years of assessment 1999/2000, 2000/2001, 2001/2002 and 2002/2003 and the amount is included in tax recoverable.

Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with any degree of accuracy. The 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 (China) Co., Ltd. and High Fashion Silk (Zhejiang) Co., Ltd..

High Fashion (China) Co., Ltd. and High Fashion Silk (Zhejiang) Co., Ltd. have been recognised as advanced technology enterprises in the PRC in 2008 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.

For the year ended 31 December 2008 and 2009, certain PRC subsidiaries were subject to income tax rate of 12.5% pursuant to the relevant laws and regulations in the PRC.

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

## 7. Profit for the Year

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Depreciation and amortisation | | |
| Owned assets | **97,826** | 80,868 |
| Leased assets | **295** | 332 |
| Amortisation of trademarks (included in selling and distribution expenses) | **687** | 1,690 |
| Amortisation of prepaid lease payments | **1,372** | 2,692 |
| Allowance for inventory obsolescence (included in cost of sales) | **199** | 4,444 |
| Gain on derivative financial instruments reclassified from equity (included in cost of sales) | **(76,356)** | (65,327) |
| Loss on derivative financial instruments reclassified from equity (included in finance costs) | **-** | 2,317 |
| Investment income earned on loans and receivables | | |
| - Bank interest income | **(15,403)** | (31,088) |
| - Interest income on other receivables | **(394)** | (6,184) |
| Investment income earned on derivative financial instruments | | |
| - Income from cross currency and interest rate swaps | **(5,282)** | (16,287) |
| - Interest income from structured deposits | **(8,528)** | (5,503) |

## 8. Earnings Per Share

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

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the purpose of basic and diluted earnings per share attributable to owners of the Company | **165,507** | 90,635 |

| | **Number of shares** | Number of shares |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | **315,921,461** | 325,613,918 |

## 9. Dividends

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend recognised as distribution and paid during the year: | | |
| Interim dividend –3 HK cents (2008: 3 HK cents) per ordinary share | **9,458** | 9,706 |
| Final dividend –3 HK cents (2008: 5 HK cents) per ordinary share | **9,516** | 16,367 |
| 2008 special final dividend –10 HK cents per ordinary share | **-** | 32,733 |
| | **18,974** | 58,806 |

The final dividend of 5 HK cents (2008: 3 HK cents) and special dividend of 8 HK cents (2008 : Nil) 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.

## 10. Trade Receivables

The credit terms granted by the Group to its customers are 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:

| | **31/12/2009** | 31/12/2008 | 1/1/2008 |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within 90 days | **284,470** | 269,471 | 310,871 |
| 91 to 180 days | **6,203** | 22,218 | 12,109 |
| 181 to 360 days | **1,780** | 4,218 | 4,491 |
| Over 360 days | **383** | 1,010 | 960 |
| | **292,836** | 296,917 | 328,431 |

## 11. Trade Payables

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

| | **31/12/2009** | 31/12/2008 | 1/1/2008 |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within 90 days | **117,081** | 137,792 | 172,309 |
| 91 to 180 days | **8,744** | 6,963 | 5,880 |
| 181 to 360 days | **11,529** | 6,759 | 12,341 |
| Over 360 days | **4,714** | 18,599 | 12,997 |
| | **142,068** | 170,113 | 203,527 |
| Accrued purchases | **109,655** | 93,452 | 92,550 |
| | **251,723** | 263,565 | 296,077 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

Revenue for the year ended 31 December 2009 was HK$2.3 billion. Net profit attributable to shareholders for the year ended 31 December 2009 was HK$166 million, compared with a profit of HK$91 million of last year. There were exceptional gains on disposal of interests in a subsidiary of HK$61 million and on disposal of a piece of land in Hangzhou of HK$45 million in the current year profit. Basic earnings per share were 52 HK cents. Net asset value per share was HK$5.3.

### Review of Operations

Our devotion to revamp the China Silk Industry was once again reflected in the winning of a wide array of prestigious awards, among which are the "Backbone Enterprise in the Leading Industries of Zhejiang Province" awarded to High Fashion (China) Co., Ltd., and "Advanced Technology Enterprises" to High Fashion (China) Co., Ltd. and High Fashion (Zhejiang) Co., Ltd. To us, these awards signal not only our unique leading position in silk product and technological innovation, but also a recognition of our contribution to the industry which enable us to enjoy a preferential tax incentive. This is the most encouraging news to the Group and with the continuous undoubted support from the government, we are moving solidly towards our goal: World No. 1 Silk Apparel Enterprise.

The segmental information is as follows:-

| | Revenue | | Contribution | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| By principal activity: | | | | |
| Manufacturing and trading | **1,487,653** | **1,738,698** | **245,512** | **176,585** |
| Own brand business | **783,913** | **859,333** | | |
| Normal operation | | | **16,002** | **3,912** |
| Exceptional provision | | | **(23,157)** | **(15,294)** |
| | **2,271,566** | **2,598,031** | **238,357** | **165,203** |
| By geographical segments: | | | | |
| USA | **1,277,251** | **1,501,270** | **86,700** | **86,948** |
| Europe | **446,099** | **442,110** | **17,990** | **15,770** |
| Greater China | **457,459** | **564,277** | **127,867** | **56,762** |
| Others | **90,757** | **90,374** | **5,800** | **5,723** |
| | **2,271,566** | **2,598,031** | **238,357** | **165,203** |

Though the Group recorded a decrease of 14% in manufacturing and trading business resulting from the weak global economy lingering on from 2008, but contribution improved. The United States continued to be the Group's major export market. The brand business of August Silk increased its share of our revenue in the USA in the current year. This operation reported profit for four consecutive years. It was an encouraging sign that shown our efforts and strategies in the USA.

European market, on the contrary, has shown continuous improvement in the current year. This echoed the market diversification as a prudent approach to cushion the impact of global financial tsunami.

In the face of unprecedented challenges and opportunities, the Group has started the year 2010 with a blend of caution and confidence. We have comprehensively formulated our strategic development plans to strengthen our platform for sustainable growth and profitability.

On the manufacturing side, operations in this segment share many common features in technology, manufacturing processes, supply chain management which create opportunities for synergy, for revenue growth by leveraging the strength of the Group's technology innovation and for cost reduction through the sharing of valuable internal resources. Improvement in respective profit margin speaks for all.

From a brand building perspective, 2010 will be a very exciting year. With the Chinese economy enjoying a sustained recovery supported by a promising consumer sentiment, the Group has staged up enormous efforts in building up a multi-brand portfolio as our tangible steps to capture the growing affluence of the PRC consumers. This includes, but not limited to, the silk brand premium items like home furnishing pieces catering for the expanding tourism industry in all major cities in China.

In addition, the robust growth in womanswear apparel market in China has proven to be a solid channel of growth for the Group to pursue aggressively. With our in-depth knowledge about the PRC market, our unique business model of Quality Fast Fashion Brand building on our recognized strengths will definitely place the Group in a very advantageous position to reap the long term benefit in this important market.

In 2010, to expand our brand portfolio is our corporate commitment. We believe we have the right strategy for sustainable growth and we set our pace entering 2010 with real resilience and momentum.

**Liquidity and Financial Resources**

The Group's total outstanding bank borrowings were decreased to HK$990 million at the end of reporting period compared to HK$1,185 million as at 31 December 2008. Our gearing ratio of non-current liabilities to shareholders' funds was only 10% at the end of reporting period. Current ratio has been maintained at a healthy level of 1.4.

The Group's total cash and bank balances were HK$1,034 million at the end of reporting period compared to HK$1,004 million as at 31 December 2008. Based on the net cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet its operating needs and future growth.

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

The Group has no material contingent liabilities. Barring the pledge of trade receivables and bills receivables of certain subsidiaries of HK$91 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 balance sheet date was about 12,000. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

**Capital Expenditure**

The Group purchased the plant and equipment and the leasehold improvement and construction in progress of around HK$112 million in order to upgrade its manufacturing capabilities during the year. Except for the above, there was no material capital expenditure during the year.

## FINAL AND SPECIAL DIVIDENDS

The Board recommends a final dividend of 5 HK cents (2008: 3 HK cents) and a special dividend of 8 HK cents (2008 : Nil) per ordinary share for the year ended 31 December 2009 at the forthcoming annual general meeting to be held on 9 June 2010. Subject to the shareholders' approval, the final and special dividends will be payable on or about 18 June 2010 to shareholders whose names appear on the Register of Members on 9 June 2010.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, 3 June 2010 to Wednesday, 9 June 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final and special dividends, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Wednesday, 2 June 2010.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Listing Rules throughout the year ended 31 December 2009, except for the following deviation :

**Code provision A.1.1**

Under the code provision A.1.1 of the Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

In 2009, the Board meetings held three times a year. The Board believes that such arrangements were adequate to cover all major issues arising throughout the year ended 31 December 2009. In any event, all Directors were available for consultation by management from time to time during the year.

**Code provision A.2.1**

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

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

## AUDIT COMMITTEE AND FINANCIAL INFORMATION

The Company has an Audit Committee which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The terms of reference of the Audit Committee were duly revised in accordance with the provisions set out in the Code.

The members of the Company's Audit Committee, which comprises two non-executive directors and three independent non-executive directors have reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2009.

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

During the year, the Company repurchased 10,846,000 (2008: 8,836,000) 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 | Lowest price paid per share | Aggregate consideration paid (including direct costs) |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| January 2009 | 900,000 | 1.58 | 1.48 | 1,377,556 |
| February 2009 | 840,000 | 1.45 | 1.38 | 1,196,426 |
| April 2009 | 546,000 | 1.37 | 1.29 | 729,200 |
| May 2009 | 478,000 | 1.40 | 1.38 | 671,357 |
| September 2009 | 1,962,000 | 1.75 | 1.74 | 3,449,197 |
| October 2009 | 5,120,000 | 1.75 | 1.74 | 9,002,072 |
| December 2009 | 1,000,000 | 1.60 | 1.60 | 1,607,776 |
| | **10,846,000** | | | **18,033,584** |

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.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Company (www.highfashion.com.hk) and the designated issuer website of the Stock Exchange (www.hkexnews.hk).

The 2009 annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

## MEMBERS OF THE BOARD

As at the date of this announcement, the Board of the Company comprises of (1) executive directors: Mr. Lam Foo Wah and Ms. So Siu Hang, Patricia; (2) non-executive directors: Mr. Chan Wah Tip, Michael and Professor Yeung Kwok Wing; and (3) independent non-executive directors: Mr. Woo King Wai, Mr. Wong Shiu Hoi, Peter and Mr. Leung Hok Lim.

By Order of the Board
**High Fashion International Limited**
**Lam Foo Wah**
*Chairman & Managing Director*

Hong Kong, 16 April 2010