High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 earning 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 丝绸世界 SILK WORLD, 丝绸故事 SILK LEGEND, August moon 雅慕, and silk fashion brands of august silk, axelledesoie, as AUGUST SILK, 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 Twelfth 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.

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 2011 together with the comparative figures for the year ended 31 December 2010 are set out as follows: -

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
REVENUE	3,4	**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	5	**122,983**	161,738
Administrative expenses		**(362,039)**	(310,534)
Selling and distribution expenses		**(309,323)**	(275,918)
Finance costs	6	**(31,882)**	(39,287)
Share of losses of jointly controlled entities		**(152)**	(295)
PROFIT BEFORE TAXATION		**240,572**	270,981
Taxation	7		
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	8	**253,825**	217,012
OTHER COMPREHENSIVE INCOME (EXPENSE)	9		
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	11		
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		**858,552**	852,372
Prepaid lease payments		**147,459**	91,799
Investment properties		**512,295**	268,035
Intangible assets		**-**	516
Investments in jointly controlled entities		**20,938**	20,043
Available-for-sale investments, at cost		**675**	675
Deferred tax assets		**29,108**	21,503
Long-term deposits and prepayment		**27,479**	43,960
Derivative financial instruments		**-**	48,108
Structured deposits		**-**	52,941
		1,596,506	1,399,952
CURRENT ASSETS			
Inventories		**448,644**	455,785
Trade receivables	*12*	**408,903**	425,429
Bills receivable	*13*	**53,959**	39,702
Prepaid lease payments		**2,771**	2,436
Deposits, prepayments and other receivables		**151,462**	184,317
Amounts due from jointly controlled entities		**686**	2,931
Tax recoverable		**88,443**	75,684
Derivative financial instruments		**75,483**	80,993
Structured deposits		**417,753**	351,765
Short-term deposits		**449,604**	488,615
Bank balances and cash		**820,419**	622,156
		2,918,127	2,729,813
CURRENT LIABILITIES			
Trade payables	*14*	**304,957**	337,577
Bills payable	*14*	**-**	340
Other payables and accruals		**234,720**	223,208
Amounts due to jointly controlled entities		**1,647**	3
Amount due to an associate		**591**	592
Tax payable		**169,104**	229,848
Derivative financial instruments		**4,235**	10,728
Obligations under finance leases		**264**	273
Bank borrowings		**1,496,123**	1,389,382
Bank overdrafts		**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

	2011	2010
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Obligations under finance leases	**80**	333
Deferred tax liabilities	**105,824**	80,971
Derivative financial instruments	**52,234**	-
Provision for long service payments	**3,375**	2,492
	161,513	83,796
	2,141,285	1,853,577
CAPITAL AND RESERVES		
Share capital	**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

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 HKFRSs issued by 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.

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.

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 may 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.

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.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS7 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 requirements0 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. Upon application of HKAS 32 will result in more extensive disclosures on offsetting of 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 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:

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

4. 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 revenue 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$'000*	**Elimina-tions** *HK$'000*	**Consoli-dated** *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**

For the year ended 31 December 2010

	Manufacture and trading of garments *HK$'000*	Brand business *HK$'000*	Segment total *HK$'000*	Elimina-tions *HK$'000*	Consoli-dated *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. 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.

<u>Other segment information</u>

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 payment	**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**

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 payment	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

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 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.

5. Other Gains and Losses

	2011	2010
	HK$'000	*HK$'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 improvement and buildings on Liuxia Street which the Group vacated and accounted as disposal in 2007.

6. Finance Costs

	2011	2010
	HK$'000	*HK$'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

7. Taxation

	2011	2010
	HK$'000	*HK$'000*
Current tax charge :		
Hong Kong	**(11,500)**	(18,900)
The People's Republic of China ("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:		
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)
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)

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 gains on disposal related to the deferred sales 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 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 the IRD's practice, the IRD has issued estimated / additional assessments / assessments demanding final tax ("Assessment") 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 purchase 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.

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.

8. Profit for the Year

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

	2011	2010
	HK$'000	*HK$'000*
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
Allowance for inventory obsolescence (included in cost of sales)	**25,177**	15,688
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
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)
Investment income earned on derivative financial instruments (included in other income)		
- interest income from structured deposits	**(21,491)**	(17,514)

9. 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 differences 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

10. 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

A final dividend of 15 HK cents (2010: 13 HK 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.

11. Earnings Per Share

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

	2011	2010
	HK$'000	*HK$'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.

12. Trade Receivables

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	2010
	HK$'000	*HK$'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

13. 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.

14. 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	2010
	HK$'000	*HK$'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.

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.

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.

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.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company 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 AGM will be published on the website of the Company (www.highfashion.com.hk) and the designated issuer website of the Stock Exchange (www.hkexnews.hk).

FINAL DIVIDEND

The Board recommends a final dividend of 15 HK cents (2010: final dividend of 13 HK cents) per ordinary share for the year ended 31 December 2011 at the AGM to be held on 30 May 2012. Subject to the shareholders' approval, the final dividend will be payable on or about 18 June 2012 to shareholders whose names appear on the Register of Members on 6 June 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 28 May 2012 to Wednesday, 30 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to determine members who are entitled to attend and vote at the AGM, 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 Friday, 25 May 2012.

In addition, the Register of Members will also be closed from Monday, 4 June 2012 to Wednesday, 6 June 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, 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 Friday, 1 June 2012.

ESTABLISHMENT OF NOMINATION COMMITTEE

The Board is pleased to announce the establishment of a nomination committee (the "Nomination Committee") on 27 March 2012.

Mr. Lam Foo Wah, the Chairman of the Board, was appointed as the chairman of the Nomination Committee and Mr. Chan Wah Tip, Michael and Professor Yeung Kwok Wing, two non-executive directors, and Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter, Mr. Leung Hok Lim, three independent non-executive directors, were appointed as members of the Nomination Committee.

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 2011, except for the following deviation :

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 2011.

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**	**Lowest price paid per share**	**Aggregate consideration paid (including direct costs)**
		HK$	HK$	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.

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 2011 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, 27 March 2012