High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

CHAIRMAN'S STATEMENT

2012 was a challenging year for our textile and apparel industry. While we continue to uphold our long term strategic goal to be the World No. 1 Silk Enterprise, we have again demonstrated our strong resilience in weathering through the turbulent global economy. We delivered a solid performance in the whole year under review, considering the volatile macro-economic environment and significant downward pressure on international economic activities.

- Revenue for the year declined from HK$2.78 billion to HK$2.56 billion, representing a decrease of 8%
- Profit for the year decreased from HK$254 million to HK$170 million
- Basic earnings per share were HK$0.57
- Net asset value per share was HK$7.7
- Proposed final dividend per share is HK$0.15 and the total dividend for the year will be HK$0.2 per share as compared with last year of HK$0.22 per share.

Over the years, we have a very clear mission – to achieve sustainable growth regardless of different economic cycles. Our proactive management attitude has helped to develop and implement strategies and initiatives thereby enabling us to translate challenges into viable opportunities for sustainable development. We always stay focused and keep investing in the markets we know best, capitalizing on our corporate strength of product innovation through technology and process automation, catering for healthy business development in the upstream market.

With the weakening of the Eurozone countries, slow recovery of the USA market and inflationary pressure and high labour cost in Mainland China, our resilient business model to exit from lower margin market segments is proven to be the correct one. Our relentless transformation efforts in building up a higher end market portfolio with improved margin have set pace for our long-term growth.

Even though our retail business in both China and USA has been hit by poor market sentiment and economic conditions, we firmly believe in our multi-brand business strategy, knowing that prominent brand image is an integral part of our corporate value required for us to thrive in the rapidly changing market environment. We will continue to improve our brand product mix and focus on building our heritage silk brands with enhanced international appeal.

Prospects

The outlook for 2013 is expected to remain challenging given prolonged uncertainties in the global economy. China, on the other hand, remains the most important country of growth of which we have our firm footage for decades. By adhering to our strategy, earnestly investing on human resources development and upholding our innovative and adaptive management principles, we are confident to achieve sustainable balance of growth of the Group.

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 2012 together with the comparative figures for the year ended 31 December 2011 are set out as follows: -

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 *HK$'000*
REVENUE	*3,4*	**2,563,116**	2,784,166
Cost of sales		**(1,937,623)**	(2,104,741)
Gross profit		**625,493**	679,425
Other income		**123,013**	141,560
Other gains and losses	*5*	**142,654**	122,983
Administrative expenses		**(319,557)**	(362,039)
Selling and distribution expenses		**(318,785)**	(309,323)
Finance costs	*6*	**(45,737)**	(31,882)
Share of losses of jointly controlled entities		**(1,522)**	(152)
PROFIT BEFORE TAXATION		**205,559**	240,572
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		**(35,728)**	(59,721)
PROFIT FOR THE YEAR	*8*	**169,831**	253,825
OTHER COMPREHENSIVE INCOME (EXPENSE)	*9*		
Gain on revaluation of properties		**-**	81,436
Exchange difference arising on translation of jointly controlled entities		**127**	1,047
Exchange difference arising on translation		**21,027**	93,561
Fair value gain (loss) on hedging instruments in cash flow hedges		**62,388**	(22,875)
Reclassification to profit and loss on cash flow hedges		**(35,623)**	(36,751)
Income tax relating to components of other comprehensive income		**2,513**	(14,261)
Other comprehensive income for the year, net of tax		**50,432**	102,157
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**220,263**	355,982

	Notes	**2012**	2011
		HK$'000	*HK$'000*
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**170,116**	253,825
Non-controlling interests		**(285)**	-
		169,831	253,825
TOTAL COMPREHENSIVE INCOME (EXPENSE) ATTRIBUTABLE TO:			
Owners of the Company		**220,548**	355,982
Non-controlling interests		**(285)**	-
		220,263	355,982
EARNINGS PER SHARE	*11*		
Basic		**HK$0.57**	HK$0.84

Consolidated Statement of Financial Position
At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**836,530**	858,552
Prepaid lease payments		**131,964**	147,459
Investment properties		**665,576**	512,295
Intangible assets		**-**	-
Investments in jointly controlled entities		**19,543**	20,938
Available-for-sale investments, at cost		**675**	675
Deferred tax assets		**33,192**	29,108
Long-term deposits and prepayments		**26,843**	27,479
Derivative financial instruments		**5,830**	-
		1,720,153	1,596,506
CURRENT ASSETS			
Inventories		**427,302**	448,644
Trade receivables	*12*	**416,892**	408,903
Bills receivable	*13*	**34,412**	53,959
Prepaid lease payments		**2,478**	2,771
Deposits, prepayments and other receivables		**177,078**	151,462
Amounts due from jointly controlled entities		**763**	686
Tax recoverable		**98,818**	88,443
Derivative financial instruments		**21,351**	75,483
Structured deposits		**877,634**	417,753
Short-term deposits		**452,231**	449,604
Bank balances and cash		**767,229**	820,419
		3,276,188	2,918,127
CURRENT LIABILITIES			
Trade payables	*14*	**312,810**	304,957
Bills payable	*14*	**1,134**	-
Other payables and accruals		**221,481**	234,720
Amounts due to jointly controlled entities		**-**	1,647
Amount due to an associate		**589**	591
Tax payable		**169,232**	169,104
Derivative financial instruments		**10,565**	4,235
Obligations under finance leases		**162**	264
Bank borrowings		**1,846,045**	1,496,123
Bank overdrafts		**192**	194
		2,562,210	2,211,835
NET CURRENT ASSETS		**713,978**	706,292
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,434,131**	2,302,798

	2012	2011
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Obligations under finance leases	**161**	80
Deferred tax liabilities	**126,842**	105,824
Derivative financial instruments	**11,082**	52,234
Provision for long service payments	**3,397**	3,375
	141,482	161,513
	2,292,649	2,141,285
CAPITAL AND RESERVES		
Share capital	**29,721**	30,072
Share premium and reserves	**2,262,447**	2,111,213
Equity attributable to owners of the Company	**2,292,168**	2,141,285
Non-controlling interests	**481**	-
TOTAL EQUITY	**2,292,649**	2,141,285

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 ("HKFRSs") 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 HKFRSs

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA.

Amendments to HKAS 12	Deferred tax: Recovery of underlying asset
Amendments to HKFRS 7	Financial instruments: Disclosures - Transfers of financial assets

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. 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 entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is rebutted and such application has had no impact to the consolidated financial statements for the current and prior years.

Amendments to HKFRS 7 Disclosures - Transfers of Financial Assets

The Group has applied for the first time the amendments to HKFRS 7 *Disclosures - Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through discounting those bills receivable to banks on a full recourse basis. Specifically, if the bills receivable are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and has recognised the cash received on the transfer as a secured borrowing. The relevant disclosures have been made regarding the transfer of these trade receivables on application of the amendments to HKFRS 7. In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

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.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 - 2011 cycle [1]
Amendments to HKFRS 7	Disclosures - Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]

HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) - INT 20	Stripping costs in the production phase of a surface mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

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 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 the annual period beginning on 1 January 2015 and the application will have impact on amounts reported in respect of the Groups' available-for sale investments. Specifically, HKFRS 9 requires available-for-sale investments be measured at fair values with changes in fair value being accounted for either in the profit or loss or other comprehensive income, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for the Group's annual period beginning on 1 January 2013. The directors anticipate that the application of the new standard may result in more extensive disclosures in the consolidated financial statements in respect of the investment properties and derivative financial instruments.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 also require items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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

Amendments to HKAS 32 Offsetting financial assets and financial liabilities and amendments to HKFRS 7 Disclosures - Offsetting financial assets and financial liabilities

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

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

The amended offsetting disclosures are required for the Group's annual period beginning on 1 January 2013 and interim periods within those annual periods. Upon application of the amendments to HKFRS 7, it will result in more extensive disclosure in the consolidated financial statement. The disclosures should also be provided for all comparative periods. However, the amendments to HKAS 32 are effective for the Group's annual period beginning on 1 January 2014, with retrospective application required.

The directors of the Company anticipate that the application of the other new and revised HKFRSs 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:

	2012	2011
	HK$'000	*HK$'000*
Manufacture and trading of garments	**1,948,520**	2,056,223
Brand business	**614,596**	727,943
	2,563,116	2,784,166

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 revenues and results

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

For the year ended 31 December 2012

	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	**1,948,520**	**614,596**	**2,563,116**	**-**	**2,563,116**
Inter-segment sales (Note)	**193,855**	**-**	**193,855**	**(193,855)**	**-**
Segment revenue	**2,142,375**	**614,596**	**2,756,971**	**(193,855)**	**2,563,116**
RESULT					
Segment profit (loss)	**285,299**	**(30,183)**	**255,116**	**(3,820)**	**251,296**
Finance costs					**(45,737)**
Profit before taxation					**205,559**

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

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.

Other segment information

For the year ended 31 December 2012

	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	**65,289**	**11,983**	**77,272**
Amortisation of prepaid lease payments	**2,438**	**-**	**2,438**
Allowance for bad and doubtful debts	**1,966**	**448**	**2,414**
Allowance for (reversal of allowance for) inventory obsolescence*	**2,368**	**(3,555)**	**(1,187)**
Impairment loss in respect of amount due from a jointly controlled entity	**4,463**	**-**	**4,463**
Impairment loss in respect of property, plant and equipment	**3,223**	**-**	**3,223**
Fair value gain of derivative financial instruments	**38,761**	**-**	**38,761**
Increase in fair value of investment properties	**105,419**	**174**	**105,593**
Gain on disposal of property, plant and equipment and prepaid lease payments	**6,714**	**-**	**6,714**
Share of losses of jointly controlled entities	**1,522**	**-**	**1,522**

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

For the year ended 31 December 2011

	Manufacture and trading of garments *HK$'000*	Brand business *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	81,722	7,881	89,603
Amortisation of trademarks	516	-	516
Amortisation of prepaid lease payments	2,390	-	2,390
Allowance for bad and doubtful debts	2,775	1,714	4,489
Allowance for inventory obsolescence	18,459	6,718	25,177
Impairment loss in respect of amounts due from jointly controlled entities	1,312	197	1,509
Impairment loss in respect of property, plant and equipment	15,878	13,261	29,139
Fair value loss 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
Share of losses of jointly controlled entities	152	-	152

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**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
USA	**1,176,251**	1,423,024	**1,242**	2,536
Europe	**512,438**	587,160	**951**	1,583
Greater China	**688,317**	631,375	**1,631,796**	1,514,585
Others	**186,110**	142,607	**81**	129
	2,563,116	2,784,166	**1,634,070**	1,518,833

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 2012, there is a customer from manufacture and trading of garments segment contributed over 10% of the total sales of the Group whose revenue is approximately HK$269 million.

During the year ended 31 December 2011, there was 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.

5. Other Gains and Losses

	2012	2011
	HK$'000	*HK$'000*
Gain (loss) on disposal of property, plant and equipment and prepaid lease payments	**6,714**	(3,100)
Allowance for bad and doubtful debts	**(2,414)**	(4,489)
Changes in fair value of derivative financial instruments	**38,761**	(2,526)
Net foreign exchange gains	**1,686**	26,849
Increase in fair value of investment properties	**105,593**	136,897
Impairment loss recognised in respect of:		
- property, plant and equipment	**(3,223)**	(29,139)
- amounts due from jointly controlled entities	**(4,463)**	(1,509)
	142,654	122,983

6. Finance Costs

	2012	2011
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**40,730**	26,746
Finance leases	**24**	47
Bank charges	**4,983**	5,089
	45,737	31,882

7. Taxation

	2012	2011
	HK$'000	*HK$'000*
Current tax charge :		
Hong Kong	**(15,131)**	(11,500)
The People's Republic of China ("PRC")	**(6,530)**	(18,475)
Other jurisdictions	**(136)**	(240)
Withholding tax paid in respect of distribution of earnings of PRC subsidiaries	**(6,086)**	(10,282)
Over(under)provision in prior years:		
Hong Kong	**10,552**	(315)
PRC (Note)	**(1,507)**	50,450
Other jurisdictions	**(170)**	712
	(19,008)	10,350
Deferred taxation:		
Current year	**(16,720)**	(14,537)
Attributable to change in tax rate	**-**	(5,930)
Overprovision in prior years (Note)	**-**	23,370
	(16,720)	2,903
	(35,728)	13,253
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	**(35,728)**	(59,721)
	(35,728)	13,253

Note: During the year ended 31 December 2011, included in the PRC tax overprovision in prior years was an amount of HK$49,604,000 and a reversal of deferred tax liability of HK$23,370,000 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 respective tax payable and deferred tax recognised for the Disposals during the year ended 31 December 2011, 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 demanding final tax ("Assessments") to these group companies for the years of assessment 1999/2000, 2000/2001, 2001/2002, 2002/2003, 2003/2004, 2004/2005 and 2005/2006. During the course of the tax audit, there may be a possibility that estimated additional assessments for subsequent years be issued by the IRD to these group companies.

Up to 31 December 2012, the Group has purchased tax reserve certificates of approximately HK$98,065,000 (2011: HK$87,690,000) 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, 2004/2005 and 2005/2006 and the amount is included in tax recoverable.

Other than the tax audit, one of the companies of the Group has also purchased tax reserve certificates of approximately HK$753,000 (2011: HK$753,000) for conditional standover order of objection against the notice of Assessment for the year 2006/2007 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 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 2012, 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):

	2012	2011
	HK$'000	*HK$'000*
Depreciation and amortisation		
Owned assets	**77,013**	89,261
Leased assets	**259**	342
Amortisation of trademarks (included in selling and distribution expenses)	**-**	516
Amortisation of prepaid lease payments	**2,438**	2,390
(Reversal of) allowance for inventory obsolescence (included in cost of sales) (Note 1)	**(1,187)**	25,177
Gain on derivative financial instruments reclassified from other comprehensive income (Note 2)	**(36,948)**	(39,185)
Loss on derivative financial instruments reclassified from other comprehensive income (included in finance costs)	**1,325**	2,434
Investment income earned on loans and receivables (included in other income)		
- bank interest income	**(27,078)**	(22,494)
- interest income on loan and other receivables	**(3,535)**	(686)
Investment income earned on financial assets designated at fair value through profit or loss (included in other income)		
- interest income from structured deposits	**(37,242)**	(21,491)

Notes :

1. Allowance for obsolete inventory was written back when the relevant inventory was sold.
2. Amounts of HK$22,598,000 (2011 : nil) and HK$14,350,000 (2011 : HK$39,185,000) are included in sales and cost of sales, respectively.

9. Other Comprehensive Income (Expense)

	2012	2011
	HK$'000	*HK$'000*
Cash flow hedges:		
Fair value gain (loss) on hedging instruments	**62,388**	(22,875)
Reclassification adjustments to profit or loss	**(35,623)**	(36,751)
	26,765	(59,626)
Gain on revaluation of properties	**-**	81,436
Exchange difference arising on translation of jointly controlled entities	**127**	1,047
Exchange differences arising on translation	**21,027**	93,561
Other comprehensive income	**47,919**	116,418
Income tax relating to components of other comprehensive income:		
- revaluation of properties	**-**	(20,359)
- fair value changes on hedging instruments on cash flow hedge	**(57)**	(2,265)
- reclassification adjustments to profit or loss	**2,570**	6,722
- effect of change in tax rate	**-**	1,641
	2,513	(14,261)
Other comprehensive income for the year, net of tax	**50,432**	102,157

10. Dividends

	2012	2011
	HK$'000	*HK$'000*
Dividend recognised as distribution and paid during the year:		
Interim dividend – 5 HK cents per ordinary share for 2012 (2011: 7 HK cents for 2011)	**14,861**	21,109
Final dividend – 15 HK cents per ordinary share for 2011 (2011: 13 HK cents for 2010)	**44,582**	39,387
	59,443	60,496

A final dividend of 15 HK cents (2011: 15 HK cents) per ordinary share was 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:

	2012	2011
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share attributable to owners of the Company	**170,116**	253,825
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**297,299,861**	302,402,077

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:

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**373,134**	359,834
91 to 180 days	**33,582**	46,176
181 to 360 days	**9,589**	2,616
Over 360 days	**587**	277
	416,892	408,903

13. Bills Receivable

At the end of the reporting period, bills receivable of HK$34,412,000 (2011: HK$53,959,000) are aged within 180 days (2011: 90 days). Included in the bills receivable is discounted bills with recourse of HK$29,518,000 (2011: HK$43,422,000) of which corresponding financial liabilities are included in bank borrowings.

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:

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**113,443**	131,732
91 to 180 days	**10,489**	5,082
181 to 360 days	**3,644**	1,965
Over 360 days	**4,318**	4,526
	131,894	143,305
Accrued purchases	**180,916**	161,652
	312,810	304,957

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 2012, all bills payable were aged within 90 days.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Revenue for the year ended 31 December 2012 was HK$2.56 billion. Net profit attributable to shareholders for the year ended 31 December 2012 was HK$170 million, compared with a profit of HK$254 million of 2011, dropped 33%. Basic earnings per share were HK$0.57, down 32%. Net asset value per share increased from HK$7.1 to HK$7.7.

Review of Operations

The segment information is as follows:

	Revenue		**Contribution**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
Manufacturing and trading	**1,948,520**	2,056,223	**281,479**	260,890
Brand business	**614,596**	727,943	**(30,183)**	11,564
	2,563,116	2,784,166	**251,296**	272,454
By geographical segments:				
USA	**1,176,251**	1,423,024	**73,900**	94,537
Europe	**512,438**	587,160	**30,718**	25,188
Greater China	**688,317**	631,375	**131,976**	144,140
Others	**186,110**	142,607	**14,702**	8,589
	2,563,116	2,784,166	**251,296**	272,454

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 to capture the high end market. Our brand business in USA and China has suffered considerably and we have immediately made prompt adjustment in response to the market changes.

The profit for 2012 included an exceptional gain on fair value change of derivative financial instruments of HK$38.8 million (2011: loss of HK$2.5 million), which is the financial instruments for hedging RMB for the years from 2012 to 2014 and an increase in fair value of investment properties (before tax) of HK$106 million (2011: HK$137 million).

Liquidity and Financial Resources

The Group's total outstanding bank borrowings were increased to HK$1,846 million at the end of reporting period compared to HK$1,496 million as at 31 December 2011. 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 6% at the end of reporting period. Current ratio has been maintained at a healthy level of 1.28.

The Group's total cash and bank balances were HK$2,097 million at the end of reporting period compared to HK$1,688 million as at 31 December 2011. 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$62 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 8,600. 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$52 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 Tuesday, 28 May 2013 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 (2011: final dividend of 15 HK cents) per ordinary share for the year ended 31 December 2012 at the AGM to be held on 28 May 2013. Subject to the shareholders' approval, the final dividend will be payable on or about 20 June 2013 to shareholders whose names appear on the Register of Members on 5 June 2013.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 24 May 2013 to Tuesday, 28 May 2013, 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 Thursday, 23 May 2013.

In addition, the Register of Members will also be closed from Monday, 3 June 2013 to Wednesday, 5 June 2013, both days inclusive, during which period no transfer of shares will be registered. In order to determine members who are entitled 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, 31 May 2013.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") (previously known as Code on Corporate Governance Practices) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the accounting period for the year ended 31 December 2012, except for the following deviations:

Code provision A.1.1

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

In 2012, the Board meetings held three times a year. The Board believed that such arrangements were adequate to cover all major issues arising throughout the year ended 31 December 2012. 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 CG 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 REVIEW

The Audit Committee of the Company 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 as set out in the terms of reference of the Audit Committee.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2012.

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

During the year, the Company repurchased 3,510,000 (2011: 2,498,000) ordinary shares of HK$0.10 each of the Company on 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 2012	3,510,000	2.90	-	10,222,561

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 2012 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, 28 March 2013