High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

CHAIRMAN'S STATEMENT

2016 was a challenging year surrounded by both weak consumer sentiment & demand across the key global export markets as well as the slowdown in economic growth in Mainland China. Furthermore, Brexit and the new US presidency have created further macro-economic uncertainty in international trade.

On top of the unfavourable global trading environment, the undesirable exchange rate volatility throughout the year has also imposed additional challenges to our Europe business and the overall global margin profitability. Thanks to our diversified business model and geographic customer profile alongside with proactive refinement of our FX management and hedging strategies to mitigate the exposure from the unforeseeable RMB volatility, the Group has weathered through this period securely with a small decline of 6% in sales turnover excluding impact of hedging contracts amidst the market doldrums. Excluding the aforementioned impact of hedging contracts, we have actually achieved an improved gross margin to 21.6% (vs 20.5% last year), continued to deliver a decent set of 2016 full year results despite profit being dragged down by one – off expenses. This again demonstrated our resilience in difficult market conditions supported by strategically upscale customer segmentation through product innovation and operation excellence to best capitalize value gain from multiple channels.

- Net profit at HK$43.28 million
- Gearing ratio of non-current liabilities to shareholders' fund at 9%. Current ratio at 1.2
- Basic earnings per share landed at HK$0.14
- Net asset value per share amounted to HK$7.08
- Proposed final dividend per share is HK$0.03 and the total dividend for the year will be HK$0.06

The strategic diversification of the Group's business into a balanced portfolio of manufacturing, online offline e-commerce retailing and property business has successfully formulated a robotic resilience operating model to withstand economic cyclical fluctuations. Our core manufacturing business foundation remains solid with noticeable progress made in business realignment, operation excellence and staying lean and focused. As we navigate this challenging period of complexity and volatility, we continue to accelerate growth through strategic actions on speed, innovation and technological advancements which not only enhance our deliverable service quality, but also expedite our ability to capture business opportunities in this fast changing apparel market.

The restructuring & reshaping of our multi-brand, multi-channel brand business operating in different geographic areas have been delivered positive profitability enhancement to the Group for the year 2016, while full potential of the brand business is still far from being unlocked, to be driven by dedicated strategies & initiatives including a new e-commerce operating model leveraging the Group's smart technologies, superb product quality & innovation as well as strong value chain capabilities.

The quality portfolio of property projects at different stage of investment & development continued to create value to the Group for the year 2016 and will serve as additional growth drivers for the Group, with more progressive value realization to enhance long-term shareholders' value.

As at the FY2016 reporting date, the revitalization of the High Fashion Centre, the global headquarters of the Group has been officially approved by the Government bureau.

Looking ahead, we anticipate the operating environment remains challenging. While some positive sign of better growth prospects in USA, our key export market, we will stay vigilant along our strategic journey where we see the coexistence of challenges and opportunities in our market. Furthermore, we are convinced of the ample opportunities available through our transformation efforts building on the "Internet +" and "Belt and Road Initiatives" implemented by the China government, and these initiatives we believe will gradually deliver the planned benefits to the Group over the long run.

I appreciate very much on the enormous support and advice constantly received from our shareholders, banks, customers, suppliers and our fellow Directors. I would also like to thank the management team and all staff members of our Group for their dedication and contribution.

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 2016 together with the comparative figures for the year ended 31 December 2015 are set out as follows: -

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
REVENUE	*3,4*	**2,422,545**	2,678,240
Cost of sales		**(1,947,474)**	(2,103,707)
Gross profit		**475,071**	574,533
Other income		**70,465**	110,581
Other gains and losses	*5*	**165,803**	5,647
Administrative expenses		**(384,815)**	(376,678)
Selling and distribution expenses		**(185,578)**	(174,303)
Other expenses		**(24,355)**	(27,373)
Finance costs	*6*	**(30,740)**	(44,126)
Share of losses of joint ventures		**(619)**	(11,270)
PROFIT BEFORE TAXATION		**85,232**	57,011
Income tax expenses	*7*	**(43,968)**	(13,768)
PROFIT FOR THE YEAR	*8*	**41,264**	43,243
OTHER COMPREHENSIVE (EXPENSE) INCOME	*9*		
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(167,543)**	(166,032)
Exchange differences arising on translation of joint ventures		**(1,159)**	(559)
Gain on revaluation of properties		**5,797**	-
Income tax relating to items that will not be reclassified		**(1,449)**	-
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**3,784**	(602)
Fair value gain (loss) on hedging instruments under cash flow hedges		**4,990**	(87,984)
Reclassified to profit and loss on realisation of cash flow hedges		**63,463**	(30,436)
Income tax relating to items that may be reclassified subsequently		**(8,857)**	15,473
Other comprehensive expense for the year, net of tax		**(100,974)**	(270,140)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(59,710)**	(226,897)

	Note	**2016** HK$'000	2015 HK$'000
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**43,277**	46,424
Non-controlling interests		**(2,013)**	(3,181)
		41,264	43,243
TOTAL COMPREHENSIVE EXPENSE ATTRIBUTABLE TO:			
Owners of the Company		**(57,982)**	(223,952)
Non-controlling interests		**(1,728)**	(2,945)
		(59,710)	(226,897)
EARNINGS PER SHARE	*11*		
Basic		**HK$0.14**	HK$0.15

Consolidated Statement of Financial Position
At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**638,585**	732,329
Prepaid lease payments		**105,071**	115,593
Investment properties		**1,188,791**	1,088,754
Interests in joint ventures		**16,246**	18,024
Available-for-sale investments		**675**	675
Deposit placed and prepayment of premium for a life insurance		**26,264**	26,439
Deferred tax assets		**19,989**	32,033
		1,995,621	2,013,847
CURRENT ASSETS			
Inventories		**416,796**	398,591
Properties held for sale		**157,192**	81,233
Trade receivables	*12*	**370,466**	405,299
Bills receivable	*13*	**4,961**	11,466
Prepaid lease payments		**3,026**	3,231
Deposits, prepayments and other receivables		**150,234**	155,649
Amounts due from joint ventures		**26,136**	27,762
Tax recoverable		**162,333**	151,445
Derivative financial instruments		**64,769**	-
Structured deposits	*15*	**-**	550,246
Short-term bank deposits		**623,092**	201,402
Bank balances and cash		**331,255**	610,597
		2,310,260	2,596,921
CURRENT LIABILITIES			
Trade payables	*14*	**329,595**	310,691
Bills payable	*14*	**441**	-
Other payables and accruals		**188,394**	201,249
Amount due to a joint venture		**867**	1,773
Amount due to an associate		**583**	585
Tax payable		**157,731**	157,072
Derivative financial instruments		**63,847**	125,524
Obligations under finance leases		**62**	52
Bank borrowings		**1,215,433**	1,364,930
Bank overdrafts		**1,060**	3
		1,958,013	2,161,879
NET CURRENT ASSETS		**352,247**	435,042
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,347,868**	2,448,889

	2016	2015
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Derivative financial instruments	**3,092**	50,308
Deferred tax liabilities	**178,051**	152,848
Provision for long service payments	**3,483**	3,289
Obligations under finance leases	**86**	-
Other payable	**-**	1,242
	184,712	207,687
NET ASSETS	**2,163,156**	2,241,202
CAPITAL AND RESERVES		
Share capital	**30,562**	30,562
Share premium and reserves	**2,157,900**	2,234,218
Equity attributable to owners of the Company	**2,188,462**	2,264,780
Non-controlling interests	**(25,306)**	(23,578)
TOTAL EQUITY	**2,163,156**	2,241,202

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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

2. Application of New and Revised HKFRSs

<u>Amendments to HKFRSs that are mandatorily effective for the current year</u>

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2012 - 2014 cycle
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations

The application of the above amendments to 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 on the disclosures set out in these consolidated financial statements.

<u>New and amendments to HKFRSs in issue but not yet effective</u>

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments [2]
HKFRS 15	Revenue from contracts with customers and the related amendments [2]
HKFRS 16	Leases [3]
Amendments to HKAS 7	Disclosure initiative [1]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses [1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint ventures [5]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions [2]
Amendments to HKFRS 4	Applying HKAS 39 Financial instruments with HKFRS 4 Insurance contracts transactions [2]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle [4]

[1] Effective for annual periods beginning on or after 1 January 2017.
[2] Effective for annual periods beginning on or after 1 January 2018.
[3] Effective for annual periods beginning on or after 1 January 2019.
[4] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.
[5] Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described as follows:

- all recognised financial assets that are within the scope of HKFRS 9 are required 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value 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.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 Hong Kong Accounting Standard ("HKAS") 39 "Financial instruments: Recognition and measurement", the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the application of HKFRS 9 in the future may not have material impact on the Group's current hedge designation and hedge accounting but may have an impact on the amounts reported in respect of the Group's available-for sale investments. Specifically, HKFRS 9 requires available-for-sale equity investments to be measured at fair value with changes in fair value being accounted for either in the profit or loss or other comprehensive income. In addition, the application of HKFRS 9 may also result in early recognition of credit losses based on expected loss model in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Company has non-cancellable operating lease commitments of HK$34,344,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Company will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except as disclosed above, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs in issue but not yet effective will have no material impact on the results and financial position of the Group.

3. Revenue

An analysis of the Group’s revenue is as follows:

	2016	2015
	HK$'000	*HK$'000*
Manufacture and trading of garments	**2,204,317**	2,462,319
Brand business	**218,228**	215,921
	2,422,545	2,678,240

4. Segment Information

Information reported to the chief operating decision maker, the Group's executive directors, for the purposes of resource 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 branded garments developed by the Group.

The Group's operating and reporting 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 2016

	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	**2,204,317**	**218,228**	**2,422,545**	**-**	**2,422,545**
Inter-segment sales (Note)	**42,256**	**-**	**42,256**	**(42,256)**	**-**
Segment revenue	**2,246,573**	**218,228**	**2,464,801**	**(42,256)**	**2,422,545**
RESULTS					
Segment profit (loss)	**153,462**	**(36,262)**	**117,200**	**(1,228)**	**115,972**
Finance costs					**(30,740)**
Profit before taxation					**85,232**

For the year ended 31 December 2015

	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	2,462,319	215,921	2,678,240	-	2,678,240
Inter-segment sales (Note)	56,928	-	56,928	(56,928)	-
Segment revenue	2,519,247	215,921	2,735,168	(56,928)	2,678,240
RESULTS					
Segment profit (loss)	164,937	(61,916)	103,021	(1,884)	101,137
Finance costs					(44,126)
Profit before taxation					57,011

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 (loss) represents the profit (loss) earned (incurred) by each segment without allocation of finance costs. This is the measure reported to the Company's executive directors for the purposes of resources allocation and performance assessment. 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 is presented accordingly.

Other segment information

For the year ended 31 December 2016

	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	**62,833**	**848**	**63,681**
Amortisation of prepaid lease payments	**3,106**	**-**	**3,106**
Loss on disposal/written-off of property, plant and equipment and prepaid lease payments	**7,497**	**126**	**7,623**
Net allowance for (reversal of allowance for) bad and doubtful debts	**11,522**	**(4,110)**	**7,412**
Net allowance for inventory obsolescence (Note)	**3,709**	**4,995**	**8,704**
Fair value gain on derivative financial instruments	**87,728**	**-**	**87,728**
Increase in fair value of investment properties	**92,540**	**-**	**92,540**
Share of losses of joint ventures	**619**	**-**	**619**

For the year ended 31 December 2015

	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	68,622	1,039	69,661
Amortisation of prepaid lease payments	3,356	-	3,356
Gain on disposal of property, plant and equipment and prepaid lease payments	3,996	13	4,009
Net allowance for (reversal of allowance for) bad and doubtful debts	724	(25)	699
Net allowance for (reversal of allowance for) inventory obsolescence (Note)	8,752	(5,693)	3,059
Fair value loss on derivative financial instruments	23,356	-	23,356
Increase in fair value of investment properties	59,554	-	59,554
Share of losses of joint ventures	8,095	3,175	11,270

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

Geographical information

The Group's operations are located in the United States of America ("USA"), Europe, the 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**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
USA	**949,298**	1,092,672	**417**	737
Europe	**423,672**	474,561	**783**	1,131
Greater China	**784,844**	819,732	**1,924,708**	1,927,510
Others	**264,731**	291,275	**6,539**	7,298
	2,422,545	2,678,240	**1,932,447**	1,936,676

Note : Non-current assets excluded interests in joint ventures, available-for-sale investments, deferred tax assets and deposit placed and prepayment of premium for a life insurance.

Information about major customer

During the current year, there was a customer from manufacture and trading of garments segment contributed over 10% of the total revenue of the Group whose revenue was approximately HK$251 million (2015: HK$326 million).

5. Other Gains and Losses

	2016	2015
	HK$'000	*HK$'000*
(Loss) gain on disposal/written-off of property, plant and equipment and prepaid lease payments	**(7,623)**	4,009
Net allowance for bad and doubtful debts	**(7,412)**	(699)
Change in fair value of derivative financial instruments	**87,728**	(23,356)
Net foreign exchange gain (loss)	**570**	(11,983)
Increase in fair value of investment properties	**92,540**	59,554
Net loss arising on deemed acquisition of subsidiary	**-**	(21,878)
	165,803	5,647

6. Finance Costs

	2016 HK$'000	2015 HK$'000
Interests on:		
Bank borrowings and overdrafts (Note)	**26,599**	37,499
Finance leases	**15**	14
Bank charges	**4,126**	6,613
	30,740	44,126

Note : Included loss on realisation of cash flow hedges reclassified from other comprehensive income of HK$1,562,000 (2015: HK$1,799,000).

7. Income Tax Expenses

	2016 HK$'000	2015 HK$'000
Current tax charge :		
Hong Kong	**1,942**	1,000
The People's Republic of China ("PRC")	**5,502**	6,055
Other jurisdictions	**68**	69
	7,512	7,124
Underprovision in prior years :		
PRC	**6,919**	1,052
Deferred taxation :		
Current year	**21,366**	10,911
Reclassified from other comprehensive income	**8,171**	(5,319)
	29,537	5,592
	43,968	13,768

The Hong Kong Inland Revenue Department ("IRD") has initiated a tax audit on certain group companies for the year of assessment from 1999/2000 onwards. As a matter of IRD's practice, the IRD has issued estimated/additional assessments ("Assessments") demanding for tax to the relevant group companies for the years of assessment from 1999/2000 to 2009/2010. During the course of the tax audit, there is a possibility that estimated additional assessments for subsequent years will be issued by the IRD to these group companies.

Up to 31 December 2016, the Group has purchased tax reserve certificates of approximately HK$159,541,000 (2015: HK$144,300,000) for conditional standover order of objection against the Assessments for the years of assessment from 1999/2000 to 2009/2010 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 reasonable 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 provision made is adequate for the purpose mentioned above.

Other than the tax audit, one of the companies of the Group has also purchased a tax reserve certificate of approximately HK$753,000 (2015: HK$753,000) for conditional standover order of objection against the assessment for the year of assessment 2006/2007 and the amount is included in tax recoverable.

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, which have been recognised as advanced technology enterprises by the PRC Tax Bureau in 2015 and 2016, respectively. These entities are subject to an income tax rate of 15% for three years starting from the year being recognised as an advanced technology enterprise.

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

8. Profit for the Year

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

	2016	2015
	HK$'000	*HK$'000*
Costs of inventories recognised as expenses (included in cost of sales) (Note i)	**1,938,770**	2,100,648
Depreciation of property, plant and equipment	**63,681**	69,661
Amortisation of prepaid lease payments	**3,106**	3,356
Net allowance for inventory obsolescence (included in cost of sales) (Note ii)	**8,704**	3,059
Realisation of cash flow hedges reclassified from other comprehensive income (included in revenue)	**61,901**	(32,235)
Realisation of cash flow hedges reclassified from other comprehensive income (included in finance costs)	**1,562**	1,799
Interest income earned on loans and receivables (included in other income)		
- bank interest income	**(14,173)**	(21,528)
- interest income on other receivables	**(828)**	(990)
Interest income earned on financial assets at fair value through profit or loss ("FVTPL") (included in other income)		
- interest income from structured deposits	**(8,715)**	(20,636)

Notes :

i. The amounts have been arrived at before including net allowance for inventory obsolescence of HK$8,074,000 (2015: HK$3,059,000).

ii. Allowance for inventory obsolescence is written back when the relevant inventory is sold.

9. Other Comprehensive (Expense) Income

	2016	2015
	HK$'000	*HK$'000*
Cash flow hedges:		
Fair value gain (loss) on hedging instruments	**4,990**	(87,984)
Reclassification adjustments upon recognition of hedged items in profit or loss	**63,463**	(30,436)
	68,453	(118,420)
Gain on revaluation of properties	**5,797**	-
Exchange differences arising on translation of joint ventures	**(1,159)**	(559)
Exchange differences arising on translation to presentation currency	**(167,543)**	(166,032)
Exchange differences arising on translation of foreign operations	**3,784**	(602)
Other comprehensive expense	**(90,668)**	(285,613)
Income tax relating to components of other comprehensive income (expense):		
- fair value changes in hedging instruments under cash flow hedges	**(686)**	10,154
- reclassification adjustments of fair value changes in hedging instruments to profit or loss	**(8,171)**	5,319
- revaluation of properties	**(1,449)**	-
	(10,306)	15,473
Other comprehensive expense for the year, net of tax	**(100,974)**	(270,140)

10. Dividends

	2016	2015
	HK$'000	*HK$'000*
Dividends recognised as distribution and paid during the year:		
Interim dividend - 3 HK cents per ordinary share for 2016 (2015: 3 HK cents for 2015)	**9,168**	9,168
Final dividend - 3 HK cents per ordinary share for 2015 (2015: 5 HK cents for 2014)	**9,168**	15,281
	18,336	24,449

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of 3 HK cents (2015: final dividend in respect of the year ended 31 December 2015 of 3 HK cents) per ordinary share, in an aggregate amount of HK$9,168,000 (2015: HK$9,168,000) 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 is based on the following data:

	2016	2015
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share attributable to owners of the Company	**43,277**	46,424

	2016	2015
Number of ordinary shares for the purpose of basic earnings per share	**305,615,420**	305,615,420

No diluted earnings per share is presented as there is no potential ordinary shares outstanding during both 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 debt is presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates.

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**335,280**	384,569
91 to 180 days	**30,687**	11,919
181 to 360 days	**2,390**	4,238
Over 360 days	**2,109**	4,573
	370,466	405,299

13. Bills Receivable

At the end of the reporting period, bills receivable of HK$4,961,000 (2015: HK$11,466,000) are aged within 90 days (2015: 90 days) from the respective invoice dates. Included in the bills receivable are discounted bills with recourse of HK$4,147,000 (2015: HK$10,249,000), their corresponding financial liabilities are included in bank borrowings.

14. Trade and Bills Payables

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

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**114,090**	111,852
91 to 180 days	**10,864**	8,462
181 to 360 days	**2,656**	2,282
Over 360 days	**7,033**	6,639
	134,643	129,235
Accrued purchases	**194,952**	181,456
	329,595	310,691

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 2016, all bills payable are aged within 90 days.

15. Structured Deposits

The structured deposits are placed with banks in the PRC and contain embedded derivatives, the returns of which are determined by reference to the change in certain exchange rates quoted in the market. The structured deposits are designated as financial assets at FVTPL at initial recognition.

Major terms of the structured deposits at 31 December 2015 are as follows:

Principal amount	Maturity (Note i)	Annual coupon rate	Notes
RMB326,000,000	February - August 2016	From 2.4% to 4.55%	(ii)
RMB122,000,000	March – July 2016	from 2.0% to 4.2%	(iii)

Notes:

(i) All the deposits are subject to the option for early termination by issuing banks.

(ii) The annual coupon rate is dependent on whether the spot rate for conversion of European dollar for United States dollar ("US$") as prevailing in the international foreign exchange market falls within ranges as specified in the relevant agreements during the period from inception date to maturity date of the relevant agreements.

(iii) The annual coupon rate is dependent on whether the spot rate for conversion of Australian dollar for US$ as prevailing in the international foreign exchange market falls within ranges as specified in the relevant agreements during the period from inception date to maturity date of the relevant agreements.

The above structured deposits had been withdrawn upon maturity during the current year. At 31 December 2015, the structured deposits were stated at fair values based on valuation provided by respective counterparties. The fair values were calculated using discounted cash flow analysis based on the applicable yield curves of relevant exchange rates.

16. Contingent Liabilities

In addition to the tax audit on certain group companies as disclosed in note 7, the Group has the following contingent liabilities:

There were disputes amongst the Group, Hansen International Limited ("Hansen"), Ms. Leong Ma Li Mary, the beneficial owner of Hansen, and certain directors of the Company and several legal proceedings are taking place. The aforesaid parties in the action have agreed to generally extend the deadlines of filing various documents with court. Given that the evidence is still at an early stage, in the opinion of directors of the Company, the ultimate outcome is unable to be determined and no provision has been made accordingly.

In addition, on 30 June 2016, the Group received a judgment made by the Intermediate People's Court of the Shaoxing City of Zhejiang Province (the "Judgment") regarding an ongoing enquiry of customs duty for import of certain machinery parts and apparel accessories for manufacturing by the PRC factories into China. According to the Judgment, the Group was convicted of an offence of illicit transportation of common goods or articles without paying customs duty and was required to pay a penalty of Renminbi ("RMB") 28 million (the "Fine") and customs of RMB27 million (the "Customs") on these imported machinery parts and apparel accessories, out of which the RMB30,000,000 deposit previously paid to the Customs Authority would be confiscated by the Customs Authority and used to offset the amount payable. Management has sought advices from the legal professionals, who advised that the facts set out in the Judgment were unclear and without merit. In addition, the Group has submitted an appeal application against the Judgment in July 2016, and no payment for the Fine and Customs were made up to the date of this report. Accordingly, no provision is considered necessary by the directors to be made in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Review of Operations

Revenue of the Group declined 9.5% to HK$2.4 billion for the year versus last year. Excluding the impact of hedging contracts, underlying sales decline is only mild at 6% despite challenging market environment.

On same basis, underlying gross margin % excluding impact of hedging contracts landed at 21.6% in FY2016, a decent uplift compared to 20.5% last year.

In spite of escalating operating cost pressure in China, selling & distribution expenses and administrative expenses managed to maintain at similar level vs last year excluding impact of different classification of High Fashion New Media Corporation Limited in 2016 (as subsidiary) vs 2015 (as Joint Venture most part of the year). Overall operating expenses for the year 2016 included also professional & consultancy fees on a number of different projects as well as one-off expenses totaled HK$24.4 million (2015: HK$27.4 million) which is classified under "Other Expenses".

Net profit attributable to shareholders for the year ended 31 December 2016 landed at HK$43 million compared to the profit of HK$46 million in 2015. Basic earnings per share were HK$0.14. Net asset value per share was HK$7.08.

Segment Information

	Revenue		Contribution	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
Manufacturing and trading	**2,204,317**	2,462,319	**152,234**	163,053
Brand business	**218,228**	215,921	**(36,262)**	(61,916)
	2,422,545	2,678,240	**115,972**	101,137
By geographical segments:				
USA	**949,298**	1,092,672	**37,389**	34,543
Europe	**423,672**	474,561	**12,251**	16,278
Greater China	**784,844**	819,732	**57,524**	41,586
Others	**264,731**	291,275	**8,808**	8,730
	2,422,545	2,678,240	**115,972**	101,137

Despite all the challenging macroeconomic conditions, the manufacturing and trading business continued to be the profit contributor of the Group while the brand business has been delivering positive profitability enhancement to the Group in 2016 vs last year (with operating loss significantly reduced to HK$36 million from HK$62 million last year) through our restructuring efforts while full potential of the brand business is still far from being unlocked.

Profit for the year of 2016 included an exceptional gain on fair value change of derivative financial instruments of HK$88 million (2015: HK$23 million) while on the other hand a total amount of HK$62 million loss from Par Forward contract was recognized under revenue. Furthermore, there has been an increase in fair value of investment properties, net of tax, amounted to HK$72 million (2015: HK$49 million) recorded in the current period.

Liquidity and Financial Resources

The Group's total outstanding bank borrowings were decreased to HK$1,216 million at the end of reporting period compared to HK$1,365 million as at 31 December 2015. The decrease in bank borrowing was mainly due to refinement of our hedging strategies during the year in response to increased volatility of RMB. Our gearing ratio of non-current liabilities to shareholders' funds was only 9% at the end of reporting period. Current ratio has been maintained at a healthy level of 1.2.

The Group's total cash and bank balances were HK$954 million at the end of reporting period compared to HK$1,362 million as at 31 December 2015. Based on the ample banking facilities available, the Group had a 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 mainly denominated in Hong Kong dollar. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk in this aspect 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.

Barring the pledge of trade receivables and bills receivables of certain subsidiaries of HK$21 million, there were no charges on the Group's assets.

Environmental, Social and Corporate Responsibility

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions and employment and the environment. The Group understands a better future depends on everyone's customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains strong relationship with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

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 joint ventures as at the end of the reporting period was about 7,000. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

Capital Expenditure

The Group has purchased plant and equipment and leasehold improvement and construction in progress of around HK$25 million in order to upgrade its manufacturing capabilities and environmental protection during the year. The Group also has acquired the land use right with 34,013 sqm that is located Tonglu County, Zhejiang Province, PRC at the consideration of RMB46.25 million. Except for the above, there was no material capital expenditure during the year.

Contingent Liabilities

Please refer to note 16 for details of contingent liabilities at 31 December 2016.

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, 6 June 2017 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 3 HK cents (2015: 3 HK cents) per share payable to shareholders of the Company whose names appear on the Register of Members on 14 June 2017, making a total dividend for the year ended 31 December 2016 of 6 HK cents (2015: 6 HK cents) per share. Dividend warrants for the final dividend is expected to be despatched on or around Thursday, 29 June 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 5 June 2017 to Tuesday, 6 June 2017, 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 at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Friday, 2 June 2017.

In addition, the Register of Members will also be closed from Tuesday, 13 June 2017 to Wednesday, 14 June 2017, 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 at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Monday, 12 June 2017.

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") as set out in Appendix 14 of the Listing Rules on the Stock Exchange throughout the accounting period for the year ended 31 December 2016, except for the following deviation:

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 2016.

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

During the year, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

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 2016 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, Ms. So Siu Hang, Patricia, Mr. Lam Gee Yu, Will and Mr. Lam Din Yu, Well; (2) non-executive director: 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, 30 March 2017