High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

CHAIRMAN'S STATEMENT

In 2018, the global economy is filled with challenges and opportunities. We continued to deliver a decent set of interim results for the period with satisfactory growth in top line sales. We are confident that we can enhance our competitive advantage by deepening our re-engineering processes, in order to respond effectively to the complex market environment. Our key results for the period ended 30 June 2018 are as follow:

- Net profit attributable to shareholders at HK$23.6 million
- Gearing ratio of non-current liabilities to shareholders' fund at 40%. Current ratio at 1.6
- Basic earnings per share landed at HK$0.077
- Net asset value per share amounted to HK$8.17
- Interim dividend per share of HK$0.03

We will pursue proactively our focused strategy on breadth and quality of global customer portfolio for healthy growth. Coupled with our strategic goals in strengthening our supply chain management and effectively monitoring production costs, we aim at building a strong platform for the development of our core manufacturing business.

While product innovation and operational excellence have always been our key pillars to create growth momentum, we are committed to invest and nurture innovation through digitalization to improve competitiveness and create new business opportunities to add value to the Group in the long run.

We also focus on sharpening the cost structure of our brand business and exploring new models so as to establish more direct interface with customers.

We have excellent property assets which are being developed progressively, including the renovation project in Hong Kong. We believe these assets can add further value to the Group in future.

While prevailing economic challenges in China over the international trade and protectionism are expected to persist in the foreseeable future, we will continue to monitor closely on the businesses, currency and interest risks. We believe that with our ongoing efforts on key growth drivers, we will deliver enhanced synergies across our platforms of unique and differentiated fashion product creation for sustainable development.

I appreciate very much the enormous support and advice constantly received from our shareholders, customers, suppliers, banks 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 unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 together with the comparative figures.

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 30 June 2018

	Notes	Six months ended 30 June **2018** **(Unaudited)** ***HK$'000***	2017 (Unaudited) *HK$'000*
REVENUE	*3*		
Goods and services		**1,535,728**	1,235,527
Rental		**14,870**	14,235
TOTAL REVENUE		**1,550,598**	1,249,762
Cost of sales		**(1,277,911)**	(997,656)
Gross profit		**272,687**	252,106
Other income		**12,193**	19,614
Other gains and losses	*4*	**49,091**	42,880
Administrative expenses		**(167,432)**	(154,296)
Selling and distribution expenses		**(99,965)**	(84,266)
Other expenses		**(10,225)**	(5,665)
Finance costs	*5*	**(16,237)**	(16,989)
Share of losses of joint ventures		**(94)**	(1,177)
PROFIT BEFORE TAXATION		**40,018**	52,207
Income tax expenses	*6*	**(18,390)**	(28,770)
PROFIT FOR THE PERIOD	*7*	**21,628**	23,437
OTHER COMPREHENSIVE (EXPENSE) INCOME	*8*		
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements from functional currency to presentation currency		**(37,780)**	74,826
Fair value gain on equity instruments at fair value through other comprehensive income		**1,064**	-
Gain on revaluation of owner-occupied properties		**238**	68,253
Income tax relating to items that will not be reclassified to profit or loss		**(59)**	(17,063)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(1,715)**	(1,782)
Fair value (loss) gain on hedging instruments under cash flow hedges		**(22,195)**	25,218
Reclassified to profit or loss on realisation of cash flow hedges		-	17,263
Income tax relating to items that may be reclassified to profit or loss		**3,662**	(5,730)
Other comprehensive (expense) income for the period, net of tax		**(56,785)**	160,985
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD		**(35,157)**	184,422

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Cont'd)
For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**23,589**	22,862
Non-controlling interests		**(1,961)**	575
		21,628	23,437
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**(33,269)**	184,332
Non-controlling interests		**(1,888)**	90
		(35,157)	184,422
EARNINGS PER SHARE	*9*		
Basic		**7.72 HK cents**	7.48 HK cents

Unaudited Condensed Consolidated Statement of Financial Position
At 30 June 2018

	Notes	**At 30 June 2018 (Unaudited)** *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**603,201**	609,975
Prepaid lease payments		**67,185**	68,717
Investment properties		**1,717,607**	1,649,855
Intangible assets		**7,723**	6,529
Interests in joint ventures		**17,076**	17,070
Available-for-sale investments		**-**	675
Equity instruments at fair value through other comprehensive income		**25,530**	-
Deposit placed and prepayment of premium for a life insurance		**25,974**	26,074
Deferred tax assets		**25,703**	26,012
Derivative financial instruments		**4**	-
		2,490,003	2,404,907
CURRENT ASSETS			
Inventories		**586,556**	522,524
Properties held for sale		**205,929**	188,891
Trade receivables	*11*	**445,319**	403,249
Bills receivable	*11*	**14,591**	5,807
Prepaid lease payments		**1,960**	2,001
Deposits, prepayments and other receivables		**182,289**	175,968
Amounts due from joint ventures		**27,463**	27,050
Tax recoverable		**187,134**	175,872
Derivative financial instruments		**24**	-
Short-term bank deposits		**427,006**	490,131
Restricted bank balances		**74,227**	-
Bank balances and cash		**425,109**	503,357
		2,577,607	2,494,850
CURRENT LIABILITIES			
Trade payables	*12*	**336,754**	360,773
Bills payable		**-**	602
Other payables and accruals		**145,079**	203,089
Amount due to an associate		**583**	583
Contract liabilities		**194,790**	-
Tax payable		**168,086**	167,239
Derivative financial instruments		**24,027**	4,485
Obligations under finance leases		**57**	75
Bank borrowings		**712,180**	1,387,004
Bank overdrafts		**1**	694
		1,581,557	2,124,544

Unaudited Condensed Consolidated Statement of Financial Position (Cont'd)
At 30 June 2018

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
NET CURRENT ASSETS	**996,050**	370,306
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,486,053**	2,775,213
NON-CURRENT LIABILITIES		
Bank borrowings	**732,500**	-
Deferred tax liabilities	**254,129**	251,492
Derivative financial instruments	**-**	734
Provision for long service payments	**2,556**	2,859
Obligations under finance leases	**-**	20
	989,185	255,105
NET ASSETS	**2,496,868**	2,520,108
CAPITAL AND RESERVES		
Share capital	**30,562**	30,562
Share premium and reserves	**2,493,510**	2,514,862
Equity attributable to owners of the Company	**2,524,072**	2,545,424
Non-controlling interests	**(27,204)**	(25,316)
TOTAL EQUITY	**2,496,868**	2,520,108

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

Other than the changes in accounting policies resulting from application of the new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017.

<u>Application of new and amendments to HKFRSs</u>

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. Principal Accounting Policies (Cont'd)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following operations:

- Manufacturing and trading of garments;
- Brand business; and
- Property investment and development, including rental income from leasing of properties and revenue from sale of properties.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation.

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. Principal Accounting Policies (Cont'd)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Cont'd)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Cont'd)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. Principal Accounting Policies (Cont'd)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Cont'd)

2.1.2 Summary of effects arising from initial application of HKFRS 15

The following adjustments are made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that are not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Other payables and accruals	203,089	(36,375)	166,714
Contract liabilities	-	36,375	36,375

As at 1 January 2018, advances from customers of HK$36,375,000 in respect of sales orders previously included in other payables and accruals have been reclassified to contract liabilities.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses ("ECL") for financial assets; and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits, without restating comparative information.

In addition, the Group applied the hedge accounting prospectively.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2. Principal Accounting Policies (Cont'd)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Cont'd)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

2. Principal Accounting Policies (Cont'd)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Cont'd)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)

Classification and measurement of financial assets (Cont'd)

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, bills receivable, deposits and other receivables, amounts due from joint ventures, short-term deposits, restricted bank balances and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. Principal Accounting Policies (Cont'd)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Cont'd)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)

Impairment under ECL model (Cont'd)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

2. Principal Accounting Policies (Cont'd)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Cont'd)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)

Impairment under ECL model (Cont'd)

Significant increase in credit risk (Cont'd)

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

At 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

Hedge accounting

The Group has elected to adopt the new general hedge accounting in HKFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

2. Principal Accounting Policies (Cont’d)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 “Financial Instruments” (Cont’d)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont’d)

Hedge accounting (Cont’d)

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

2. Principal Accounting Policies (Cont'd)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Cont'd)

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investments	Equity instruments at FVTOCI	Trade receivables	Deferred tax assets	Deferred tax liabilities	Share premium and reserves
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Closing balance at 31 December 2017 - HKAS 39		675	-	403,249	26,012	251,492	2,514,862
Effects arising from initial application of HKFRS 9:							
Reclassification							
From available-for-sale investments	(a)	(675)	675	-	-	-	-
Remeasurement							
From cost less impairment to fair value	(a)	-	23,791	-	-	-	23,791
Impairment under ECL model	(b)	-	-	(3,079)	129	(244)	(2,706)
Opening balance at 1 January 2018		-	24,466	400,170	26,141	251,248	2,535,947

(a) Available-for-sale investments

The Group elected to present in OCI for the fair value change of all its equity investments previously classified as available-for-sale investments, which related to unlisted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$675,000 was reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gain of HK$23,791,000 was adjusted to equity instruments at FVTOCI and investment revaluation reserve as at 1 January 2018.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of bills receivable, deposits and other receivables, amounts due from joint ventures, short-term bank deposits, restricted bank balances and bank balances, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

At 1 January 2018, the additional credit loss allowance of HK$3,079,000 has been recognised against accumulated profits. The additional loss allowance is charged against the respective asset. At 1 January 2018, deferred tax assets increased by HK$129,000 and deferred tax liabilities decreased by HK$244,000.

Except as described above, the application of the other amendments to HKFRSs and interpretation in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. Revenue and Segment Information

Disaggregation of revenue

	Six months ended 30 June 2018 (Unaudited) *HK$'000*
Types of goods or services	
Manufacturing and trading of garments	**1,421,440**
Brand business	**73,913**
Rental income	**14,870**
Sales of properties	**40,375**
	1,550,598
Geographical markets	
United States of America	**555,041**
Europe	**245,234**
Greater China	**584,078**
Others	**166,245**
	1,550,598

All the revenue of the Group are recognised at a point in time.

Segment information

The following is an analysis of the Group's revenue and results by reportable and operating segment. Comparative figures for the property investment and development segment, which has been reported as a separate segment in the preceding year, have been re-presented.

For the six months ended 30 June 2018 (unaudited)

	Manufacturing and trading of garments *HK$'000*	Brand business *HK$'000*	Property investment and development *HK$'000*	Segment total *HK$'000*	Elimina-tions *HK$'000*	Consoli-dated *HK$'000*
REVENUE						
External sales	**1,421,440**	**73,913**	**55,245**	**1,550,598**	**-**	**1,550,598**
Inter-segment sales (note i)	**11,120**	**-**	**-**	**11,120**	**(11,120)**	**-**
Segment revenue	**1,432,560**	**73,913**	**55,245**	**1,561,718**	**(11,120)**	**1,550,598**
RESULTS						
Segment profit (loss)	**33,851**	**(32,347)**	**12,193**	**13,697**	**-**	**13,697**
Change in fair value of derivative financial instruments						**980**
Change in fair value of investment properties						**41,667**
Corporate overhead (note ii)						**(4,046)**
Other expenses						**(10,225)**
Unallocated items						**(2,055)**
Profit before taxation						**40,018**

For the six months ended 30 June 2017 (unaudited)

	Manufacturing and trading of garments *HK$'000*	Brand business *HK$'000*	Property investment and development *HK$'000*	Segment total *HK$'000*	Elimina-tions *HK$'000*	Consoli-dated *HK$'000*
REVENUE						
External sales	1,150,827	84,700	14,235	1,249,762	-	1,249,762
Inter-segment sales (note i)	26,780	-	-	26,780	(26,780)	-
Segment revenue	1,177,607	84,700	14,235	1,276,542	(26,780)	1,249,762
RESULTS						
Segment profit (loss) (excluding loss on cash flow hedges reclassified from other comprehensive income)	28,456	(6,913)	9,544	31,087	-	31,087
Realisation of cash flow hedges reclassified from other comprehensive income	(17,263)	-	-	(17,263)	-	(17,263)
Segment profit (loss)	11,193	(6,913)	9,544	13,824	-	13,824
Change in fair value of derivative financial instruments						(56,362)
Change in fair value of investment properties						107,558
Corporate overhead (note ii)						(4,414)
Other expenses						(5,665)
Unallocated items						(2,734)
Profit before taxation						52,207

Notes:

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

(ii) Central administration costs are apportioned between segments and corporate and allocated to the respective segments according to segment revenue in the respective reporting periods.

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without the allocation of change in fair value of derivative financial instruments not designated for hedge accounting and investment properties, certain portion of the central administration costs and other expenses. This is the measure reported to the Company's executive directors for the purposes of resources allocation and performance assessment.

4. Other Gains and Losses

	Six months ended 30 June 2018 (Unaudited) *HK$'000*	2017 (Unaudited) *HK$'000*
Increase in fair value of investment properties	**41,667**	107,558
Change in fair value of derivative financial instruments	**980**	(56,362)
Loss on disposal of property, plant and equipment	**(68)**	(1)
Net foreign exchange gain (loss)	**13,852**	(6,080)
Net allowance for bad and doubtful debts	**(7,340)**	(2,235)
	49,091	42,880

5. Finance Costs

	Six months ended 30 June 2018 (Unaudited) *HK$'000*	2017 (Unaudited) *HK$'000*
Interests on:		
Bank borrowings and overdrafts	**20,132**	14,267
Finance leases	**4**	7
Bank charges	**3,129**	1,881
Total borrowing costs	**23,265**	16,155
Less: Amount capitalised in investment properties under construction that is arisen from specific borrowings	**(7,028)**	**-**
	16,237	16,155
Fair value loss reclassified from other comprehensive income to profit or loss on interest rate swaps designated as cash flow hedges for variable-rate bank borrowings	-	834
	16,237	16,989

6. Income Tax Expenses

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax charge:		
Hong Kong	**3,000**	737
The People's Republic of China (the "PRC")	**5,473**	5,708
Other jurisdictions	**33**	483
	8,506	6,928
Underprovision in prior years:		
Hong Kong	**27**	7,908
The PRC	**1,455**	3
	1,482	7,911
Deferred taxation - current period	**8,402**	13,931
	18,390	28,770

Current tax

As disclosed in the Group's annual reports published in previous years, the Inland Revenue Department (the "IRD") has initiated a tax audit on certain group companies in Hong Kong from the year of assessment 1999/2000 onwards in relation to the taxability on certain offshore income. 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 2011/2012. During the course of the tax audit, there may be a possibility that estimated/additional assessments for subsequent years will be issued by the IRD to these group companies.

Up to 30 June 2018, the Group has made tax payment of approximately HK$181,629,000 (up to 31 December 2017: HK$172,384,000) for conditional standover order of objection against the Assessments, including approximately HK$169,539,000 (up to 31 December 2017: HK$160,294,000) tax reserve certificates purchased by the Group. The amount is included in "tax recoverable" in the condensed consolidated statement of financial position.

The Group has been pro-actively liaising with the IRD, but the tax audit remains at the stage of fact finding and vertification, thus the outcome of the tax audit cannot be readily ascertained with reasonable accuracy. Management of the Group has in the current year followed the same basis for making provision as adopted in prior years. In the opinion of the directors of the Company, the provision made is adequate for the purpose mentioned above.

Deferred tax

Included in tax charge for the period is approximately HK$7,834,000 (six months ended 30 June 2017: HK$22,871,000) deferred tax charged on increase in fair value of investment properties.

7. Profit for the Period

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments	**792**	783
Depreciation of property, plant and equipment	**28,412**	31,567
Net allowance for inventory obsolescence (included in cost of sales)	**6,142**	1,280
Realisation of cash flow hedges reclassified from other comprehensive income (note)	-	17,263
Investment income earned on:		
Bank interest income	**(7,417)**	(9,560)
Interest income on other receivables	**(390)**	(424)

Note: During the six months ended 30 June 2017, loss of HK$16,429,000 was included in revenue and the remaining balance of a loss of HK$834,000 was included in finance costs.

8. Other Comprehensive (Expense) Income

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cash flow hedges:		
Fair value (loss) gain on hedging instruments	**(22,195)**	25,218
Reclassification adjustments upon realisation of hedged items in profit or loss	-	17,263
	(22,195)	42,481
Fair value gain on equity instruments at fair value through other comprehensive income	**1,064**	-
Gain on revaluation of owner-occupied properties	**238**	68,253
Exchange differences arising on translation of foreign operations	**(39,495)**	73,044
	(60,388)	183,778
Income tax relating to components of other comprehensive income (expense):		
Fair value change in hedging instruments under cash flow hedges	**3,662**	(5,730)
Revaluation of owner-occupied properties	**(59)**	(17,063)
	3,603	(22,793)
Other comprehensive (expense) income for the period, net of tax	**(56,785)**	160,985

9. Earnings Per Share

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share attributable to owners of the Company	**23,589**	22,862
	Number of shares	Number of shares
Number of ordinary shares for the purpose of basic earnings per share	**305,615,420**	305,615,420

No diluted earnings per share has been presented as there is no potential ordinary share outstanding during both periods or at the end of the respective reporting periods.

10. Dividends

During the current interim period, a final dividend of 3 HK cents (six months ended 30 June 2017: 3 HK cents) per share was declared to the shareholders for the year ended 31 December 2017 (six months ended 30 June 2017: for the year ended 31 December 2016) and paid in cash.

The Board declared that an interim dividend of 3 HK cents per share for the six months ended 30 June 2018 (six months ended 30 June 2017: 3 HK cents) which will be paid to shareholders whose names appear in the register of members on 21 September 2018. This dividend was declared after the end of the reporting period, and therefore it has not been included as a liability in the condensed consolidated statement of financial position.

11. Trade Receivables and Bills Receivable

Trade receivables mainly comprise receivables from sales of garments and renting of properties. Credit terms granted to the customers for garment trading range from 30 to 90 days. Rentals are payable by tenants upon presentation of demand notes. No credit is granted to tenants.

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, which approximates the respective revenue recognition dates, is as follows:

	At 30 June 2018 (Unaudited)	At 31 December 2017 (Audited)
	HK$'000	*HK$'000*
Within 90 days	**406,397**	367,945
91 to 180 days	**31,187**	23,413
181 to 360 days	**6,585**	9,514
Over 360 days	**1,150**	2,377
	445,319	403,249

At the end of the reporting period, bills receivable of HK$14,591,000 (31 December 2017: HK$5,807,000) are aged within 90 days (31 December 2017: within 90 days) from the respective invoice dates. Included in the bills receivable is discounted bills with recourse of HK$5,250,000 (31 December 2017: HK$4,303,000) of which the corresponding financial liabilities are included in bank borrowings.

12. Trade Payables

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

	At 30 June 2018 (Unaudited)	At 31 December 2017 (Audited)
	HK$'000	*HK$'000*
Within 90 days	**135,513**	115,079
91 to 180 days	**9,098**	7,475
181 to 360 days	**2,413**	3,214
Over 360 days	**8,114**	7,917
	155,138	133,685
Accrued purchases	**181,616**	227,088
	336,754	360,773

In general, the credit period on purchases of goods within 90 days.

13. Contingent Liabilities

In addition to the tax audit on certain group companies, as disclosed in note 6, the Group has the following contingent liabilities:

As disclosed in the Group's annual report for the year ended 31 December 2017, 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 the directors of the Company, the ultimate outcome is unable to be determined and no provision has been made accordingly.

In addition, in June 2016, a judgment was made by the Intermediate People's Court Shaoxing, Zhejiang Province (the “Judgment”) regarding the enquiry for import of certain machinery parts and apparel accessories for manufacturing by the PRC factories into China. According to the Judgment, the Group had 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”) 28,000,000 and customs of RMB27,000,000, out of which the RMB30,000,000 deposit previously paid would be confiscated by the Customs Authority and used to offset the amount payable. In July 2016, the Group appealed against the Judgment (the “Appeal”) to the High People's Court of Zhejiang Province.

In June 2017, a ruling was made by the High People's Court of Zhejiang Province on the Appeal proceeding to the effect that due to the unclear facts in the Judgement, the Judgment made by the Intermediate People's Court Shaoxing, Zhejiang Province was revoked, and the customs proceedings were remitted to the Intermediate People’s Court Shaoxing, Zhejiang Province for retrial.

In April 2018, the Intermediate People’s Court Shaoxing, Zhejiang Province retained the same judgment as was made previously. After seeking advice from the legal and other professionals, the Group has decided to appeal against the judgment received in April 2018. The Group has submitted an appeal application to the Higher People’s Court at Zhejiang Province.

The management of the Group had sought advice from PRC legal professionals who advised that the judgment received in April 2018 was without merit and the facts relied on were unclear against which the Group had strong grounds to defend. Accordingly, the directors of the Company consider that no provision for impairment loss on the deposit is necessary and the deposit has been presented as a current asset in the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Review of Operations

The Group recorded a total revenue of HK$1.55 billion for the six months ended 30 June 2018, an increase of 24.1% compared with the same period last year. Due to the significant appreciation of CNY in average during the period as compared with same period last year, the gross profit margin fell to 17.6% (versus 20.2% same period last year) though overall gross profit increased by 8.2% in the first half of 2018 compared with the same period in 2017. Excluding the factor of exchange movement, the gross profit margin for the period was 22.2%, resulting in an increase of 2.0% compared with the same period of last year.

The increase of administrative and selling expenses was also driven by the CNY exchange movement during the period. Excluding the exchange factor, administrative expenses were only increased year-on-year by 2.8% whilst selling and distribution expenses increased by 12.0% year-on-year which was far less than the growth in sales revenue. These results reveal the continuous improvement in streamlining our cost structure as well as process flows. The increase of other expenses was due to certain one-off expenses including ad-hoc professional & consultancy fees.

Net profit attributable to shareholders for the six months ended 30 June 2018 landed at HK$23.6 million, an increase of 3.2% compared with HK$22.9 million at the same period last year. Basic earnings per share achieved a corresponding significant year-over-year increase to 7.72 HK cents. Net asset value per share is HK$8.17.

Segment Information

	Revenue		**Contribution**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activities:				
Manufacturing and trading	**1,421,440**	1,150,827	**33,851**	11,193
Brand business	**73,913**	84,700	**(32,347)**	(6,913)
Property investment and development	**55,245**	14,235	**12,193**	9,544
	1,550,598	1,249,762	**13,697**	13,824

The manufacturing and trading business is the most profit contributor of the Group. The Group will focus on optimizing its costs and benefit to create greater competitiveness. For the brand business, costs are and to be provided for rationalizing its structure. It will progressively demonstrate its contribution in the process of restructuring to e-commerce.

With the investment and development of property projects, the property business will start generating significant recurring income so as to strengthen the cash flow and enhance the value of the Group.

Liquidity and Financial Resources

The Group's total outstanding bank borrowings increased to HK$1,445 million at the end of interim reporting period compared to HK$1,388 million as at 31 December 2017. Our gearing ratio of non-current liabilities to shareholders' funds was 40% at the end of interim reporting period. Current ratio maintained at a robust level of 1.6.

The Group's total cash and bank balances were HK$926 million at the end of interim reporting period, a slight decline compared to HK$993 million at the end of 2017. 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 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 in this aspect is minimal. The Group has taken conservative approach to handle foreign currency risk with adequate hedging reserve.

Save as the pledge of trade and bill receivables of certain subsidiaries of HK$19 million and the pledge of certain properties of HK$723 million, there were no charges on the Group's assets.

Capital Expenditure

The Group purchased the plant and equipment and construction in progress of HK$20.7 million in order to upgrade its manufacturing capabilities and improve the environmental protection system during the period. The Group also input HK$49.6 million into certain properties construction and development projects during the period.

Capital Commitments

At 30 June 2018, the Group is committed to capital expenditure in respect of acquisition of property, plant and equipment and construction work contracted but not provided for amounted to HK$331 million.

Contingent Liabilities

Please refer to note 13 for details of contingent liabilities at 30 June 2018.

Tax Audit

Since February 2006, the IRD has initiated a tax audit on certain group companies for the years of assessment as from 1999/2000. The Group has been pro-actively liaising with the IRD, but the tax audit remains at the stage of fact finding and verification, thus the Group still cannot ascertain the final outcome of the tax audit with reasonable accuracy. Based on the communication and understanding with the IRD since the beginning of the year, the directors of the Group is of the opinion that, in all the years, adequate tax provision was made for the Hong Kong chargeable income.

Human Resources

The total number of employees of the Group including joint ventures as at the end of interim reporting period was about 6,400. 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 period.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 3 HK cents per share for the six months ended 30 June 2018 (six months ended 30 June 2017: interim dividend of 3 HK cents) on the shares in issue amounting to HK$9,168,000 (six months ended 30 June 2017: HK$9,168,000), to the shareholders whose names appear on the Register of Members on 21 September 2018. The dividend will be payable on or about 16 October 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, 20 September 2018 to Friday, 21 September 2018, both days inclusive, during which period no transfer of shares will be registered. In order to determine shareholers who are entitled to qualify for the interim 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 Wednesday, 19 September 2018.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period for the six months ended 30 June 2018, except for the deviation as described below:

Code provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive 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 best interests of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

REVIEW OF ACCOUNTS

The Audit Committee of the Company has reviewed the Group's unaudited condensed consolidated financial information and interim report for the six months ended 30 June 2018.

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

During the six months ended 30 June 2018, 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 INTERIM REPORT

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

The 2018 Interim Report of the Company will be despatched 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 directors: Professor Yeung Kwok Wing and Mr. Hung Ka Hai, Clement; 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 August 2018