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High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

CHAIRMAN'S STATEMENT

During 2018, the market was affected by escalated trade tensions between the United States and China, the Brexit, as well as exchange fluctuations, leading to a global slowdown in market growth. However, turnover was not impacted as a result of the economic uncertainties attributable to our long established steadily growth strategies and excellent global customer relationships. We will continue to be vigilant and at the same time strengthen our efficiency and competitiveness in order to meet any future challenges and market opportunities.

Our key results for the period ended 31st December 2018 are as follow:-

- Net profit attributable to shareholders at HK\$43.6 million
- Gearing ratio of non-current liabilities to shareholders' fund at 38%. Current ratio at 1.5
- Basic earnings per share landed at HK\$0.14
- Net asset value per share amounted to HK\$8.16
- Proposed final dividend per share is HK\$0.03 and the total dividend for the year will be HK\$0.06

Whilst the Group has always been well positioned as the world's top Silk enterprise, the escalated silk yarn price in the past few years has significantly disrupted the relatively higher end consumer market, thus narrowing our market expansion opportunities. To cope with this challenge, we have optimized our strategies and has been deploying resources to develop as a strong affordable-luxury fashion manufacturer with sound competitive advantages in the market. Through active re-engineering processes, we are improving our production efficiency in order to achieve pricing advantage and respond more quickly and directly to customers' ever-changing demands with lean inventory. We believe there are more rooms for our business growth in this direction, together with our established advantage in silk business. We are convinced that High Fashion Group is in the path to develop more strongly and be able to expand steadily. We have full confidence, determination and expectation to meet all the future challenges.

For our brand business, it is still in the midst of fierce market competition especially in the US which recorded losses during the year. The Group will continue to take efforts in tightening the costs and streamlining its operations to reduce loss.

The Group possesses an excellent quality of property portfolio. Over the past few years, we have optimized the values as inherited from these properties. Among the various property projects, High Fashion Centre, where our headquarter located in Hong Kong is under renovation to become a high class commercial building. The project is expected to be completed toward the end of 2019 and will contribute to the Group's revenue. The projects in Tong Lu are under development in accordance with schedules. The property in Xiao Shan is under an in-depth review for its future development. We believe it will bring sustainable development opportunities and commercial benefits to the Group in the long run.

Although there are still much uncertainties and volatility in the market including the impact from Sino-US trade disputes, we are confident that we will maintain our sustainable growth in the years to come.

I appreciate very much on 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 audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017 are set out as follows:-

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
REVENUE			
Goods and services		3,044,016	2,704,522
Rental		30,729	28,452
		<u>3,074,745</u>	<u>2,732,974</u>
TOTAL REVENUE	3	3,074,745	2,732,974
Cost of sales		(2,516,612)	(2,208,070)
		<u>558,133</u>	<u>524,904</u>
Gross profit		558,133	524,904
Other income		28,324	34,395
Other gains and losses	4	42,071	98,752
Net impairment loss recognised on financial assets		(2,854)	(3,389)
Administrative expenses		(341,821)	(323,812)
Selling and distribution expenses		(203,259)	(191,475)
Other expenses		(14,792)	(18,147)
Finance costs	5	(29,937)	(32,100)
Share of losses of joint ventures		(6,117)	(527)
		<u>29,748</u>	<u>88,601</u>
PROFIT BEFORE TAXATION		29,748	88,601
Income tax credit (expenses)	6	8,920	(45,926)
		<u>38,668</u>	<u>42,675</u>
PROFIT FOR THE YEAR	7	38,668	42,675
OTHER COMPREHENSIVE (EXPENSE) INCOME			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements from functional currency to presentation currency		(171,245)	211,177
Fair value loss on equity instruments at fair value through other comprehensive income		(4,973)	-
Gain on revaluation of owner-occupied properties		134,823	101,201
Income tax relating to items that will not be reclassified		(25,353)	(25,300)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		(4,363)	(2,806)
Fair value gain on hedging instruments under cash flow hedges		-	34,077
Reclassified to profit and loss on realisation of cash flow hedges		-	21,782
Income tax relating to items that may be reclassified subsequently		-	(7,518)
		<u>(71,111)</u>	<u>332,613</u>
Other comprehensive (expense) income for the year, net of tax		(71,111)	332,613
		<u>(32,443)</u>	<u>375,288</u>
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR		<u>(32,443)</u>	<u>375,288</u>

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
PROFIT FOR THE YEAR			
ATTRIBUTABLE TO:			
Owners of the Company		43,640	41,976
Non-controlling interests		<u>(4,972)</u>	<u>699</u>
		<u>38,668</u>	<u>42,675</u>
TOTAL COMPREHENSIVE (EXPENSE)			
INCOME FOR THE YEAR			
ATTRIBUTABLE TO:			
Owners of the Company		(27,632)	375,298
Non-controlling interests		<u>(4,811)</u>	<u>(10)</u>
		<u>(32,443)</u>	<u>375,288</u>
EARNINGS PER SHARE			
Basic	<i>10</i>	<u>HK\$0.14</u>	<u>HK\$0.14</u>
Diluted		<u>HK\$0.14</u>	<u>N/A</u>

Consolidated Statement of Financial Position

At 31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		533,391	609,975
Prepaid lease payments		62,738	68,717
Investment properties		1,926,240	1,649,855
Intangible assets		8,223	6,529
Interests in joint ventures		10,456	17,070
Equity instruments at fair value through other comprehensive income (“FVTOCI”)		19,493	-
Available-for-sale (“AFS”) investments		-	675
Deferred tax assets		28,839	26,012
Other non-current assets		31,729	26,074
		<u>2,621,109</u>	<u>2,404,907</u>
CURRENT ASSETS			
Inventories		456,413	522,524
Properties held for sale		221,482	188,891
Trade receivables	<i>11</i>	433,309	409,056
Prepaid lease payments		2,034	2,001
Deposits, prepayments and other receivables		153,513	175,968
Amounts due from joint ventures		24,920	27,050
Tax recoverable		187,871	175,872
Structured deposits		269,435	-
Short-term bank deposits		55,203	490,131
Bank balances and cash		658,463	503,357
		<u>2,462,643</u>	<u>2,494,850</u>
CURRENT LIABILITIES			
Trade payables	<i>12</i>	306,413	361,375
Other payables and accruals		184,792	203,089
Provision		2,372	-
Amount due to a joint venture		3,984	-
Amount due to an associate		583	583
Contract liabilities		280,705	-
Tax payable		161,685	167,239
Derivative financial instruments		8,498	4,485
Obligations under finance leases		19	75
Bank borrowings		688,358	1,387,004
Bank overdrafts		-	694
		<u>1,637,409</u>	<u>2,124,544</u>
NET CURRENT ASSETS		<u>825,234</u>	<u>370,306</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,446,343</u>	<u>2,775,213</u>

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	256,803	251,492
Derivative financial instruments	-	734
Bank borrowings	692,500	-
Provision for long service payments	2,803	2,859
Obligations under finance leases	-	20
	<u>952,106</u>	<u>255,105</u>
NET ASSETS	<u>2,494,237</u>	<u>2,520,108</u>
CAPITAL AND RESERVES		
Share capital	30,562	30,562
Share premium and reserves	<u>2,493,802</u>	<u>2,514,862</u>
Equity attributable to owners of the Company	2,524,364	2,545,424
Non-controlling interests	<u>(30,127)</u>	<u>(25,316)</u>
TOTAL EQUITY	<u>2,494,237</u>	<u>2,520,108</u>

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 Amendments to HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

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

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁵
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3. Revenue and Segment Information

Revenue

For the year ended 31 December 2018

	<i>HK\$'000</i>
Recognised at a point in time under HKFRS 15:	
Manufacture and trading of garments	2,854,997
Sale of brand garments	135,567
Sale of properties	53,452
Revenue from contracts with customers	<u>3,044,016</u>
Rental income recognised under HKAS 17	<u>30,729</u>
	<u><u>3,074,745</u></u>

For the year ended 31 December 2017

	<i>HK\$'000</i>
Manufacture and trading of garments	2,492,109
Sale of brand garments	175,663
Sale of properties	65,202
	<u><u>2,732,974</u></u>

Segment revenue and results

Information reported to the Group's executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, is analysed based on components of the Group that are regularly reviewed by the CODM. These components are (i) manufacture and trading of garments; (ii) brand business; and (iii) property investment and development.

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

For the year ended 31 December 2018

	Manufacture and trading of garments <i>HK\$'000</i>	Brand business <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Elimina- tions <i>HK\$'000</i>	Consoli- dated <i>HK\$'000</i>
REVENUE						
External sales	2,854,997	135,567	84,181	3,074,745	-	3,074,745
Inter-segment sales (note i)	41,698	-	-	41,698	(41,698)	-
Segment revenue	<u>2,896,695</u>	<u>135,567</u>	<u>84,181</u>	<u>3,116,443</u>	<u>(41,698)</u>	<u>3,074,745</u>
RESULTS						
Segment profit (loss)	<u>79,297</u>	<u>(43,465)</u>	<u>15,632</u>	<u>51,464</u>	<u>-</u>	<u>51,464</u>
Change in fair value of derivative financial instruments						(43,395)
Change in fair value of investment properties						55,204
Corporate overhead (note ii)						(9,768)
Other expenses						(14,792)
Unallocated items						(8,965)
Profit before taxation						<u><u>29,748</u></u>

3. Revenue and Segment Information (Cont'd)

Segment revenues and results (Cont'd)

For the year ended 31 December 2017

	Manufacture 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	2,492,109	175,663	65,202	2,732,974	-	2,732,974
Inter-segment sales (note i)	38,108	-	-	38,108	(38,108)	-
Segment revenue	<u>2,530,217</u>	<u>175,663</u>	<u>65,202</u>	<u>2,771,082</u>	<u>(38,108)</u>	<u>2,732,974</u>
RESULTS						
Segment profit (loss) (excluding loss on cash flow hedges reclassified from other comprehensive income)	<u>52,015</u>	<u>(28,012)</u>	<u>24,313</u>	<u>48,316</u>	<u>-</u>	<u>48,316</u>
Realisation of cash flow hedges reclassified from other comprehensive income	<u>(21,782)</u>	<u>-</u>	<u>-</u>	<u>(21,782)</u>	<u>-</u>	<u>(21,782)</u>
Segment profit (loss)	<u>30,233</u>	<u>(28,012)</u>	<u>24,313</u>	<u>26,534</u>	<u>-</u>	<u>26,534</u>
Change in fair value of derivative financial instruments						(73,809)
Change in fair value of investment properties						170,743
Corporate overhead (note ii)						(8,673)
Other expenses						(18,147)
Unallocated items						<u>(8,047)</u>
Profit before taxation						<u>88,601</u>

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.

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 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 CODM for the purposes of resources allocation and performance assessment. Furthermore, as the assets and liabilities for operating segments are not provided to the CODM for the purposes of resources allocation and performance assessment, no segment assets and liabilities is presented accordingly.

3. Revenue and Segment Information (Cont'd)

Other segment information

For the year ended 31 December 2018

	Manufacture and trading of garments <i>HK\$'000</i>	Brand business <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	55,661	829	-	56,490
Amortisation of prepaid lease payments	1,842	-	-	1,842
Loss on disposal/written-off of property, plant and equipment	1,497	-	-	1,497
Net impairment loss recognised (reversed) on financial assets	3,397	(543)	-	2,854
Net allowance for inventory obsolescence (note)	19,993	4,327	-	24,320
Interest income	11,464	36	365	11,865
Finance costs	<u>29,784</u>	<u>127</u>	<u>26</u>	<u>29,937</u>
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Fair value loss on derivative financial instruments	43,395	-	-	43,395
Increase in fair value of financial assets at fair value through profit or loss ("FVTPL")	3,355	-	-	3,355
Increase in fair value of investment properties	-	-	55,204	55,204
Share of losses of joint ventures	<u>6,117</u>	<u>-</u>	<u>-</u>	<u>6,117</u>

3. Revenue and Segment Information (Cont'd)

Other segment information (Cont'd)

For the year ended 31 December 2017

	Manufacture and trading of garments <i>HK\$ '000</i>	Brand business <i>HK\$ '000</i>	Property investment and development <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i>
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	63,014	321	-	63,335
Amortisation of prepaid lease payments	2,442	-	-	2,442
Loss on disposal/written-off of property, plant and equipment	1,072	-	-	1,072
Net impairment loss recognised on financial assets	3,268	121	-	3,389
Net allowance for (reversal of allowance for) inventory obsolescence (note)	6,828	(3,121)	-	3,707
Interest income	18,672	313	205	19,190
Finance costs	<u>32,021</u>	<u>77</u>	<u>2</u>	<u>32,100</u>
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Fair value loss on derivative financial instruments	73,809	-	-	73,809
Increase in fair value of investment properties	-	-	170,743	170,743
Share of losses of joint ventures	<u>527</u>	<u>-</u>	<u>-</u>	<u>527</u>

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

3. Revenue and Segment Information (Cont'd)

Geographical information

The Group's operations are mainly located in the Greater China.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue		Non-current assets	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
United States of America ("USA")	1,061,319	951,845	516	205
Europe	475,194	485,785	235	365
Greater China	1,219,348	951,314	2,526,068	2,330,060
Others	318,884	344,030	3,773	4,446
	<u>3,074,745</u>	<u>2,732,974</u>	<u>2,530,592</u>	<u>2,335,076</u>

Note : Non-current assets excluded interests in joint ventures, AFS investments/equity instruments at FVTOCI, deferred tax assets and other non-current assets.

Information about major customer

During the year ended 31 December 2018 and 2017, there is no customer from manufacture and trading of garments segment, brand business nor property investment and development segment which contributed over 10% of the total revenue of the Group.

4. Other Gains and Losses

	2018 HK\$'000	2017 HK\$'000
Change in fair value of derivative financial instruments	(43,395)	(73,809)
Change in fair value of financial assets at FVTPL	3,355	-
Loss on disposal/written-off of property, plant and equipment	(1,497)	(1,072)
Net foreign exchange gain	28,404	2,890
Increase in fair value of investment properties	<u>55,204</u>	<u>170,743</u>
	<u>42,071</u>	<u>98,752</u>

5. Finance Costs

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interests on:		
Bank borrowings and overdrafts	39,683	29,966
Finance leases	6	12
Bank charges on discounted bills	5,436	5,767
Total borrowing costs	<u>45,125</u>	<u>35,745</u>
Less: Amount capitalised in construction in progress, properties held for sale and investment properties under construction that is arisen from specific borrowings	<u>(15,188)</u>	<u>(5,028)</u>
	<u>29,937</u>	<u>30,717</u>
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	<u>-</u>	<u>1,383</u>
	<u><u>29,937</u></u>	<u><u>32,100</u></u>

6. Income Tax Expenses (Credit)

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax charge:		
Hong Kong	2,033	1,617
The People's Republic of China (the "PRC")	7,406	4,741
Other jurisdictions	246	568
	<u>9,685</u>	<u>6,926</u>
(Over)underprovision in prior years:		
Hong Kong	(3,856)	7,908
PRC	1,723	1,177
	<u>(2,133)</u>	<u>9,085</u>
Deferred taxation :		
Current year	2,728	27,222
Reversal of withholding tax in respect of undistributed earning of PRC subsidiaries	(19,200)	-
Reclassification from other comprehensive income	-	2,693
	<u>(16,472)</u>	<u>29,915</u>
	<u><u>(8,920)</u></u>	<u><u>45,926</u></u>

7. Profit for the Year

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Costs of inventories recognised as expenses (including net allowance for inventory obsolescence) (note)	2,396,705	2,095,145
Cost of properties sold (included in cost of sales)	32,795	26,606
Amortisation of prepaid lease payments	1,842	2,442
Depreciation of property, plant and equipment	56,490	63,335
Realisation of cash flow hedges reclassified from other comprehensive income (included in revenue)	-	20,399
Realisation of cash flow hedges reclassified from other comprehensive income (included in finance costs)	-	1,383
Interest income (included in other income):		
Bank interest income	(11,846)	(18,325)
Interest income on other receivables	(19)	(865)
	<u>(11,865)</u>	<u>(19,190)</u>

Note: The amount includes net allowance for inventory obsolescence of HK\$24,320,000 (2017: HK\$3,707,000).

8. Other Comprehensive (Expense) Income

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cash flow hedges:		
Fair value gain on hedging instruments	-	34,077
Reclassification adjustments upon realisation of hedged items in profit or loss	-	21,782
	<u>-</u>	<u>55,859</u>
Fair value loss on equity instruments at FVTOCI	(4,973)	-
Gain on revaluation of owner-occupied properties	134,823	101,201
Exchange differences on translation to presentation currency	(171,245)	211,177
Exchange differences on translation of foreign operations	(4,363)	(2,806)
	<u>(45,758)</u>	<u>365,431</u>
Other comprehensive (expense) income		
Income tax relating to components of other comprehensive (expense) income:		
Fair value change of hedging instruments under cash flow hedges	-	(4,825)
Reclassification adjustments of fair value change of hedging instruments to profit or loss	-	(2,693)
Revaluation of owner-occupied properties	(25,353)	(25,300)
	<u>(25,353)</u>	<u>(32,818)</u>
Other comprehensive (expense) income for the year, net of tax	<u>(71,111)</u>	<u>332,613</u>

9. Dividends

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Dividends recognised as distribution and paid during the year:		
Interim dividend - 3 HK cents per ordinary share for 2018 (2017: 3 HK cents for 2017)	9,168	9,168
Final dividend - 3 HK cents per ordinary share for 2017 (2017: 3 HK cents for 2016)	9,168	9,168
	<u>18,336</u>	<u>18,336</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of 3 HK cents (2017: final dividend in respect of the year ended 31 December 2017 of 3 HK cents) per ordinary share, in an aggregate amount of HK\$9,168,000 (2017: HK\$9,168,000) has been proposed by the directors of the Company and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

10. Earnings Per Share

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

<u>Earnings</u>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Earnings for the purpose of basic and diluted earnings per share attributable to owners of the Company	<u>43,640</u>	<u>41,976</u>
<u>Number of shares</u>	2018 <i>'000</i>	2017 <i>'000</i>
Number of ordinary shares for the purpose of basic and diluted earnings per share	<u>305,616</u>	<u>305,616</u>

The computation of diluted earnings per share for the year ended 31 December 2018 does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares.

No diluted earnings per share was presented for the year ended 31 December 2017 as there was no potential ordinary share in issue.

11. Trade Receivables

The aged analysis of the Group's trade receivables net of allowance for credit loss is presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates.

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 90 days	401,470	373,752
91 to 180 days	23,345	23,413
181 to 360 days	7,173	9,514
Over 360 days	1,321	2,377
	<u>433,309</u>	<u>409,056</u>

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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 90 days	82,154	115,681
91 to 180 days	9,912	7,475
181 to 360 days	5,985	3,214
Over 360 days	6,379	7,917
	<u>104,430</u>	<u>134,287</u>
Accrued purchases	201,983	227,088
	<u>306,413</u>	<u>361,375</u>

13. Contingent Liabilities

- (i) The Hong Kong Inland Revenue Department (the “IRD”) has initiated a tax audit on certain group companies for the year of assessment from 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 2010/2011. 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.

Since the tax audit is still at a stage of fact-finding and verification, 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.

- (ii) There were disputes amongst the Group, Tai Ding Century Limited (“Tai Ding”), Ms. Leong, the beneficial owner of Tai Ding, 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.
- (iii) In June 2016, a judgement was made by the Intermediate People’s Court Shaoxing Zhejiang Province (the “Judgement”) which stated that the Group had convicted an offence of illicit transportation of common goods or articles without paying customs duty and was required to pay a penalty of approximately RMB28,000,000 and unpaid customs of approximately RMB27,000,000, the Group paid a deposit of RMB30,000,000 at the request of the Shaoxing Customs Authority. In July 2016, the Group appealed against the Judgement (the “Appeal”) to the Higher People’s Court of Zhejiang Province.

In June 2017, a ruling was made by the Higher People’s Court of Zhejiang Province on the Appeal proceeding to the effect that due to the unclear facts ascertained in the Judgement, the Judgement 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 judgement as was made previously (“2018 Judgement”). After seeking advice from the legal and other professionals, the Group appealed against the 2018 Judgement. The Group has submitted an appeal application to the Higher People’s Court of Zhejiang Province.

Management of the Group had sought advice from PRC legal professionals, who advised that the evidence relied upon by the court is not factually supported, against which the Group has strong grounds to refute. Nevertheless, the Group may still subject to a penalty for not complying the processing trade requirement, for which a provision of RMB2,000,000 (equivalent to HK\$2,372,000) has been made in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

China's economic deceleration, which started in Q2 2018, became more apparent in Q4. According to the National Bureau of Statistics, China's year-on-year GDP growth reached 6.6% in 2018 (2017: 6.8%), China's economy grew at its slowest pace in 28 years in 2018. During the year of 2018, the market development was largely impacted by the Sino-US trade tensions and the deleveraging policy in China. However the economy slowdown was not cushioned till the end of year. On the other hand, the global market was also weakened as a result of the sluggish global economic fundamentals, trade protectionism and exchange fluctuations.

Though China is experiencing a slowdown alongside rising costs, our country remains the world's largest apparel exporter. Furthermore, the quality of works and skill sets in garment manufacturing are having comparative preference over the other Asian countries in general particularly from the perspective of brand customers at middle to high end markets.

Customers' attention is also tuned to new channels. Consumers are becoming less brand loyal and are switching their perception of clothing to that which are easily accessible and fresh, with values orientation at lower prices. In response, leading fashion players are offering innovative business models to differentiate their products along with shorter go-to-market times. At the same time, the rapid technology advance has profound impact on consumer behaviors to purchase from cross-border e-commerce, which in return drive up competition in the fashion industry on a global scale.

In the year of 2018, manufacturing and trading operation continued to be the core business of the Group. To confront the current business challenges, the Group focuses more resources in product development as well as adopting a series of measures including the implementation of SAP and ERP systems aiming at enhancing manufacturing efficiencies, improving productivity transparency through utilization of big data analytics and driving down production costs in order to be more competitive in the market.

In 2018, the Group has recorded an increase of revenues in trading and manufacturing segment as compared to 2017 attributable to stably growth of customer base together with increased orders from the well-established global customers. While we will continue to leverage our competitive edge in the silk business, we addressed the headwind by investing good amount of resources to steer our transformation to the fast fashion supply chain paradigm characterized for quicker turnaround time and leaner inventory that we believe our focus on aligning our core competence will emerge as winner in the fast changing apparel market.

Financial Review

Revenue of the Group increased by HK\$0.3 billion to HK\$3 billion for the year ended 31 December 2018, with a growth rate of 12.5%. Gross profit increased by HK\$33.2 million to HK\$558 million in 2018 with a growth rate of 6.3% though gross margin fell to 18.2% versus 19.2% in 2017. The decline of gross profit margin was mainly due to increases in cost of sales under the HKD denominated ledger as a result of CNY appreciation against HKD in average during the year.

At expenses side, administrative expenses were increased by 6% whilst selling and distribution expenses were increased by 6% comparing with that of last year. The increases in expenses were partly attributable to the appreciation of CNY against HKD during the year. These operating expenses are under close monitoring aiming at achieving the best fit cost structure and process flows to support the continuous development of the business. Other expenses included professional & consultancy fees on various projects as well as one-off expenses totaled HK\$14.8 million (2017: HK\$18.1 million).

Profit for the year of 2018 included fair value gain from investment properties amounted to HK\$55.2 million (2017: HK\$170.7 million). On the other hand, there has been a loss on derivative financial instruments of HK\$43.4 million (2017: loss of HK\$95.6 million including realisation of cash flow hedges). Net gain on non-operating items for the year 2018 of total HK\$42.1 million represents a reduction of HK\$56.7 million as compared with that of last year.

Net profit attributable to shareholders for the year ended 31 December 2018 was HK\$43.6 million, an improvement by 4% compared to profit of HK\$42 million in 2017. Basic earnings per share were HK\$0.143 (2017: HK\$0.137) and net asset value per share slightly decreased to HK\$8.16 (2017: HK\$8.25).

Segment Information

	Revenue		Contribution	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities:				
Manufacturing and trading	2,854,997	2,492,109	79,297	30,233
Brand business	135,567	175,663	(43,465)	(28,012)
Property investment and development	84,181	65,202	15,632	24,313
	<u>3,074,745</u>	<u>2,732,974</u>	<u>51,464</u>	<u>26,534</u>
By geographical segments:				
USA	1,061,319	951,845	15,963	7,065
Europe	475,194	485,785	14,710	5,805
Greater China	1,219,348	951,314	13,211	10,363
Others	318,884	344,030	7,580	3,301
	<u>3,074,745</u>	<u>2,732,974</u>	<u>51,464</u>	<u>26,534</u>

Note: Included in 2017 segment profit from manufacture and trading segment is HK\$21,782,000 loss on realization of cash flow hedges reclassified from other comprehensive income.

Manufacturing and trading

The manufacturing and trading business contributed primarily to the results of the Group. Segment sales continued to deliver solid year-on-year increase. We are convinced of the ample unlocked opportunities in our promising portfolio of quality business we have established and strategized for long which will support the future growth of the Group.

To advance our long term growth strategy, we are committed to continue to strengthen our engagement with global customers/ partners through technological advancement in product innovation, speed to market strategies and digitized technology on manufacturing operation to make ourselves even leaner and more agile with inclusive solutions to consistently deliver the expectations to our customers that will take our business to the next stage of success.

For the year ended 31 December 2018, revenue from manufacturing and trading business recorded an increase of HK\$362.9 million or 14.6% to HK\$2.85 billion (2017: HK\$2.49 billion). The increase in revenue was mainly attributable to the increase in orders from our long established customers and new international brand customers mainly in the US and European markets. Apparel in synthetic fabrics and silk continued to be the major products of the Group, which contributed a significant portion of the total revenue of manufacturing and trading business. Segment profit of 2018 was HK\$79.3 million (2017 : HK\$30 million). Taking out the impact of loss on realization of cash flow hedges included in last year segment project, result in 2018 represented an encouraging growth of 52.5% as a result of the increase in sales revenue from apparel trading and manufacturing. Segment profit margin has been improved to 2.8% in the year 2018 against 2.1% in 2017.

Brand business

Brand business continues to be affected by the tough market competition as well as challenges due to changes in customer buying pattern of switching to fast fashion and substantially increase in online shopping. As a result, the performance from our brand operations were impacted negatively especially in the USA market with down-trading from the department stores. The Group has responded by restructuring the operation structure, trimming down the operating costs, and to improve the efficiency and market response time.

Revenue from brand business in 2018 decreased by HK\$40.1 million, or 22.8% to HK\$135.6 million (2017: HK\$175.7 million). Segment loss of brand business in the year ended of 31 December 2018 resulted in HK\$43.5 million (2017: HK\$28.0 million). Nevertheless, with the decisive efforts in restructuring the operations, the decline in segment results was narrowed in the second half of 2018. The Group will continue to focus efforts on optimizing the costs in order to further close the gap in operating loss and turn around the business into profitable operation.

Property investment and development

In order to utilize the Group resources more effectively and to generate stable cash flow to support the core trading and manufacturing business, the Group has been investing in recent years various property development and management projects. The Group's quality portfolio of property projects in the mainland China and Hong Kong at different stages of investment and development continued to create value to the Group for the year in 2018 and will serve as additional growth drivers for the Group, with progressive value realization to enhance long-term shareholders' value. The property development projects in Zhejiang Province are in good progress, in addition to the properties in Shenzhen which are generating sales proceeds and rental income during the year. The investment property in Hong Kong has been revitalizing since 2018, therefore, there was no segment revenue delivered from Hong Kong in 2018.

For the year ended 31 December 2018, revenue from property investment and development business increased by HK\$19.0 million from HK\$65.2 million in 2017 to HK\$84.2 million in 2018. The increase in revenue for the year was mainly attributable to higher sales proceeds and leasing income from properties in Zhejiang Province. We expect the property business will continue to grow with increased contribution to the Group.

Environmental, Social and Corporate Responsibility

As a responsible corporation, the Group always put priority on environmental and social standards to ensure sustainable development of its business. In September 2018, the Group became the pioneer silk company to obtain both the Sustainable Textile Production (STeP) and MADE IN GREEN certifications, by an international authoritative textile and leather ecology association (OEKO-TEX®). These certificates proven our products are made from material free of harmful substances and have been manufactured under environmentally friendly processes, good social responsibility and healthy employee working conditions.

The Group has complied with all relevant laws and regulations in relation to its business, including health and safety, workplace conditions, employment and the environment. The Group understands a better future depends on everyone's participation and contribution. Thus, the Group encourages employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains solid 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.

Liquidity and Financial Resources

The Group's total outstanding bank borrowings were at same level of HK\$1.4 billion at the end of both years of 2018 & 2017 yet the amount of cash and cash equivalents has managed to increase for the period. The bank borrowings were mainly to fund the development and upgrade of China manufacturing plants. Our gearing ratio of non-current liabilities to shareholders' funds was 38% at the end of the reporting period. Current ratio was at a robust level of 1.5.

The Group's total structured deposits, short-term bank deposits and cash and bank balances were HK\$983.1 million at the end of reporting period comparing to HK\$993.5 million as at 31 December 2017. Complied with the available banking facilities, the Group had a healthy 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.

Barring the pledge of trade and bill receivables of certain subsidiaries of HK\$12.3 million (2017: HK\$19.2 million), and the pledge of certain properties in Hong Kong of HK\$855.2 million (2017: HK\$nil), there were no charges on the Group's assets.

Capital Expenditure

The Group has purchased the plant and equipment, leasehold improvement and construction in progress of around HK\$37.7 million in order to upgrade its manufacturing capabilities and improve the environmental protection system during the year. The Group also input HK\$169.1 million into certain properties construction and development projects during the period.

Capital Commitments

As at 31 December 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\$235.7 million.

Contingent Liabilities

Please refer to note 13 to the consolidated financial statements for details of contingent liabilities at 31 December 2018.

Tax Audit

Since February 2006, the Hong Kong Inland Revenue Department (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 outcome of the tax audit cannot be readily ascertained with reasonable accuracy. Based on the latest discussions with the IRD, the directors of the Group are 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 the period was about 6,200. 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. On 3 December 2018, share options were granted to certain directors in respect of their services to the Group under the share option scheme of the Company.

ANNUAL GENERAL MEETING

The annual general meeting (“AGM”) of the Company will be held at 22/F., CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong on Thursday, 6 June 2019 at 10:30 a.m. Notice of AGM will be published on the websites of the Company (www.highfashion.com.hk) and the Stock Exchange (www.hkexnews.hk) and dispatched to shareholders of the Company in due course.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of 3 HK cents (2017: 3 HK cents) per share for the year ended 31 December 2018 to shareholders whose names appear on the Register of Members of the Company on Friday, 14 June 2019. The proposed final dividend is subject to the approval of shareholders of the Company at the forthcoming AGM. If being approved, dividend warrants for the final dividend is expected to be dispatched on or around Friday, 28 June 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to determine shareholders 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 Monday, 3 June 2019.

In addition, the Register of Members will also be closed from Thursday, 13 June 2019 to Friday, 14 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to determine shareholders 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 Wednesday, 12 June 2019.

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 to the Listing Rules on the Stock Exchange throughout the accounting period for the year ended 31 December 2018, except for the following deviations:

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 best interests of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

Code provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

The current non-executive directors and independent non-executive directors of the Company were not appointed for a specific term. However, as all directors of the Company are eligible for re-election and subject to retirement by rotation at the annual general meetings of the Company in accordance with bye-law 87 of the Company's Bye-laws and code provision A.4.2 of the CG Code, the Board considers that sufficient resources have been taken to ensure that the Company's corporate governance practices are no less than exacting than those in the CG Code.

Code provision D.1.4

Under the code provision D.1.4 of the CG Code, directors should clearly understand delegation arrangements in place and listed companies should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Board considers that though there are no formal letters of appointment entered into between the Company and the directors, the current arrangement has been adopted for years and proved to be effective, more appropriate and flexible for the business operation of the Company. The directors also have a clear understanding of the terms and conditions of their appointment with close communication with the Company and their awareness on the relevant rights and duties, subject to the applicable laws and regulations.

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, risk management and internal control systems 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 2018.

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 2018 annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

APPOINTMENT OF AUDIT COMMITTEE MEMBER

The Board is pleased to announce that Mr. Hung Ka Hai, Clement, a non-executive director of the Company, is appointed as a member of the Audit Committee with effect from 29 March 2019.

APPOINTMENT OF REMUNERATION COMMITTEE MEMBER

The Board is pleased to announce that Mr. Lam Gee Yu, Will, an executive director of the Company, is appointed as a member of the Remuneration Committee with effect from 29 March 2019.

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, 29 March 2019