High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

UNAUDITED FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CHAIRMAN'S STATEMENT

2019 was the most complex and challenging year we have ever encountered in our trade. The world economy has firstly been affected by the protracted trade war between China and the USA, hampered further by Brexit uncertainty, exerting heavy burden on the macro economy and consumer sentiment. The outbreak of COVID-19 that has brought substantial disruption to the global market, adding more volatility and uncertainty to the 2020 outlook. Through accelerated and deepened transformation, the Group has once again demonstrated our resilience and navigate the turbulence. The past three years we have taken various transformation initiatives and actions to optimize our operation efficiency and re-engineer our product development strategy. Through system integration and digitalization, we offer a total supply chain solution to our customers, with a lean and quick turn production model. We aim to transform High Fashion into a global leader of Affordable Luxury Fashion Woman's Wear Daily, so that High Fashion would be able to bolster our overall competitive strength.

Our key results for the period ended 31 December 2019 are as follow:

- Net profit attributable to shareholders at HK$57.86 million
- Gearing ratio of non-current liabilities to shareholders' fund at 34%.
  Current ratio at 1.3
- Basic earnings per share landed at HK$0.19
- Net asset value per share amounted to HK$8.18

We have also made significant progress and achievements in the real estate projects. After three years of detailed planning, our Fashion Integrated Industrial Park in Zhejiang has made a major step forward in the second half of 2019; the blueprint for our next stage of development has been approved by the local government, which will bring us a bigger room of development and better economic benefits. The revitalization project of High Fashion Centre in Hong Kong is about to complete and our Hong Kong Headquarter is scheduled to move back in late June 2020. Leasing activities has been in full speed and we foresee a stable income for the Group. We are devoted to develop the property business in Zhejiang,

to provide synergy to the Group's apparel business transformation. There will be collaboration with different businesses in the garment industry, co-work and co-create business opportunities, pushing for another milestone of the fashion and garment industry.

The group has reached an agreement with the Hong Kong Inland Revenue Department after prolonged discussion over a tax disputes, and received a total of HKD 103 million tax refund in cash as of December 9, 2019. This is going to further strengthen the Group's solid financial fundamentals.

With the highest level of urgency, the Group will fight this unprecedented crisis proactively. We are confident that we will overcome and evolve into a very different enterprise.

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 unaudited consolidated final results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 together with the comparative figures for the year ended 31 December 2018. The auditing process for the final results of the Company has not been completed as explained in the section of "Audit Committee Review" in this announcement.

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

	Notes	**2019** ***HK$'000***	2018 *HK$'000*
REVENUE			
Goods and services		**2,880,015**	3,044,016
Rental		**33,695**	30,729
TOTAL REVENUE	*3*	**2,913,710**	3,074,745
Cost of sales		**(2,310,820)**	(2,516,612)
Gross profit		**602,890**	558,133
Other income		**24,443**	28,324
Other gains and losses	*4*	**45,198**	42,071
Net impairment loss recognised on trade receivables		**(336)**	(2,854)
Net impairment loss recognised on amount due from a joint venture		**(17,086)**	-
Administrative expenses		**(344,609)**	(341,821)
Selling and distribution expenses		**(187,578)**	(203,259)
Other expenses		**(11,899)**	(14,792)
Finance costs	*5*	**(36,187)**	(29,937)
Share of losses of joint ventures		**(2,605)**	(6,117)
PROFIT BEFORE TAXATION		**72,231**	29,748
Income tax (expenses) credit		**(21,066)**	8,920
PROFIT FOR THE YEAR	*6*	**51,165**	38,668
OTHER COMPREHENSIVE (EXPENSE) INCOME			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation from functional currency to presentation currency		**(67,817)**	(171,245)
Fair value loss on equity instruments at fair value through other comprehensive income ("FVTOCI")		**(484)**	(4,973)
Gain on revaluation of owner-occupied properties		**5,740**	134,823
Income tax relating to items that will not be reclassified to profit or loss		**(1,435)**	(25,353)
		(63,996)	(66,748)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**1,629**	(4,363)
Other comprehensive expense for the year, net of tax		**(62,367)**	(71,111)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(11,202)**	(32,443)

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income (Cont'd)
For the year ended 31 December 2019

	Note	**2019** **HK$'000**	2018 *HK$'000*
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**57,859**	43,640
Non-controlling interests		**(6,694)**	(4,972)
		51,165	38,668
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(10,194)**	(27,632)
Non-controlling interests		**(1,008)**	(4,811)
		(11,202)	(32,443)
EARNINGS PER SHARE	*8*		
Basic		**HK$0.19**	HK$0.14
Diluted		**HK$0.19**	HK$0.14

Unaudited Consolidated Statement of Financial Position
At 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**531,377**	533,391
Right-of-use assets		**72,810**	-
Prepaid lease payments		**-**	62,738
Investment properties		**2,129,088**	1,926,240
Intangible assets		**-**	8,223
Interest in joint ventures		**7,556**	10,456
Equity instruments at fair value through other comprehensive income		**19,009**	19,493
Deferred tax assets		**28,710**	28,839
Other non-current assets		**32,199**	31,729
		2,820,749	2,621,109
CURRENT ASSETS			
Inventories		**419,452**	456,413
Properties held for sale		**167,258**	221,482
Trade receivables	*9*	**541,464**	433,309
Prepaid lease payments		**-**	2,034
Deposits, prepayments and other receivables		**166,644**	153,513
Amounts due from joint ventures		**5,860**	24,920
Tax recoverable		**2,100**	187,871
Structured deposits		**549,849**	269,435
Short-term bank deposits		**-**	55,203
Bank balances and cash		**362,941**	658,463
		2,215,568	2,462,643
CURRENT LIABILITIES			
Trade payables	*10*	**424,675**	306,413
Other payables and accruals		**190,830**	184,792
Provision		**2,239**	2,372
Lease liabilities		**8,978**	-
Amount due to a joint venture		**-**	3,984
Amount due to an associate		**583**	583
Contract liabilities		**189,553**	280,705
Tax payable		**51,863**	161,685
Derivative financial instruments		**-**	8,498
Obligations under finance leases		**-**	19
Bank borrowings		**812,223**	688,358
		1,680,944	1,637,409

Unaudited Consolidated Statement of Financial Position (Cont'd)
At 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
NET CURRENT ASSETS	**534,624**	825,234
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,355,373**	3,446,343
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**258,104**	256,803
Bank borrowings	**582,500**	692,500
Lease liabilities	**11,443**	-
Provision for long service payments	**2,966**	2,803
	855,013	952,106
NET ASSETS	**2,500,360**	2,494,237
CAPITAL AND RESERVES		
Share capital	**30,562**	30,562
Share premium and reserves	**2,500,933**	2,493,802
Equity attributable to owners of the Company	**2,531,495**	2,524,364
Non-controlling interests	**(31,135)**	(30,127)
TOTAL EQUITY	**2,500,360**	2,494,237

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. Principal Accounting Policies

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

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. Principal Accounting Policies (Cont'd)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on a lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

2. Principal Accounting Policies (Cont'd)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (Cont'd)

iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties was determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.5%.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	34,675
Less: Lease liabilities discounted at relevant incremental borrowing rates	(3,286)
Less: Recognition exemption – short-term leases and low value assets	(1,366)
Lease liabilities as at 1 January 2019	30,023
Analysed as	
Current	10,532
Non-current	19,491
	30,023

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	28,076
Reclassified from prepaid lease payments	64,772
	92,848

2. Principal Accounting Policies (Cont'd)

2.2 Impacts and changes in accounting policies of application on HK(IFRIC)-Int 23 "Uncertainty over Income Tax Treatments"

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by individual group entities in their respective income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

The Group applied this interpretation retrospectively with the cumulative effect of initially applying the interpretation recognised at the date of initial application, 1 January 2019, without restating comparatives.

As disclosed in the Group's annual reports published in previous years, the Hong Kong 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. The case was concluded in 2019 that IRD has refunded the Group of HK$103,037,000. It contained IRD interest income to us amounting HK$538,000. The Group has recognized the cumulative effect of HK$37,163,000 as an adjustment to the opening balance of retained earnings in accordance with HK(IFRIC)-Int 23.

3. Revenue and Segment Information

Revenue

	2019	2018
	HK$'000	*HK$'000*
Recognised at a point in time under HKFRS 15:		
Manufacturing and trading of garments	**2,613,136**	2,854,997
Sales of brand garments	**86,858**	135,567
Sales of properties	**180,021**	53,452
Revenue from contracts with customers	**2,880,015**	3,044,016
Rental income recognised under HKFRS 16 (2018: HKAS 17)	**33,695**	30,729
	2,913,710	3,074,745
Geographical markets		
United States of America	**993,364**	1,061,319
Europe	**360,906**	475,194
Greater China	**1,248,239**	1,219,348
Others	**311,201**	318,884
	2,913,710	3,074,745

Set out below is the reconciliation of revenue from contracts with customers with the amounts disclosed in segment information:

For the year ended 31 December 2019

	Manufacturing and trading of garments	**Brand business**	**Property investment and development**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue	**2,652,924**	**86,858**	**213,716**
Less: rental income recognised under HKFRS 16	**-**	**-**	**(33,695)**
Less: inter-segment sales	**(39,788)**	**-**	**-**
Revenue from contracts with customers	**2,613,136**	**86,858**	**180,021**

3. Revenue and Segment Information (Cont'd)

Revenue (Cont'd)

For the year ended 31 December 2018

	Manufacturing and trading of garments	Brand business	Property investment and development
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	2,896,695	135,567	84,181
Less: rental income recognised under HKAS 17	-	-	(30,729)
Less: inter-segment sales	(41,698)	-	-
Revenue from contracts with customers	2,854,997	135,567	53,452

Segment information

For the year ended 31 December 2019

	Manufacturing and trading of garments	**Brand business**	**Property investment and development**	**Segment total**	**Elimina-tions**	**Consoli-dated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE						
External sales	**2,613,136**	**86,858**	**213,716**	**2,913,710**	**-**	**2,913,710**
Inter-segment sales (note i)	**39,788**	**-**	**-**	**39,788**	**(39,788)**	**-**
Segment revenue	**2,652,924**	**86,858**	**213,716**	**2,953,498**	**(39,788)**	**2,913,710**
RESULTS						
Segment profit (loss)	**78,699**	**(32,764)**	**60,764**	**106,699**	**-**	**106,699**
Change in fair value of derivative financial instruments						**1,698**
Change in fair value of investment properties						**44,656**
Corporate overhead (note ii)						**(43,040)**
Other expenses						**(11,899)**
Unallocated items						**(25,883)**
Profit before taxation						**72,231**

3. Revenue and Segment Information (Cont'd)

Segment information (Cont'd)

For the year ended 31 December 2018

	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	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	2,896,695	135,567	84,181	3,116,443	(41,698)	3,074,745
RESULTS						
Segment profit (loss)	79,297	(43,465)	15,632	51,464	-	51,464
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						29,748

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

	2019	2018
	HK$'000	*HK$'000*
Change in fair value of derivative financial instruments	**1,698**	(43,395)
Change in fair value of financial assets at fair value through profit or loss	**3,038**	3,355
Gain (loss) on disposal/written-off of property, plant and equipment	**1,210**	(1,497)
Net foreign exchange gain	**1,733**	28,404
Increase in fair value of investment properties	**44,656**	55,204
Impairment loss recognised on intangible assets	**(6,023)**	-
Loss on disposal of investment	**(1,114)**	-
	45,198	42,071

5. Finance Costs

	2019	2018
	HK$'000	*HK$'000*
Interests on:		
Bank borrowings and overdrafts	**43,575**	39,683
Finance Leases	**-**	6
Lease liabilities	**1,326**	-
Bank charges on discounted bills	**4,918**	5,436
Total borrowing costs	**49,819**	45,125
Less: Amount capitalised in construction in progress, properties held for sale and investment properties under construction that is arisen from specific borrowings	**(13,632)**	(15,188)
	36,187	29,937

6. Profit for the Year

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

	2019	2018
	HK$'000	*HK$'000*
Costs of inventories recognised as expenses (including net allowance for inventory obsolescence) (note)	**2,139,769**	2,396,705
Cost of properties sold (included in cost of sales)	**124,423**	32,795
Amortisation of prepaid lease payments	**-**	1,842
Depreciation of property, plant and equipment	**47,487**	56,490
Depreciation of right-of-use assets	**10,320**	-
Interest income (included in other income):		
Bank interest income	**(19,808)**	(11,846)
Interest income on other receivables	**-**	(19)

Note: The amount includes net allowance for inventory obsolescence of HK$23,932,000 (2018: HK$24,320,000).

7. Dividends

	2019	2018
	HK$'000	*HK$'000*
Dividends recognised as distribution and paid during the year:		
Interim dividend - 3 HK cents per ordinary share for 2019 (2018: 3 HK cents for 2018)	**9,168**	9,168
Final dividend - 3 HK cents per ordinary share for 2018 (2018: 3 HK cents for 2017)	**9,168**	9,168
	18,336	18,336

8. Earnings Per Share

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

Earnings	**2019**	2018
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share attributable to owners of the Company	**51,332**	43,640

Number of shares	**2019**	2018
	'000	*'000*
Number of ordinary shares for the purpose of basic and diluted earnings per share	**305,616**	305,616

The computation of diluted earnings per share for the years ended 31 December 2019 and 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.

9. 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.

	2019	2018
	HK$'000	*HK$'000*
Within 90 days	**507,813**	401,470
91 to 180 days	**21,307**	23,345
181 to 360 days	**8,404**	7,173
Over 360 days	**3,940**	1,321
	541,464	433,309

10. 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:

	2019	2018
	HK$'000	*HK$'000*
Within 90 days	**140,697**	82,154
91 to 180 days	**8,702**	9,912
181 to 360 days	**9,029**	5,985
Over 360 days	**9,520**	6,379
	167,948	104,430
Accrued purchases	**256,727**	201,983
	424,675	306,413

11. Contingent Liabilities

(i) 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 the Court. Given that the evidence is still under investigation, in the opinion of directors of the Company, the ultimate outcome is unable to be determined and no provision has been made accordingly.

(ii) 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.

A court hearing was held by the Higher People's Court of Zhejiang Province in May 2019 to hear the defense opinion from the Group. In July 2019, the Zhejiang People's Procuratorate (浙江省人民檢察院) visited our office in Hangzhou and performed various verification of defense evidence. We have not yet received any response from the Court. Our external local lawyer reckoned that based on common judicial practice in China, it implies a favourable outlook to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The trade tensions between China and the United States has affected most the manufacturing and trade sectors which bore the brunt of the global slowdown after a prolonged series of trade negotiations between the two countries for almost two years. On one hand, with the growing uncertainties arising from the trade tensions there are adverse impacts to the demands for apparel products. On the other hand, the ever-changing fashion supply chain trading market becomes more challenging. Although the market is highly competitive, the Group managed to deliver net profit of HK$51.2 million in 2019 with an increase of 32% from 2018.

In view of the imminent realities and the recovery opportunities that will lie ahead, we are meanwhile strengthening our capabilities for sustainable growth. China will remain as the Group's key and strategic location for our manufacturing facilities, but we are concurrently diversifying our tariffs-related risks profile by expanding our investment and business operations in South Asia. During 2019, the Group was to re-engineer our operating structure which will serve to achieve enhanced product development to win more businesses from existing and prospective customers through better accountability for costs, operational efficiency and new successes into the local China apparel market.

We will continue to enhance the Group's traditional quality of garment manufacturing skill sets with innovative spirit to serve our customers' orders particularly in the affordable luxury fashion woman's wear daily markets. Our re-engineered structure will enable us to reach out more successfully to meet our customers' changing value and needs.

In 2019, manufacturing and trading operation continued to be the core business of the Group, but residential property sales in China in 2019 as well as the properties leasing income in China are providing increasing contribution to the Group's overall financial results.

Since beginning of 2020, the outbreak of 2019 Novel Coronavirus ("COVID-19") which had soon developed into a pandemic causing severe volatility in major global stock markets and weakened demand in commodities. The outbreak of COVID-19 is evolving and growing into a large-scale and multi-country epidemic which challenges the operating environment for every industry in the first quarter of 2020. The Group will continue to closely monitor the situation and take appropriate actions to respond proactively for customers and stakeholders.

FINANCIAL REVIEW

Revenue of the Group decreased by HK$0.2 billion to HK$2.9 billion for the year ended 31 December 2019, representing a fall of 5%. Nevertheless, gross margin increased by HK$44.8 million to HK$602.9 million in 2019 with a growth rate of 8% as a result of improved gross margin in 2019 at 20.7% versus 2018 at 18.2%. Better gross margin was attributable to our dedicated efforts in costs control and streamlining process flows in production and operation as well as the RMB depreciation.

At expenses side, administrative expenses were increased slightly by 1% while selling and distribution expenses were decreased by 8% comparing with that of last year. Increase in administrative expenses was due to certain non-recurring provision of staff incentive made in 2019. Excluding the one-off provision, administrative expenses will decrease by HK$18 million or 5%. Less expenses were attributable to the implementation of various effective measures that monitor the costs across the Group, coupled with the impact from RMB depreciation. Other expenses mainly for professional & consultancy fees on various projects decreased by HK$2.9 million to HK$11.9 million in 2019.

Other income and expense were relatively stable, with decrease of HK$3.9 million at net basis. Other gains mainly represent change in fair value of investment property and impairment loss recognised on intangible assets, which at net basis were increased by 7%.

Net profit attributable to shareholders for the year ended 2019 was HK$57.8 million, representing an improvement of 32% compared to HK$43.6 million in last year. Basic earnings per share were HK$0.19 (2018: HK$0.14) and net asset value per share was HK$8.18 (2018: HK$8.16).

SEGMENT INFORMATION

	Revenue		**Contribution**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activities:				
Manufacturing and trading	**2,613,136**	2,854,997	**78,699**	79,297
Brand business	**86,858**	135,567	**(32,764)**	(43,465)
Property investment and development	**213,716**	84,181	**60,764**	15,632
	2,913,710	3,074,745	**106,699**	51,464
By geographical segments:				
USA	**993,364**	1,061,319	**18,266**	15,960
Europe	**360,906**	475,194	**14,462**	14,708
Greater China	**1,248,239**	1,219,348	**65,786**	13,217
Others	**311,201**	318,884	**8,185**	7,579
	2,913,710	3,074,745	**106,699**	51,464

Manufacturing and trading

The Group's revenue declined in 2019 by 8.5% comparing with last year amid the trade tensions between China and the United States and keen competition from the factories in Southeast Asia. However, segment profit margin was slightly improved to 3.0% in 2019 from 2.8% in 2018 due to the continuous efforts in monitoring the production costs and optimizing the work flows in order to improve further the operating profitability.

On top of process re-engineering to enhance competitiveness, the Group also explores and assigns specific resources to further strengthen the production supply chain capabilities in the Southeast Asian regions. In addition, the expanding domestic sales market in China was offering opportunities to the Group by leveraging on its overseas market expertise in local domestic market development. These measures enable the Group to maintain stable growth and contended the stresses from uncertainties in overseas markets.

Brand business

Revenue from brand business decreased significantly by HK$48.7 million or 35.9%, to HK$86.9 million in 2019 as a result of the sluggish retail market especially in the USA and the competition from online fashion sales. In addition, discounters tended to squeeze on the price affecting the margin of our brand business in the already competitive market. The performance from our brand operations were impacted adversely. In order to focus on the apparel manufacturing business and to provide our customers with better services, the Group accelerated the scale-down of retail brand business during the year, resulting in narrowing the net loss by 25%.

Property investment and development

Revenue from property investment and development business increased to HK$213.7 million comparing HK$84.2 million in 2018, while segment profit soared by HK$45.1 million to HK$60.8 million in 2019. The higher contribution was mainly due to recognition of sales of a property project at HK$168.7 million with net profit of HK$44.5 million in China. On the other hand, the revitalization of High Fashion Center in Hong Kong is near completion and will be ready for leasing in 2020. Other property development projects in Zhejiang Province are in well progress as planned.

The Group have been investing in recent years various property development and management projects 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's quality portfolio of property projects in the mainland China and Hong Kong at different stages of investment and development continue to create value to the Group and will serve as additional growth drivers in the coming future.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

Our Group plays an essential role in supporting sustainable economic development throughout the manufacturing processes and in our long term strategic plan. We recognize the importance of environmental protection and social welfare on subjects such as resource use, consumption of water and energy, hazardous and non-hazardous wastage, people development, health and safety and ethical manufacturing facilities.

Our factories located in Cambodia and different provinces in China have awarded various certificates issued by different Environmental Organizations established internationally. Our production facilities are proved to have met certain social and quality compliances. These certificates include those from OEKO-TEX® granted for our woven and knitted fabric which are produced sustainably in accordance with Standard 100 by OEKO-TEK. One of the OEKO-TEK's certificates is granted for the running of production site in compliance with the requirement of Sustainable Textile Production (STeP) by OEKO-TEX® representing that the processes of pre-treatment, piece-dying, printing, finishing and packaging meet the standards in relation to chemical management, environment performance, social responsibility, quality management and safety.

In addition, two gold certificates were obtained from the Worldwide Responsible Accredited Production (WRAP) Certification Program. WRAP's Certification Program is the largest independent facility certification program in the world mainly focused on the apparel, footwear, and sewn products sectors. Certification is issued based on a facility's compliance with WRAP's 12 Principles, in accordance with the rule of law within each individual country demonstrating the spirit of the relevant conventions under the International Labor Organization (ILO).

Furthermore, there are different level of certifications awarded for environmental and quality management, occupational health and safety management issued by China Quality Certification Centre(CQC), Ministry of Industry and Handicraft of Cambodia as well as by Dongguan safety production association.

On the other hand, the Group considers all employees as our important assets and has long placed emphasis on their well-being and development. Quality management training program covering the Group were launched during the year of 2019. Our commitment on such endeavors has well been recognized in product quality and business activities.

The Group also cares about the community investment and takes great pride in working closely with them. The Group strives to have more positive impact by collaborating with academy and charity to support our new generation. Our co-construction with Hangzhou Vocational and Technical College (杭州職業技術學院) has celebrated its 10th Anniversary in early 2019. In addition, the Group has established Tonglu High Fashion Education Foundation (桐廬達利教育基金會) which not only supports students and teachers in Tonglu, but also bridges the connection between the charity group in Hong Kong and education sector in Tonglu.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were at the same level of HK$1.4 billion at the end of both years of 2019 and 2018. The bank borrowings were mainly for certain properties construction, development projects and fixed assets investments to develop and upgrade the China manufacturing plants. Our gearing ratio of non-current liabilities to shareholders' funds was 34% at the end of 2019 with current ratio at 1.3.

The Group's total cash and bank balances were HK$912.8 million at the end of reporting period. Along with the available banking facilities, the Group had a healthy working capital and liquidity to meet the operating needs and future growth.

Foreign currency risk exposure is primarily related to RMB and USD since a considerable portion of our operating expenses are denominated in RMB while sales are mainly denominated in USD. As HKD is pegged to the USD, the Group considers that its foreign currency risk in respect of USD is minimal. Bank borrowings were denominated mainly in HKD and partly in USD.

Barring the pledge of a property in Hong Kong of HK$986.0 million (2018 – HK$855.2 million), 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$43.0 million in order to upgrade the manufacturing capabilities and improve the environmental protection facilities during the year. The Group also injects HK$158.6 million into certain properties construction and development projects during the year.

CAPITAL COMMITMENTS

As 31 December 2019, 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$18.1 million.

TAX AUDIT

For the tax audit case initiated by the IRD since February 2006 on certain group companies for the years of assessment as from 1999/2000, the tax audit was completed in 2019 and reach an agreement with IRD. Tax refund of HK$103.0 million was received from IRD which consisted of refund for excesses of prior tax paid and Tax Reserve Certificates purchased, along with the associated interest. The Group has recognized the cumulative gain of HK$37.1 million as an adjustment to the opening balance of retained earnings in accordance with HK(IFRIC)-Int 23.

HUMAN RESOURCES

The total number of employees of the Group including joint ventures as at the end of the reporting year was about 6,300. The Group remunerates its staff according to their performance, qualifications and industry practices. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

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 throughout the year ended 31 December 2019, except for the following deviations 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 officer should be separate and should not be performed by the same individual.

Mr. Lam Foo Wah was the Chairman and Managing Director of the Company during the year. With the in-depth knowledge and extensive business network and connections in fashion apparel industry, and brand and retail management, the Board believed that it is in the best interests of the Group to have Mr. Lam taking up both roles for effective strategic planning and business development.

Mr. Lam Foo Wah has tendered his resignation as the Managing Director of the Company with effect from 1 February 2020 and remains as the Chairman of the Company. Following the appointment of Mr. Lam Gee Yu, Will as the Managing Director of the Company and Mr. Lam Din Yu, Well as the Managing Director (China) of the Company at the same date, both are the Executive Directors, the Company has complied with this code provision.

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 were not appointed for a specific term. However, as all Directors 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 A.5.1

Under the code provision A.5.1 of the CG Code, Nomination Committee should comprise a majority of independent non-executive directors.

Following the retirement of Mr. Woo King Wai as an Independent Non-executive Director at the conclusion of the annual general meeting of the Company held on 6 June 2019, (i) the number of Independent Non-executive Directors fell below the minimum number of three and the number of Independent Non-executive Directors could not represent at least one-third of the Board, as required respectively under Rules 3.10(1) and 3.10A of the Listing Rules; and (ii) the number of Independent Non-executive Directors on the Audit Committee, Remuneration Committee and Nomination Committee did not meet the respective majority requirement under Rule 3.21 and Rule 3.25 of the Listing Rules, and code provision A.5.1 of the CG Code.

On 26 July 2019, Mr. Chung Kwok Pan was appointed as (i) an Independent Non-executive Director; and (ii) a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee of the Company. Subsequent to the appointment, the Company has complied with the Listing Rules and code provision as mentioned in the above paragraph.

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 awareness on their relevant rights and duties pursuant to the applicable laws and regulations.

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

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.

AUDIT COMMITTEE REVIEW

The auditing process for the final results of the Group for the year ended 31 December 2019 has not been completed due to the outbreak of 2019 Novel Coronavirus. The unaudited consolidated final results contained herein have not been agreed by the auditors of the Company as required under Rule 13.49(2) of the Listing Rules. The audited consolidated final results announcement of the Company for the year ended 31 December 2019 will be made once the auditing process is completed pursuant to the Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants and other applicable laws and regulations.

The Audit Committee of the Company has reviewed the Group's unaudited consolidated final results contained herein for the year ended 31 December 2019.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will make further announcement(s) relating to (i) the audited consolidated final results of the Group for the year ended 31 December 2019 as agreed by the auditors of the Company and material differences (if any) as compared with the unaudited consolidated final results contained herein; (ii) the proposed final dividend for the year ended 31 December 2019 and the closure of register of members to determine the entitlement of shareholders of the Company for the proposed final dividend (if any); and (iii) the date of the forthcoming annual general meeting of the Company and the closure of register of members to determine the entitlement of shareholders of the Company to attend and vote at that meeting. In addition, the Company would make further announcement(s) when there are any material updates in the auditing process, if necessary.

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 2019 Annual Report of the Company will be despatched to the shareholders of the Company and available on the above websites in due course.

APPOINTMENT OF MEMBER OF RISK MANAGEMENT COMMITTEE

The Board is pleased to announce that Professor Yeung Kwok Wing, a Non-executive Director of the Company, is appointed as a member of the Risk Management Committee with effect from 30 March 2020.

MEMBERS OF THE BOARD

As at the date of this announcement, the Board comprises of (1) Executive Directors: Mr. Lam Foo Wah, Ms. So Siu Hang, Patricia, Mr. Lam Gee Yu, Will, 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. Wong Shiu Hoi, Peter, Mr. Leung Hok Lim and Mr. Chung Kwok Pan.

By Order of the Board
High Fashion International Limited
Lam Foo Wah
Chairman

Hong Kong, 30 March 2020