

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

AUDITED FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

AUDITED FINAL RESULTS

Reference is made to the announcements of High Fashion International Limited (the “Company”, together with its subsidiaries, the “Group”) dated 30 March 2020 and 3 April 2020, in relation to the unaudited final results for the year ended 31 December 2019.

The Board of Directors (the “Board”) of the Company is pleased to announce that the auditors of the Company, Messrs. Deloitte Touche Tohmatsu, has completed the auditing process for the final results of the Group for the year ended 31 December 2019 pursuant to the Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and other applicable laws and regulations.

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year as approved by the Board on 17 April 2020. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

Audited 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	<u>2,913,710</u>	<u>3,074,745</u>
Cost of sales		(2,334,594)	(2,516,612)
Gross profit		579,116	558,133
Other income		35,638	28,324
Other gains and losses	4	40,576	42,071
Net impairment loss recognised on trade receivables		(3,691)	(2,854)
Net impairment loss recognised on amount due from a joint venture		(17,086)	-
Administrative expenses		(350,256)	(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		<u>46,028</u>	<u>29,748</u>
Income tax credit	6	19,242	8,920
PROFIT FOR THE YEAR	7	<u>65,270</u>	<u>38,668</u>
OTHER COMPREHENSIVE (EXPENSE) INCOME	8		
Items that will not be reclassified to profit or loss:			
Exchange differences on translation from functional currency to presentation currency		(65,489)	(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		(1,435)	(25,353)
		<u>(61,668)</u>	<u>(66,748)</u>
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		1,629	(4,363)
Other comprehensive expense for the year, net of tax		<u>(60,039)</u>	<u>(71,111)</u>
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR		<u><u>5,231</u></u>	<u><u>(32,443)</u></u>

**Audited Consolidated Statement of Profit or Loss and Other Comprehensive Income
(Cont'd)**

For the year ended 31 December 2019

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
PROFIT FOR THE YEAR			
ATTRIBUTABLE TO:			
Owners of the Company		71,964	43,640
Non-controlling interests		<u>(6,694)</u>	<u>(4,972)</u>
		<u>65,270</u>	<u>38,668</u>
TOTAL COMPREHENSIVE INCOME			
(EXPENSE) FOR THE YEAR			
ATTRIBUTABLE TO:			
Owners of the Company		6,239	(27,632)
Non-controlling interests		<u>(1,008)</u>	<u>(4,811)</u>
		<u>5,231</u>	<u>(32,443)</u>
EARNINGS PER SHARE			
Basic	10	<u>HK\$0.24</u>	<u>HK\$0.14</u>
Diluted		<u>HK\$0.24</u>	<u>HK\$0.14</u>

Audited Consolidated Statement of Financial Position
At 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		528,462	533,391
Right-of-use assets		80,246	-
Prepaid lease payments		-	62,738
Investment properties		2,120,188	1,926,240
Intangible assets		-	8,223
Interest in joint ventures		7,556	10,456
Equity instruments at FVTOCI		19,009	19,493
Deferred tax assets		29,111	28,839
Other non-current assets		32,199	31,729
		<u>2,816,771</u>	<u>2,621,109</u>
CURRENT ASSETS			
Inventories		404,452	456,413
Properties held for sale		167,258	221,482
Trade receivables	<i>11</i>	535,813	433,309
Prepaid lease payments		-	2,034
Deposits, prepayments and other receivables		171,166	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		3,358	55,203
Bank balances and cash		359,583	658,463
		<u>2,199,439</u>	<u>2,462,643</u>
CURRENT LIABILITIES			
Trade payables	<i>12</i>	417,160	306,413
Other payables and accruals		203,107	184,811
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
Bank borrowings		812,223	688,358
		<u>1,685,706</u>	<u>1,637,409</u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
NET CURRENT ASSETS	<u>513,733</u>	<u>825,234</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>3,330,504</u>	<u>3,446,343</u>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	254,202	256,803
Bank borrowings	582,500	692,500
Lease liabilities	11,443	-
Provision for long service payments	<u>2,729</u>	<u>2,803</u>
	<u>850,874</u>	<u>952,106</u>
NET ASSETS	<u>2,479,630</u>	<u>2,494,237</u>
CAPITAL AND RESERVES		
Share capital	30,562	30,562
Share premium and reserves	<u>2,480,203</u>	<u>2,493,802</u>
Equity attributable to owners of the Company	2,510,765	2,524,364
Non-controlling interests	<u>(31,135)</u>	<u>(30,127)</u>
TOTAL EQUITY	<u>2,479,630</u>	<u>2,494,237</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 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 has 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 1 January 2019, the Group assesses whether a contract is or contains a lease based on the definition of a lease in accordance with the requirements set out in HKFRS 16.

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

2. Principal Accounting Policies (Cont'd)

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

As a lessee (Cont'd)

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 4.69%.

	At 1 January 2019 <i>HK\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	34,675
Lease liabilities discounted at relevant incremental borrowing rates	31,903
Less: Recognition exemption – short-term leases	(1,366)
Lease liabilities as at 1 January 2019	<u>30,537</u>
Analysed as	
Current	10,330
Non-current	<u>20,207</u>
	<u>30,537</u>

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

	Right-of-use assets <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	28,078
Reclassified from prepaid lease payments	64,772
Reclassified from property, plant and equipment	1,833
	<u>94,683</u>

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.

3. Revenue and Segment Information

Revenue

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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		
Canada	78,538	99,252
Hong Kong	91,479	202,801
The People's Republic of China (the "PRC")	1,156,760	1,016,547
United States of America ("USA")	993,364	1,061,319
Others European countries	360,906	475,194
Others	232,663	219,632
	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 <i>HK\$'000</i>	Brand business <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>
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 <i>HK\$'000</i>	Brand business <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>
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	<u>2,854,997</u>	<u>135,567</u>	<u>53,452</u>

Segment information

For the year ended 31 December 2019

	Manufacturing 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	2,613,136	86,858	213,716	2,913,710	-	2,913,710
Inter-segment sales (note i)	39,788	-	-	39,788	(39,788)	-
Segment revenue	<u>2,652,924</u>	<u>86,858</u>	<u>213,716</u>	<u>2,953,498</u>	<u>(39,788)</u>	<u>2,913,710</u>
RESULTS						
Segment profit (loss)	<u>58,983</u>	<u>(32,808)</u>	<u>60,764</u>	<u>86,939</u>	<u>-</u>	<u>86,939</u>
Change in fair value of derivative financial instruments						1,698
Change in fair value of investment properties						40,034
Corporate overhead (note ii)						(44,861)
Other expenses						(11,899)
Unallocated items						(25,883)
Profit before taxation						<u>46,028</u>

3. Revenue and Segment Information (Cont'd)

Segment information (Cont'd)

For the year ended 31 December 2018

	Manufacturing 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						<u>(8,965)</u>
Profit before taxation						<u>29,748</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.

3. Revenue and Segment Information (Cont'd)

Other segment information

For the year ended 31 December 2019

	Manufacturing and trading of garments HK\$'000	Brand business HK\$'000	Property investment and development HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	41,360	859	1,233	43,452
Depreciation of right-of-use assets	7,677	3,741	788	12,206
Gain on disposal of property, plant and equipment	1,210	-	-	1,210
Impairment loss on trade receivables recognised in profit or loss	3,647	44	-	3,691
Impairment loss recognised on amount due from a joint venture	17,086	-	-	17,086
Net allowance for inventory obsolescence (note)	44,810	3,842	-	48,652
Interest income	18,851	28	929	19,808
Finance costs	35,860	288	39	36,187
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Fair value gain on derivative financial instruments	1,698	-	-	1,698
Increase in fair value of financial assets at fair value through profit or loss ("FVTPL")	3,038	-	-	3,038
Increase in fair value of investment properties	-	-	40,034	40,034
Share of losses of joint ventures	2,605	-	-	2,605

3. Revenue and Segment Information (Cont'd)

Other segment information (Cont'd)

For the year ended 31 December 2018

	Manufacturing 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
Impairment loss on trade receivables recognised (reversed) in profit or loss	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>

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	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
USA	993,364	1,061,319	365	516
Europe	360,906	475,194	76	235
Greater China	1,248,239	1,219,348	2,722,507	2,526,068
Others	311,201	318,884	5,948	3,773
	<u>2,913,710</u>	<u>3,074,745</u>	<u>2,728,896</u>	<u>2,530,592</u>

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

Information about major customer

During the years ended 31 December 2019 and 2018, 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

	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 FVTPL	3,038	3,355
Gain (loss) on disposal/written-off of property, plant and equipment	1,210	(1,497)
Net foreign exchange gain	3,933	28,404
Increase in fair value of investment properties	40,034	55,204
Impairment loss recognized on intangible assets	(8,223)	-
Loss on deregistration of subsidiaries	(1,114)	-
	<u>40,576</u>	<u>42,071</u>

5. Finance Costs

	2019 HK\$'000	2018 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 investment properties that is arisen from specific borrowings	(13,632)	(15,188)
	<u>36,187</u>	<u>29,937</u>

6. Income Tax Credit

	2019 HK\$'000	2018 HK\$'000
Current tax charge:		
Hong Kong	992	2,033
The PRC	17,682	7,406
Other jurisdictions	337	246
	<u>19,011</u>	<u>9,685</u>
(Over)underprovision in prior years:		
Hong Kong	(37,158)	(3,856)
The PRC	(3,136)	1,723
	<u>(40,294)</u>	<u>(2,133)</u>
Deferred taxation :		
Current year	2,041	2,728
Reversal of withholding tax in respect of undistributed earning of PRC subsidiaries (note i)	-	(19,200)
	<u>2,041</u>	<u>(16,472)</u>
	<u>(19,242)</u>	<u>(8,920)</u>

Notes:

- (i) Pursuant to the Announcement of the State Administration of Taxation [2018] No. 9 on 3 February 2018, wholly-owned offshore subsidiaries of companies with Hong Kong resident (“HK resident”) having subsidiaries in the PRC (“PRC subsidiaries”) have the same beneficial owner status as the HK resident for the purpose of tax treaties between Hong Kong and the PRC with effective from 1 April 2018. The withholding tax rate on profits earned by these PRC subsidiaries will be decreased from 10% to 5%, and accordingly, HK\$19,200,000 deferred tax liabilities previously recognised has been reversed.

6. Income Tax Credit (Cont'd)

- (ii) 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.

Up to 31 December 2018, the Group has made tax payment of approximately HK\$188,464,000 for conditional standover order of objection against the Assessments, including approximately HK\$172,944,000 tax reserve certificates purchased by the Group. The amount is included in “tax recoverable” in the consolidated statement of financial position. No further tax payment was made in 2019.

In 2019, the Group has reached an agreement with IRD to settle the case with a settlement amount of HK\$85,427,000 and received a tax refund of HK\$103,037,000. As a result, the Group has reversed the overprovided tax provision of HK\$37,163,000, which represents the excess of tax provision of HK\$122,590,000 made over the settlement amount, in the profit or loss.

7. Profit for the Year

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

	2019 HK\$'000	2018 HK\$'000
Costs of inventories recognised as expenses (including net allowance for inventory obsolescence) (note)	2,165,019	2,396,705
Cost of properties sold (included in cost of sales)	124,415	32,795
Amortisation of prepaid lease payments	-	1,842
Depreciation of property, plant and equipment	43,452	56,490
Depreciation of right-of-use assets	12,206	-
Government grants (included in other income)	(15,823)	(11,508)
Interest income (included in other income):		
Bank interest income	(19,808)	(11,846)
Interest income on other receivables	<u>-</u>	<u>(19)</u>

Note: The amount includes net allowance for inventory obsolescence of HK\$48,652,000 (2018: HK\$24,320,000).

8. Other Comprehensive (Expense) Income

	2019 HK\$'000	2018 HK\$'000
Fair value loss on equity instruments at FVTOCI	(484)	(4,973)
Gain on revaluation of owner-occupied properties	5,740	134,823
Exchange differences on translation to presentation currency	(65,489)	(171,245)
Exchange differences on translation of foreign operations	<u>1,629</u>	<u>(4,363)</u>
Other comprehensive expense	<u>(58,604)</u>	<u>(45,758)</u>
Income tax relating to components of other comprehensive income		
Revaluation of owner-occupied properties	<u>(1,435)</u>	<u>(25,353)</u>
Other comprehensive expense for the year, net of tax	<u><u>(60,039)</u></u>	<u><u>(71,111)</u></u>

9. Dividends

	2019 HK\$'000	2018 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)	<u>9,168</u>	<u>9,168</u>
	<u><u>18,336</u></u>	<u><u>18,336</u></u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of 3 HK cents (2018: final dividend in respect of the year ended 31 December 2018 of 3 HK cents) per ordinary share, in an aggregate amount of HK\$9,168,000 (2018: HK\$9,168,000) has been proposed by the Board 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>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Earnings for the purpose of basic and diluted earnings per share attributable to owners of the Company	<u>71,964</u>	<u>43,640</u>
<u>Number of shares</u>	2019 <i>'000</i>	2018 <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 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.

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.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 90 days	500,008	401,470
91 to 180 days	21,993	23,345
181 to 360 days	9,471	7,173
Over 360 days	<u>4,341</u>	<u>1,321</u>
	<u>535,813</u>	<u>433,309</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:

	2019 HK\$'000	2018 HK\$'000
Within 90 days	130,138	82,154
91 to 180 days	8,975	9,912
181 to 360 days	2,969	5,985
Over 360 days	10,447	6,379
	<u>152,529</u>	<u>104,430</u>
Accrued purchases	264,631	201,983
	<u>417,160</u>	<u>306,413</u>

13. Contingent Liabilities

- (i) There were disputes amongst the Group, Tai Ding Century Limited (“Tai Ding”), Ms. Leong Ma Li, the beneficial owner of Tai Ding, and certain directors of the Company. Several legal proceedings are taking place in relation to court orders over bank accounts of Longford Information & Technology Co., Limited and the claim for damages for breaching the cooperation agreement. 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.
- (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\$2,239,000) has been made in 2018.

13. Contingent Liabilities (Cont'd)

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\$65.3 million in 2019 with an increase of 69% 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 5.2%. Nevertheless, gross margin increased by HK\$21 million to HK\$579.1 million in 2019 with a growth rate of 3.8% as a result of improved gross margin in 2019 at 19.9% 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 2.4% while selling and distribution expenses were decreased by 7.7% 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\$15 million or 4.3%. 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 expenses were relatively increased by HK\$7.3 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 decreased by 3.6%.

Net profit attributable to shareholders for the year ended 2019 was HK\$72.0 million, representing an improvement of 64.9% compared to HK\$43.6 million in last year. Basic earnings per share were HK\$0.24 (2018: HK\$0.14) and net asset value per share was HK\$8.11 (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	58,983	79,297
Brand business	86,858	135,567	(32,808)	(43,465)
Property investment and development	213,716	84,181	60,764	15,632
	2,913,710	3,074,745	86,939	51,464
By geographical segments:				
USA	993,364	1,061,319	17,780	15,960
Europe	360,906	475,194	14,302	14,708
Greater China	1,248,239	1,219,348	46,771	13,217
Others	311,201	318,884	8,086	7,579
	2,913,710	3,074,745	86,939	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. Segment profit margin was reduced to 2.3% in 2019 from 2.8% in 2018 due to certain one-off provisions made. On recurring basis, the profit margin is 3% representing an improvement comparing with last year attributable 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-dyeing, 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\$975.4 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\$58.5 million in order to upgrade the manufacturing capabilities and improve the environmental protection facilities during the year. The Group also injects HK\$154.4 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\$100.1 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. Please refer to note 6 for details.

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.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at 11th Floor, High Fashion Centre, 1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong on Wednesday, 24 June 2020 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 despatched to shareholders of the Company in due course.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of 3 HK cents (2018: 3 HK cents) per share for the year ended 31 December 2019 to shareholders whose names appear on the Register of Members of the Company on Friday, 3 July 2020. 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 despatched on or around Friday, 17 July 2020.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 22 June 2020 to Wednesday, 24 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Friday, 19 June 2020.

In addition, the Register of Members will also be closed from Thursday, 2 July 2020 to Friday, 3 July 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Tuesday, 30 June 2020.

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.

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 2019.

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.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.highfashion.com.hk) and the Stock Exchange (www.hkexnews.hk).

The 2019 Annual Report of the Company is expected to be published and despatched to the shareholders of the Company and available on the above websites by no later than 30 April 2020.

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

Hong Kong, 17 April 2020

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 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. Wong Shiu Hoi, Peter, Mr. Leung Hok Lim and Mr. Chung Kwok Pan.