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INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

CHAIRMAN'S STATEMENT

The recovery in the consumer market is gathering pace in the first half of 2021. Following a rebound in the overall global economy, High Fashion has shifted from stabilizing our business to proactively pursuing breakthroughs, with the goal to conquer the market. In the past year, we have continued to consolidate our business, ensuring that our products and services are up to speed and are responsive to market needs. We have adjusted our marketing strategies, including doubling our effort in promoting sustainability and expanding the domestic market in China. With our comprehensive measures in cost optimization and lean management in place, we have been able to enhance the Group's overall development and profit margins. We have developed stronger and more advanced technology-based and platform-based management, which enables us to provide more innovative and all-round services in product development and design for our customers.

Our key results for the period ended 30 June 2021 are as follows:

- Net profit attributable to shareholders at HK\$61.3 million
- Gearing ratio of non-current liabilities to shareholders' fund at 49%. Current ratio at 1.7
- Basic earnings per share landed at HK\$0.2
- Net asset value per share amounted to HK\$9.83
- Interim dividend per share is HK\$0.02

High Fashion has been stepping up its efforts and injecting more resources into the China market. Our remarkable results in the development of eco-friendly fashion products and market expansion have received great attention and recognition from many Chinese domestic brands, especially our accomplishments in fabric development, 3D sampling and green manufacturing. Not only have we maintained our position as the strongest backing of our existing overseas customers, but we have also become the best business partner of the domestic market players. Being a change agent and innovator in the fashion industry, High Fashion will continue to bring newness to our products and strive for excellence in supply chain management, thus increase the competitive advantage in the fashion business.

High Fashion has proven itself a role model of green supply chain of China and takes the promotion of sustainable development as one of our key priorities. We centered our product research and development, manufacturing process re-engineering and production facility upgrades at the theme of “Sustainable Development”. We strive to improve the traceability, carbon emission balance and biodegradability of our products, with the aim of becoming the forerunner in sustainability in Asia’s fashion industry. In addition, we have fully implemented digitalized, paperless and platformized management, as well as conducted research in artificial intelligence and big data. These initiatives have revamped High Fashion’s core fashion business, heightening our agility and flexibility in adapting to new trends in fashion and sustainability.

The Group has built a solid foundation for its real estate business and in-house workspace brand, WL District. Carrying on the momentum from the year before, we have continued to push for new developments and have achieved impressive results in our real estate projects. We are confident that our real estate business will bring a significant and stable rental income, and will introduce various opportunities to the Group. Not only has WL District attracted numerous talents from the fashion and technology industries to join High Fashion, but it has also forged a global internet network, which has provided strong interdisciplinary support and collaboration opportunities to High Fashion’s product development, fashion design, supply chain management and big data analysis. These advantages are indispensable to the Group’s successful transformation.

Determined to become a pacesetter and key driver in China’s fashion industry, High Fashion is moving towards a more diversified business. We will strive for continuous development and conquer the market. Talents, creativity, technology, and research & development will be the four main pillars of a stronger and greater High Fashion.

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

RESULTS

The Board of Directors (the “Board” or the “Director(s)”) of High Fashion International Limited (the “Company” or “High Fashion”, together with its subsidiaries, the “Group”) is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2021 together with the comparative figures.

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3		
Goods and services		1,174,914	1,025,093
Rental		35,263	12,965
TOTAL REVENUE		<u>1,210,177</u>	<u>1,038,058</u>
Cost of sales		<u>(1,020,770)</u>	<u>(851,260)</u>
Gross profit		189,407	186,798
Other income		24,927	22,444
Other gains and losses	4	83,578	18,444
Administrative expenses		(124,756)	(128,041)
Selling and distribution expenses		(72,287)	(74,267)
Other expenses		(3,069)	(1,774)
Net impairment loss recognised on trade receivables		(3,896)	(7,279)
Finance costs	5	(13,890)	(16,364)
Share of losses of joint ventures		-	(926)
PROFIT (LOSS) BEFORE TAXATION		<u>80,014</u>	<u>(965)</u>
Income tax expenses	6	(18,576)	(10,767)
PROFIT (LOSS) FOR THE PERIOD	7	<u>61,438</u>	<u>(11,732)</u>
OTHER COMPREHENSIVE INCOME (EXPENSE)			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements from functional currency to presentation currency		32,761	(27,429)
Gain on revaluation of owner-occupied properties		67,374	69,566
Income tax relating to items that will not be reclassified to profit or loss		(16,843)	(12,349)
		<u>83,292</u>	<u>29,788</u>
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		(2,081)	7,142
Other comprehensive income for the period, net of tax		<u>81,211</u>	<u>36,930</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>142,649</u>	<u>25,198</u>

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Cont'd)
For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
PROFIT (LOSS) FOR THE PERIOD			
ATTRIBUTABLE TO:			
Owners of the Company		61,319	(11,234)
Non-controlling interests		119	(498)
		<u>61,438</u>	<u>(11,732)</u>
TOTAL COMPREHENSIVE INCOME			
FOR THE PERIOD ATTRIBUTABLE			
TO:			
Owners of the Company		142,530	25,701
Non-controlling interests		119	(503)
		<u>142,649</u>	<u>25,198</u>
EARNINGS (LOSS) PER SHARE			
Basic	8	<u>20.06 HK cents</u>	<u>(3.68) HK cents</u>
Diluted		<u>20.06 HK cents</u>	<u>(3.68) HK cents</u>

Unaudited Condensed Consolidated Statement of Financial Position
At 30 June 2021

	At 30 June 2021 (Unaudited) <i>Notes</i> <i>HK\$'000</i>	At 31 December 2020 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	499,177	554,627
Right-of-use assets	79,534	84,035
Investment properties	2,896,466	2,630,916
Interests in joint ventures	7,388	7,299
Equity instruments at fair value through other comprehensive income	16,416	16,416
Deferred tax assets	30,821	30,821
Other non-current assets	33,018	32,674
	<u>3,562,820</u>	<u>3,356,788</u>
CURRENT ASSETS		
Inventories	364,740	347,823
Properties held for sale	31,280	40,449
Trade receivables	10 461,853	453,348
Deposits, prepayments and other receivables	92,414	128,751
Amounts due from joint ventures	5,396	5,395
Equity instruments at fair value through other comprehensive income	9,381	9,381
Derivative financial instruments	1,422	3,091
Structured deposits	599,936	610,389
Short-term bank deposits	52,024	13,988
Bank balances and cash	662,760	710,079
	<u>2,281,206</u>	<u>2,322,694</u>
CURRENT LIABILITIES		
Trade payables	11 414,792	414,795
Other payables and accruals	221,569	238,076
Provision	2,400	2,371
Lease liabilities	6,592	7,254
Amount due to an associate	583	583
Contract liabilities	55,146	58,619
Tax payable	58,584	54,982
Derivative financial instruments	1,304	577
Bank borrowings	594,892	639,362
	<u>1,355,862</u>	<u>1,416,619</u>

Unaudited Condensed Consolidated Statement of Financial Position (Cont'd)

At 30 June 2021

	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
NET CURRENT ASSETS	<u>925,344</u>	<u>906,075</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,488,164</u>	<u>4,262,863</u>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	339,566	299,691
Derivative financial instruments	781	1,081
Bank borrowings	1,125,300	1,070,000
Lease liabilities	15,031	18,162
Provision for long service payments	2,721	2,645
	<u>1,483,399</u>	<u>1,391,579</u>
NET ASSETS	<u><u>3,004,765</u></u>	<u><u>2,871,284</u></u>
CAPITAL AND RESERVES		
Share capital	30,562	30,562
Share premium and reserves	<u>3,004,577</u>	<u>2,871,215</u>
Equity attributable to owners of the Company	3,035,139	2,901,777
Non-controlling interests	<u>(30,374)</u>	<u>(30,493)</u>
TOTAL EQUITY	<u><u>3,004,765</u></u>	<u><u>2,871,284</u></u>

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

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

2. Principal Accounting Policies

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – phase 2

The application of the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

The Group has not applied any new and amendments to HKFRS that been issued but not yet effective for the current accounting period.

3. Revenue and Segment Information

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Recognised at a point in time under HKFRS 15:		
Manufacturing and trading of garments	1,149,467	882,689
Sales of brand garments	9,722	13,445
Sales of properties	15,725	128,959
Revenue from contracts with customers	1,174,914	1,025,093
Rental income recognised under HKFRS 16	35,263	12,965
	1,210,177	1,038,058
Geographical markets		
China	708,905	439,467
United States of America	208,158	287,015
Europe	128,052	141,411
Others	165,062	170,165
	1,210,177	1,038,058

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

For the six months ended 30 June 2021 (unaudited)

	Manufacturing and trading of garments	Brand business	Property investment and development
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	1,175,714	9,722	50,988
Less: rental income recognised under HKFRS 16	-	-	(35,263)
Less: inter-segment sales	(26,247)	-	-
Revenue from contracts with customers	1,149,467	9,722	15,725

3. Revenue and Segment Information (Cont'd)

Disaggregation of revenue from contracts with customers (Cont'd)

For the six months ended 30 June 2020 (unaudited)

	Manufacturing and trading of garments	Brand business	Property investment and development
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Segment revenue	893,185	13,445	141,924
Less: rental income recognised under HKFRS 16	-	-	(12,965)
Less: inter-segment sales	<u>(10,496)</u>	<u>-</u>	<u>-</u>
Revenue from contracts with customers	<u>882,689</u>	<u>13,445</u>	<u>128,959</u>

Segment information

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

For the six months ended 30 June 2021 (unaudited)

	Manufacturing and trading of garments	Brand business	Property investment and development	Segment total	Elimina- tions	Consoli- dated
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
REVENUE						
External sales	1,149,467	9,722	50,988	1,210,177	-	1,210,177
Inter-segment sales (note i)	26,247	-	-	26,247	(26,247)	-
Segment revenue	<u>1,175,714</u>	<u>9,722</u>	<u>50,988</u>	<u>1,236,424</u>	<u>(26,247)</u>	<u>1,210,177</u>
RESULTS						
Segment profit (loss)	<u>12,921</u>	<u>(1,309)</u>	<u>12,036</u>	<u>23,648</u>	<u>-</u>	<u>23,648</u>
Change in fair value of derivative financial instruments						4,260
Change in fair value of investment properties						72,285
Finance costs						(6,469)
Corporate overhead (note ii)						(9,022)
Other expenses						(3,069)
Unallocated items						<u>(1,619)</u>
Profit before taxation						<u>80,014</u>

3. Revenue and Segment Information (Cont'd)

Segment information (Cont'd)

For the six months ended 30 June 2020 (unaudited)

	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	882,689	13,445	141,924	1,038,058	-	1,038,058
Inter-segment sales (note i)	10,496	-	-	10,496	(10,496)	-
Segment revenue	<u>893,185</u>	<u>13,445</u>	<u>141,924</u>	<u>1,048,554</u>	<u>(10,496)</u>	<u>1,038,058</u>
RESULTS						
Segment (loss) profit	<u>(12,966)</u>	<u>(15,311)</u>	<u>29,591</u>	<u>1,314</u>	<u>-</u>	<u>1,314</u>
Change in fair value of derivative financial instruments						(2,347)
Change in fair value of investment properties						12,108
Finance costs						(3,544)
Corporate overhead (note ii)						(5,305)
Other expenses						(1,774)
Unallocated items						<u>(1,417)</u>
Loss before taxation						<u>(965)</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 scale of the 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 and investment properties, certain portion of finance costs, central administration costs and other expenses. This is the measure reported to the Group's executive directors, being the chief operating decision maker ("CODM"), for the purposes of resources allocation and performance assessment. Furthermore, as the assets and liabilities for operating segments are not provided to the CODM for the purposes of resources allocation and performance assessment, no segment assets and liabilities is presented accordingly.

4. Other Gains and Losses

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in fair value of investment properties	72,285	12,108
Change in fair value of derivative financial instruments	4,260	(2,347)
Net foreign exchange gain	917	736
Loss on disposal of property, plant and equipment	(425)	(1,351)
Change in fair value of financial assets at fair value through profit or loss	6,541	8,968
Gain on deregistration of subsidiaries	-	330
	<u>83,578</u>	<u>18,444</u>

5. Finance Costs

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests on:		
Bank borrowings and overdrafts	13,168	19,557
Leases liabilities	538	460
Bank charges on discounted bills	184	1,678
Total borrowing costs	<u>13,890</u>	<u>21,695</u>
Less: Amount capitalised in investment properties that is arisen from specific borrowings	-	(5,331)
	<u>13,890</u>	<u>16,364</u>

6. Income Tax Expenses

	Six months ended 30 June	
	2021 (Unaudited) <i>HK\$'000</i>	2020 (Unaudited) <i>HK\$'000</i>
Current tax charge:		
Hong Kong	1,504	1,398
Mainland China	2,516	7,988
Other jurisdictions	3	12
	<u>4,023</u>	<u>9,398</u>
Overprovision in prior periods:		
Mainland China	(139)	(1,091)
Deferred taxation - current period	<u>14,692</u>	<u>2,460</u>
	<u>18,576</u>	<u>10,767</u>

7. Profit (Loss) for the Period

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

	Six months ended 30 June	
	2021 (Unaudited) <i>HK\$'000</i>	2020 (Unaudited) <i>HK\$'000</i>
Depreciation of property, plant and equipment	28,523	22,399
Depreciation of right-of-use assets	3,750	6,072
Net (reversal) allowance for inventory obsolescence (included in cost of sales)	(5,265)	9,631
Bank interest income	<u>(3,591)</u>	<u>(4,992)</u>

8. Earnings (Loss) Per Share

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings (loss) for the purpose of basic and diluted earnings per share attributable to owners of the Company	<u>61,319</u>	<u>(11,234)</u>
	Number of shares	Number of shares
Number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	<u>305,615,420</u>	<u>305,615,420</u>

The computation of diluted earnings (loss) per share for the six months ended 30 June 2021 and 30 June 2020 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. Dividends

During the current interim period, a final dividend in respect of the year ended 31 December 2020 of 3 HK cents (six months ended 30 June 2020: final dividend in respect of the year ended 31 December 2019 of 3 HK cents) per ordinary share was declared to the shareholders and has been paid in cash.

The Board declared that an interim dividend of 2 HK cents per share for the six months ended 30 June 2021 (six months ended 30 June 2020: nil) in an aggregate amount of approximately HK\$6,112,000 (six months ended 30 June 2020: nil) which will be paid to shareholders whose names appear in the register of members on 24 September 2021. This dividend was declared after the end of the reporting period, and therefore it has not been included as a liability in the condensed consolidated statement of financial position.

10. Trade Receivables

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

At 30 June 2021, total bills received amounting to HK\$3,287,000 (31 December 2020: HK\$39,024,000) are held by the Group for further settlement of trade receivables, of which certain bills are further discounted by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

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

	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Within 90 days	382,962	352,223
91 to 180 days	19,279	27,436
181 to 360 days	11,181	66,843
Over 360 days	48,431	6,846
	<u>461,853</u>	<u>453,348</u>

11. Trade Payables

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

	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Within 90 days	299,772	235,287
91 to 180 days	10,731	19,252
181 to 360 days	13,197	4,975
Over 360 days	8,592	10,737
	<u>332,292</u>	<u>270,251</u>
Accrued purchases	82,500	144,544
	<u>414,792</u>	<u>414,795</u>

The average credit period on purchases of goods is around 90 days. At 30 June 2021, total bills amounting to approximately HK\$31,540,000 (31 December 2020: HK\$68,211,000) was included in trade payables aged within 90 days.

12. Contingent Liabilities

- (i) There were disputes amongst the Group, Besthope International Limited (“**Besthope**”) and Ms. Leong Ma Li, the beneficial owner of Besthope. Certain legal proceedings are taking place in relation to Besthope’s claims for damages of breaching a cooperation agreement. As advised by the external lawyer, the claims set out by Besthope are lack of evidence and the Group has strong basis to defend against its allegations. In the opinion of the Directors, the court case is not yet finalised and the Group concurs with the same view as the external lawyer, this is not probable that a material outflow of resources will be required and no provision has been made accordingly.
- (ii) In June 2016, a judgment was made by the Intermediate People’s Court Shaoxing, Zhejiang Province 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, out of which the RMB30,000,000 deposit previously paid would be confiscated by the Customs Authority and used to offset the amount payable. In July 2016, the Group appealed against the Judgment to the High People’s Court of Zhejiang Province.

After the legal proceedings in 2017 and 2018, management of the Group had sought advice from legal professionals, who advised that the evidence relied upon by the court is not factually supported, against which the Group had strong grounds to refute. Nevertheless, the Group may still be subject to a penalty for not complying the processing trade requirement, which is estimated to be approximately RMB2,000,000 (equivalent to approximately HK\$2,400,000).

In May 2019, a court hearing was held by the Higher People’s Court of Zhejiang Province 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 the Group’s office in Hangzhou and performed various verification of defense evidence. According to the external lawyer, the verification process is a common judicial practice in Mainland China and it implies a favourable outlook to the Group.

As at 30 June 2021, the Group has not yet received the judgment from the Court and the external lawyer upholds his view that the final judgement will be favourable to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year of 2021 began with hopes that the global economy was set to restart and gradually recover on the back of vaccine rollouts. Despite the volatile period during the past year, High Fashion has continued the pursuit of breakthrough in order to conquer the market as our ultimate goal. We were confident that the resumption of business activities in China will lead to recovery of consumer sentiment, the Management had re-designed the market focus then and we are pleased to share that the Group had achieved an encouraging result in the first half year in 2021. Our Management is optimistic about the future development of business and the strategies carrying on at the moment, though, we will perpetually evolve with the rapid changes in market so as to promote or adjust the market strategy.

Our Group is committed to sustainability. Apart from having strong capabilities in developing new fabric, we integrate innovation and sustainability into every aspect of our business. Through extensive application of digitalization, the operation efficiency and effectiveness have been greatly enhanced, minimizing the cost of productions and sales. In addition to cost control, the new technological developments also enable a smoother communication with customers and that we are able to quickly transform their desires into popular products.

The Group's real estate business WL District inherited the momentum in the first half of the year and has laid a good foundation for future growth. With continuous development and breakthroughs, we are confident that this would not only generate stable income but also provide multiple opportunities for the Group in near future. In addition to attracting a large number of fashion and high-tech talents and potential collaborations, we anticipate WL District would evolve into a fashion and innovation ecosystem and improve our future revenue.

The Group management is positive about the future of our business despite the challenges that the global economy has to face. We will continue in our research and development projects and to create new business opportunities with great persistence.

IMPACT OF COVID-19

COVID-19 has certainly struck the global economy hard in 2020. With Mainland China being the first area showing promising economic rebound from COVID, signs of recoveries are also seen in the Western world with vaccination programmes being rolled out. There was increasing global customer consumption desire for garment and apparel products in the first half of 2021 due to the relaxation of international lockdown and social distancing restrictions. The speed of recovery differs across countries. During the first six months of 2021, Mainland China is the only area achieving a sales volume surpassing pre-pandemic levels.

In response to that, the Group has shifted our strategic focus to China and successfully captured domestic market expansion opportunities. On the other hand, to manage the possible adverse impact in countries other than China, we have been liaising closely with key customers to understand their order requests and monitor the payment schedules in order to tackle any changes.

The Group has continuously stepped up its effort to ensure a safe working environment at all locations. We have provided face masks and disinfectant supplies to all employees, encouraged employees to get vaccinated for the COVID-19, provided training and issued internal notices to employees about the safety rules in accordance with local government's and World Health Organization's recommendations.

FINANCIAL REVIEW

In the first half of 2021, the global economy shows recovery after the disruptive struck from pandemic in 2020. The Group's revenue increased by 16.6% to HK\$1,210 million (2020: HK\$1,038 million) which was mainly contributed from the manufacturing and trading of garments segment, as a result of increased domestic sales in China, newly developed customers and the return orders from overseas buyers. However, due to factors such as increased raw material cost and the appreciation of Renminbi during the period, gross profit margin of garments business was under pressure and diminished. To cope with the soared cost of sales, we have implemented certain cost control measures and restructuring initiatives that have successfully reduced the selling and administrative expenses in total by HK\$5.3 million to HK\$197 million (for the six months ended 30 June 2020: HK\$202 million). Profit for the period was HK\$61.4 million comparing to the loss in last year same period of HK\$11.7 million. The Group achieved an encouraging result with a positive operation profit and it affirmed the strategy and development we are undertaking.

Geographically, revenue derived from China in the first six months in 2021 has increased by 61.3% to HK\$708.9 million, represented 58.6% of total revenue (for the six months ended 30 June 2020: HK\$439.5 million, represented 42.3% of total revenue). Export sales to South-east Asia countries (included in others) increased while the sales to the USA and European countries have not yet recovered to the pre-pandemic levels.

Other gains and losses for the period was HK\$83.6 million (for the six months ended 30 June 2020: HK\$18.4 million), which mainly included the fair value gain from investment properties of HK\$72.3 million (for the six months ended 30 June 2020: HK\$12.1 million). The gain in both periods were mainly attributed from the booming market price of the property in Hong Kong.

In terms of expenses, both administrative expenses and selling expense decreased in total of HK\$5.3 million, or by 2.6% to HK\$197 million (for the six months ended 30 June 2020: HK\$202 million) despite the 16.6% increase in revenue. The decrease was mainly attributable to lean management and operation enhancement.

The Group recorded income tax expenses of HK\$18.6 million (for the six months ended 30 June 2020: HK\$10.8 million), which comprised of deferred tax of HK\$12.9 million incurred related to fair value gain from investment property (for the six months ended 30 June 2020: HK\$2.1 million).

Basic earnings per share for the period ended 2021 improved to HK\$0.20 as compared to basic loss per share HK\$0.04 for same period ended in 2020. Net asset value per share improved slightly from HK\$9.39 as of 31 December 2020 to HK\$9.83 as of 30 June 2021.

SEGMENT INFORMATION

The segment information for the six months ended 30 June 2021 is as follows:

	Revenue		Contribution	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities:				
Manufacturing and trading of garments	1,149,467	882,689	12,921	(12,966)
Brand business	9,722	13,445	(1,309)	(15,311)
Property investment and development	50,988	141,924	12,036	29,591
	1,210,177	1,038,058	23,648	1,314

By geographical segments:

China	708,905	439,467	23,072	17,683
United States of America	208,158	287,015	296	(25,244)
Europe	128,052	141,411	(408)	5,473
Others	165,062	170,165	688	3,402
	1,210,177	1,038,058	23,648	1,314

Manufacturing and trading of garments

The Group's revenue increased by HK\$266.7 million, or 30.22% as compared with the revenue of 2020. This appraised to the Group's agile response to re-design our market focus to China and Asia against the tumultuous and rapidly changing market. This enabled us to rapidly catch up with the budgeted orders from existing and new customers after recovery from the pandemic.

The Group has invested significant resources in sustainable design and development across fashion production processes, and is highly recognized by our customers in China and overseas. We provided our customers with more innovative and comprehensive product development, design and services. Furthermore, with improved lean management, we have been able to lower production costs and to work seamlessly with our supply chain as an ecosystem and optimize the work flows in order to improve operating profitability.

Segment profit from garments manufacturing and trading in the first six months of 2021 was HK\$12.9 million, elevated by 199.65% from loss of HK\$13.0 million in the same period of 2020.

Brand business

As mentioned in the audited report of 2020, the Group will continue to scale down the retail brand business. Sales of HK\$9.7 million and net loss of HK\$1.3 million for the first six months in 2021 mainly attributed to internet orders and few legacy expenses.

Property investment and development

Revenue from property investment and development business in the first six months in 2021 was HK\$51.0 million while revenue recorded in last period in 2020 of HK\$141.9 million.

The Group is now expanding on the project size of WL District, the creative and innovative space, and continues to improve tenant mix by attracting high-quality organizations to our projects. The developing site in WL District in Xiaoshan allows the Group to build advance factory plants and to expand the Group's production capacity, while the rest of the sites will be developed as units for leasing.

The Group's quality property investment and development portfolio will continue to create high value to the Group and will continue to provide stable income for the Group.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

High Fashion has long recognized the importance of environmental conservation and our corporate social responsibility in building a better world for future generations. Ecologic sustainability and traceability have continued to be one of our prime initiatives. With a decade of continuous effort in sustainability promotion, we also celebrate our traceable accomplishments for the 4-year sustainability goals we started in 2016 on better products, lower impacts and more admirable workplace. Multiple sustainability strategies and sustainable practices were put into action. Passion on fashion sustainability is embedded into our Company's culture and we will carry on to promote sustainability and to become a role model in fashion manufacturing industry.

We committed to the execution of our sustainability initiatives and valued the Board's oversight and its overall responsibility in the environmental, social and governance ("ESG") strategy and implementation. The set up of a ESG Committee was approved by the Board to formulate the ESG goals, monitor and report the ESG projects to the Risk Management Committee ("RMC"). The RMC mainly comprised of our independent non-executive directors who are responsible to oversee the adequacy and effectiveness of the Group's ESG policies and identify the related risks and opportunities to the Board. We believe that the adoption of a comprehensive Board governance structure framework can ensure the effectiveness in promoting relevant measures in light of the evolving sustainability landscape.

We are honored to receive a number of international certifications in recent years for our efforts in advocating sustainability. In 2020, our office in Dongguan has been awarded the Gold Label of Low Carbon Manufacturing Programme ("LCMP") Certification by the World Wide Fund for carbon emissions accomplishment. During the first half of 2021, our Hangzhou office has obtained a certification from FSC Certification from SGS S.A. as well as the Sustainable Viscose Chain of Custody Standard Certification from Control Union Certifications B.V. to certify that our raw materials are acquired from well-managed forests and the manufacturing process does not endanger the forests from de-forestation.

Other than the above, to combat with COVID-19, we ensured the health of employees through adopting flexible working arrangements and arranged regular disinfection across all operations and premises. We were awarded the “Fighting COVID-19, Promoting Development, Stabilizing Employment, Discharging Social Responsibilities” Excellent Enterprise by the Hangzhou Municipal Government. Apart from internal stakeholders, we further spread our support to the society through co-operation with different charity organizations by provision of over 9,000 meters of woven fabrics to facilitate the production of more than 50,000 washable masks which were donated to vulnerable members amidst the pandemic.

Following our great success in achieving our 2020 Sustainability Goals, we move a step forward to set the new 2020-2024 5-Year Sustainability Goals with the addition of goals for our community. We aim to apply more sustainable and recyclable materials in our production and reduce further on carbon footprints, fashion waste and hazardous emissions to the environment. We also set both qualitative and quantitative goals to provide a safe and supportive working environment with comprehensive training to our employees, and make positive contribution to our community through volunteering work and nurturing talents in our industry. We have provided more than twenty thousand hours of training to our employees in the past year. We believe that our contribution in sustainability will allow us to be a role model and continue to bring synergistic effect to the industry.

For more details in our ESG work and goals, please refer to our 2020 Environmental, Social and Governance Report.

LIQUIDITY AND FINANCIAL RESOURCES

The Group’s total cash and cash equivalent and current bank deposits was HK\$1,310 million at 30 June 2021, compared to HK\$1,330 million at 31 December 2020. Bank borrowings, mainly dominated in Hong Kong Dollar has increased slightly from HK\$1,710 million at 31 December 2020 to HK\$1,720 million at 30 June 2021. The bank borrowings were mainly for certain properties construction, development projects and fixed assets investments to develop and upgrade the manufacturing plants in Mainland China. The gearing ratio of non-current liabilities to shareholders’ funds was 49% and 48% respectively as of both 30 June 2021 and 31 December 2020. Current ratio improved slightly at 1.7 (31 December 2020: 1.6).

During the period ended 30 June 2021, the Group generates net cash outflow of HK\$1.8 million from operation. Despite of this, there is sufficient banking facilities provided by its bankers. Together with the stable income from the owned properties, the Group is able to maintain a healthy working capital and liquidity to meet operation needs and future growth.

FOREIGN CURRENCY RISK EXPOSURE

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. Short-term foreign currency exchange contracts are used, whereas appropriate, to manage the speculating of rising prices of RMB. However, as HKD is pegged to the USD, the Group considers that its foreign currency risk in respect of USD is minimal.

CHARGES ON ASSETS

Barring the pledge of a property in Hong Kong of HK\$1,347 million (at 31 December 2020: HK\$1,289 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\$76.4 million in order to upgrade the manufacturing capabilities and improve the environmental protection facilities during the period. The Group also injects HK\$61.9 million into certain properties construction and development projects during the reporting period.

CONTINGENT LIABILITIES

Please refer to note 12 to the condensed consolidated financial statements for details of contingent liabilities as of 30 June 2021.

HUMAN RESOURCES

As of 30 June 2021, the Group had approximately 5,100 employees (31 December 2020: 5,400). Management of the Group made much account of staff training in order to equip the staff with the right knowledge. Both face-to-face and online staff trainings were held. The Group evaluates its staff according to their performance, qualifications and industry practices. Furthermore, we offer competitive remuneration packages including medical subsidies and retirement scheme contributions to the employees in compensation of their contribution. In addition, discretionary bonuses may also be granted to the eligible employees based on the Group's and individuals' performance.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 2 HK cents per share for the six months ended 30 June 2021 (six months ended 30 June 2020: nil) on the shares in issue amounting to approximately HK\$6,112,000 (six months ended 30 June 2020: nil), to the shareholders whose names appear on the Register of Members on Friday, 24 September 2021. The dividend will be payable on Friday, 15 October 2021.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, 23 September 2021 to Friday, 24 September 2021, 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 interim dividend, all transfer forms 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, 21 September 2021.

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 Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the accounting period for the six months ended 30 June 2021, except for the following deviations as described below:

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 D.1.4

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

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

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company has reviewed the Group’s unaudited condensed consolidated financial information and the interim report of the Company for the six months ended 30 June 2021 (the “2021 Interim Report”).

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

During the six months ended 30 June 2021, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s listed securities.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The 2021 Interim Report will be despatched to the shareholders of the Company and available on the above websites in due course.

By Order of the Board
High Fashion International Limited
Lam Gee Yu, Will
Executive Director & Managing Director

Hong Kong, 30 August 2021

As at the date of this announcement, the Board comprises of (1) Executive Directors: Mr. Lam Foo Wah, Mr. Lam Gee Yu, Will, Mr. Lam Din Yu, Well and Ms. So Siu Hang, Patricia; (2) Non-executive Director: Mr. Hung Ka Hai, Clement; and (3) Independent Non-executive Directors: Professor Yeung Kwok Wing, Mr. Leung Hok Lim and Mr. Chung Kwok Pan.