



High Fashion International Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 608)

asara.

Interim Report
2008

smooth. silky. sophistication.



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The net profit attributable to shareholders for the six months ended 30 June 2008 was HK\$41.6 million. The Board of Directors declared an interim dividend of HK 3 cents per share for the six months ended 30 June 2008.

The global credit crunch triggered by the US subprime mortgage crisis, the fluctuations in US dollars and Euros, the significant appreciation of RMB in the first half year, the soaring energy prices and inflation worldwide, the introduction of new labour laws and the rising labour costs in China, all contribute to the complexity and difficulty of the business environment. Noticeably, major markets around the world are weakening and a further economic slowdown is generally expected. Although it has been over a year since the onset of the US subprime mortgage crisis, the impact is so intense that it has still been felt today. We believe that the global economy, including that of China, will continue to move forward after consolidation. However, we are unable to predict when the economy as a whole will turnaround. In anticipation of the continuing unstable economic outlook, we have further strengthened our productivity and efficiency. We have further maintained close working relation with our well established international customers to weather the challenges ahead and capture any emerging business opportunities.

In 2007, the Group took the optimal timing to enhance its overall financial strengths to meet our long-term development requirements. All along, we have been adopting a proactive and prudent approach in financial management.

We analyse our future demand for various currencies based on our business development. Thanks to the support from our bankers by arranging the necessary financing facilities, our financial position has been greatly enhanced. As at the balance sheet date, the Group's bank borrowing amounted to HK\$1,400 million. The Group's net bank borrowings after netting off cash and bank balances and structured deposits remained at a healthy level of about HK\$300 million.

With healthy financials, solid fundamentals and operational capabilities, we will continue to take various initiatives to take the Group forward as planned. We will continue to pursue our mission as “The World No. 1 Silk Fashion Apparel Leader” to create value to satisfy customers’ needs and to secure new business opportunities for future sustainable growth.

I would like to take this opportunity to express our gratitude to shareholders, customers, suppliers and my fellow Directors for their support. I would also like to thank the staff from various regions for their dedication and contribution in achieving the corporate goals.

Lam Foo Wah

Chairman

Hong Kong, 16 September 2008

Results

Turnover for the six months ended 30 June 2008 increased to HK\$1.4 billion, up 7%. The subprime crisis, Renminbi appreciation, inflation and the new labour law in China have a significant impact on the Group's earning, resulting in a drop in net profit attributable to shareholders for the six months ended 30 June 2008 of HK\$41.6 million from HK\$52.3 million (excluding a net gain on partial disposal of a subsidiary of HK\$250.5 million) of last corresponding period. Basic earnings per share were HK12.66 cents. Net asset value per share was HK\$5.2.

Review of Operations

The segmental information is as follows:–

| | Revenue | | Contribution | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 |
| By principal activity: | | | | |
| Manufacturing and trading | 1,244,566 | 1,167,778 | 114,244 | 84,189 |
| Retailing | 167,645 | 148,908 | (8,738) | (4,395) |
| | 1,412,211 | 1,316,686 | 105,506 | 79,794 |
| By geographical segments: | | | | |
| USA | 872,159 | 910,713 | 74,376 | 60,743 |
| Europe | 225,632 | 182,885 | 13,567 | 6,056 |
| Greater China | 262,863 | 197,010 | 12,293 | 10,113 |
| Others | 51,557 | 26,078 | 5,270 | 2,882 |
| | 1,412,211 | 1,316,686 | 105,506 | 79,794 |

Review of Operations *(Continued)*

The Group recorded a healthy growth in both revenue and contribution for our core manufacturing and trading business when compared with last corresponding period. The profit for the first half of 2008 included a fair value gain on investment properties of HK\$9.3 million (2007: HK\$3.4 million).

Geographically, the United States continued to be the Group's major export market, accounting for 62% of turnover for 2008. Our branded business, August Silk accounted for 22% (2007: 21%) of the Group's turnover. August Silk's operation reported profit for two consecutive periods.

Sales to the European market contributed 16% (2007: 14%) of total turnover for 2008, an encouraging sign of improvement in our geographical segmentation for a well-balance business portfolio. We will intensify our business activities through aggressive marketing strategies to enhance our market share in Europe.

The turnover of retailing amounted to HK\$168 million, increasing by 13% when compared with 2007. The loss on retailing was mainly from a fall in gross profit margin when executing stock clearance exercise. The retailing business recorded a net operating loss of HK\$8.7 million for 2008 (2007: HK\$4.4 million).

Liquidity and Financial Resources

The Group's total outstanding bank borrowings were increased to HK\$1,404 million at the balance sheet date compared to HK\$858 million as at 31 December 2007. The increase in bank borrowing was mainly due to our hedging facilities arrangement during the period. Our gearing ratio of non-current liabilities to shareholders' funds was 29% at the balance sheet date. Current ratio maintained at a healthy level of 1.7.

Liquidity and Financial Resources *(Continued)*

The Group's total cash and bank balances were HK\$960 million at the balance sheet date compared to HK\$672 million as at 31 December 2007. Based on the comfortable cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet the operating needs.

The Group's trade receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. The Group has taken conservative approach to handle foreign currency risk with adequate hedging reserve. The Group had no borrowings at fixed interest rates during the period.

The Group has no material contingent liabilities. Barring the pledge of trade receivables of certain subsidiaries of HK\$78 million, there were no charges on the Group's assets.

Tax Audit

The Inland Revenue Department initiated a tax audit on certain group companies in February 2006 for the years of assessment from 1999/2000 onwards. The management is of the opinion that, in all the years, adequate Hong Kong tax provision were made on the Hong Kong sourced income. Since the tax audit is still at a fact-finding stage, the outcome of the tax audit cannot be readily ascertained. After consulting with professional advisers, the management is of the opinion that the existing provisions are adequate.

Human Resources

The total number of employees of the Group including jointly-controlled entities as at the balance sheet date was about 12,000. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the period.

Capital Expenditure

The Group entered into construction contracts to construct the production complex and living quarters at the Xiaoshan district in Hangzhou leading to the increase in the construction in progress by HK\$108 million in this financial period. Except for the above, there was no material capital expenditure during the period.

Condensed Consolidated Financial Statements

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The Board of Directors (the "Board") of High Fashion International Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2008 together with the comparative figures.

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

| | | Six months ended 30 June | |
|----------------------------------------------------------|-------|---------------------------------|-----------------------------------------------|
| | | 2008 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 (restated) |
| | Notes | | |
| REVENUE | | 1,412,211 | 1,316,686 |
| Cost of sales | | (1,040,580) | (940,003) |
| | | <hr/> | <hr/> |
| Gross profit | | 371,631 | 376,683 |
| Other income | | 81,681 | 17,673 |
| Gain on partial disposal of shares in a subsidiary | | – | 250,518 |
| Increase in fair value of investment properties | | 9,320 | 3,418 |
| Administrative expenses | | (182,371) | (158,104) |
| Selling and distribution expenses | | (174,755) | (159,876) |
| Finance costs | 4 | (33,313) | (18,064) |
| Change in fair value of derivative financial instruments | | (16,459) | – |
| Change in fair value of structured deposits | | 3,593 | – |
| Share of (loss) profit of jointly controlled entities | | (1,294) | 889 |
| | | <hr/> | <hr/> |
| PROFIT BEFORE TAXATION | | 58,033 | 313,137 |
| Income tax expense | 5 | (20,425) | (10,345) |
| | | <hr/> | <hr/> |
| PROFIT FOR THE PERIOD | 6 | 37,608 | 302,792 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Condensed Consolidated Financial Statements

High Fashion International Limited
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Condensed Consolidated Income Statement (Continued)

For the six months ended 30 June 2008

| | Notes | Six months ended 30 June | |
|-------------------------------|-------|---------------------------------|-----------------------------------------------|
| | | 2008 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 (restated) |
| Attributable to | | | |
| Equity holders of the Company | | 41,573 | 302,792 |
| Minority interests | | (3,965) | — |
| | | 37,608 | 302,792 |
| DIVIDENDS | | | |
| Interim | 7 | 9,723 | 16,573 |
| Special | | — | 33,147 |
| | | 9,723 | 49,720 |
| EARNINGS PER SHARE | | | |
| Basic | 8 | HK12.66 cents | HK90.75 cents |
| Diluted | | N/A | HK90.71 cents |

Condensed Consolidated Financial Statements

High Fashion International Limited
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Condensed Consolidated Balance Sheet

At 30 June 2008

| | Notes | 30 June 2008 (Unaudited) HK\$'000 | 31 December 2007 (Audited) HK\$'000 |
|----------------------------------------------|-------|--------------------------------------------|----------------------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 867,604 | 733,011 |
| Prepaid lease payments | | 79,223 | 76,207 |
| Investment properties | 9 | 110,000 | 85,920 |
| Goodwill | | 29,978 | 23,808 |
| Intangible assets | | 10,248 | 11,094 |
| Investments in associates | | – | – |
| Investments in jointly controlled entities | | 19,438 | 19,537 |
| Available-for-sale investments | | 675 | 675 |
| Loan receivable | 10 | 22,727 | – |
| Structured deposit | 11 | 22,727 | – |
| Deferred tax assets | | 5,411 | 6,347 |
| Deposit for acquisition of land use right | | 18,148 | 17,172 |
| | | 1,186,179 | 973,771 |
| CURRENT ASSETS | | | |
| Inventories | | 381,834 | 407,756 |
| Trade receivables | 12 | 327,344 | 328,431 |
| Bills receivable | | 41,192 | 59,997 |
| Prepaid lease payments | | 2,487 | 1,441 |
| Deposits, prepayments and other receivables | 13 | 556,178 | 508,446 |
| Amounts due from jointly controlled entities | | 6,712 | 10,014 |
| Tax recoverable | 5 | 48,476 | 32,382 |
| Derivative hedging instruments | | 277,460 | 317,254 |
| Structured deposits | 11 | 103,594 | – |
| Pledged bank deposits | | 114 | 108 |
| Bank balances and cash | | 960,185 | 671,676 |
| | | 2,705,576 | 2,337,505 |

Condensed Consolidated Financial Statements

High Fashion International Limited
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Condensed Consolidated Balance Sheet (Continued)

At 30 June 2008

| | Notes | 30 June 2008 (Unaudited) HK\$'000 | 31 December 2007 (Audited) HK\$'000 |
|----------------------------------------------|-------|--------------------------------------------|----------------------------------------------|
| CURRENT LIABILITIES | | | |
| Trade payables | 14 | 275,701 | 296,077 |
| Bills payable | | 1,627 | 4,468 |
| Other payables and accruals | | 172,989 | 176,707 |
| Amount due to an associate | | 594 | 597 |
| Amount due to a jointly controlled entity | | 1,243 | – |
| Tax payable and provision | | 128,261 | 116,663 |
| Derivative financial instruments | | 33,965 | 17,506 |
| Derivative hedging instruments | | 2,317 | 1,400 |
| Obligations under finance leases | | 177 | 337 |
| Bank borrowings | 15 | 1,009,288 | 374,167 |
| Bank overdrafts | | 619 | 599 |
| | | <hr/> | <hr/> |
| | | 1,626,781 | 988,521 |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 1,078,795 | 1,348,984 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,264,974 | 2,322,755 |
| | | <hr/> | <hr/> |

Condensed Consolidated Financial Statements

High Fashion International Limited
Interim Report 2008

Condensed Consolidated Balance Sheet (Continued)

At 30 June 2008

| | Notes | 30 June 2008 (Unaudited) HK\$'000 | 31 December 2007 (Audited) HK\$'000 |
|------------------------------------------------------|-------|--------------------------------------------|----------------------------------------------|
| NON-CURRENT LIABILITIES | | | |
| Obligations under finance leases | | 177 | 231 |
| Bank borrowings | 15 | 394,600 | 483,000 |
| Deferred tax liabilities | | 96,701 | 89,564 |
| Provision for long service payments | | 797 | 929 |
| | | <u>492,275</u> | <u>573,724</u> |
| | | 1,772,699 | 1,749,031 |
| CAPITAL AND RESERVES | | | |
| Share capital | 16 | 32,658 | 32,881 |
| Share premium and reserves | | 1,662,110 | 1,626,511 |
| | | <u>1,694,768</u> | <u>1,659,392</u> |
| Equity attributable to equity holders of the Company | | 77,931 | 89,639 |
| Minority interests | | | |
| | | <u>1,772,699</u> | <u>1,749,031</u> |
| TOTAL EQUITY | | 1,772,699 | 1,749,031 |

Condensed Consolidated Financial Statements

High Fashion International Limited
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Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|----------------------------------------------------------------------|-----------------------------------------------|-----------------------------------|---------------------------------|---------------------------------------|-------------------------------------------------------|----------------------------------------|-----------------------------|-----------------------------------------|---------------------------------|-------------------|--------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium account HK\$'000 | Translation reserve HK\$'000 | Reserve funds HK\$'000 (Note i) | Property revaluation reserve HK\$'000 (Note ii) | Capital redemption reserve HK\$'000 | Hedging reserve HK\$'000 | Other reserve HK\$'000 (Note iii) | Accumulated profits HK\$'000 | Total HK\$'000 | Minority interests HK\$'000 | Total HK\$'000 |
| At 1 January 2008 (audited) | 32,881 | 290,822 | 107,928 | 14,101 | 9,707 | 5,351 | 315,854 | 39,853 | 842,895 | 1,659,392 | 89,639 | 1,749,031 |
| Loss on fair value changes on cash flow hedges | - | - | - | - | - | - | (9,526) | - | - | (9,526) | 2,096 | (7,430) |
| Exchange difference arising on translation | - | - | 81,282 | - | - | - | - | - | - | 81,282 | 1,795 | 83,077 |
| Share of reserve of jointly controlled entities | - | - | 1,079 | - | - | - | - | - | - | 1,079 | - | 1,079 |
| Surplus on revaluation of properties | - | - | - | - | 11,700 | - | - | - | - | 11,700 | - | 11,700 |
| Deferred taxation arising on surplus on revaluation of properties | - | - | - | - | (1,930) | - | - | - | - | (1,930) | - | (1,930) |
| Net income (expense) recognised directly in equity | - | - | 82,361 | - | 9,770 | - | (9,526) | - | - | 82,605 | 3,891 | 86,496 |
| Profit for the period | - | - | - | - | - | - | - | - | 41,573 | 41,573 | (3,965) | 37,608 |
| Transfer to profit or loss on cash flow hedges | - | - | - | - | - | - | (33,282) | - | - | (33,282) | - | (33,282) |
| Total recognised income and expense for the period | - | - | 82,361 | - | 9,770 | - | (42,808) | - | 41,573 | 90,896 | (74) | 90,822 |

Condensed Consolidated Financial Statements

High Fashion International Limited
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Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2008

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------------------------|------------------------------------|------------------------------------------|-------------------------------------------------------------|----------------------------------------------|--------------------------------|--------------------------------------------|------------------------------------|-------------------|-----------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium account HK\$'000 | Translation reserve HK\$'000 | Reserve funds HK\$'000 (Note i) | Property revaluation reserve HK\$'000 (Note ii) | Capital redemption reserve HK\$'000 | Hedging reserve HK\$'000 | Other reserve HK\$'000 (Note iii) | Accumulated profits HK\$'000 | Total HK\$'000 | Minority interests HK\$'000 | Total HK\$'000 |
| Decrease in minority interest as a result of acquisition of additional interests in subsidiaries | - | - | - | - | - | - | - | - | - | - | (11,634) | (11,634) |
| Repurchase of shares, including direct costs | (223) | (1,979) | - | - | - | 223 | - | - | (4,407) | (6,386) | - | (6,386) |
| Final dividend paid | - | - | - | - | - | - | - | - | (16,378) | (16,378) | - | (16,378) |
| Special dividend paid | - | - | - | - | - | - | - | - | (32,756) | (32,756) | - | (32,756) |
| | (223) | (1,979) | - | - | - | 223 | - | - | (53,541) | (55,520) | (11,634) | (67,154) |
| At 30 June 2008 (unaudited) | 32,658 | 288,843 | 190,289 | 14,101 | 19,477 | 5,574 | 273,046 | 39,853 | 830,927 | 1,694,768 | 77,931 | 1,772,699 |
| At 1 January 2007 (audited) | 33,416 | 296,041 | 30,425 | 5,733 | - | 4,714 | 6,513 | 39,853 | 372,193 | 788,888 | 6,019 | 794,907 |
| Gain on fair value changes on cash flow hedges | - | - | - | - | - | - | 114,294 | - | - | 114,294 | - | 114,294 |
| Exchange difference arising on translation | - | - | 26,069 | - | - | - | - | - | - | 26,069 | - | 26,069 |
| Net income recognised directly in equity | - | - | 26,069 | - | - | - | 114,294 | - | - | 140,363 | - | 140,363 |
| Profit for the period | - | - | - | - | - | - | - | - | 302,792 | 302,792 | - | 302,792 |
| Transfer to profit or loss on cash flow hedges | - | - | - | - | - | - | (6,513) | - | - | (6,513) | - | (6,513) |
| Total recognised income for the period | - | - | 26,069 | - | - | - | 107,781 | - | 302,792 | 436,642 | - | 436,642 |

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2008

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------|------------------------------------|------------------------------------------|-------------------------------------------------------------|----------------------------------------------|--------------------------------|--------------------------------------------|------------------------------------|-------------------|-----------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium account HK\$'000 | Translation reserve HK\$'000 | Reserve funds HK\$'000 (Note i) | Property revaluation reserve HK\$'000 (Note ii) | Capital redemption reserve HK\$'000 | Hedging reserve HK\$'000 | Other reserve HK\$'000 (Note iii) | Accumulated profits HK\$'000 | Total HK\$'000 | Minority interests HK\$'000 | Total HK\$'000 |
| Decrease in minority interest as a result of acquisition of additional interests in subsidiaries | - | - | - | - | - | - | - | - | - | - | (5,219) | (5,219) |
| Increase in minority interest as a result of partial disposal of subsidiaries | - | - | - | - | - | - | - | - | - | - | 24,849 | 24,849 |
| Exercise of share options | 102 | 413 | - | - | - | - | - | - | - | 515 | - | 515 |
| Repurchase of shares, including direct costs | (106) | (936) | - | - | - | 106 | - | - | (755) | (1,691) | - | (1,691) |
| Final dividend paid | - | - | - | - | - | - | - | - | (23,390) | (23,390) | - | (23,390) |
| | (4) | (523) | - | - | - | 106 | - | - | (24,145) | (24,566) | 19,630 | (4,936) |
| At 30 June 2007 (unaudited) | 33,412 | 295,518 | 56,494 | 5,733 | - | 4,820 | 114,294 | 39,853 | 650,840 | 1,200,964 | 25,649 | 1,226,613 |

Notes:

- (i) As stipulated by the relevant People's Republic of China ("PRC") laws and regulations, before distribution of the profit each year, the subsidiaries established in the PRC with limited liability shall set aside 10% of their profit to the statutory surplus reserve. The statutory surplus reserve can only be used upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.
- (ii) Property revaluation reserve represents the revaluation reserve arising upon the transfer of owner-occupied property and respective prepaid lease payments to investment property, net of deferred tax. The property revaluation reserve will be transferred to accumulated profits when the relevant properties are disposed of.
- (iii) Other reserve represents capitalisation of accumulated profits of a subsidiary as capital contribution to another subsidiary.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

| | Six months ended 30 June | |
|--------------------------------------------------------|---------------------------------|---------------------------------|
| | 2008 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 |
| Net cash from operating activities | <u>64,869</u> | <u>77,149</u> |
| Net cash (used in) from investing activities: | | |
| Purchases of property, plant and equipment | (149,138) | (167,028) |
| Acquisition of additional interests in subsidiaries | (17,804) | – |
| Repayment from jointly controlled entities | 3,302 | 7,634 |
| Proceeds on partial disposal of shares in a subsidiary | – | 303,203 |
| Increase in loan receivable | (22,727) | – |
| Increase in structured deposits | (122,728) | – |
| Deposit on land use rights | – | (17,172) |
| Interest received | 32,070 | 2,436 |
| Other investing cash flows | <u>2,096</u> | <u>885</u> |
| | <u>(274,929)</u> | <u>129,958</u> |

Condensed Consolidated Financial Statements

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Condensed Consolidated Cash Flow Statement *(Continued)*

For the six months ended 30 June 2008

| | Six months ended 30 June | |
|------------------------------------------------------|---------------------------------|---------------------------------|
| | 2008 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 |
| Net cash from (used in) financing activities: | | |
| New bank borrowing raised | 806,304 | 286,963 |
| Repayment of bank borrowings | (261,923) | (295,429) |
| Interest paid | (28,749) | (13,724) |
| Dividend paid | (49,134) | (23,390) |
| Payment for repurchase of shares | (6,386) | (1,691) |
| Other financing cash flows | (337) | (4,013) |
| | <hr/> | <hr/> |
| | 459,775 | (51,284) |
| | <hr/> | <hr/> |
| Net increase in cash and cash equivalents | 249,715 | 155,823 |
| Cash and cash equivalents at beginning of the period | 671,077 | 218,075 |
| Effect of foreign exchange rate changes, net | 38,774 | 25,533 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period | 959,566 | 399,431 |
| | <hr/> | <hr/> |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances and cash | 960,185 | 399,505 |
| Bank overdrafts | (619) | (74) |
| | <hr/> | <hr/> |
| | 959,566 | 399,431 |
| | <hr/> | <hr/> |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

1. Basis of Preparation

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

2. Principal Accounting Policies

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007, except for the accounting policies set out below:

Financial assets at fair value through profit or loss (“FVTPL”)

The Group designated structured deposits as financial assets at FVTPL upon initial recognition as the structured deposits contain embedded derivatives, and HKAS 39 permits the entire combined contract to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest earned on the financial assets.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

2. Principal Accounting Policies *(Continued)*

In the current interim period, the Group has applied, for the first time, the following new interpretations (“New Interpretations”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1 January 2008.

| | |
|--------------------|----------------------------------------------------------------------------------------------------|
| HK(IFRIC) – INT 11 | HKFRS 2 – Group and treasury share transactions |
| HK(IFRIC) – INT 12 | Service concession arrangements |
| HK(IFRIC) – INT 14 | HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction |

The adoption of the New Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|--------------------------|------------------------------------------------------------------------------------|
| HKAS 1 (Revised) | Presentation of financial statements ¹ |
| HKAS 23 (Revised) | Borrowing costs ¹ |
| HKAS 27 (Revised) | Consolidated and separate financial statements ² |
| HKAS 32 & 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation ¹ |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations ¹ |
| HKFRS 3 (Revised) | Business combinations ² |
| HKFRS 8 | Operating segments ¹ |

Notes to the Condensed Consolidated Financial Statements *(Continued)*

2. Principal Accounting Policies *(Continued)*

| | |
|--------------------|----------------------------------------------------------------|
| HK(IFRIC) – INT 13 | Customer loyalty programmes ³ |
| HK(IFRIC) – INT 15 | Agreements for the construction of real estate ¹ |
| HK(IFRIC) – INT 16 | Hedges of a net investment in a foreign operation ⁴ |

¹ Effective for accounting periods beginning on or after 1 January 2009.

² Effective for accounting periods beginning on or after 1 July 2009.

³ Effective for accounting periods beginning on or after 1 July 2008.

⁴ Effective for accounting periods beginning on or after 1 October 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

Notes to the Condensed Consolidated Financial Statements (Continued)

3. Segment information

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions – (i) manufacture and trading of garments and (ii) retailing of garments. These divisions are the basis on which the Group reports its primary segment information.

Condensed consolidated income statement for the six months ended 30 June 2008 (unaudited)

| | Manufacture and trading of garments HK\$'000 | Retailing of garments HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|----------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------|---------------------------------|---------------------------------|
| REVENUE | | | | |
| External sales | 1,244,566 | 167,645 | – | 1,412,211 |
| Inter-segment sales (note) | – | 7,613 | (7,613) | – |
| Total | <u>1,244,566</u> | <u>175,258</u> | <u>(7,613)</u> | <u>1,412,211</u> |
| RESULT | | | | |
| Segment result | <u>90,184</u> | <u>(9,437)</u> | | 80,747 |
| Unallocated other income | | | | 81,681 |
| Unallocated corporate expenses | | | | (66,242) |
| Share of loss of jointly controlled entities | (633) | (661) | – | (1,294) |
| Increase in fair value of investment properties | | | | 9,320 |
| Change in fair value of derivative financial instruments | | | | (16,459) |
| Change in fair value of structured deposits | | | | 3,593 |
| Finance costs | | | | (33,313) |
| Profit before taxation | | | | <u>58,033</u> |
| Income tax expense | | | | (20,425) |
| Profit for the period | | | | <u><u>37,608</u></u> |

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

Notes to the Condensed Consolidated Financial Statements (Continued)

3. Segment information (Continued)

(a) Business segments (Continued)

Condensed consolidated income statement for the six months ended 30 June 2007 (unaudited)

| | Manufacture and trading of garments HK\$'000 | Retailing of garments HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|----------------------------------------------------|-------------------------------------------------------|--------------------------------------|--------------------------|--------------------------|
| REVENUE | | | | |
| External sales | 1,167,778 | 148,908 | – | 1,316,686 |
| Inter-segment sales (note) | – | 6,718 | (6,718) | – |
| Total | <u>1,167,778</u> | <u>155,626</u> | <u>(6,718)</u> | <u>1,316,686</u> |
| RESULT | | | | |
| Segment result | <u>123,222</u> | <u>(1,201)</u> | | 122,021 |
| Unallocated other income | | | | 17,673 |
| Unallocated corporate expenses | | | | (63,318) |
| Share of profit of jointly controlled entities | 889 | – | – | 889 |
| Increase in fair value of investment properties | | | | 3,418 |
| Gain on partial disposal of shares in a subsidiary | | | | 250,518 |
| Finance costs | | | | (18,064) |
| Profit before taxation | | | | 313,137 |
| Income tax expense | | | | (10,345) |
| Profit for the period | | | | <u>302,792</u> |

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

Notes to the Condensed Consolidated Financial Statements *(Continued)*

3. Segment information *(Continued)*

(b) Geographical segments

The Group's operations are located in the United States of America ("USA"), Europe, Greater China and other areas.

The following table provides an analysis of the Group's sale by geographical market, irrespective of the origin of the goods:

| | Six months ended 30 June | |
|---------------|---------------------------------|-----------------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| USA | 872,159 | 910,713 |
| Europe | 225,632 | 182,885 |
| Greater China | 262,863 | 197,010 |
| Others | 51,557 | 26,078 |
| | <hr/> 1,412,211 <hr/> | <hr/> 1,316,686 <hr/> |

Notes to the Condensed Consolidated Financial Statements *(Continued)*

4. Finance costs

Interest on:

Bank loans and overdrafts wholly repayable within five years

Finance leases

Factoring expenses

Bank charges

Six months ended 30 June

| 2008 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 |
|---------------------------------|---------------------------------|
| 28,749 | 13,724 |
| 21 | 25 |
| 1,347 | 1,205 |
| 3,196 | 3,110 |
| <hr/> | <hr/> |
| 33,313 | 18,064 |

Notes to the Condensed Consolidated Financial Statements (Continued)

5. Income tax expense

| | Six months ended 30 June | |
|--------------------------------------|---------------------------------|---------------------------------|
| | 2008 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 |
| Current tax charge: | | |
| Hong Kong | 1,394 | 1,820 |
| Other jurisdictions | 13,843 | 7,914 |
| Underprovision in prior years: | | |
| Other jurisdictions | 3,265 | – |
| | <hr/> 18,502 | <hr/> 9,734 |
| Deferred taxation | 2,446 | 611 |
| Attributable to a change in tax rate | (523) | – |
| | <hr/> 1,923 | <hr/> 611 |
| | <hr/> 20,425 | <hr/> 10,345 |

Notes to the Condensed Consolidated Financial Statements *(Continued)*

5. Income tax expense *(Continued)*

The Inland Revenue Department (“IRD”) initiated a tax audit on certain group companies for the years of assessment from 1999/2000 onwards. As a matter of IRD’s practice, the IRD has issued estimated additional assessments to these group companies for the years of assessment 1999/2000, 2000/2001 and 2001/2002. During the course of the tax audit, there may be a possibility that estimated additional assessments for subsequent years be issued by the IRD to these group companies.

At 30 June 2008, the Group has purchased tax reserve certificate of approximately HK\$48,476,000 (31 December 2007: HK\$32,382,000) for conditional standover order of objection against the notices of estimated additional assessment for the years of assessment 1999/2000, 2000/2001 and 2001/2002 and the amount is included in tax recoverable.

Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with any degree of accuracy. The management has in the current period followed the same basis for making provision as adopted in prior periods. In the opinion of the directors, the provisions so made are adequate for the purpose mentioned above.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30 June 2008. Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2007: 17.5%) for the six months ended 30 June 2008.

Taxation arising in other jurisdictions is recognised at the rates prevailing in the relevant jurisdictions for the six months ended 30 June 2008 and 2007.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

5. **Income tax expense** *(Continued)*

In accordance with the “Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax”, certain PRC subsidiaries of the Group are subjected to income tax rate of 26.4% (six months ended 30 June 2007: 26.4%) and are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years pursuant to the relevant laws and regulations in the PRC for both periods. The PRC enterprise income tax for these subsidiaries is calculated at 13.2% (six months ended 30 June 2007: 13.2%).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations have changed the tax rate from 33% to 25% from 1 January 2008. For those PRC subsidiaries which are subjected to income tax rate of 13.2% as mentioned above, the tax rate will change from 13.2% to 25% progressively. The remaining PRC subsidiaries are subjected to the PRC enterprise income tax rate of 25% (six months ended 30 June 2007: 33%).

Notes to the Condensed Consolidated Financial Statements (Continued)

6. Profit for the period

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

| | Six months ended 30 June | |
|---------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2008 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 |
| Depreciation and amortisation | | |
| Owned assets | 34,916 | 33,426 |
| Leased assets | 179 | 141 |
| Amortisation of trademarks (included in selling and distribution expenses) | 846 | 846 |
| Amortisation of prepaid lease payments | 1,172 | 1,282 |
| | 37,113 | 35,695 |
| Allowance for bad and doubtful debts (included in administrative expenses) | 8,727 | 8,260 |
| (Written back) allowance for inventory obsolescence (included in cost of sales) (Note i) | (1,428) | 3,332 |
| Net foreign exchange gain | (37,261) | (2,420) |
| Gain on derivative hedging instruments transferred from equity (included in revenue) (Note ii) | (32,564) | (6,513) |
| Gain on derivative hedging instruments transferred from equity (included in finance costs) | (718) | – |
| Investment income on loans and receivables – bank interest income | (19,020) | (2,436) |
| Investment income on derivative financial instruments | (13,050) | – |

Notes to the Condensed Consolidated Financial Statements *(Continued)*

6. Profit for the period *(Continued)*

Notes:

- (i) Excess obsolete inventory provisions are written back when the relevant inventories are sold.
- (ii) The amount was included in other income in the interim report for the six months ended 30 June 2007. Reclassification has been made in this interim report to conform with the current presentation of the condensed consolidated financial statements.

7. Dividends

The Board declared an interim dividend of HK3 cents per share for the six months ended 30 June 2008 (six months ended 30 June 2007: HK5 cents) on the shares in issue amounting to HK\$9,723,000 (six months ended 30 June 2007: HK\$16,573,000).

For the six months ended 30 June 2007, a special dividend of HK10 cents per share declared on the shares in issue amounting to HK\$33,147,000.

During the period, dividends of HK5 cents (six months ended 30 June 2007: HK7 cents) per share and HK10 cents (six months ended 30 June 2007: nil) per share were paid to the shareholders as a final dividend and a special dividend for 2007 (six months ended 30 June 2007: nil) respectively.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

8. Earnings per share

The calculation of basic and diluted earnings per share attributable to ordinary equity holders of the Company for the six months ended 30 June 2008 together with the comparative figures for 2007 are based on the following data:

| | Six months ended 30 June | |
|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------|
| | 2008 (Unaudited) HK\$'000 | 2007 (Unaudited) HK\$'000 |
| Profit for the purpose of basic and diluted earnings per share attributable to equity holders of the Company | 41,573 | 302,792 |
| | Number of shares | Number of shares |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 328,294,012 | 333,672,810 |
| Effect of dilutive potential ordinary shares assuming exercise of share options | N/A | 122,658 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | N/A | 333,795,468 |

There was no potential ordinary shares outstanding during the six months ended 30 June 2008.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

9. Movements in Property, Plant and Equipment and Investment Properties

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of approximately HK\$1,468,000 for proceeds of approximately HK\$1,338,000, resulting in a loss on disposal of approximately HK\$130,000.

In addition, the Group spent approximately HK\$149 million on the construction of its production complex and additions to its manufacturing plant in the PRC, in order to upgrade its manufacturing capabilities.

The fair value of the Group's investment properties at 30 June 2008 has been arrived at on the basis of a valuation carried out by Centaline Surveyors Ltd. ("Centaline Surveyors"), independent qualified professional valuers not connected with the Group. Centaline Surveyors are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The resulting increase in fair value of investment properties of HK\$9,320,000 (six months ended 30 June 2007: HK\$3,418,000) has been recognised directly in the condensed consolidated income statement.

During the period, certain properties classified as property, plant and equipment and prepaid lease payments were transferred to investment properties. The carrying amounts of these properties were HK\$3,060,000 in aggregate. The fair value of these properties as at the date of transfer was approximately HK\$14,760,000, which was assessed by Centaline Surveyors under the same basis as set out above. The difference between the carrying amount and the fair value of these properties was credited to the property revaluation reserve.

10. Loan Receivable

The amount represents a loan to an independent party. The amount will be recovered on 31 December 2010, unsecured and carries interest at prevailing market rate.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

11. Structured Deposits

Under the relevant agreements, the structured deposits contain embedded derivatives, the return of which is determined by reference to the change in certain exchange rates or interest rates quoted in the market.

Major terms of the structured deposits at 30 June 2008 are as follows:

| Principal amount | Maturity (Note i) | Annual coupon rate |
|---------------------------------|-------------------|------------------------------|
| Chinese Yuan ("CNY") 23,000,000 | 8 December 2008 | 6.5% or 0% (Note ii) |
| CNY 30,000,000 | 2 April 2009 | 4.68% or 0% (Note iii) |
| CNY 35,000,000 | 15 April 2009 | 4.8% or 0.1% or 0% (Note ii) |
| CNY 20,000,000 | 14 December 2009 | 6.3% or 0% (Note ii) |

Notes:

- (i) Subject to the option for early termination by issuing banks.
- (ii) The annual coupon rate is dependent on whether the spot rate for conversion of United States dollars for Hong Kong dollar as prevailing in the international foreign exchange market falls within ranges as specified in the relevant agreements during the period from inception dates to maturity dates of the relevant agreements.
- (iii) The annual coupon rate is dependent on whether the United States Dollar 3 months London Inter Bank Offered Rate falls within 0% to 8% during the period from inception date to maturity date.

At the balance sheet date, the structured deposits are stated at fair values based on valuation provided by counterparty. The fair values are calculated using discounted cash flow analyses based on the applicable yield curves of interest rates.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

12. Trade Receivables

The credit terms granted by the Group to its customers normally range from 30 days to 90 days.

The aged analysis of the Group's trade receivables net of allowance for doubtful debts at the balance sheet date is as follows:

| | 30 June 2008 (Unaudited) HK\$'000 | 31 December 2007 (Audited) HK\$'000 |
|-----------------|------------------------------------------------------|----------------------------------------------|
| Within 90 days | 306,021 | 310,871 |
| 91 to 180 days | 14,548 | 12,109 |
| 181 to 360 days | 6,262 | 4,491 |
| Over 360 days | 513 | 960 |
| | <hr/> 327,344 <hr/> | <hr/> 328,431 <hr/> |

13. Deposits, Prepayments and Other Receivables

Included in deposits, prepayments and other receivables was an amount of RMB328 million (equivalent to approximately HK\$377 million) (31 December 2007: RMB328 million (equivalent to approximately HK\$353 million)) of sales proceeds from disposal of property, plant and equipment and prepaid lease payment which are not yet received at the balance sheet date.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

14. Trade Payables

The following is an aged analysis of the trade payables at the balance sheet date:

| | 30 June 2008 (Unaudited) HK\$'000 | 31 December 2007 (Audited) HK\$'000 |
|-------------------|------------------------------------------------------|----------------------------------------------|
| Trade payables: | | |
| Within 90 days | 161,963 | 172,309 |
| 91 to 180 days | 17,158 | 5,880 |
| 181 to 360 days | 12,705 | 12,341 |
| Over 360 days | 16,166 | 12,997 |
| | <hr/> | <hr/> |
| Accrued purchases | 207,992 | 203,527 |
| | 67,709 | 92,550 |
| | <hr/> | <hr/> |
| | 275,701 | 296,077 |
| | <hr/> | <hr/> |

The average credit period on purchases of goods is 90 days.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

15. Bank Borrowings

During the period, the Group obtained several new bank loans from various banks amounting to HK\$806 million. The loans carry interest at market rates ranging from 2.65% to 5.48% per annum.

16. Share Capital

| | Number of shares '000 | Amount HK\$'000 |
|----------------------------------|--------------------------|--------------------|
| Ordinary shares of HK\$0.10 each | | |
| Issued and fully paid: | | |
| At 1 January 2008 | 328,816 | 32,881 |
| Shares repurchased and cancelled | (2,236) | (223) |
| | <u>326,580</u> | <u>32,658</u> |
| At 30 June 2008 | | |
| At 1 January 2007 | 334,162 | 33,416 |
| Exercise of share options | 1,020 | 102 |
| Share repurchased and cancelled | (1,056) | (106) |
| | <u>334,126</u> | <u>33,412</u> |
| At 30 June 2007 | | |

Notes to the Condensed Consolidated Financial Statements *(Continued)*

17. Capital Commitments

As at 30 June 2008, the Group was committed to capital expenditure of approximately HK\$100 million (31 December 2007: HK\$79 million) for acquisition of property, plant and equipment.

18. Related Party Transactions

The Group had the following transactions with related parties during the period:

| | Six months ended 30 June | |
|--------------------------------------------------------------------------------|---------------------------------|----------------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Purchases of raw materials and finished goods from jointly controlled entities | 15,859 | 47,926 |
| Sales of raw materials and finished goods to jointly controlled entities | 2,755 | – |
| Professional fees paid to Wilkinson & Grist (Note i) | 533 | 170 |
| Training fee paid to Clothing Industry Training Authority (Note ii) | 425 | 700 |
| Brokerage commission paid to Taifook Securities Co., Ltd. (Note iii) | 8 | 761 |
| Key management compensation (Note iv) | 6,128 | 10,825 |
| | <u>6,128</u> | <u>10,825</u> |

Notes to the Condensed Consolidated Financial Statements *(Continued)*

18. Related Party Transactions *(Continued)*

Notes:

- (i) Mr. Chan Wah Tip, Michael, a non-executive director of the Company, is a partner of Wilkinson & Grist.
- (ii) Professor Yeung Kwok Wing, a non-executive director of the Company, is a director of Clothing Industry Training Authority.
- (iii) Mr. Wong Shiu Hoi, Peter, an independent non-executive director of the Company, is a director of Taifook Securities Co., Ltd.
- (iv) The remuneration of directors and key executives were determined by the remuneration committee having regard to the performance of individuals and market trends.

19. Post Balance Sheet Event

Subsequent to the balance sheet date and up to the date of approval of these financial statements, the Company repurchased a total of 2,474,000 ordinary shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited in July and August of 2008 at market prices ranging from HK\$2.45 to HK\$2.7 per share resulting in an aggregate cash consideration of HK\$6,396,060. The above repurchased shares were cancelled in July and August of 2008.

Interim Dividend

The Board has resolved to declare an interim dividend of HK3 cents per share for the six months ended 30 June 2008 (six months ended 30 June 2007: interim dividend of HK5 cents and special dividend of HK10 cents) on the shares in issue amounting to HK\$9,723,000 (six months ended 30 June 2007 : interim dividend of HK\$16,573,000 and special dividend of HK\$33,147,000), to the shareholders whose names appear on the Register of Members on 10 October 2008. The dividend will be payable on or about 22 October 2008.

Closure of Register of Members

The Register of Members will be closed from Wednesday, 8 October 2008 to Friday, 10 October 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's sub-registrar and transfer agent in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Monday, 6 October 2008.

Code on Corporate Governance Practices

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Listing Rules throughout the accounting period for the six months ended 30 June 2008, except for the following deviation:

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Lam Foo Wah is the Chairman and Managing Director of the Company. The Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the benefit of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

Model Code For Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2008, and they all confirmed that they have fully complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions.

Purchase, Sale or Redemption of the Listed Securities of the Company

During the period, the Company repurchased a total of 2,236,000 shares (six months ended 30 June 2007: 1,236,000 shares) of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited as follows:

| Month | Number of shares | Price per share | | Total paid HK\$ |
|------------|------------------|-----------------|----------------|--------------------|
| | | Highest HK\$ | Lowest HK\$ | |
| April 2008 | 584,000 | 2.89 | 2.80 | 1,655,940 |
| May 2008 | 860,000 | 2.93 | 2.85 | 2,485,260 |
| June 2008 | 792,000 | 2.97 | 2.68 | 2,216,520 |
| | <u>2,236,000</u> | | | <u>6,357,720</u> |

Purchase, Sale or Redemption of the Listed Securities of the Company *(Continued)*

The above repurchased shares were cancelled during the period except 130,000 shares were cancelled in July 2008. The premium paid on the repurchase of the shares of HK\$6,134,120 (six months ended 30 June 2007: HK\$2,169,780) has been charged to the share premium account and accumulated profits. An amount equivalent to the par value of the shares cancelled has been transferred from the accumulated profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the period was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Review of Accounts

The Audit Committee of the Company, assisted by independent auditor, has reviewed the Group's unaudited condensed consolidated financial information and interim report for the six months ended 30 June 2008.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2008, the interests and short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

(i) Long Positions in the Company's Shares

| Name of Directors | Note(s) | Capacity | Nature of interests | Number of shares held | Percentage of the Company's issued capital (Note 3) |
|-----------------------|---------|------------------|---------------------|-----------------------|--------------------------------------------------------|
| Lam Foo Wah | 1, 2 | Other interest | Other | 143,719,986 | 43.99% |
| So Siu Hang, Patricia | | Beneficial owner | Personal | 2,824,309 | 0.86% |

(ii) Long Position in Shares of Associated Corporation

| Name of Director | Note | Name of associated corporation | Relationship with the Company | Capacity | Number of ordinary shares held | Percentage of the associated corporation's issued capital |
|------------------|------|--------------------------------|-------------------------------|-------------------------------------|--------------------------------|-----------------------------------------------------------|
| Lam Foo Wah | 4 | High Fashion Knitters Limited | Subsidiary | Interest of controlled corporations | 5,339,431 | 35.60% |

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 108,802,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
2. Mr. Lam Foo Wah is deemed to have an interest in 34,917,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
3. The issued share capital of the Company is 326,709,550 shares as at 30 June 2008.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 30 June 2008, none of the directors, chief executives of the Company nor their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the above mentioned Model Code of the Listing Rules.

Furthermore, save as disclosed in the "Share Option Schemes" section below, at no time during the six months ended 30 June 2008 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Schemes

(A) Share option schemes of the Company

As all options granted under the old share options scheme adopted by the Company on 18 March 1994 (the “Old Scheme”) were fully exercised in 2007, the Old Scheme was properly terminated.

On 26 March 2002, a new scheme (the “New Scheme”) was adopted by the shareholders of the Company, but without prejudice to any share options previously granted prior to such termination. There were no outstanding options at the beginning and at the end of the six months period ended 30 June 2008. No options were granted, exercised, cancelled or lapsed under the New Scheme during the period.

(B) Share option scheme of Theme International Holdings Limited (“Theme”)

Pursuant to the share option scheme of Theme, a subsidiary of the Company, there were no outstanding options at the beginning and at the end of the six months period ended 30 June 2008. No options were granted, exercised, cancelled or lapsed under the existing share option scheme of Theme during the period.

Apart from the share option schemes of the Company and Theme, during the six months ended 30 June 2008, no rights were granted to the directors, chief executives of the Company or its subsidiaries, or any of their spouses or children under 18 years of age to subscribe for equity or debt securities of the Company or its subsidiaries.

Substantial Shareholders

As at 30 June 2008, the interests of the following substantial shareholders, other than directors and chief executives of the Company, in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to Section 336 of SFO:

Long Positions in the Company's Ordinary Shares:

| Name of Shareholders | Note | Capacity | Number of ordinary shares held | Percentage of the Company's issued share capital (Note 3) |
|--------------------------------------------|------|-------------------------------------|--------------------------------|--------------------------------------------------------------|
| Hinton Company Limited | 1 | Beneficial owner | 108,802,419 | 33.30% |
| Veer Palthe Voute NV ("VPV") | 2 | Investment manager | 46,046,000 | 14.09% |
| Dresdner Bank Aktiengesellschaft ("DBAG") | 2 | Interest of controlled corporations | 46,046,000 | 14.09% |
| Allianz Aktiengesellschaft ("AAG") | 2 | Interest of controlled corporations | 46,046,000 | 14.09% |
| High Fashion Charitable Foundation Limited | 1 | Beneficial owner | 34,917,567 | 10.69% |

Substantial Shareholders *(Continued)*

Notes:

1. These interests have been disclosed as interests of Mr. Lam Foo Wah in the “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above.
2. The 46,046,000 ordinary shares are held directly by VPV, of which is indirectly controlled by AAG and DBAG and therefore are deemed to have an indirect interest in the 46,046,000 ordinary shares.
3. The issued share capital of the Company is 326,709,550 shares as at 30 June 2008.

Save as disclosed above, as at 30 June 2008, no person, other than the directors or chief executives of the Company, whose interests are set out in the section “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above, had registered an interest or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

High Fashion International Limited is incorporated in Bermuda with limited liability.

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Foo Wah (*Chairman and Managing Director*)

Ms. So Siu Hang, Patricia

Non-executive Directors

Mr. Chan Wah Tip, Michael

Professor Yeung Kwok Wing

Independent Non-executive Directors

Mr. Woo King Wai

Mr. Wong Shiu Hoi, Peter

Mr. Leung Hok Lim

AUDIT COMMITTEE

Mr. Leung Hok Lim (*Chairman*)

Mr. Chan Wah Tip, Michael

Professor Yeung Kwok Wing

Mr. Woo King Wai

Mr. Wong Shiu Hoi, Peter

REMUNERATION COMMITTEE

Mr. Wong Shiu Hoi, Peter (*Chairman*)

Mr. Chan Wah Tip, Michael

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