



# High Fashion International limited

*(Incorporated in Bermuda with limited liability)*

*(Stock code: 608)*

## Interim Report 2006



## Contents

•Chairman's Statement	<b>2</b>
•Management Discussion And Analysis	<b>3</b>
•Condensed Consolidated Financial Statements	
•Condensed Consolidated Income Statement	<b>6</b>
•Condensed Consolidated Balance Sheet	<b>7</b>
•Condensed Consolidated Statement of Changes in Equity	<b>10</b>
•Condensed Consolidated Cash Flow Statement	<b>11</b>
•Notes to Condensed Consolidated Financial Statements	<b>12</b>
•Other Information	<b>21</b>
•Corporate Information	<b>28</b>

## Chairman's Statement

We are speeding up at a revolutionary pace, with dedication to establish ourselves as the first class production base of silk ladies apparel, formulating a world-class apparel enterprise, as our ultimate corporate mission. The major constructions of the Group's facilities in Xiaoshan District, Hangzhou and Xinchang, Zhejiang Province, are in good progress as planned.

With our intensified approach in technology application, targeting at innovative fashion product to attain the genuine world class quality, we possessed sizable, state-of-the-art machinery. Our marketing subsidiaries in US and Europe, are aggressively promoting the Group to expand our international business. The future development strategy of the Group will emphasize on optimizing the quality standard. We are fully confident that we will be able to achieve a breakthrough in market competition, sharpen our competitive edge in the existing market and value to our products.

Although Renminbi is expected to have a continual appreciation and the price of raw silk is still escalating in the current year, the Group believes the overall development in the second half of 2006, and the years to come, will be full of opportunities, and is full of confidence in this regard. Our staff are passionate and excited towards High Fashion's move to establish itself as an international modernized silk apparel enterprise in the future, to advance to a new stage in the Chinese silk industry, to strengthen the glorious history of Chinese silk, and to complement the important development of Hangzhou Municipal Government's target of "Promoting the Home of China Silk to be the World Capital of Ladies Apparel". "Common objective derives mutual benefits" is our corporate culture.

I would like to take this opportunity to express my gratitude to the 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, 13 September 2006

## Management Discussion and Analysis

### Results

Turnover for the six months ended 30 June 2006 increased to HK\$1.1 billion. Net profit attributable to shareholders for the six months ended 30 June 2006 was HK\$42.2 million, compared with a reported profit of HK\$41.6 million of last corresponding period. Basic earnings per share was 12.65 HK cents. Net asset value per share was HK\$2.2.

### Review of Operations

The segmental information is as follows:

	Turnover		Operating profit	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
By principal activity:				
Manufacturing and trading	981,635	974,186	67,906	60,162
Retailing and uniform	127,703	118,716	562	(1,734)
	<b>1,109,338</b>	1,092,902	<b>68,468</b>	58,428
By geographical segments:				
USA	684,193	742,768	52,512	49,095
Europe	198,647	122,701	5,596	(1,677)
Greater China	210,346	213,443	8,670	9,533
Others	16,152	13,990	1,690	1,477
	<b>1,109,338</b>	1,092,902	<b>68,468</b>	58,428

## Management Discussion and Analysis

The Group recorded growth in both turnover and operating profit for our core manufacturing and trading business when compared with last corresponding period. There was no fair value change on investment properties in the first half of 2006 whereas the profit for the first half of 2005 included a fair value change on investment properties of HK\$10.4 million.

Geographically, the United States continued to be the Group's major export market, accounting for 62% of turnover for 2006 as compared to 68% with last corresponding period. August Silk accounted for 35% (2005: 34%) of our turnover in the USA. August Silk's operation reported a profit during this period.

Sales to the European market increased to 18% of total turnover for 2006 as compared to 11% with last corresponding period. We are now set to accelerate our business expansion in the European market with new products and intensified marketing activities.

The turnover of retailing and uniform amounted to HK\$127 million, increasing by 8% when compared with 2005. The loss on retailing and uniform was mainly come from the loss of the uniform business which we have downsized its operation. The retailing business recorded a net operating profit of HK\$0.6 million for 2006.

### Liquidity and Financial Resources

The Group's total outstanding bank borrowings were HK\$425 million at the balance sheet date compared to HK\$369 million as at 31 December 2005. Our gearing ratio of non-current liabilities to shareholders' funds was 6% at the balance sheet date. Current ratio has been maintained at a healthy level of 1.3.

The Group's total cash and bank balances were HK\$331 million at the balance sheet date compared to HK\$205 million as at 31 December 2005. 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.

## Management Discussion and Analysis

The Group's 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. Foreign exchange risks on the recent revaluation of Renminbi is managed by the Group with the use of forward contracts to hedge against the exchange fluctuation. 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\$85 million, there were no charges on the Group's assets.

### Post Balance Sheet Events

An indirect wholly-owned subsidiary of the Company in Hangzhou entered into construction contracts to construct the production complex and living quarter complex at the Xiaoshan district of Hangzhou at the total consideration of about HK\$85.3 million on 8 July 2006.

An indirect owned subsidiary of the Company in Shenzhen entered into acquisition agreements for the acquisition of ten units of first and second floor of Hanggang Fuchan Commercial Building of Futian district of Shenzhen at the total consideration of about HK\$46 million on 20 July 2006.

### Human Resource

The total number of employees of the Group including jointly-controlled entities as at the balance sheet date was about 12,200. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the period.

### Capital Expenditure

There was no material capital expenditure during the period.

## Condensed Consolidated Financial Statements

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 (the "Group") for the six months ended 30 June 2006 together with the comparative figures.

### Condensed Consolidated Income Statement

		Six months ended 30 June	
	Notes	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
<b>TURNOVER</b>			
Cost of sales	3	<b>1,109,338</b> <b>(774,797)</b>	1,092,902 (783,525)
Gross profit		<b>334,541</b>	309,377
Other income		<b>12,731</b>	19,696
Selling and distribution expenses		<b>(132,462)</b>	(133,411)
Increase in fair value of investment properties		<b>–</b>	10,400
Administrative expenses		<b>(146,342)</b>	(151,261)
Fair value changes on financial instruments		<b>–</b>	3,627
Finance costs	4	<b>(17,104)</b>	(12,900)
Share of results of jointly-controlled entities		<b>232</b>	374
<b>PROFIT BEFORE TAXATION</b>	5	<b>51,596</b>	45,902
Taxation	6	<b>(9,408)</b>	(4,271)
<b>PROFIT FOR THE PERIOD</b>		<b>42,188</b>	41,631
Attributable to			
Equity holders of the Company		<b>42,188</b>	41,631
Minority interests		<b>–</b>	–
		<b>42,188</b>	41,631
<b>INTERIM DIVIDEND</b>	8	<b>10,028</b>	9,995
<b>EARNINGS PER SHARE</b>	7		
Basic		<b>12.65 cents</b>	12.56 cents
Diluted		<b>12.60 cents</b>	12.41 cents

## Condensed Consolidated Financial Statements

### Condensed Consolidated Balance Sheet

	Note	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		364,079	371,327
Prepaid lease payments		44,300	44,957
Investment properties		64,000	64,000
Intangible assets		3,632	3,977
Interests in associates		–	–
Interests in jointly-controlled entities		14,927	14,695
Available-for-sale investments		675	675
Deferred tax assets		2,713	2,537
		<u>494,326</u>	<u>502,168</u>
<b>CURRENT ASSETS</b>			
Inventories		303,435	333,051
Trade receivables	9	266,053	272,751
Bills receivable		51,010	45,161
Prepaid lease payments		1,323	1,327
Deposits, prepayments and other receivables		88,763	67,094
Tax reserve certificate		15,583	–
Derivatives		515	4,000
Pledged bank deposits		–	159
Bank balances and cash		330,992	205,426
		<u>1,057,674</u>	<u>928,969</u>



## Condensed Consolidated Financial Statements

### Condensed Consolidated Balance Sheet (Continued)

	<i>Note</i>	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>196,716</b>	172,257
Bills payable		<b>3,379</b>	6,012
Other payables and accruals		<b>148,325</b>	131,405
Amounts due to jointly-controlled entities		<b>4,730</b>	4,542
Amounts due to an associate		<b>600</b>	602
Tax payable		<b>37,551</b>	32,904
Obligations under finance leases		<b>245</b>	222
Bank borrowings		<b>392,213</b>	305,723
		<b>783,759</b>	653,667
<b>NET CURRENT ASSETS</b>			
		<b>273,915</b>	275,302
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>768,241</b>	777,470

## Condensed Consolidated Financial Statements

### Condensed Consolidated Balance Sheet (Continued)

#### NON-CURRENT LIABILITIES

Obligations under finance leases  
Bank borrowings  
Deferred tax liabilities  
Provision for long service payments

#### CAPITAL AND RESERVES

Share capital  
Reserves

Equity attributable to equity holders of the Company  
Minority interests

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
	<b>181</b>	290
	<b>33,000</b>	63,000
	<b>6,014</b>	6,014
	<b>1,660</b>	2,024
	<b>40,855</b>	71,328
	<b>727,386</b>	706,142
	<b>33,415</b>	33,315
	<b>693,171</b>	672,027
	<b>726,586</b>	705,342
	<b>800</b>	800
	<b>727,386</b>	706,142

## Condensed Consolidated Financial Statements

### Condensed Consolidated Statement of Changes in Equity (Unaudited)

#### Attributable to equity holders of the Company

	Share		Translation reserve	Capital					Dividend reserve	Total	Minority interests	Total
	Share capital	premium account		Reserve funds	redemption reserve	Hedging reserve	Accumulated profits	HK\$'000				
At 1 January 2006	33,315	295,684	8,180	6,332	4,703	4,000	353,128	-	705,342	800	706,142	
Exchange realignment	-	-	(1,257)	-	-	-	-	-	(1,257)	-	(1,257)	
Net profit for the period	-	-	-	-	-	-	42,188	-	42,188	-	42,188	
Final dividend for 2005 declared and paid	-	-	-	-	-	-	(16,707)	-	(16,707)	-	(16,707)	
Exercise of share options	100	405	-	-	-	-	-	-	505	-	505	
Realization of hedging reserve	-	-	-	-	-	(3,485)	-	-	(3,485)	-	(3,485)	
<b>At 30 June 2006</b>	<b>33,415</b>	<b>296,089</b>	<b>6,923</b>	<b>6,332</b>	<b>4,703</b>	<b>515</b>	<b>378,609</b>	<b>-</b>	<b>726,586</b>	<b>800</b>	<b>727,386</b>	
At 1 January 2005	32,935	294,144	1,147	6,332	4,703	-	312,348	-	651,609	800	652,409	
Exchange realignment	-	-	1,933	-	-	-	-	-	1,933	-	1,933	
Net profit for the period	-	-	-	-	-	-	41,631	-	41,631	-	41,631	
Final dividend for 2004 declared and paid	-	-	-	-	-	-	(16,656)	-	(16,656)	-	(16,656)	
Exercise of share options	380	1,540	-	-	-	-	-	-	1,920	-	1,920	
Proposed interim dividend for 2005	-	-	-	-	-	-	(9,995)	9,995	-	-	-	
<b>At 30 June 2005</b>	<b>33,315</b>	<b>295,684</b>	<b>3,080</b>	<b>6,332</b>	<b>4,703</b>	<b>-</b>	<b>327,328</b>	<b>9,995</b>	<b>680,437</b>	<b>800</b>	<b>681,237</b>	

## Condensed Consolidated Financial Statements

### Condensed Consolidated Cash Flow Statement

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash from operating activities	<b>129,383</b>	92,418
Net cash used in investing activities	<b>(25,790)</b>	(4,027)
Net cash from/(used in) financing activities	<b>23,857</b>	(128,143)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	<b>127,450</b>	(39,752)
Cash and cash equivalents at beginning of the period	<b>204,033</b>	295,858
Effect of foreign exchange rate changes, net	<b>(1,141)</b>	1,708
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>330,342</b>	257,814
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>330,992</b>	261,897
Bank overdrafts	<b>(650)</b>	(4,083)
	<hr/>	<hr/>
	<b>330,342</b>	257,814
	<hr/>	<hr/>

# Condensed Consolidated Financial Statements

## Notes to Condensed Consolidated Financial Statements

### 1. Basis of preparation

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

### 2. Principal accounting policies

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current and/or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

Potential impact arising from the recently issued Accounting Standards

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for accounting periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for accounting periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for accounting periods beginning on or after 1 June 2006.

**Condensed Consolidated Financial Statements****Notes to Condensed Consolidated Financial Statements** (Continued)**3. Segment information**

	<b>Turnover</b>		<b>Profit before taxation</b>	
	<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
By principal activity:				
Manufacturing and trading	<b>981,635</b>	974,186	<b>67,906</b>	60,162
Retailing and uniform	<b>127,703</b>	118,716	<b>562</b>	(1,734)
	<b><u>1,109,338</u></b>	<u>1,092,902</u>	<b><u>68,468</u></b>	<u>58,428</u>
Finance costs			<b>(17,104)</b>	(12,900)
Share of results of jointly – controlled entities			<b>232</b>	374
			<b><u>51,596</u></b>	<u>45,902</u>
By geographical area:				
United States of America	<b>684,193</b>	742,768		
Europe	<b>198,647</b>	122,701		
Greater China	<b>210,346</b>	213,443		
Others	<b>16,152</b>	13,990		
	<b><u>1,109,338</u></b>	<u>1,092,902</u>		

## Condensed Consolidated Financial Statements

### Notes to Condensed Consolidated Financial Statements (Continued)

#### 4. Finance costs

Interest on bank loans, overdrafts and other loans wholly repayable within five years  
 Interest on finance leases  
 Factoring expenses  
 Bank charges

Six months ended 30 June	
2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
12,515	8,059
19	62
1,703	1,468
2,867	3,311
<u>17,104</u>	<u>12,900</u>

#### 5. Profit before taxation

The Group's profit before taxation is arrived at after charging:

Depreciation of property, plant and equipment  
 Amortisation of trademarks

Six months ended 30 June	
2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
26,144	24,729
345	345
<u>26,489</u>	<u>25,074</u>

## Condensed Consolidated Financial Statements

### Notes to Condensed Consolidated Financial Statements (Continued)

#### 6. Taxation

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current tax – Hong Kong	<b>(2,419)</b>	(1,116)
Current tax – Other jurisdictions	<b>(7,140)</b>	(1,335)
Deferred tax	<b>151</b>	(1,820)
	<hr/>	<hr/>
Tax charge for the period	<b>(9,408)</b>	(4,271)
	<hr/> <hr/>	<hr/> <hr/>

The Hong Kong Inland Revenue Department (“IRD”) recently initiated a tax audit on certain group companies for the years of assessment from 1999/2000 to 2004/2005. As a matter of IRD’s practice, the IRD has issued assessments to these group companies for the year of assessment 1999/2000 (which would be statutorily time – barred after 31 March 2006) and, during the course of the audit, there may be a possibility that assessments for subsequent years be issued by the IRD to these group companies.

Since the tax audit is still at a preliminary 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. For Hong Kong tax provision purpose, the management has in the current year followed the same basis for making provision as adopted in prior years. In the opinion of the management, the provisions so made are adequate for the purpose mentioned above.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30 June 2006 and 2005. Taxes on profits arising elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Share of jointly-controlled entities taxation for the six months ended 30 June 2006 of HK\$38,000 (Six months ended 30 June 2005: HK\$110,000) were included in the share of profits of jointly-controlled entities.



## Condensed Consolidated Financial Statements

### Notes to Condensed Consolidated Financial Statements (Continued)

#### 7. Earnings per share

The calculation of basic and diluted earnings per share for the period ended 30 June 2006 together with the comparative figures for 2005 are calculated as follows:

Profit for the purpose of basic and diluted earnings per share

Weighted average number of ordinary shares for the purpose of basic earnings per share

Effect of dilutive potential ordinary shares assumed exercise of share options

Weighted average number of ordinary shares for the purpose of diluted earnings per share

<b>Six months ended 30 June</b>	
<b>2006</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2005 (Unaudited) HK\$'000
<b>42,188</b>	41,631
<b>Number</b>	Number
<b>333,483,042</b>	331,471,992
<b>1,243,641</b>	4,003,276
<b>334,726,683</b>	335,475,268

#### 8. Interim dividend

The Board declared an interim dividend of 3 HK cents per share for the six months ended 30 June 2006 (Six months ended 30 June 2005: 3 HK cents) on the shares in issue aggregating a total of HK\$10,028,000 (Six months ended 30 June 2005: HK\$9,995,000).

**Condensed Consolidated Financial Statements****Notes to Condensed Consolidated Financial Statements** *(Continued)***9. Trade receivables**

An aged analysis of the trade receivables as at the balance sheet date is as follows:

Within 90 days  
91 to 180 days  
181 to 360 days  
Over 360 days

The Group allows an average credit period of 30 to 90 days to its trade debtors.

<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
<b>243,046</b>	248,232
<b>8,734</b>	14,014
<b>9,394</b>	4,824
<b>4,879</b>	5,681
<hr/> <b>266,053</b> <hr/>	<hr/> 272,751 <hr/>

## Condensed Consolidated Financial Statements

### Notes to Condensed Consolidated Financial Statements (Continued)

#### 10. Trade payables

An aged analysis of the trade payables as at the balance sheet date is as follows:

Trade payables:

Within 90 days  
91 to 180 days  
181 to 360 days  
Over 360 days

Accrued purchases

<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
<b>166,654</b>	126,471
<b>4,940</b>	4,973
<b>5,092</b>	6,807
<b>8,116</b>	10,331
<hr/> <b>184,802</b>	<hr/> 148,582
<b>11,914</b>	23,675
<hr/> <b>196,716</b> <hr/>	<hr/> 172,257 <hr/>

## Condensed Consolidated Financial Statements

### Notes to Condensed Consolidated Financial Statements (Continued)

#### 11. Related party transactions

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

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2006</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2005 (Unaudited) HK\$'000
Purchases of finished goods from jointly-controlled entities	<i>(i)</i>	<b>20,857</b>	16,533
Professional fees paid to Wilkinson & Grist	<i>(ii)</i>	<b>13</b>	129

*Notes:*

- (i) The purchases of finished goods were made according to the published prices and conditions offered to the major customers of the supplier, except that a longer credit period was usually granted.
- (ii) The professional fees related to the provision of legal advisory services and were charged according to the fee rates and conditions similar to those offered to other customers of Wilkinson & Grist. Mr. Chan Wah Tip, Michael, a director of the Company, is a partner of Wilkinson & Grist.

#### 12. Contingent liabilities

As at 30 June 2006, there was no material contingent liability (31 December 2005: Nil).

## Condensed Consolidated Financial Statements

### Notes to Condensed Consolidated Financial Statements (Continued)

#### 13. Post balance sheet events

On 8 July 2006, an indirect wholly-owned subsidiary of the Company in Hangzhou entered into the following Construction Contracts:–

- (a) the First Construction Contract appointing 浙江崑崙建設集團股份有限公司 (Zhejiang Kunlun Construction Group Company Limited), an independent third party, to construct the Production Complex on the North Side, Hongda Road, Xiaoshan district (蕭山區), Hangzhou, Zhejiang Province, PRC (the “Site”) at the consideration of RMB56,000,000 (approximately HK\$54,369,000);
- (b) the Second Construction Contract appointing 浙江省一建建設集團有限公司 (Zhejiang Yijian Company Limited), an independent third party, to construct the Living Quarter Complex and Related Buildings on the Site at the consideration of RMB31,210,000 (approximately HK\$30,301,000); and
- (c) the Construction Management Contract appointing 浙江江南工程建設監理有限公司 (Zhejiang Jiangnan Project Construction Supervision Company Limited), an independent third party, as the project manager for the Construction Project at the consideration of RMB600,000 (approximately HK\$583,000).

On 20 July 2006, an indirect owned subsidiary of the Company, entered into ten acquisition agreements with an independent third party for the acquisition of the Units 01-05 on the first floor and Units 02, 03, 05, 08 and 10 on the Second Floor of 杭鋼富春商務大廈 (Hanggang Fuchun Commercial Building) at 深圳市福田區深南路 (Shennan Road, Futian District, Shenzhen, PRC) at the total consideration of RMB47,451,430 (approximately HK\$46,070,000).

## Other Information

### Interim Dividend

The Board declared an interim dividend of 3 HK cents per share for the six months ended 30 June 2006 (Six months ended 30 June 2005: 3 HK cents) on the shares in issue aggregating a total of HK\$10,028,000 (Six months ended 30 June 2005: HK\$9,995,000), which will be payable on or about 19 October 2006 to shareholders whose names appear on the Register of Members on 11 October 2006.

### Closure Of Register Of Members

The Register of Members will be closed from 9 October 2006 (Monday) to 11 October 2006 (Wednesday), 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, Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 6 October 2006.

### 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 2006, 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.

## Other Information

### 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 2006, 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 six months ended 30 June 2006, 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.

### Review of Accounts

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules.

The Audit Committee of the Company assisted by an independent professional accounting firm has reviewed the accounting principles and practices adopted by the Group and in the course has discussed with the management, internal auditor as well as external auditor the internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2006.

## Other Information

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

As at 30 June 2006, 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 and Underlying Shares

Name of Directors	Note(s)	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	Total	Percentage of the Company's issued capital (Note 4)
Lam Foo Wah	1, 2	Other interest	Other	139,433,986	–	139,433,986	41.73%
Hui Yip Wing		Interest of spouse	Family	2,652,007	–	2,652,007	0.79%
Wong Shing Loong, Raymond		Beneficial owner	Personal	2,960,000	–	2,960,000	0.89%
So Siu Hang, Patricia	3	Beneficial owner	Personal	2,104,309	720,000	2,824,309	0.85%



## Other Information

### (ii) Long Position in Shares of Associated Corporation

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

*Notes:*

1. Mr. Lam Foo Wah is deemed to have an interest in 104,516,419 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. Interests of Directors and chief executives of the Company in the underlying shares of equity derivatives are in respect of share options granted to them which were outstanding as at 30 June 2006.
4. The issued share capital of the Company is 334,151,550 shares as at 30 June 2006.
5. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

## Other Information

Save as disclosed above, as at 30 June 2006, 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 2006 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

For the six months ended 30 June 2006, details of outstanding share options granted to directors or certain employees on 5 May 1999 under the old share options scheme adopted by the Company on 18 March 1994 (the "Old Scheme") are disclosed below:

Name of director and employee	Number of Share Options			Exercise price HK\$	Weighted average closing price (Note (i)) HK\$
	At 1 January 2006	Exercised during the period	At 30 June 2006		
Wong Shing Loong, Raymond	1,000,000	1,000,000	–	0.505	1.58
So Siu Hang, Patricia	720,000	–	720,000	0.505	–
Aggregate for directors	1,720,000	1,000,000	720,000		
Aggregate for other employees	420,000	120,000	300,000	0.505	1.40
	<u>2,140,000</u>	<u>1,120,000</u>	<u>1,020,000</u>		

## Other Information

*Notes:*

- (i) The weighted average closing price is the price of the Company's shares disclosed as at the prior date of exercise of share options.
- (ii) Under the Old Scheme, 40% of the options granted are exercisable during the period from 5 May 2002 to 4 May 2009, a further 30% of the options granted are exercisable during the period from 5 May 2003 to 4 May 2009 and the remaining 30% of the options granted are exercisable during the period from 5 May 2004 to 4 May 2009.
- (iii) On 26 March 2002, the Old Scheme was terminated and 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. After the adoption of the New Scheme, no further options can be granted under the Old Scheme. Up to 30 June 2006, no share options were granted under the New Scheme.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Company's share option schemes during the period.

### (B) Share option scheme of Theme International Holdings Limited

Pursuant to the share option scheme of Theme International Holdings Limited ("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 2006. 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 2006, 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.

## Other Information

### Substantial Shareholders

As at 30 June 2006, 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:

<b>Name of Shareholders</b>	<b>Note</b>	<b>Capacity</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
Hinton Company Limited	1	Beneficial owner	104,516,419	31.28%
Veer Palthe Voute NV ("VPV")	2	Investment manager	49,337,000	14.76%
Dresdner Bank Aktiengesellschaft ("DBAG")	2	Interest of controlled corporations	49,337,000	14.76%
Allianz Aktiengesellschaft ("AAG")	2	Interest of controlled corporations	49,337,000	14.76%
High Fashion Charitable Foundation Limited	1	Beneficial owner	34,917,567	10.45%
Excel Investments Ltd.		Beneficial owner	25,800,000	7.72%

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 49,337,000 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 49,337,000 ordinary shares.

Save as disclosed above, as at 30 June 2006, 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.

## Corporate Information

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

### Board of Directors

#### Executive Directors

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

Mr. Hui Yip Wing

Mr. Wong Shing Loong, Raymond

Ms. So Siu Hang, Patricia

#### Non-executive Director

Mr. Chan Wah Tip, Michael

#### 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

Mr. Woo King Wai

Mr. Wong Shiu Hoi, Peter

### REMUNERATION COMMITTEE

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

Mr. Chan Wah Tip, Michael

Mr. Woo King Wai

Mr. Leung Hok Lim

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor, High Fashion Centre

1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong

### SUB-REGISTRAR AND TRANSFER AGENT IN HONG KONG

Secretaries Limited

26th Floor, Tesbury Centre,

28 Queen's Road East, Hong Kong

### COMPANY WEBSITE

[www.highfashion.com.hk](http://www.highfashion.com.hk)