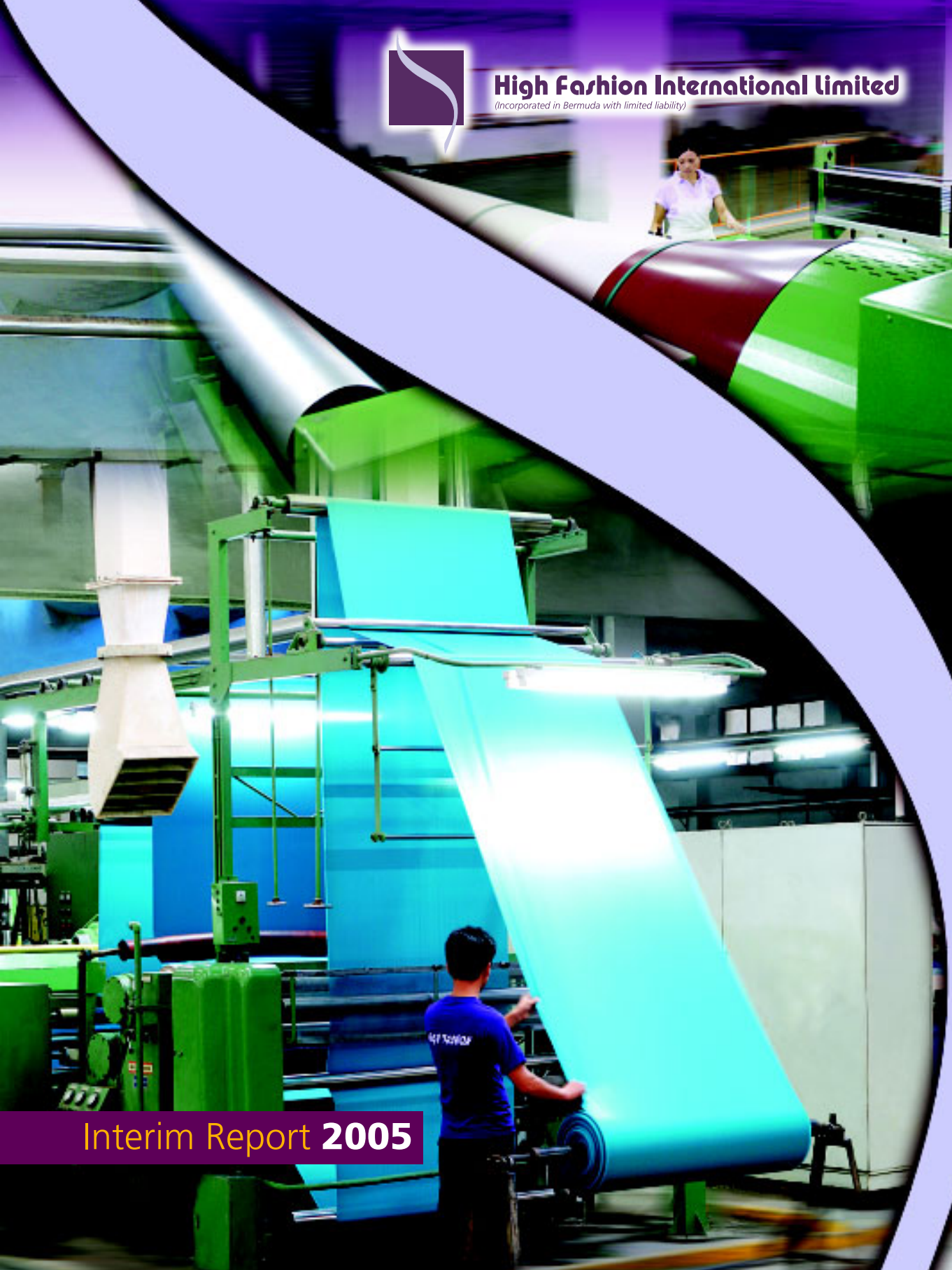




High Fashion International Limited

(Incorporated in Bermuda with limited liability)



Interim Report 2005

Contents

•Chairman's Statement	2
•Management Discussion and Analysis	4
Condensed Consolidated Financial Statements	
•Condensed Consolidated Income Statement	6
•Condensed Consolidated Balance Sheet	7
•Condensed Consolidated Statement of Changes in Equity	9
•Condensed Consolidated Cash Flow Statement	10
•Notes to Condensed Consolidated Financial Statements	11
•Other Information	23

Chairman's Statement

Results

Turnover for the first half year of 2005 was HK\$1,093 million, representing an increase of 12% over corresponding period of last year. The unaudited net profit for the first half of 2005 was HK\$41.6 million, compared to HK\$31.6 million in 2004.

The board of directors declared an interim dividend of 3 HK cents per share.

Business Review

Year 2005 to date has been volatile and unpredictable in the fashion apparel market, with the first half of the year dampened by Renminbi speculation, high energy prices, rising interest rates and global trade issues. We have successfully navigated through this turbulence with a double digit growth in turnover. The improvement in both turnover and profitability present a positive start to our new business strategy coupled with our vigorous improvement efforts on our operations made in the last two years.

Private Label & Manufacturing Operations

It is our ability to anticipate and to adapt to rapid changes, our strategized target at "Better Ladies Fashion Apparel Market" has emerged. Riding on trend fashion, the re-tuned strategy fully exploits the resources of the Group in maintaining high level product innovation and in employing strong production capability, and is able to offer high end products with moderate prices.

Branded Label

Owing to disappointing performance of August Silk Inc., there were major management changes taken place in our US subsidiary in the period under review. We anticipate an improved performance in the year 2006.

Retail Business

Theme managed a breakeven performance in its core retail business, with marked improvement in own-shop but further need to adjust franchise outlets.

Chairman's Statement

Prospects

Series of improvement actions undertaken in the past two years begin to pay off. Strategic investment in related areas are underway to further enhance our technologies in dyeing, printing, weaving, garment manufacturing and research and development capabilities, unveiling our long term commitment in applying technology for newest and efficiency improvement in high end fashion products.

As we focus on the Better Ladies Fashion Apparel Market, we are confident of our competitive edge in this constantly evolutionized business. This will be our growth engine that enables the Group to effectively leverage our distinct capabilities and technological know how in this target market.

Entering into a new era with short term uncertainties on global quota system and trade related regulations, we are comfortably prepared and will concentrate on our strength – good concepts with proven execution. We are strongly positioned for future growth.

Appreciation

I wish to take this opportunity to thank our shareholders, customers, suppliers, our staff and my fellow directors for their support.

Lam Foo Wah

Chairman

Hong Kong, 16 September 2005

Management Discussion and Analysis

Results

Turnover for the six months ended 30 June 2005 increased by 12% to HK\$1,093 million. The unaudited net profit attributable to shareholders for the six months ended 30 June 2005 was HK\$41.6 million, an increase of 32% when compared with an unaudited reported profit of HK\$31.6 million for the last corresponding period. Basic earnings per share was 12.56 HK cents. Net asset value per share was HK\$2.04.

Review of Operations

The segmental information is as follows:–

	Six months ended		Six months ended	
	30 June 2005	30 June 2004	30 June 2005	30 June 2004
	Turnover		Profit before taxation	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
By principal activity:				
Manufacturing and trading	974,186	892,700	60,162	41,162
Retailing and uniform	118,716	87,388	(1,734)	(588)
	<u>1,092,902</u>	<u>980,088</u>	<u>58,428</u>	<u>40,574</u>
Finance costs			(12,900)	(10,790)
Share of results of jointly-controlled entities			374	494
			<u>45,902</u>	<u>30,278</u>

The Group recorded double-digit growth in both turnover and profit of our core manufacturing and trading business when compared with last corresponding period. In accordance with the new Hong Kong Financial Reporting Standards, the profit for the first half of 2005 included a fair value change on financial instruments of HK\$3.6 million and 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 68% of turnover for the first half of 2005.

Management Discussion and Analysis

The turnover of retailing and uniform amounted to HK\$119 million, increasing by 36% when compared with the first half of 2004. The loss on retailing and uniform was mainly come from the loss of the newly developed uniform business.

Liquidity and Financial Resources

The Group's total outstanding bank borrowings were reduced to HK\$392 million at the balance sheet date compared to HK\$453 million as at 31 December 2004. Our gearing ratio of non-current liabilities to shareholders' funds was 15% at the balance sheet date. Current ratio has been maintained at a healthy level of 1.5.

The Group's total cash and bank balances were HK\$262 million at the balance sheet date. 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 receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. The Hong Kong dollar is pegged to the US dollar. 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 considers that its foreign exchange risk is minimal. The Group had no borrowings at fixed interest rates during the period.

The Group had no material contingent liabilities as of the balance sheet date. Barring the pledge of trade receivables of certain subsidiaries of HK\$46 million, there were no other charges on the Group's assets.

Human Resource

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

There was no material capital expenditure during the period.

Condensed Consolidated Financial Statements

The Board of Directors of High Fashion International Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 together with the comparative figures set out as follows:

Condensed Consolidated Income Statement

		Six months ended	
		30 June 2005 (Unaudited) <i>HK\$'000</i>	30 June 2004 (Unaudited) (Restated) <i>HK\$'000</i>
	<i>Notes</i>		
TURNOVER	4	1,092,902	980,088
Cost of sales		(783,525)	(714,953)
Gross profit		309,377	265,135
Other operating income		19,696	9,120
Selling and distribution expenses		(133,411)	(108,189)
Administrative expenses		(151,261)	(125,492)
Fair value changes on financial instruments		3,627	–
Fair value changes on investment properties		10,400	–
Finance costs	5	(12,900)	(10,790)
Share of results of jointly-controlled entities		374	494
PROFIT BEFORE TAXATION	4,6	45,902	30,278
Taxation	7	(4,271)	1,291
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		41,631	31,569
INTERIM DIVIDEND		9,995	9,881
EARNINGS PER SHARE	8		
Basic		12.56 cents	9.63 cents
Diluted		12.41 cents	9.47 cents

Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet

	Notes	30 June 2005 (Unaudited)	31 December 2004 (Audited) (Restated)
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		411,266	399,872
Investment properties		52,000	41,600
Trademarks		4,324	4,669
Interests in associates		–	–
Interests in jointly-controlled entities		10,935	10,561
Investment in securities		–	13,793
Available-for-sale investments		675	–
Deferred tax asset		881	881
		480,081	471,376
CURRENT ASSETS			
Inventories		328,025	328,786
Trade receivables	9	252,348	251,169
Bills receivables		20,287	20,654
Deposits, prepayments and other receivables		93,159	91,737
Amounts due from jointly-controlled entities		2,109	2,277
Derivative financial instruments		3,627	–
Tax recoverable		1,385	–
Certificate of deposits		–	10,000
Pledged bank deposits		–	5,554
Bank balances and cash		261,897	299,018
		962,837	1,009,195
CURRENT LIABILITIES			
Trade payables and accrued purchases	10	191,393	216,075
Bills payables		2,690	5,640
Other payables and accruals		164,339	145,136
Amounts due to jointly-controlled entities		4,959	1,756
Amounts due to an associate		602	605
Tax payables		–	951
Obligations under finance leases		260	262
Bank borrowings		277,378	345,128
Bank advances for discounted bills and factored trade receivables		21,346	–
		662,967	715,553

Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet *(Continued)*

	30 June 2005 (Unaudited)	31 December 2004 (Audited) (Restated)
	HK\$'000	HK\$'000
NET CURRENT ASSETS	299,870	293,642
TOTAL ASSETS LESS CURRENT LIABILITIES	779,951	765,018
NON-CURRENT LIABILITIES		
Bank borrowings	93,000	108,000
Deferred tax liabilities	4,644	2,824
Provision for long service payments	2,035	2,594
Obligations under finance leases	106	262
	99,785	113,680
	680,166	651,338
CAPITAL AND RESERVES		
Share capital	33,315	32,935
Reserves	646,051	617,603
Equity attributable to equity holders of the Company	679,366	650,538
Minority interests	800	800
Total equity	680,166	651,338

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Attributable to equity holders of the Company																					
	Share capital	Share premium account	Translation reserve	Reserve funds	Capital reserve	Investment properties Capital redemption reserve	revaluation reserve	Accumulated profits	Dividend reserve	Total	Minority interests	Total										
													HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005, as originally stated	32,935	294,144	1,147	6,332	6,061	4,703	4,636	301,392	-	651,350	800	652,150										
Effect of changes in accounting policies (note 3)	-	-	-	-	(6,061)	-	(4,636)	9,885	-	(812)	-	(812)										
As restated	32,935	294,144	1,147	6,332	-	4,703	-	311,277	-	650,538	800	651,338										
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	-	-	-										
At 30 June 2005	33,315	295,684	3,080	6,332	-	4,703	-	326,257	9,995	679,366	800	680,166										
At 1 January 2004	32,740	293,354	859	6,266	6,061	4,703	3,359	238,973	9,822	596,137	9,000	605,137										
Effect of changes in accounting policies	-	-	-	-	-	-	(588)	-	-	(588)	-	(588)										
As restated	32,740	293,354	859	6,266	6,061	4,703	2,771	238,973	9,822	595,549	9,000	604,549										
Exchange realignment	-	-	420	-	-	-	-	-	-	420	-	420										
Net profit for the period	-	-	-	-	-	-	-	31,569	-	31,569	-	31,569										
Final dividend for 2003 declared and paid	-	-	-	-	-	-	-	(34)	(9,822)	(9,856)	-	(9,856)										
Exercise of share options	195	791	-	-	-	-	-	-	-	986	-	986										
Proposed interim dividend for 2004	-	-	-	-	-	-	-	(9,881)	9,881	-	-	-										
At 30 June 2004	32,935	294,145	1,279	6,266	6,061	4,703	2,771	260,627	9,881	618,668	9,000	627,668										

Condensed Consolidated Financial Statements

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30 June 2005 (Unaudited) <i>HK\$'000</i>	30 June 2004 (Unaudited) <i>HK\$'000</i>
Net cash from operating activities	92,418	181,734
Net cash used in investing activities	(4,027)	(27,811)
Net cash used in financing activities	(128,143)	(155,846)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(39,752)	(1,923)
Cash and cash equivalents at beginning of the period	295,858	179,635
Effect of foreign exchange rate changes, net	1,708	492
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	257,814	178,204
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	261,897	180,826
Bank overdrafts	(4,083)	(2,622)
	<hr/>	<hr/>
	257,814	178,204
	<hr/>	<hr/>

Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements

1. Basis of preparation

The condensed consolidated 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 consolidated 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 consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates or jointly-controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarized below:

Condensed Consolidated Financial Statements

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3 from 1 January 2005. Goodwill previously recognized in reserves amounting to HK\$2,527,000 has been transferred to the Group's retained profits on 1 January 2005. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognized immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2005 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 (of which negative goodwill of HK\$8,588,000 was previously recorded in capital reserve), with a corresponding increase to retained profits.

Interests in jointly-controlled entities

In previous periods, interests in jointly-controlled entities were accounted for using the equity method. In the current period, the Group has applied HKAS 31 "Interests in Jointly Controlled Entities" which allows entity to use either proportionate consolidation or the equity method to account for its interests in jointly-controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly-controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly-controlled entities.

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. Prior to the application of HKFRS 2, all unvested share options of the Group were granted before 7 November 2002 and the Group did not have share options granted after 7 November 2002 and had not vested on 1 January 2005.

Condensed Consolidated Financial Statements

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Available-for-sale financial assets" of which the fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Investment securities classified under non-current assets with cost less impairment of HK\$675,000 were reclassified to available-for-sale investments on 1 January 2005.

Derivatives and hedging

By 31 December 2004, the Group's derivative financial instruments, mainly comprised currency swaps, were used to manage the Group's exposure to foreign exchange rate fluctuation. The notional amounts of derivatives were previously recorded off balance sheet.

Condensed Consolidated Financial Statements

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise (see note 3 for the financial impact).

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. In addition, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as bank advances prospectively on or after 1 January 2005, as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the historical cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the SSAP 13 were measured at open market

Condensed Consolidated Financial Statements

values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's retained profits (see note 3 for the financial impact).

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP-Interpretation 20). In the current period, the Group has applied HKAS-Interpretation 21 ("INT-21") "Income Taxes - Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in INT-21, this change in accounting policy has been applied retrospectively.

3. Summary of the effect of the changes in accounting policies

The effect of the changes in the accounting policies described in note 2 above on the results for the current and prior period are as follows:

	Six months ended	
	30 June 2005	30 June 2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Gains arising from fair value changes of investment properties	10,400	–
Increase in deferred taxation liabilities in relation to fair value gains of investment properties	(1,820)	–
Gains arising from fair value changes of derivative financial instruments	3,627	–
	12,207	–
Increase in net profit for the period	12,207	–
Attributable to equity holders of the Company	12,207	–

Condensed Consolidated Financial Statements

The cumulative effect of the application of the new HKFRSs on the balance sheet as at 31 December 2004 and 1 January 2005 are summarized below:

	As at 31 December 2004 (originally stated) <i>HK\$'000</i>		As at 31 December 2004 (restated) Adjustments <i>HK\$'000</i>		As at 1 January 2005 (restated) <i>HK\$'000</i>
Deferred tax liabilities	(2,012)	(812)	(2,824)	–	(2,824)
Total effects on assets and liabilities	<u>(2,012)</u>	<u>(812)</u>	<u>(2,824)</u>	<u>–</u>	<u>(2,824)</u>
Capital reserve	6,061	–	6,061	(6,061)	–
Investment properties revaluation reserve	4,636	(812)	3,824	(3,824)	–
Accumulated profits	301,392	–	301,392	9,885	311,277
Minority interests	–	800	800	–	800
Total effect on equity	<u>312,089</u>	<u>(12)</u>	<u>312,077</u>	<u>–</u>	<u>312,077</u>
Minority interests	800	(800)	–	–	–
	<u>312,889</u>	<u>(812)</u>	<u>312,077</u>	<u>–</u>	<u>312,077</u>

Condensed Consolidated Financial Statements

4. Segment information

	Six months ended			
	30 June 2005	30 June 2004	30 June 2005	30 June 2004
	Turnover		Profit before taxation	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
By principal activity:				
Manufacturing and trading	974,186	892,700	60,162	41,162
Retailing and uniform	118,716	87,388	(1,734)	(588)
	<u>1,092,902</u>	<u>980,088</u>	<u>58,428</u>	<u>40,574</u>
Finance costs			(12,900)	(10,790)
Share of results of jointly-controlled entities			374	494
			<u>45,902</u>	<u>30,278</u>
By geographical area:				
United States of America	742,768	672,807		
Europe	122,701	112,433		
Greater China	213,443	184,686		
Others	13,990	10,162		
	<u>1,092,902</u>	<u>980,088</u>		

Condensed Consolidated Financial Statements

5. Finance costs

	Six months ended	
	30 June 2005	30 June 2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	8,059	6,339
Interest on finance leases	62	22
Factoring expenses	1,468	1,562
Bank charges	3,311	2,867
	12,900	10,790

6. Profit before taxation

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

	Six months ended	
	30 June 2005	30 June 2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	24,729	22,901
Amortisation of trademarks	345	346

Condensed Consolidated Financial Statements

7. Taxation

	Six months ended	
	30 June 2005	30 June 2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – Hong Kong	(1,116)	–
Current tax – Other jurisdictions	(1,335)	(2,150)
Overprovision in prior periods – Hong Kong	–	3,441
Deferred tax – changes in fair value of investment properties	(1,820)	–
	<hr/>	<hr/>
Tax (charge) credit for the period	(4,271)	1,291
	<hr/> 	<hr/>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30 June 2005. No Hong Kong Profits Tax has been provided for the prior period for the six months ended 30 June 2004 as the Group had no assessable profits arising in Hong Kong in prior period. 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 2005 of HK\$111,000 (six months ended 30 June 2004: HK\$72,000) are included in the share of results of jointly-controlled entities.

Condensed Consolidated Financial Statements

8. Earnings per share

The calculation of basic and diluted earnings per share for the period ended 30 June 2005 together with the comparative figures for 2004 are calculated as follows:

	Six months ended	
	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000
Profit for the purpose of basic and diluted earnings per share	41,631	31,569
	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	331,471,992	327,912,044
Effect of dilutive potential ordinary shares assumed exercise of share options	4,003,276	5,563,505
Weighted average number of ordinary shares for the purpose of diluted earnings per share	335,475,268	333,475,549

9. Trade receivables

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

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Current to 90 days	237,094	234,313
91 to 180 days	6,618	7,993
181 to 360 days	4,843	5,645
Over 360 days	3,793	3,218
	252,348	251,169

Condensed Consolidated Financial Statements

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

The Group transferred certain factored trade receivable amounting to HK\$11,104,000 to factoring house with recourse in exchange for cash during the interim period. The transactions have been accounted for as bank advances.

10. Trade payables and accrued purchases

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

	30 June 2005 (Unaudited) <i>HK\$'000</i>	31 December 2004 (Audited) <i>HK\$'000</i>
Trade payables:		
Current to 90 days	155,289	156,408
91 to 180 days	7,507	17,141
181 to 360 days	4,620	13,009
Over 360 days	3,525	11,113
	<hr/>	<hr/>
Accrued purchases	170,941	197,671
	20,452	18,404
	<hr/>	<hr/>
	191,393	216,075
	<hr/>	<hr/>

11. Related party transactions

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

		Six months ended	
	<i>Notes</i>	30 June 2005 (Unaudited) <i>HK\$'000</i>	30 June 2004 (Unaudited) <i>HK\$'000</i>
Purchases of finished goods from jointly-controlled entities	<i>(i)</i>	16,533	27,856
Professional fees paid to Wilkinson & Grist	<i>(ii)</i>	129	42
		<hr/>	<hr/>

Condensed Consolidated Financial Statements

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

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Bank guarantees given in lieu of utility, property rental and other service deposits	966	966
Bills discounted with recourse	–	30,594
Trade receivables factored with recourse	–	13,011
	966	44,571

Bills discounted and trade receivables factored with recourse are accounted for as bank advances for discounted bills and factored trade receivables in the current period pursuant to HKAS 39. Further details are set out in notes 2 and 9 to the interim report.

Other Information

Dividend

The Board of Directors declared an interim dividend of 3 HK cents (Six months ended 30 June 2004: interim dividend of 3 HK cents) per share on the shares in issue aggregating a total of HK\$9,995,000 (Six months ended 30 June 2004: HK\$9,881,000), which will be payable on or about 19 October 2005 to shareholders whose names appear on the Register of Members on 10 October 2005.

Closure of Register of Members

The Register of Members will be closed from Wednesday, 5 October 2005 to Monday, 10 October 2005, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 4 October 2005.

Corporate Governance

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, only with deviations from code provisions A.2.1, A.4.2 and B.1.1 of the Code in respect of the separate role of chairman and chief executive officer, service term and rotation of directors; and establishment of a remuneration committee.

Under the code provisions A.2.1, A.4.2 and B.1.1 of the Code, (a) the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual; (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and (c) a remuneration committee should be established according to code provision B.1.1.

Other Information

Code Provision A.2.1

Under the code provision A.2.1 of the Code, the roles of chairman and CEO should be separate and should not be performed by the same individual. During the six months ended 30 June 2005, Mr. Lam Foo Wah is the Chairman of the Board and also carries out the duties of a CEO of the Company, this constitutes a deviation from the code provision A.2.1 of the Code.

The Board considers that the function of the Chairman and the CEO 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.

Code Provision A.4.2

According to Bye-law 87 of the Bye-laws of the Company then in effect before 31 May 2005, one-third of the Directors for the time being shall retire from the office by rotation at each annual general meeting provided that the Chairman of the Board and/or the Managing Director of the Company shall not be subject to retirement by rotation. The Directors to retire by rotation shall include any Directors who wishes to retire and not to offer himself for re-election, or those who have been longest in office since their last re-election or appointment. However, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. As the Chairman of the Board and/or the Managing Director of the Company are not subject to retirement by rotation under the Bye-laws of the Company, this constitutes a deviation from the code provision A.4.2 of the Code. According to Bye-law 86(2) of the Bye-laws of the Company then in effect before 31 May 2005, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall be eligible for re-election, this also constitutes a deviation from the code provision A.4.2 of the Code.

To comply with the code provision A.4.2 of the Code, the relevant amendment to Bye-laws 87 and 86(2) of the Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting of Company held on 31 May 2005 whereby the Chairman and/or the Managing Director of the Company are/is now subject to retirement by rotation and the newly appointed director shall be subject to re-election at the first general meeting after their appointment.

Other Information

Code Provision B.1.1

To comply with the Code, a remuneration committee was established on 22 August 2005 with specific written terms of reference which deal clearly with its authority and duties. The members of the remuneration committee comprises Mr. Chan Wah Tip, Michael, Mr. Leung Hok Lim, Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter. All of the members of the remuneration committee are non-executive or independent non-executive directors. The term of reference of the remuneration committee has been posted on the website of the Company.

Model Code for Securities Transactions by Directors

For the six months period to 30 June 2005, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (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 2005, 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 2005, 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 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 for 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 2005.

Other Information

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

As at 30 June 2005, 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 director	Notes	Number of ordinary shares held and nature of interests			Underlying shares (Note 4)	Total	Percentage of the Company's issued share capital
		Personal	Family	Other			
Lam Foo Wah	1,2	3,800,000	–	129,013,986	–	132,813,986	39.87%
Ip Weng Kun	3	–	–	5,627,848	1,500,000	7,127,848	2.14%
So Siu Hang, Patricia		2,104,309	–	–	720,000	2,824,309	0.85%
Hui Yip Wing		–	2,652,007	–	–	2,652,007	0.80%
Wong Shing Loong, Raymond		2,600,000	–	–	1,000,000	3,600,000	1.08%

Other Information

(ii) Long Position in Shares of Associated Corporation

Name of director	Note	Name of associated corporation	Relationship with the Company	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued capital
Lam Foo Wah	5	High Fashion Knitters Limited	Subsidiary	5,339,431	Through controlled corporations	35.60%

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 94,096,419 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. Mr. Ip Weng Kun is deemed to have an interest in 5,627,848 ordinary shares which are beneficially owned by Major Rank Holdings Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Ip is regarded as a founder of the trust.
4. Details of the interests of directors and chief executives of the Company in the underlying shares of equity derivatives in respect of options granted to them are stated in the "Share Options Schemes" section below.
5. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 30 June 2005, 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 Options Schemes" section below, at no time during the six months ended 30 June 2005 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.

Other Information

Share Options Schemes

(A) Share option schemes of the Company

For the six months ended 30 June 2005, 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 2005	Exercised during the period	At 30 June 2005		
Lam Foo Wah	3,800,000	3,800,000	–	0.505	1.58
Ip Weng Kun	1,500,000	–	1,500,000	0.505	–
So Siu Hang, Patricia	720,000	–	720,000	0.505	–
Wong Shing Loong, Raymond	1,000,000	–	1,000,000	0.505	–
Aggregate for directors	7,020,000	3,800,000	3,220,000		
Aggregate for other employees	420,000	–	420,000	0.505	–
	<u>7,440,000</u>	<u>3,800,000</u>	<u>3,640,000</u>		

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 2005, 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.

Other Information

(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 2005. 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 2005, 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 2005, the interests of the following substantial shareholders, other than directors and chief executives of the Company, in the shares or 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	Capacity	Number of ordinary shares held	Percentage of the Company’s issued share capital
Hinton Company Limited*	Beneficially owned	94,096,419	28.24%
High Fashion Charitable Foundation Limited*	Beneficially owned	34,917,567	10.48%
Excel Investments Ltd.	Beneficially owned	27,150,000	8.15%

* *These interests have been disclosed as interests of Mr. Lam Foo Wah in the section “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above.*

Save as disclosed above, as at 30 June 2005, no person, other than the directors and 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.

Other Information

Change of Chinese Name

The Company changed its Chinese name to 達利國際集團有限公司 on 8 June 2005.

Members of the Board

As at the date of this interim report, the Board of the Company comprises of (1) executive directors: Mr. Lam Foo Wah, Mr. Ip Weng Kun, Mr. Hui Yip Wing, Mr. Wong Shing Loong, Raymond and Ms. So Siu Hang, Patricia; (2) non-executive director: Mr. Chan Wah Tip, Michael; and (3) independent non-executive directors: Mr. Woo King Wai, Mr. Wong Shiu Hoi, Peter and Mr. Leung Hok Lim.