



High Fashion International Limited

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



INTERIM REPORT
2019





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Chairman's Statement

In the first half of 2019, the increasingly complex and challenging global economic environment, the escalating Sino-US trade tension, the Brexit uncertainties, have dampened the overall business sentiment to a great extent. Leveraging the Group's solid foundation, our proven track record of resilience in navigating cycles, again we continue to deliver a decent set of interim results on our core manufacturing business attributable to our disciplinary persistence in focusing on cost control leading to improvements in Gross Margin, even though revenues decrease as a result of the aforesaid market situation. All these efforts help establish a solid base preparing the Group for the next milestone in the growth journey.

Our key results for the interim period ended 30 June 2019 are as follow:

- Net profit attributable to shareholders at HK\$33.6 million
- Gearing ratio of non-current liabilities to shareholders' fund at 37.5%. Current ratio at 1.4
- Basic earnings per share landed at HK\$0.11
- Net asset value per share amounted to HK\$8.18
- Proposed interim dividend per share is HK\$0.03

We are very committed to our core business for sustainable growth through deepened execution of the customer-centric approach, continuous product innovation, ownership collaboration for synergistic results, and accelerated transformation. While cost control remains essential, it is also crucial for investing in growth. Our strategic directive to be the market leader in Affordable Luxury Fast Fashion as our growth driver has gained noticeable momentum. Not only our cordial business partners across the nations highly support our strategic initiative, we strongly believe it will also help us to capture the fast expanding yet untapped China domestic fashion market at the quality reputation we are well positioned.

In recent years, our geographical expansion in the Southeast Asian region with volume leverage is improving nicely with our differentiated strategic focus on affordable luxury fast fashion apparel. We believe this supply chain expansion outside of our traditional China base, along with volume leverage, with swift and effective management action, will help us to mitigate the impact of challenging headwinds, including tariffs.

Chairman's Statement

Losses from brand business has been narrowing significantly in this year compared with the same period last year as the Group has taken decisive actions to tighten its spending. While business growth in the U.S. still encounters fierce competition, we maintain our best endeavor looking for opportunities to turn around the business.

Property development projects are all in well progress within our expectation. The revitalization of the Hong Kong headquarters building, High Fashion Centre, is targeted to be completed toward the end of this year, adding income to the Group's lease portfolio in the near future. In Hangzhou, the property projects are in good shape, including a property development plan which continues to be optimized. These projects are expected to provide the Group with sustainable development opportunities.

In general, we are in belief of the market prevailing with risks and opportunities. It is critical that we are in position to move on in the right direction empowering our adaptive abilities enabling us to grow in the ever-changing market environment.

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

LAM FOO WAH

Chairman & Managing Director

Hong Kong, 30 August 2019

Management Discussion and Analysis

BUSINESS REVIEW

To tackle with the escalation in trade tension between China and the United States which hampers the global economic sentiment and consumption value chain, High Fashion International Limited (the “Company”, together with its subsidiaries, collectively the “Group”) has been accelerating the pace in strengthening the production capacity in Southeast Asian region. During the first half of 2019, the Group not only promotes the utilization rate in the Cambodia plant, but also constantly streamlines the operational processes and leverages on system applications striving for higher efficiency with better quality in response to the ever-changing customer demand in garment markets. Furthermore, the Group continues to enhance the co-operation with selected production partners in Vietnam and explore further expansion opportunities over there.

According to the China Customs Statistics released by Hong Kong Trade Development Council, the export value of textile garments from China decreased around 6% to US\$52 billion in the first half of 2019 as compared with last year. To confront the challenges of declining export from China, we devote more resources to strengthen the China domestic market especially in womenswear. China’s consumption potential is huge and internet retailing has kept delivering strong growth in recent years. It provides an opportunity for the Group to grow in the domestic garment and textile market by leveraging our know-how in the overseas markets which we have been doing business for so many years with well proven track records.

While the Group will continue to leverage the competitive edge in silk business with the image of being “creative and innovative”, we also address the importance to steer our transformation to the fast fashion supply chain paradigm characterized for quicker turnaround time, leaner inventory, fashionable and competitive price. The Group direction is to implement lean management through system integration to mitigate redundant processes and structures across the board and to cope with the intense price competition in the fast fashion industry. We are optimistic that our focus on aligning the core competence will emerge as a winner in the fast changing apparel market.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue of the Group decreased by HK\$0.2 billion to HK\$1.4 billion for the six months ended 30 June 2019, representing a fall of 12%. Nevertheless, Gross profit margin has been improved to 19.5% from 17.6% in the same period in 2018, attributable to our dedicated efforts in costs control and streamlining process flows in production and operation as well as the RMB depreciation.

At expenses side, administrative expenses and selling and distribution expenses were decreased by 10% and 6% respectively comparing to the same period of last year. The decreases in expenses were attributable to the implementation of various effective measures to monitor the costs across the Group, coupled with the impact from RMB depreciation against HK dollar in average during the period. Other expenses reduced significantly to HK\$6.4 million due to less legal and consultancy expenses incurred.

Other gains for the interim period amounted to HK\$43.7 million, it included net fair value gain from investment properties of HK\$38 million and change in fair value of financial assets at fair value through profit and loss of HK\$6.2 million. Other income slightly decreased by HK\$2 million mainly because of lower interest income as a result of lower structured deposit rates in the market.

Net profit attributable to shareholders for the period ended 30 June 2019 was HK\$33.6 million, representing an encouraging improvement of 42% compared to HK\$23.6 million of last year. Basic earnings per share increased to HK\$0.110 (30 June 2018: HK\$0.077) and net asset value per share was HK\$8.18 (30 June 2018: HK\$8.16).

Management Discussion and Analysis

SEGMENT INFORMATION

The segment information for six months are as follows:

| | Revenue | | Contribution | |
|-------------------------------------|------------------|-----------|-----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| By principal activities: | | | | |
| Manufacturing and trading | 1,285,196 | 1,421,440 | 33,682 | 33,851 |
| Brand business | 54,267 | 73,913 | (14,569) | (32,347) |
| Property investment and development | 23,434 | 55,245 | 4,340 | 12,193 |
| | 1,362,897 | 1,550,598 | 23,453 | 13,697 |

Manufacturing and trading

Although the increases in tariff by the United States for imports from China at the current stage do not materially relate to the garment business of the Group, market sentiment has been affected resulting in slowing down of sales orders in the first half of the year. Revenue for the interim period decreased by 9.6% comparing with last year accordingly. However, thanked to our continuous efforts on monitoring the production costs and optimizing the work flows, the gross margin shows good improvements contributing to stabilize the segment profit at HK\$33.7 million amid reduction in revenue.

On top of the re-engineering process to enhance competitiveness, the Group also explores and assigns specific resources to further strengthen the production supply chain capabilities in Southeast Asian countries particularly in Cambodia and Vietnam. Meanwhile, the expanding domestic sales market in China offers growth opportunities to the Group by leveraging on its overseas market expertise in the local market development. These measures enable the Group to maintain solid growth amid the business uncertainties from the tariff disputes between China and the United States.

Management Discussion and Analysis

Brand business

Fast fashion retailing, comparing to mid to premium brands, accounted for majority of online fashion traffic in recent years and is growing rapidly. As a result, the performance of our brand operations were impacted negatively especially in the USA market. In addition, discounters in the USA tend to squeeze on the price affecting the margin of our brand business in the already competitive market.

Revenue from brand business in the first half year of 2019 decreased by HK\$19.6 million or 26.6% to HK\$54.3 million (first half year of 2018: HK\$73.9 million). Nevertheless, with the determined efforts in streamlining the operations to optimize the business structure and process flows resulting in effective control on expense level, the decline in segment losses have been further narrowed down in this year to HK\$14.6 million comparing to HK\$32.3 million loss in the same period of last year. The Group will continue to monitor the operating costs in order to further close the gap and turn around the business into profitable state.

Property investment and development

In order to utilize the Group resources more effectively and to generate stable cash flow to support the core trading and manufacturing business, the Group has been investing in recent years various property development and management projects. The Group's quality portfolio of property projects in the mainland China and Hong Kong at different stages of investment and development continue to create value to the Group and will serve as additional growth drivers for the Group, with progressive value realization to enhance long-term shareholders' value. Furthermore, the property development projects in Hangzhou are all in good progress. The investment property in Hong Kong is under revitalizing and estimated to complete toward the end of this year.

For the period ended 30 June 2019, revenue from property investment and development business was HK\$23.4 million. We expect the property business will continue to grow with increased contribution to the Group upon completion of the development projects in the near future.

Management Discussion and Analysis

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, our Group recognizes the importance of environmental protection and social welfare to our external and internal stakeholders, so we would continue to transform our business model to further align environmental protection and social responsibility into our strategic plan and key initiatives that we operate.

Our Group has used a methodical approach – Materiality, to identify the many challenges that we must prioritize, address and analyze in order to provide a robust understanding of our Group’s sustainability actions. Based on the analysis we have developed THREE sustainability goals for FOUR years up to 2020. These goals align with the vision of our Group that we “strive to be World’s No. 1 Silk Enterprise”:

Better Products

Our Group has always practiced the strategic concept of “green R&D, green manufacturing, green operation and green products”. We are the first enterprise in China to obtain the MADE IN GREEN by OEKO-TEX® label for silk products. By improving efficiency in product resources and operation, carbon emission has been reduced and better ecological civilization has been achieved.

Lower Impact

We conducted a number of sustainability projects to confront some of the big challenges i.e. impact on energy, water and waste in manufacturing textile and garment products. We have recorded good results in reducing both hazardous and non-hazardous waste. This demonstrated the successful implementation of the 4R principle (reducing, reusing, recycling and replacing) in our working principles and methodology.

More admired workplace

The Group considers all employees as our important assets and has long placed emphasis on their well-being and development. Quality management training program covering the Group was launched in early 2019. Our commitment on such endeavors has well been recognized, we have received both international and national awards in product quality and business activities.

Management Discussion and Analysis

On the other hand, we care about our people and community and take great pride in working closely with them. The Group strives to have more positive impact by collaborating with academy and charity to support our new generation. High Fashion Women Wear Institute which under co-construction with Hangzhou Vocational and Technical College (杭州職業技術學院) has celebrated its 10th Anniversary in early 2019. In addition, the Group has established Tonglu High Fashion Education Foundation (桐廬達利教育基金會) which not only supports students and teachers in Tonglu, but also bridges the connection between the charity group in Hong Kong and education sector in Tonglu.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were at the same level of HK\$1.4 billion at the end of interim reporting period of 2019 and 2018. The bank borrowings were mainly for fixed assets investments to develop and upgrade the manufacturing plants in China and Cambodia. Our gearing ratio of non-current liabilities to shareholders' funds was 37.5% at the end of the reporting period. Current ratio maintained at a robust level of 1.4.

The Group's total cash and bank balances were HK\$888.5 million at the end of reporting period (31 December 2018: HK\$983.1 million). Along with the available banking facilities, the Group had a healthy working capital and liquidity to meet the operating needs and future growth.

Foreign currency risk exposure is primarily related to RMB and US dollar since a considerable portion of our operating expenses are denominated in RMB while sales are mainly denominated in US dollar. As HK dollar is pegged to the US dollar, the Group considers that its foreign currency risk in respect of US dollar is minimal. Although RMB was in general depreciated during the period, which is in our favour to hedge its risk, we shall continue to monitor the impact of its movements and make appropriate action. Bank borrowings were denominated mainly in HK dollar and partly in US dollar.

Barring the pledge of trade and bill receivables of certain subsidiaries of HK\$15 million (30 June 2018: HK\$19 million), and the pledge of certain properties in Hong Kong of HK\$981 million (30 June 2018: HK\$723 million), there were no charges on the Group's assets.

Management Discussion and Analysis

CAPITAL EXPENDITURE

The Group has purchased the plant and equipment, leasehold improvement and construction in progress of around HK\$14.8 million in order to upgrade the manufacturing capabilities and improve the environmental protection facilities during the period. The Group also injects HK\$139.6 million into certain properties construction and development projects during the period.

CAPITAL COMMITMENTS

At 30 June 2019, the Group is committed to capital expenditure in respect of acquisition of property, plant and equipment and construction work contracted but not provided for amounted to HK\$200.5 million.

CONTINGENT LIABILITIES

Please refer to note 19 to the condensed consolidated financial statements for details of contingent liabilities as of 30 June 2019.

TAX AUDIT

Since February 2006, the Hong Kong Inland Revenue Department (the “IRD”) has initiated a tax audit on certain group companies for the years of assessment as from 1999/2000. The Group has been pro-actively liaising with the IRD and different views were exchanged with the IRD during the period. The directors of the Group are of the opinion that, the tax provision in respect of all the years represented the most likely amount and was adequate for the Hong Kong chargeable income.

HUMAN RESOURCES

The total number of employees of the Group including joint ventures as at the end of interim reporting period was about 6,300. 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.

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|---------------------------------|
| | | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Revenue | 3 | | |
| Goods and services | | 1,345,464 | 1,535,728 |
| Rental | | 17,433 | 14,870 |
| Total revenue | | 1,362,897 | 1,550,598 |
| Cost of sales | | (1,097,485) | (1,277,911) |
| Gross profit | | 265,412 | 272,687 |
| Other income | | 10,196 | 12,193 |
| Other gains and losses | 4 | 43,666 | 56,431 |
| Administrative expenses | | (150,906) | (167,432) |
| Selling and distribution expenses | | (94,083) | (99,965) |
| Other expenses | | (6,372) | (10,225) |
| Net impairment loss recognised on financial assets | | (4,868) | (7,340) |
| Finance costs | 5 | (16,649) | (16,237) |
| Share of losses of joint ventures | | (1,783) | (94) |
| Profit before taxation | | 44,613 | 40,018 |
| Income tax expenses | 6 | (13,839) | (18,390) |
| Profit for the period | 7 | 30,774 | 21,628 |

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)

For the six months ended 30 June 2019

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Other comprehensive (expense) income | | |
| Items that will not be reclassified to profit or loss: | | |
| Exchange differences on translation of financial statements from functional currency to presentation currency | (11,932) | (37,780) |
| Fair value gain on equity instruments at fair value through other comprehensive income | - | 1,064 |
| Gain on revaluation of owner-occupied properties | - | 238 |
| Income tax relating to items that will not be reclassified to profit or loss | - | (59) |
| | (11,932) | (36,537) |
| Items that may be subsequently reclassified to profit or loss: | | |
| Exchange differences on translation of financial statements of foreign operations | (1,643) | (1,715) |
| Fair value loss on hedging instruments under cash flow hedges | - | (22,195) |
| Income tax relating to items that may be reclassified to profit or loss | - | 3,662 |
| | (1,643) | (20,248) |
| Other comprehensive expense for the period, net of tax | (13,575) | (56,785) |
| Total comprehensive income (expense) for the period | 17,199 | (35,157) |

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)

For the six months ended 30 June 2019

| | Note | Six months ended 30 June | |
|---|------|---------------------------------|---------------------------------|
| | | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 33,572 | 23,589 |
| Non-controlling interests | | (2,798) | (1,961) |
| | | 30,774 | 21,628 |
| Total comprehensive income (expense) for the period attributable to: | | | |
| Owners of the Company | | 19,982 | (33,269) |
| Non-controlling interests | | (2,783) | (1,888) |
| | | 17,199 | (35,157) |
| Earnings per share | 8 | | |
| Basic | | 10.98 HK cents | 7.72 HK cents |
| Diluted | | 10.98 HK cents | N/A |

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | Notes | At 30 June 2019 HK\$'000 (unaudited) | At 31 December 2018 HK\$'000 (audited) |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | 543,630 | 533,391 |
| Right-of-use assets | | 89,449 | – |
| Prepaid lease payments | | – | 62,738 |
| Investment properties | 10 | 2,062,693 | 1,926,240 |
| Intangible assets | | 8,223 | 8,223 |
| Interests in joint ventures | | 8,631 | 10,456 |
| Equity instruments at fair value through other comprehensive income | | 19,493 | 19,493 |
| Deferred tax assets | | 28,710 | 28,839 |
| Other non-current assets | | 31,938 | 31,729 |
| | | 2,792,767 | 2,621,109 |
| Current assets | | | |
| Inventories | | 373,813 | 456,413 |
| Properties held for sale | | 225,886 | 221,482 |
| Trade receivables | 11 | 498,496 | 433,309 |
| Prepaid lease payments | | – | 2,034 |
| Deposits, prepayments and other receivables | 12 | 173,248 | 153,513 |
| Amounts due from joint ventures | | 17,972 | 24,920 |
| Tax recoverable | | 191,624 | 187,871 |
| Structured deposits | | 220,087 | 269,435 |
| Short-term bank deposits | | 55,422 | 55,203 |
| Bank balances and cash | | 612,962 | 658,463 |
| | | 2,369,510 | 2,462,643 |

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

At 30 June 2019

| | Notes | At 30 June 2019 HK\$'000 (unaudited) | At 31 December 2018 HK\$'000 (audited) |
|--|-------|---|---|
| Current liabilities | | | |
| Trade payables | 13 | 281,320 | 306,413 |
| Other payables and accruals | | 162,921 | 184,792 |
| Provision | | 2,372 | 2,372 |
| Lease liabilities | | 11,684 | – |
| Amount due to a joint venture | | 1,833 | 3,984 |
| Amount due to an associate | | 583 | 583 |
| Contract liabilities | | 364,663 | 280,705 |
| Tax payable | | 165,300 | 161,685 |
| Derivative financial instruments | | 15 | 8,498 |
| Obligations under finance leases | | – | 19 |
| Bank borrowings | 14 | 733,326 | 688,358 |
| | | 1,724,017 | 1,637,409 |
| Net current assets | | | |
| | | 645,493 | 825,234 |
| Total assets less current liabilities | | | |
| | | 3,438,260 | 3,446,343 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 260,974 | 256,803 |
| Bank borrowings | 14 | 657,500 | 692,500 |
| Lease liabilities | | 15,041 | – |
| Provision for long service payments | | 3,613 | 2,803 |
| | | 937,128 | 952,106 |
| Net assets | | | |
| | | 2,501,132 | 2,494,237 |
| Capital and reserves | | | |
| Share capital | 15 | 30,562 | 30,562 |
| Share premium and reserves | | 2,503,480 | 2,493,802 |
| Equity attributable to owners of the Company | | 2,534,042 | 2,524,364 |
| Non-controlling interests | | (32,910) | (30,127) |
| Total equity | | | |
| | | 2,501,132 | 2,494,237 |

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | Attributable to owners of the Company | | | | | | | | | | Attributable to non-controlling interests | Total | |
|---|---------------------------------------|---------------|---------------------------|---------------|------------------------------|--------------------------------|----------------------------|-----------------|---------------|------------------|---|----------|-----------|
| | Share capital | Share premium | Share Translation reserve | Reserve funds | Property revaluation reserve | Investment revaluation reserve | Capital redemption reserve | Hedging reserve | Other reserve | Retained profits | | | Sub-total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| At 31 December 2018 (audited) | 30,662 | 287,656 | 107,048 | 82,998 | 302,326 | 18,493 | 8,511 | - | 39,933 | 1,646,837 | 2,524,364 | (30,127) | 2,494,237 |
| Adjustments (note 2) | - | - | - | - | - | - | - | - | - | (1,615) | (1,615) | - | (1,615) |
| At 1 January 2019 (restated) | 30,662 | 287,656 | 107,048 | 82,998 | 302,326 | 18,493 | 8,511 | - | 39,933 | 1,645,222 | 2,522,749 | (30,127) | 2,492,622 |
| Profit for the period | - | - | - | - | - | - | - | - | - | 33,572 | 33,572 | (2,798) | 30,774 |
| Other comprehensive (expense) income for the period | - | - | (13,590) | - | - | - | - | - | - | - | (13,590) | 15 | (13,575) |
| Total comprehensive (expense) income for the period | - | - | (13,590) | - | - | - | - | - | - | 33,572 | 19,982 | (2,783) | 17,199 |
| Dividends (note 9) | - | - | - | - | - | - | - | - | - | (9,168) | (9,168) | - | (9,168) |
| Recognition of equity-settled Share-based payments | - | - | - | - | - | - | - | - | 479 | - | 479 | - | 479 |
| At 30 June 2019 (unaudited) | 30,662 | 287,656 | 93,458 | 82,998 | 302,326 | 18,493 | 8,511 | - | 40,412 | 1,669,626 | 2,534,042 | (32,910) | 2,501,132 |
| At 1 January 2018 (audited) | 30,662 | 287,656 | 292,817 | 79,173 | 192,856 | 23,791 | 8,511 | - | 39,853 | 1,821,230 | 2,566,509 | (25,316) | 2,541,193 |
| Profit for the period | - | - | - | - | - | - | - | - | - | 23,589 | 23,589 | (1,961) | 21,628 |
| Other comprehensive (expense) income for the period | - | - | (39,568) | - | 179 | 1,064 | - | (18,533) | - | - | (56,858) | 73 | (56,785) |
| Total comprehensive (expense) income for the period | - | - | (39,568) | - | 179 | 1,064 | - | (18,533) | - | 23,589 | (33,269) | (1,888) | (35,157) |
| Dividends (note 9) | - | - | - | - | - | - | - | - | - | (9,168) | (9,168) | - | (9,168) |
| At 30 June 2018 (unaudited) | 30,662 | 287,656 | 243,249 | 79,173 | 193,035 | 24,855 | 8,511 | (18,533) | 39,853 | 1,635,711 | 2,524,072 | (27,204) | 2,496,868 |

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Notes | Six months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|
| | | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Net cash from (used in) operating activities | | 67,785 | (17,688) |
| INVESTING ACTIVITIES | | | |
| New short-term bank deposits placed | | – | (55,556) |
| Withdrawal of short-term bank deposits | | – | 117,284 |
| New restricted bank balances placed | | – | (161,788) |
| Withdrawal of restricted bank balances | | 53,070 | 84,812 |
| Interests received | | 5,829 | 5,491 |
| Purchases of property, plant and equipment | | (43,951) | (36,038) |
| Additions to investment properties | | (106,511) | (32,790) |
| Additions to intangible assets | | – | (1,194) |
| Other investing cash flows | | 2,275 | (889) |
| Net cash used in investing activities | | (89,288) | (80,668) |
| FINANCING ACTIVITIES | | | |
| New bank borrowings raised | 14 | 86,670 | 1,017,112 |
| Repayment of bank borrowings | 14 | (76,729) | (960,085) |
| Interests paid | | (22,297) | (22,458) |
| Dividends paid | 9 | (9,168) | (9,168) |
| Other financing cash flows | | (19) | (38) |
| Net cash (used in) from financing activities | | (21,543) | 25,363 |
| Net decrease in cash and cash equivalents | | (43,046) | (72,993) |
| Cash and cash equivalents at beginning of the period | | 658,463 | 502,663 |
| Effect of foreign exchange rate changes, net | | (2,455) | (4,562) |
| Cash and cash equivalents at end of the period | | 612,962 | 425,108 |
| Analysis of balances of cash and cash equivalents | | | |
| Bank balances and cash | | 612,962 | 425,109 |
| Bank overdrafts | | – | (1) |
| | | 612,962 | 425,108 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Principal Accounting Policies

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

Other than the changes in accounting policies resulting from application of the new Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|-----------------------|--|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16
The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises, retail shops and factories that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

Right-of-use assets (Cont'd)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

Lease liabilities (Cont'd)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

Lease liabilities (Cont'd)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties was determined on a portfolio basis; and

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$27,672,000 and right-of-use assets of HK\$90,829,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.69%.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

| | At 1 January 2019 HK\$'000 |
|---|-------------------------------------|
| Operating lease commitments disclosed as at 31 December 2018 | 34,675 |
| Less: Lease liabilities discounted at relevant incremental borrowing rates | (3,544) |
| Less: Recognition exemption – short-term leases and low value assets | (3,459) |
| Lease liabilities as at 1 January 2019 | 27,672 |
| Analysed as | |
| Current | 12,745 |
| Non-current | 14,927 |
| | 27,672 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

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

| | <i>Notes</i> | Right-of-use assets HK\$'000 |
|--|--------------|------------------------------------|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | | 26,057 |
| Reclassified from prepaid lease payments | <i>(a)</i> | 64,772 |
| Less: Accrued lease liabilities at 1 January 2019 | <i>(b)</i> | (1,209) |
| | | <hr/> 89,620 |
| By class: | | |
| Leasehold lands | | 64,772 |
| Buildings | | 24,848 |
| | | <hr/> 89,620 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$2,034,000 and HK\$62,738,000 respectively were reclassified to right-of-use assets.

- (b) Rent free period

These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (c) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (d) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessor (Cont'd)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Notes | Carrying amounts previously reported at 31 December 2018 HK\$'000 | Adjustments HK\$'000 | Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000 |
|--------------------------------|-------|--|-------------------------|---|
| Non-current Assets | | | | |
| Prepaid lease payments | (a) | 62,738 | (62,738) | - |
| Right-of-use assets | | - | 90,829 | 90,829 |
| Current Assets | | | | |
| Prepaid lease payments | (a) | 2,034 | (2,034) | - |
| Capital and Reserves | | | | |
| Share premium and reserves | | 2,493,802 | (1,525) | 2,497,277 |
| Non-controlling interests | | (30,127) | (90) | (30,217) |
| Current Liabilities | | | | |
| Other payables and accruals | (b) | 118,105 | 1,209 | 119,314 |
| Lease liabilities | | - | 11,536 | 11,536 |
| Non-current liabilities | | | | |
| Lease liabilities | | - | 14,927 | 14,927 |

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

2.2 Impacts and changes in accounting policies of application on HK(IFRIC)-Int 23 "Uncertainty over Income Tax Treatments"

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by individual group entities in their respective income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

The Group applied this interpretation retrospectively with the cumulative effect of initially applying the interpretation recognised at the date of initial application, 1 January 2019, without restating comparatives.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

2. Principal Accounting Policies (Cont'd)

Application of new and amendments to HKFRSs (Cont'd)

2.2 Impacts and changes in accounting policies of application on HK(IFRIC)-Int 23 "Uncertainty over Income Tax Treatments" (Cont'd)

As disclosed in the Group's annual reports published in previous years, the Inland Revenue Department ("IRD") has initiated a tax audit on certain group companies in Hong Kong from the year of assessment 1999/2000 onwards.

Since the tax audit is at the review stage by the IRD after different views were exchanged with the IRD, the outcome of the tax audit can probably not be agreed by IRD. Management of the Group has in the current period followed the same basis for making provision as adopted in prior years. In the opinion of the directors of the Company, the uncertain tax position in respective of the tax audit represents the most likely amount.

Details of the tax positions of the Group are set out in note 6.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

3. Revenue and Segment Information

Disaggregation of revenue from contracts with customers

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Recognised at a point in time under HKFRS 15: | | |
| Manufacturing and trading of garments | 1,285,196 | 1,421,440 |
| Sales of brand garments | 54,267 | 73,913 |
| Sales of properties | 6,001 | 40,375 |
| Revenue from contracts with customers | 1,345,464 | 1,535,728 |
| Rental income recognised under HKAS 17 | 17,433 | 14,870 |
| | 1,362,897 | 1,550,598 |
| Geographical markets | | |
| United States of America | 451,088 | 555,041 |
| Europe | 201,833 | 245,234 |
| Greater China | 603,589 | 584,078 |
| Others | 106,387 | 166,245 |
| | 1,362,897 | 1,550,598 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

3. Revenue and Segment Information (Cont'd)

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

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

For the six months ended 30 June 2019 (unaudited)

| | Manufacturing and trading of garments HK\$'000 | Brand business HK\$'000 | Property investment and development HK\$'000 |
|--|---|----------------------------|---|
| Segment revenue | 1,307,177 | 54,267 | 23,434 |
| Less: rental income recognised under HKAS 17 | - | - | (17,433) |
| Less: inter-segment sales | (21,981) | - | - |
| Revenue from contracts with customers | 1,285,196 | 54,267 | 6,001 |

For the six months ended 30 June 2018 (unaudited)

| | Manufacturing and trading of garments HK\$'000 | Brand business HK\$'000 | Property investment and development HK\$'000 |
|--|---|----------------------------|---|
| Segment revenue | 1,432,560 | 73,913 | 55,245 |
| Less: rental income recognised under HKAS 17 | - | - | (14,870) |
| Less: inter-segment sales | (11,120) | - | - |
| Revenue from contracts with customers | 1,421,440 | 73,913 | 40,375 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

3. Revenue and Segment Information (Cont'd)

Segment information

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

For the six months ended 30 June 2019 (unaudited)

| | Manufacturing and trading of garments HK\$'000 | Brand business HK\$'000 | Property investment and development HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|--|---|-------------------------------|--|---------------------------|--------------------------|--------------------------|
| REVENUE | | | | | | |
| External sales | 1,285,196 | 54,267 | 23,434 | 1,362,897 | - | 1,362,897 |
| Inter-segment sales (note i) | 21,981 | - | - | 21,981 | (21,981) | - |
| Segment revenue | 1,307,177 | 54,267 | 23,434 | 1,384,878 | (21,981) | 1,362,897 |
| RESULTS | | | | | | |
| Segment profit (loss) | 33,682 | (14,569) | 4,340 | 23,453 | - | 23,453 |
| Change in fair value of derivative financial instruments | | | | | | 1,971 |
| Change in fair value of investment properties | | | | | | 37,968 |
| Net foreign exchange loss | | | | | | (3,860) |
| Corporate overhead (note ii) | | | | | | (3,963) |
| Other expenses | | | | | | (6,372) |
| Unallocated items | | | | | | (4,584) |
| Profit before taxation | | | | | | 44,613 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

3. Revenue and Segment Information (Cont'd)

Segment information (Cont'd)

For the six months ended 30 June 2018 (unaudited)

| | Manufacturing and trading of garments HK\$'000 | Brand business HK\$'000 | Property investment and development HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|---|---|-------------------------------|--|---------------------------|--------------------------|--------------------------|
| REVENUE | | | | | | |
| External sales | 1,421,440 | 73,913 | 55,245 | 1,550,598 | - | 1,550,598 |
| Inter-segment sales (note i) | 11,120 | - | - | 11,120 | (11,120) | - |
| Segment revenue | 1,432,560 | 73,913 | 55,245 | 1,561,718 | (11,120) | 1,550,598 |
| RESULTS | | | | | | |
| Segment profit (loss) | 33,851 | (32,347) | 12,193 | 13,697 | - | 13,697 |
| Change in fair value of derivative financial instruments | | | | | | 980 |
| Change in fair value of investment properties | | | | | | 41,667 |
| Net foreign exchange gain | | | | | | 2,195 |
| Corporate overhead (note ii) | | | | | | (6,241) |
| Other expenses | | | | | | (10,225) |
| Unallocated items | | | | | | (2,055) |
| Profit before taxation | | | | | | 40,018 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

3. Revenue and Segment Information (Cont'd)

Segment information (Cont'd)

Notes:

- (i) Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.
- (ii) Central administration costs are apportioned between segments and corporate and allocated to the respective segments according to scale of the segment revenue in the respective reporting periods.

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without the allocation of change in fair value of derivative financial instruments not designated for hedge accounting and investment properties, certain portion of the foreign exchange (loss) gain, central administration costs and other expenses. This is the measure reported to the Company's executive directors for the purposes of resources allocation and performance assessment.

4. Other Gains and Losses

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Increase in fair value of investment properties | 37,968 | 41,667 |
| Change in fair value of derivative financial instruments | 1,971 | 980 |
| Net foreign exchange (loss) gain | (2,122) | 13,852 |
| Loss on disposal of property, plant and equipment | (372) | (68) |
| Change in fair value of financial assets at fair value through profit or loss | 6,221 | - |
| | 43,666 | 56,431 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

5. Finance Costs

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Interests on: | | |
| Bank borrowings and overdrafts | 22,380 | 20,132 |
| Lease liabilities | 700 | 4 |
| Bank charges on discounted bills | 2,001 | 3,129 |
| Total borrowing costs | 25,081 | 23,265 |
| Less: Amount capitalised in construction in progress, properties held for sale and investment properties under construction that is arisen from specific borrowings | (8,432) | (7,028) |
| | 16,649 | 16,237 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

6. Income Tax Expenses

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Current tax charge: | | |
| Hong Kong | 3,000 | 3,000 |
| The People's Republic of China (the "PRC") | 5,234 | 5,473 |
| Other jurisdictions | 133 | 33 |
| | 8,367 | 8,506 |
| (Over) underprovision in prior periods: | | |
| Hong Kong | (6) | 27 |
| The PRC | – | 1,455 |
| | (6) | 1,482 |
| Deferred taxation – current period | 5,478 | 8,402 |
| | 13,839 | 18,390 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

6. Income Tax Expenses (Cont'd)

Current tax

As disclosed in the Group's annual reports published in previous years, the IRD has initiated a tax audit on certain group companies in Hong Kong from the year of assessment 1999/2000 onwards. As a matter of IRD's practice, the IRD has issued estimated/additional assessments ("Assessments") demanding for tax to the relevant group companies for the years of assessment from 1999/2000 to 2011/2012. During the course of the tax audit, there may be a possibility that estimated additional assessments for subsequent years will be issued by the IRD to these group companies.

Up to 30 June 2019, the Group has made tax payment of approximately HK\$188,464,000 (31 December 2018: HK\$185,034,000) for conditional standover order of objection against the Assessments, including approximately HK\$175,044,000 (31 December 2018: HK\$175,044,000) tax reserve certificates purchased by the Group. The amount is included in "tax recoverable" in the condensed consolidated statement of financial position.

Deferred tax

Included in tax charge for the period is approximately HK\$6,508,000 (six months ended 30 June 2018: HK\$7,834,000) deferred tax charged on increase in fair value of investment properties.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

7. Profit for the Period

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Amortisation of prepaid lease payments | – | 792 |
| Depreciation of property, plant and equipment | 28,514 | 28,412 |
| Depreciation of right-of-use assets | 6,388 | – |
| Net (reversal) allowance for inventory obsolescence (included in cost of sales) | (2,185) | 6,142 |
| Investment income earned on: | | |
| Bank interest income | (5,829) | (7,417) |
| Interest income on other receivables | – | (390) |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

8. Earnings Per Share

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Earnings for the purpose of basic and diluted earnings per share attributable to owners of the Company | 33,572 | 23,589 |
| | Number of shares | Number of shares |
| Number of ordinary shares for the purpose of basic and diluted earnings per share | 305,615,420 | 305,615,420 |

The computation of diluted earnings per share for the six months ended 30 June 2019 does not assume the exercise of the Company's share options because the share options were still under the vesting period.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

9. Dividends

During the current interim period, a final dividend of 3 HK cents (six months ended 30 June 2018: 3 HK cents) per share was declared to the shareholders for the year ended 31 December 2018 (six months ended 30 June 2018: for the year ended 31 December 2017) and paid in cash.

The Board declared that an interim dividend of 3 HK cents per share for the six months ended 30 June 2019 (six months ended 30 June 2018: 3 HK cents) in an aggregate amount of HK\$9,168,000 (six months ended 30 June 2018: HK\$9,168,000) which will be paid to shareholders whose names appear in the register of members on 20 September 2019. This dividend was declared after the end of the reporting period, and therefore it has not been included as a liability in the condensed consolidated statement of financial position.

10. Movements in Investment Properties

All investment properties held by the Group are determined using fair value model. The fair value of the Group's investment properties at 30 June 2019 has been arrived at on the basis of the valuation carried out by Centaline Surveyors Limited (31 December 2018: Centaline Surveyors Limited and 新昌信安達資產評估有限公司), which are independent qualified professional valuers not connected with the Group. An increase in fair value of investment properties of HK\$37,968,000 (six months ended 30 June 2018: HK\$41,667,000) has been recognised directly in the profit or loss for the six months ended 30 June 2019.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

11. Trade Receivables

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

At 30 June 2019, total bills received amounting to HK\$114,000 (31 December 2018: HK\$4,958,000) are held by the Group for further settlement of trade receivables, of which certain bills are further discounted by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

The aged analysis of the Group's trade receivables, net of allowance for doubtful debts, presented based on the invoice dates at the end of the reporting period, which approximates the respective revenue recognition dates, is as follows:

| | At 30 June 2019 HK\$'000 (unaudited) | At 31 December 2018 HK\$'000 (audited) |
|-----------------|--|--|
| Within 90 days | 451,522 | 401,470 |
| 91 to 180 days | 31,523 | 23,345 |
| 181 to 360 days | 12,307 | 7,173 |
| Over 360 days | 3,144 | 1,321 |
| | 498,496 | 433,309 |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

12. Deposits, Prepayments and Other Receivables

Included in deposits, prepayments and other receivables is a deposit of RMB30,000,000 (equivalent to HK\$34,091,000) (31 December 2018: RMB30,000,000, equivalent to HK\$34,319,000) paid to the customs authority in Shaoxing City of Zhejiang Province in the PRC in relation to an ongoing enquiry of customs duty for import of certain machinery parts and apparel accessories for manufacturing by the PRC factories into China.

In June 2016, a judgment (the “Judgment”) was made by the Intermediate People’s Court Shaoxing, Zhejiang Province (the “Shaoxing Intermediate People’s Court”) which stated that the Group had convicted an offence of illicit transportation of common goods or articles without paying customs duty and was required to pay a penalty of approximately RMB28,000,000 and customs of approximately RMB27,000,000, out of which the RMB30,000,000 deposit previously paid would be confiscated by the Customs Authority and used to offset the amount payable. In July 2016, the Group appealed against the Judgment (the “Appeal”) to the High People’s Court of Zhejiang Province.

In June 2017, a ruling was made by the High People’s Court of Zhejiang Province on the Appeal that, due to the unclear facts ascertained in the Judgment, the Judgment made by the Shaoxing Intermediate People’s Court was revoked, and the customs proceedings were remitted to the Shaoxing Intermediate People’s Court for retrial.

In April 2018, the Shaoxing Intermediate People’s Court retained the same judgment (“Judgment 2”) as was made previously. After seeking advice from the legal and other professionals, the Group appeal against the Judgment 2.

The management of the Group had sought advice from PRC legal professionals who advised that the Judgment 2 would not take effect and the facts set out in the claims were unclear and without merit against which the Group had strong grounds to defend. The Group has made a provision in 2018 for a penalty of not complying with the processing trade requirement of approximately RMB2,000,000 (equivalent to approximately HK\$2,372,000). The next court hearing is expected to be held within the next six to twelve months from the end of this interim reporting period.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

13. Trade Payables

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

| | At 30 June 2019 HK\$'000 (unaudited) | At 31 December 2018 HK\$'000 (audited) |
|-------------------|--|--|
| Within 90 days | 70,558 | 82,154 |
| 91 to 180 days | 15,225 | 9,912 |
| 181 to 360 days | 5,177 | 5,985 |
| Over 360 days | 8,388 | 6,379 |
| | 99,348 | 104,430 |
| Accrued purchases | 181,972 | 201,983 |
| | 281,320 | 306,413 |

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

14. Bank Borrowings

During the current interim period, the Group obtained new bank borrowings totalling HK\$86.7 million (six months ended 30 June 2018: HK\$1,017 million) and repaid HK\$76.7 million (six months ended 30 June 2018: HK\$960 million). The loans carry interest at market rates ranging from 2.92% to 5.78% (31 December 2018: 1.72% to 4.8%) per annum.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

15. Share Capital

| | Number of shares | Amount |
|--|-----------------------------|---------------|
| | '000 | HK\$'000 |
| Ordinary shares of HK\$0.10 each | | |
| Authorised: | | |
| At 1 January 2018 (audited), 30 June 2018 (unaudited), 1 January 2019 (audited) and 30 June 2019 (unaudited) | 1,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 January 2018 (audited), 30 June 2018 (unaudited), 1 January 2019 (audited) and 30 June 2019 (unaudited) | 305,616 | 30,562 |

16. Capital Commitments

At 30 June 2019, the Group is committed to capital expenditure in respect of acquisition of property, plant and equipment and construction work contracted but not provided for amounted to HK\$200,507,000 (31 December 2018: HK\$235,674,000).

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

17. Related Party Transactions

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

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Purchases of raw materials and finished goods from and sub-contracting fee paid to joint ventures | 2,758 | 5,736 |
| Key management personnel compensation (<i>note</i>) | 8,043 | 8,043 |

Note: The remuneration of directors and key executives during the period are determined by the remuneration committee having regard to the performance of individuals and market trends.

18. Share-Based Payments

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 30 May 2012 for the primary purpose of providing incentives to directors and eligible employees. Unless otherwise terminated or amended, the Share Option Scheme will remain in force for 10 years ending 29 May 2022. Under the Share Option Scheme, the Board may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

18. Share-Based Payments (Cont'd)

At 31 December 2018 and 30 June 2019, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 5,000,000, which if exercised in full representing 1.64% (31 December 2018: 1.64%) of the shares of the Company in issue at the date. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Each grant of options to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, must be approved by independent non-executive directors of the Company. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, without prior approval from the Company's shareholders. The offer of a grant of share option may be accepted within 28 days from the date of the offer with no authorization being payable by the grantee. The exercisable period of the share options granted is determinable by the directors of the Company, but no later than 10 years from the date of the offer.

50% of the options granted are exercisable from 3 December 2019 to 2 December 2028, while the remaining 50% of the options granted are exercisable from 3 December 2020 to 2 December 2028. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of option; (ii) the average closing price of the Company's shares in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of option; and (iii) the nominal value of the Company's share.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

18. Share-Based Payments (Cont'd)

Details of options granted are as follows:

| Number of share options | Date of grant | Exercise period | Exercise price per share HK\$ | Fair value at grant date HK\$ |
|----------------------------|-----------------|---------------------------------------|-------------------------------------|-------------------------------------|
| 5,000,000 | 3 December 2018 | 3 December 2019 to 2 December 2028 | 1.76 | 0.3828 |

The number of outstanding options remained as 5,000,000 as at 30 June 2019 and 31 December 2018.

The fair value of the share options granted is calculated using the Binomial Option Pricing Model. The inputs into the model are as follows:

| | |
|------------------------------|----------|
| Weighted average share price | HK\$1.76 |
| Exercise price | HK\$1.76 |
| Validity period | 10 years |
| Risk-free rate | 2.31% |
| Expected volatility | 25.56% |
| Expected dividend yield | 3.41% |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised an expense of HK\$479,000 (31 December 2018: HK\$80,000) for the period ended 30 June 2019 in relation to share options granted by the Company.

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the director's best estimate. The value of an option varies with different variables of certain subjective assumptions.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

19. Contingent Liabilities

In addition to the tax audit on certain group companies, and the Judgment received by the Group, as disclosed in notes 2, 6 and 12, respectively, the Group has the following contingent liabilities:

There were disputes amongst the Group, Tai Ding Century Limited ("Tai Ding"), Ms. Leong Ma Li, the beneficial owner of Tai Ding, and certain directors of the Company and several legal proceedings are taking place. The aforesaid parties in the action have agreed to generally extend the deadlines of filing various documents with the court. Given that it is still at evidence investigation stage, in the opinion of the directors of the Company, the ultimate outcome is unable to be determined and no provision has been made accordingly.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

20. Fair Value Measurements of Financial Instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's structured deposits, investment component of a life insurance contract, equity investments at fair value through other comprehensive income and derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable. For valuation technique using discounted cash flows, the discount rates used take into consideration the credit risk of the relevant counterparties of the Group, as appropriate.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

20. Fair Value Measurements of Financial Instruments (Cont'd)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Cont'd)

| Financial assets/ financial liabilities | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|-------------------------------------|--------------------------------|-------------------------|---|
| | 30 June 2019 (unaudited) | 31 December 2018 (audited) | | |
| Foreign exchange forward contracts | Liabilities - HK\$15,000 | Liabilities - HK\$5,986,000 | Level 2 | Valuation technique: Discounted cash flow. Key inputs: Forward exchange rates, contracted exchange rates and discount rates. |
| Foreign currency and interest rate swaps | - | Liability - HK\$6,000 | Level 2 | Valuation technique: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, contracted interest rates, discount rate and volatility of exchange rate of HK\$ vs US\$. |
| Dual currency interest rate swap | - | Liability - HK\$2,506,000 | Level 2 | Valuation technique: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, contracted interest rates, discount rate and HSBC Dynamic Term Premium Index 10 as published on Bloomberg Screen and its volatility. |
| Structured deposits | Assets - HK\$220,087,000 | Assets - HK\$269,435,000 | Level 2 | Valuation techniques: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, contracted interest rates, contracted exchange rates and volatility of exchange rates. |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

20. Fair Value Measurements of Financial Instruments (Cont'd)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Cont'd)

| Financial assets/ financial liabilities | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|--|------------------------------------|-------------------------------|-------------------------|---|
| | 30 June 2019 (unaudited) | 31 December 2018 (audited) | | |
| Investment component of a life insurance contract (note i) | Assets - HK\$31,938,000 | Assets - HK\$31,729,000 | Level 3 | Valuation technique: Discounted cash flows. Key inputs: Expected cashflows and discount rates. |
| Equity instruments at FVTOCI (note ii) | Assets - HK\$19,493,000 | Assets - HK\$19,493,000 | Level 3 | Valuation technique: Market approach. Key inputs: Median/average of the EV-to-EBITDA ratio based on publicly available information including Bloomberg database and the financial statements and announcements of respective comparable companies, marketability discount. |

Notes:

- (i) The return of the investment is at the discretion of the insurer and the surrender charge is for termination of both the insurance and investment components. Accordingly, the directors of the Company consider the account value as at 30 June 2019 as an appropriate estimate of fair value. Key unobservable inputs used include expected cashflows and discount rates. The higher the expected cashflows, the higher the fair value. The higher the discount rates, the lower the fair value. Fair value gain of HK\$209,000 is recognised in profit or loss for the six months ended 30 June 2019.
- (ii) The fair value of the investments is measured using a valuation technique with significant unobservable inputs, and hence being classified as Level 3 of the fair value hierarchy. Key unobservable inputs used include marketability discount of 25%. The higher the marketability discount, the lower the fair value. No fair value gain or loss is recognised in other comprehensive income for the six months ended 30 June 2019.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

20. Fair Value Measurements of Financial Instruments (Cont'd)

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

21. Financial Assets and Financial Liabilities Subject to Enforceable Master Netting Arrangements

The Group has entered into certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Netting Agreements ("ISDA Agreements") signed with various banks. These derivative instruments are not offset in the condensed consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts.

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

21. Financial Assets and Financial Liabilities Subject to Enforceable Master Netting Arrangements (Cont'd)

Financial assets of the Group subject to ISDA Agreements by counterparty:

| | Carrying amounts of financial assets in the condensed consolidated statement of financial position bank balances HK\$'000 | Related amounts not set off in the condensed consolidated statement of financial position – financial liabilities HK\$'000 | Net amount HK\$'000 |
|----------------------------|--|---|------------------------|
| At 30 June 2019 | | | |
| Bank B | 436 | (15) | 421 |
| At 31 December 2018 | | | |
| Bank A | 99 | (99) | – |
| Bank B | 265 | (265) | – |
| Total | 364 | (364) | – |

Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 30 June 2019

21. Financial Assets and Financial Liabilities Subject to Enforceable Master Netting Arrangements (Cont'd)

Financial liabilities of the Group subject to ISDA Agreements by counterparty:

| | Carrying amounts of financial liabilities presented as "Derivative financial instruments" in the condensed consolidated statement of financial position HK\$'000 | Related amounts not set off in the condensed consolidated statement of financial position – financial assets HK\$'000 | Net amount HK\$'000 |
|----------------------------|--|---|------------------------|
| At 30 June 2019 | | | |
| Bank B | (15) | 15 | - |
| At 31 December 2018 | | | |
| Bank A | (2,549) | 99 | (2,450) |
| Bank B | (1,774) | 265 | (1,509) |
| Bank C | (2,087) | - | (2,087) |
| Bank D | (2,088) | - | (2,088) |
| Total | (8,498) | 364 | (8,134) |

The gross amounts of the recognised financial assets and financial liabilities disclosed in the above tables, which are subject to enforceable master netting arrangements, are measured at as follows:

- Bank balances – amortised cost
- Derivative financial instruments - fair value

Other Information

INTERIM DIVIDEND

The board of directors of the Company (the “Board”) has resolved to declare an interim dividend of 3 HK cents per share for the six months ended 30 June 2019 (six months ended 30 June 2018: 3 HK cents) on the shares in issue amounting to HK\$9,168,000 (six months ended 30 June 2018: HK\$9,168,000), to the shareholders whose names appear on the Register of Members on Friday, 20 September 2019. The dividend will be payable on or about Friday, 18 October 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, 19 September 2019 to Friday, 20 September 2019, both days inclusive, during which period no transfer of shares will be registered. In order to determine shareholders who are entitled to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration by not later than 4:30 p.m. on Wednesday, 18 September 2019.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the accounting period for the six months ended 30 June 2019, except for the following deviations as described below:

Code provision A.2.1

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

Mr. Lam Foo Wah 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 best interests of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

Other Information

CORPORATE GOVERNANCE (Cont'd)

Code provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

The current non-executive directors and independent non-executive directors of the Company were not appointed for a specific term. However, as all directors of the Company are eligible for re-election and subject to retirement by rotation at the annual general meetings in accordance with Bye-law 87 of the Company's Bye-laws and code provision A.4.2 of the CG Code, the Board considers that sufficient resources have been taken to ensure that the Company's corporate governance practices are no less than exacting than those in the CG Code.

Code provision A.5.1

Under the code provision A.5.1 of the CG Code, Nomination Committee should comprise a majority of independent non-executive directors.

Following the retirement of Mr. Woo King Wai as an independent non-executive director of the Company ("INED") on 6 June 2019, (i) the number of INEDs fell below the minimum number of three and the number of INEDs could not represent at least one-third of the Board, as required respectively under Rules 3.10(1) and 3.10A of the Listing Rules; and (ii) the number of INEDs on the Audit Committee, Remuneration Committee and Nomination Committee did not meet the respective majority requirement under Rule 3.21 and Rule 3.25 of the Listing Rules, and code provision A.5.1 of the CG Code.

On 26 July 2019, Mr. Chung Kwok Pan was appointed as (i) an INED; and (ii) a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee of the Company. Subsequent to the appointment, the Company complied with the Listing Rules and code provision as mentioned in the above paragraph.

Other Information

CORPORATE GOVERNANCE (Cont'd)

Code provision D.1.4

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

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

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 as its own code of conduct regarding directors’ securities transactions. Confirmation has been sought from all directors of the Company and they have complied with the required standard set out in the Model Code during the six months ended 30 June 2019.

The Company has established the written guidelines on no less exacting terms than the required standard set out in the Model Code to govern securities transactions of the relevant employees who may possess or have access to inside information of the Company.

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

During the six months ended 30 June 2019, the Company has not redeemed, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s listed securities.

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company has reviewed the Group’s unaudited condensed consolidated financial information and interim report for the six months ended 30 June 2019.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, 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 and the Stock Exchange 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) or 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 pursuant to the Model Code contained in the Listing Rules, were as follows:

(i) Long Positions in the Shares and Underlying Shares of the Company

(a) Ordinary shares of the Company

| Name of directors | Notes | Capacity | Nature of interests | Number of ordinary shares held | Percentage of the Company's issued share capital (Note 3) |
|--------------------------|-------|------------------|---------------------|--------------------------------|--|
| Lam Foo Wah | | Beneficial owner | Personal | 1,789,901 | 0.59% |
| | 1, 2 | Other interest | Other | 198,797,460 | 65.05% |
| So Siu Hang, Patricia | | Beneficial owner | Personal | 2,963,207 | 0.97% |

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

(i) Long Positions in the Shares and Underlying Shares of the Company (Cont'd)

(b) Share options granted by the Company

| Name of directors | Capacity | Number of underlying shares held pursuant to share options | Percentage of the Company's issued share capital <i>(Note 3)</i> |
|-------------------|------------------|--|---|
| Lam Gee Yu, Will | Beneficial owner | 2,500,000 | 0.82% |
| Lam Din Yu, Well | Beneficial owner | 2,500,000 | 0.82% |

(ii) Long Position in Ordinary Shares of Associated Corporation

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

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

(ii) Long Position in Ordinary Shares of Associated Corporation (Cont'd)

Notes:

1. Mr. Lam Foo Wah is deemed to have interests in 154,087,620 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under The Lam Foo Wah 1992 Trust. Mr. Lam is regarded as a founder of the trust.
2. Mr. Lam Foo Wah is deemed to have interests in 44,709,840 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under High Fashion Trust. Mr. Lam is regarded as a founder of the trust.
3. The issued share capital of the Company was 305,615,420 shares as at 30 June 2019.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.
5. The issued share capital of High Fashion Knitters Limited was 15,000,000 shares as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, 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 and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which 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 pursuant to the Model Code contained in the Listing Rules.

Furthermore, save as disclosed in the "Share Option Scheme" section below, at no time during the six months ended 30 June 2019 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 obtain benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporates.

Other Information

SHARE OPTION SCHEME

The Company passed a resolution at the annual general meeting to adopt a new share option scheme on 30 May 2012 (the “Scheme”) for a period of 10 years commencing on the adoption date following the expiry of the old share option scheme for the continuation of providing recognition to the contributions or services of employees, executives and non-executive directors of the Group.

The movements in the Company’s share options during the six months ended 30 June 2019 are disclosed as follows:

| Name of grantee | Date of grant | Exercise price per share HK\$ | Exercise period | Number of share options | | | | |
|------------------|-----------------|----------------------------------|------------------------------------|-------------------------|---------------------------|-----------------------------|------------------------------------|--------------------|
| | | | | As at 1 January 2019 | Granted during the period | Exercised during the period | Lapsed/cancelled during the period | As at 30 June 2019 |
| Directors | | | | | | | | |
| Lam Gee Yu, Will | 3 December 2018 | 1.76 | 3 December 2019 to 2 December 2028 | 1,250,000 | - | - | - | 1,250,000 |
| | | | 3 December 2020 to 2 December 2028 | 1,250,000 | - | - | - | 1,250,000 |
| | | | | 2,500,000 | - | - | - | 2,500,000 |
| Lam Din Yu, Well | 3 December 2018 | 1.76 | 3 December 2019 to 2 December 2028 | 1,250,000 | - | - | - | 1,250,000 |
| | | | 3 December 2020 to 2 December 2028 | 1,250,000 | - | - | - | 1,250,000 |
| | | | | 2,500,000 | - | - | - | 2,500,000 |
| Total | | | | 5,000,000 | - | - | - | 5,000,000 |

Note:

The vesting period of the share options is from the date of grant until the commencement of the exercise period.

Other Information

SHARE OPTION SCHEME (Cont'd)

Save as disclosed above, no share options of the Company were granted, exercised, lapsed or cancelled during the period.

Apart from the Scheme, during the six months ended 30 June 2019, 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 2019, the following substantial shareholders, other than directors and chief executives of the Company, had the interests and short positions 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 the SFO:

Long Positions in the Ordinary Shares of the Company:

| Name of shareholders | Notes | Capacity | Number of ordinary shares held | Percentage of the Company's issued share capital (Note 3) |
|--|-------|--------------------|--------------------------------|--|
| Leung Shuk Bing | 1 | Interest of spouse | 200,587,361 | 65.63% |
| Hinton Company Limited | 2 | Beneficial owner | 154,087,620 | 50.42% |
| High Fashion Charitable Foundation Limited | 2 | Beneficial owner | 44,709,840 | 14.63% |

Other Information

SHARE OPTION SCHEME (Cont'd)

Notes:

1. Ms. Leung Shuk Bing is spouse of Mr. Lam Foo Wah and is deemed to have interests in 200,587,361 ordinary shares.
2. Such 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.
3. The issued share capital of the Company was 305,615,420 shares as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, 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 a long 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.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by the directors of the Company since the publication of the Company's 2018 Annual Report are set out below:

Name of Directors

Mr. Hung Ka Hai, Clement

Mr. Wong Shiu Hoi, Peter

Details of Changes

Appointed as an independent non-executive director of China East Education Holdings Limited, which was listed on the Stock Exchange on 12 June 2019 (stock code: 667).

Appointed as an independent non-executive director of Tai Hing Group Holdings Limited, which is a company listed on the Stock Exchange (stock code: 6811) with effect from 22 May 2019.

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)
Ms. So Siu Hang, Patricia
Mr. Lam Gee Yu, Will
Mr. Lam Din Yu, Well

Non-executive Directors

Professor Yeung Kwok Wing
Mr. Hung Ka Hai, Clement

Independent Non-executive Directors

Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim
Mr. Chung Kwok Pan
(Appointed on 26 July 2019)

AUDIT COMMITTEE

Mr. Leung Hok Lim *(Chairman)*
Professor Yeung Kwok Wing
Mr. Hung Ka Hai, Clement
Mr. Wong Shiu Hoi, Peter
Mr. Chung Kwok Pan
(Appointed on 26 July 2019)

REMUNERATION COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Professor Yeung Kwok Wing
Mr. Leung Hok Lim
Mr. Chung Kwok Pan
(Appointed on 26 July 2019)
Mr. Lam Gee Yu, Will

NOMINATION COMMITTEE

Mr. Lam Foo Wah *(Chairman)*
Professor Yeung Kwok Wing
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim
Mr. Chung Kwok Pan
(Appointed on 26 July 2019)

RISK MANAGEMENT COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Mr. Leung Hok Lim
Mr. Chung Kwok Pan
(Appointed on 26 July 2019)
Mr. Lam Gee Yu, Will
Mr. Li Wa Tat, Benedict

COMPANY SECRETARY

Mr. Li Wa Tat, Benedict

AUDITOR

Deloitte Touche Tohmatsu

Corporate Information

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

22/F., CITIC Telecom Tower,
93 Kwai Fuk Road, Kwai Chung,
New Territories, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 54, Hopewell Centre,
183 Queen's Road East, Hong Kong
(Change of address with effect from 11 July 2019)

COMPANY WEBSITE

www.highfashion.com.hk