DAPHNE INTERNATIONAL HOLDINGS LIMITED
達 芙 妮 國 際 控 股 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 210)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009

HIGHLIGHTS OF INTERIM RESULTS

	2009	2008	Change
Turnover (HK$'million)	2,773.9	2,487.0	+11.5%
Gross profit (HK$'million)	1,519.7	1,331.9	+14.1%
Operating profit (HK$'million)	408.7	356.9	+14.5%
Profit attributable to equity holders of the Company (HK$'million)	261.4	258.4	+1.1%
Basic earnings per share (HK cents)	15.96	15.78	+1.1%
Interim dividend per share (HK cents)	3.0	2.5	+20.0%

* *For identification purpose only*

INTERIM RESULTS

The board of directors (the "Board") of Daphne International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009, together with the comparative figures for the corresponding periods in 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Note	Unaudited Six months ended 30 June 2009 HK$'000	2008 HK$'000
Turnover	3	2,773,900	2,487,039
Cost of sales		(1,254,227)	(1,155,127)
Gross profit		1,519,673	1,331,912
Other income		20,035	9,537
Other losses - net		(25,811)	(1,052)
Selling and distribution expenses		(977,332)	(843,139)
General and administrative expenses		(127,828)	(140,385)
Operating profit	4	408,737	356,873
Fair value loss on derivative financial instrument - warrants		(28,504)	-
Finance costs		(5,905)	(5,931)
Share of profit of an associated company		146	137
Profit before income tax		374,474	351,079
Income tax expense	5	(109,492)	(91,344)
Profit for the period		264,982	259,735
Profit attributable to:			
- Equity holders of the Company		261,384	258,429
- Minority interests		3,598	1,306
		264,982	259,735
Interim dividend	6	49,137	40,947
Earnings per share for profit attributable to equity holders of the Company	7		
- Basic (HK cents)		15.96	15.78
- Diluted (HK cents)		15.90	15.78

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Unaudited Six months ended 30 June 2009 HK$'000	2008 HK$'000
Profit for the period	264,982	259,735
Other comprehensive income		
Currency translation differences	19,123	89,685
Total comprehensive income for the period	284,105	349,420
Total comprehensive income attributable to:		
- Equity holders of the Company	280,225	346,711
- Minority interest	3,880	2,709
	284,105	349,420

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2009

	Note	Unaudited 30 June 2009 HK$'000	Audited 31 December 2008 HK$'000
Non-current assets			
Intangible assets		27,858	39,447
Land use rights		52,030	44,944
Fixed assets		575,828	574,735
Interest in an associated company		2,772	3,134
Available-for-sale financial assets		33,624	33,624
Long-term rental deposits and prepayments		77,348	87,703
Deferred tax assets		40,007	31,771
		809,467	815,358
Current assets			
Inventories		1,135,456	1,355,280
Trade receivables	8	179,659	162,967
Other receivables, deposits and prepayments		427,892	480,794
Cash and cash equivalents		1,109,332	147,962
		2,852,339	2,147,003
Current liabilities			
Trade payables	9	457,759	397,006
Other payables and accrued charges		186,942	221,368
Taxation payable		219,929	165,325
Bank loans		16,433	270,655
Derivative financial instrument - warrants		108,549	-
		989,612	1,054,354
Net current assets		1,862,727	1,092,649
Total assets less current liabilities		2,672,194	1,908,007
Financed by:			
Share capital		163,789	163,789
Reserves		1,948,013	1,690,744
Equity attributable to equity holder of the Company		2,111,802	1,854,533
Minority interests		36,902	36,765
Total equity		2,148,704	1,891,298
Non-current liabilities			
Convertible bonds		504,659	-
License fees payable		17,039	15,154
Deferred tax liabilities		1,792	1,555
		523,490	16,709
Total equity and non-current liabilities		2,672,194	1,908,007

NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1 Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). Certain comparative figures have been reclassified to conform with changes in presentation in the current period and full year results of 2008. Both turnover and selling and distribution expenses have been increased by HK$138,402,000 with no impact on the Group's net profit and financial position.

2 Accounting Policies

Apart from the accounting policies adopted by the Group in the current period as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

(a) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible bonds is determined using a market interest rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity. The equity component is recognised in equity, net of any tax effects.

When the bond is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the bond is redeemed, the relevant equity component is transferred to retained profits.

(b) Warrants

Warrants are classified as derivative financial instruments that are accounted for at fair value through profit and loss. The gain or loss derived from changes in its fair value is recognised in the income statement. Transaction costs that are attributable to issue of warrants are charged to the income statement during the financial period in which they are incurred.

(c) Adoption of new or revised standards

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (Revised), 'Presentation of Financial Statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. The Group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

- HKFRS 8, 'Operating Segments'. HKFRS 8 replaces HKAS 14, 'Segment Reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. This has resulted in a redesignation of the Group's reportable segments, and has had no impact on the reported results or financial position of the Group. Accordingly, as disclosed in the segment information (Note 3) for both the current period and the comparative figures of prior period have been presented under the new reporting segmentation.

- Amendment to HKFRS 7, 'Financial Instruments: Disclosures'. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will make additional relevant disclosures in its financial statements ending 31 December 2009.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but do not have material impact on the Group's financial statements.

- HKAS 23 (Amendment), 'Borrowing Costs'
- HKAS 32 (Amendment), 'Financial Instruments: Presentation'
- HKAS 32 & HKAS 1 (Amendments), 'Puttable Financial Instruments and Obligations Arising on Liquidation
- HKAS 40 (Amendment), 'Investment Property' (and consequential amendments to HKAS 16)
- HKFRS 2 (Amendment), 'Share-based Payment'
- HK(IFRIC) 9 (Amendment), 'Reassessment of Embedded Derivatives' and HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'
- HK(IFRIC) 13, 'Customer Loyalty Programmes'
- HK(IFRIC) 15, 'Agreements for the Construction of Real Estate'
- HK(IFRIC) 16, 'Hedges of a Net Investment in a Foreign Operation'

3 Turnover and segment reporting

The Group is principally engaged in the manufacturing and distribution of footwear and apparel products.

The chief operating decision-makers have been identified as the executive directors. The executive directors review the Group's financial information mainly from a business perspective, namely brand business, manufacture business and trading business. The reportable segments are classified in a manner consistent with the information reviewed by the executive directors.

Sales between operating segments are carried out on term equivalent to those prevail in arm's length transactions. The executive directors assess the performance of the operating segments based on a measure of segment's profit before interest, tax and any fair value gain or loss on derivative financial instruments.

Segment assets mainly excluded interest in an associated company, available-for-sale financial assets, deferred tax assets and other assets that are managed on a central basis.

An analysis of the Group's turnover and operating results for the six months ended 30 June 2009 by reportable segment is as follows:

	Unaudited For the six months ended 30 June 2009						
	Brand Business			Manufacture Business	Trading Business	Inter-segment elimination	Group
	Daphne	Shoebox	Licensed brands				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	1,957,779	432,927	162,026	17,679	203,489	-	2,773,900
Inter-segment revenue	-	-	-	501,674	29,989	(531,663)	-
Total segment revenue	1,957,779	432,927	162,026	519,353	233,478	(531,663)	2,773,900
Segment results	384,103	55,402	(43,102)	24,520	(2,461)	3,364	421,826
Income derived from an unlisted available-for-sale financial asset							1,500
Unallocated corporate expenses							(14,589)
Operating profit							408,737
Impairment on goodwill	-	-	10,606	-	-	-	10,606
Depreciation and amortisation	41,548	9,320	4,604	7,326	127	-	62,925
Capital expenditure	59,829	11,682	6,394	2,173	-	-	80,078

	Unaudited For the six months ended 30 June 2008						
	Brand Business			Manufacture Business	Trading Business	Inter-segment elimination	Group
	Daphne	Shoebox	Licensed brands				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	1,724,701	260,991	189,134	-	312,213	-	2,487,039
Inter-segment revenue	-	-	-	617,756	38,696	(656,452)	-
Total segment revenue	1,724,701	260,991	189,134	617,756	350,909	(656,452)	2,487,039
Segment results	346,969	28,557	4,479	818	(5,217)	(5,395)	370,211
Income derived from an unlisted available-for-sale financial asset							1,500
Fair value loss on derivative financial instrument – forward contracts							(2,074)
Unallocated income							1,394
Unallocated corporate expenses							(14,158)
Operating profit							356,873
Depreciation and amortisation	35,331	5,655	4,459	12,124	268	-	57,837
Capital expenditure	88,858	8,019	11,453	5,073	56	-	113,459

During the current period, the Group has reassessed the reportable segments such that revenues generated from operations have been reported in the brand business, manufacture business and trading business. The comparative figures have been reclassified to conform with the current year's presentation.

The revenue from external customers of brand business is mainly derived from the PRC and the revenue from external customers of manufacture business and trading business are mainly derived from the other countries.

An analysis of the Group's assets by reportable segment is set out below:

	Unaudited As at 30 June 2009					
	Brand Business			Manufacture Business	Trading Business	Group
	Daphne	Shoebox	Licensed brands			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	1,821,012	543,069	256,673	375,407	46,915	3,043,076
Interest in an associated company						2,772
Available-for-sale financial assets						33,624
Deferred tax assets						40,007
Unallocated corporate assets						542,327
Total assets						3,661,806

	Audited As at 31 December 2008					
	Brand Business			Manufacture Business	Trading Business	Group
	Daphne	Shoebox	Licensed brands			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	1,590,088	484,292	312,818	432,798	73,261	2,893,257
Interest in an associated company						3,134
Available-for-sale financial assets						33,624
Deferred tax assets						31,771
Unallocated corporate assets						575
Total assets						2,962,361

At 30 June 2009 and 31 December 2008, non-current assets other than financial instruments and deferred tax assets are mainly located in the PRC.

4 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June 2009 HK$'000	2008 HK$'000
Amortisation of land use rights	819	289
Amortisation of a license right	983	430
Cost of inventories sold (including provision for slow-moving inventories of HK$26,537,000 (2008: HK$6,190,000))	1,115,108	911,372
Depreciation of fixed assets	62,106	57,548
Employee benefits expense (including directors' emoluments and share-based payment expense)	257,880	273,424
Fair value loss on derivative instrument – forward contracts	-	2,074
Impairment on goodwill	10,606	-
Loss on disposal of fixed assets	11,679	5,669

5 Income tax expense

	Six months ended 30 June 2009 HK$'000	2008 HK$'000
Current income tax - outside Hong Kong	117,286	100,068
Deferred taxation	(7,794)	(8,724)
	109,492	91,344

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any assessable profit arising in Hong Kong. Taxation on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the six months ended 30 June 2009 at the rates of taxation prevailing in the countries or places in which the Group operates.

Provision for the PRC corporate income tax was calculated based on statutory tax rate of 25% (2008: 25%) on the assessable income of each of the Group's entities except that certain subsidiaries of the Company operating in Mainland China are eligible for certain tax exemptions and concessions including tax holidays and reduced corporate income tax rates during the period. Accordingly, the PRC corporate income tax for such subsidiaries has been provided after taking into account of these tax exemptions and concessions.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends distributed to foreign investors by the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings accumulated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and jurisdiction of the foreign investors.

6 Interim dividend

During the six months ended 30 June 2009, the Company paid a final dividend of HK3.0 cents (2008: HK2.5 cents) per ordinary share, totalling HK$49,137,000 (2008: HK$40,947,000), for the year ended 31 December 2008.

On 31 August 2009, the Board proposed an interim dividend of HK3.0 cents (2008: HK2.5 cents) per ordinary share, totalling HK$49,137,000 (2008: HK$40,947,000). The proposed dividend is not reflected as a dividend payable in these interim accounts but will be reflected as an appropriation of retained profits for the year ending 31 December 2009.

7 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$261,384,000 (2008: HK$258,429,000) and 1,637,892,384 (2008: 1,637,892,384) ordinary shares in issue throughout the six months ended 30 June 2009.

The calculation of diluted earnings per share is based on the adjusted profit attributable to equity holders of the Company of HK$263,477,000 (2008: HK$258,429,000) and the adjusted weighted average number of ordinary shares of 1,656,631,063 (2008: 1,637,892,384) after taken into consideration of conversion of the convertible bonds.

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Profit attributable to equity holders of the Company	261,384	258,429
Interest on the liability component of the convertible bonds, net of tax	2,093	-
Adjusted profit attributable to equity holders of the Company	263,477	258,429

	Six months ended 30 June	
	2009	2008
	Number of shares	
Number of ordinary shares in issue throughout the period	1,637,892,384	1,637,892,384
Effect of conversion of convertible bonds	18,738,679	-
Weighted average number of ordinary shares adjusted for effect of dilution	1,656,631,063	1,637,892,384

The warrants are anti-dilutive and are ignored in the calculation of diluted earnings per share for the period ended 30 June 2009.

There were no dilutive effect of the share options outstanding for the six months ended 30 June 2009 and 30 June 2008 since the exercise price of the share options was higher than the average market price of the Company's share during the periods.

8 Trade receivables

The ageing analysis of trade receivables by invoice date is as follows:

	30 June 2009 HK$'000	31 December 2008 HK$'000
0 - 30 days	163,844	152,548
31 - 60 days	8,075	4,642
61 - 90 days	1,611	2,105
91 - 120 days	2,059	1,468
121 - 180 days	1,013	1,394
181 - 360 days	2,958	461
Over 360 days	99	349
	179,659	162,967

The Group generally allows an average credit period of 30 to 60 days to its trade customers other than major and long standing customers with whom specific extended terms will be agreed between the Group and the relevant counter parties.

9 Trade payables

The ageing analysis of trade payables including balances due to related parties by invoice date is as follows:

	30 June 2009 HK$'000	31 December 2008 HK$'000
0 - 30 days	208,467	166,462
31 - 60 days	139,206	116,134
61 - 90 days	93,372	94,624
91 - 120 days	4,536	8,758
121 - 180 days	1,929	1,424
181 - 360 days	5,251	4,723
Over 360 days	4,998	4,881
	457,759	397,006

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Following the financial crises that broke out in the second half of 2008, the first few months in 2009 started off with a gloomy environment that posed threats to all players in the retail market. The Group utilized appropriate promotional strategies to complement the stimulated market demand during the Chinese New Year, leading to business growth in line with expectation in the first quarter. Seeing business beginning to recover since the second quarter, the Group cautiously expanded its two well-established own brands "Daphne" and "Shoebox". Supported by a distribution network that boasts extensive coverage, the Group managed to deliver satisfactory results for the six months ended 30 June 2009. It reported satisfactory growth in turnover and managed to maintain profitability when compared with the strong performance during the same period last year, which is evidence of the strengths and tremendous potential of the Group as a leading footwear company. Its high-end licensed international footwear brands "Arezzo", "Sofft" and "Born" managed performances meeting expectation during the review period. In line with its decision to fade out from sportswear business, the Group closed some related points-of-sale, especially those were loss-making, which resulted in a smaller turnover contribution from the business.

For the period under review, brand business accounted for 92% (2008: 87%) of the Group's turnover. Thanks to effective marketing strategies and the increased economies of scale brought by the growing brand business, the Group was able to counter market weakness in Mainland China and still raise its profit.

As at 30 June 2009, the Group had nearly 4,000 points-of-sale for "Daphne", "Shoebox", "adidas", "Nike", "Arezzo", "Sofft" and "Born" brands in 31 provinces and municipalities in Mainland China and Taiwan. More points-of-sale were set up in lower-tier cities aiming for penetration and substantial gain in revenue and stronger overall profitability of the Group.

Distribution of outlets of the Group as at 30 June 2009 is as follows:

	Company-owned brands		Licensed brands		Total
	Daphne	Shoebox	Sportswear	Footwear	
Eastern China	1,179	299	31	9	1,518
Central China	463	114	24	2	603
Southern China	411	97	12	-	520
Northeastern China	352	91	18	-	461
Northern China	272	63	23	1	359
Southwestern China	207	34	5	-	246
Northwestern China	137	29	2	-	168
Taiwan	56	-	-	-	56
Total	3,077	727	115	12	3,931

"Daphne"

During the period under review, the Group continued to expand the distribution network for Daphne in Mainland China and Taiwan by adding 228 points-of-sale with choosing locations carefully. As at 30 June 2009, "Daphne" operated 1,845 stores, 655 counters and 577 franchised outlets. The brand performed to expectation and achieved same store sales growth of approximately 1%. Benefiting from economies of scale, its turnover grew a satisfactory 13.5% as compared with the same period last year.

An analysis of "Daphne" selling points by channel is as follows:

	As at		
	30 June 2009	31 December 2008	Change
Directly-managed stores			
- D18	341	347	-6
- D28	1,366	1,331	+35
- D18 & D28	138	137	+1
	1,845	1,815	+30
Directly-managed counters			
- D18	125	115	+10
- D28	475	441	+34
- D18 & D28	55	60	-5
	655	616	+39
Franchised outlets	577	418	+159
Total	3,077	2,849	+ 228

In Taiwan, at the effort of the Group to control rental costs and improve supply chain management, operating loss of the business in the region narrowed against the same period last year. During the review period, the Group only added two specialty stores and operates 56 points-of-sale. It is optimistic that the business in Taiwan will break even in the near future.

The Group continued to implement the proven effective marketing strategies for "Daphne". The popular girl pop group "S.H.E" and Ms. Rene Liu continued to be the spokespersons for "Daphne D18" and "Daphne D28" respectively. The frequent exposure of the spokespersons at different events during the review period has helped to further increase market awareness of the brands. Taking into consideration of the well-established brand name and the need to maintain profitability, the Group was careful in spending on advertising and promotion, which resulted in a decline in advertising and promotional expenses when compared with the same period last year.

"Shoebox"

Another core brand of the Group "Shoebox" delivered performance exceeding expectations. With 111 points-of-sale added during the review period, the brand had a total of 727 stores as at 30 June 2009 and reported a remarkable 65.9% growth in turnover and a 15% same store sales growth. "Shoebox" remained as the key growth driver of the Group. It continued to gain mass public preference and reported significant growth in turnover and profit margin when compared with the same period last year. The Group expects the brand to keep prospering and expansion at a fast rate in the foreseeable future.

Licensed Brands and Others

As a strategic decision to gradually fade out from the sportswear business to focus on developing ladies footwear business, the sportswear brand products distributed by the Group including those of "adidas" and "Nike" reported a decline in turnover from the Group reducing a number of points-of-sale. The Group operated a total of 107 "adidas" points-of-sale and 8 "Nike" points-of-sale respectively at the end of first half of 2009.

As for the international mid-to-high-end female footwear brands, namely "Arezzo", "Sofft" and "Born", the Group only added one point-of-sale in the first half of 2009, in line with its plan to gradually promote the global trendy footwear brands to consumers. As at 30 June 2009, the Group had 12 points-of-sale for the three brands in operation. It expects contribution from the mid-to-high-end international footwear brands to climb when the economy recovers from the downturn.

During review period, the Group saw the manufacture and delivery of its products remain profitable overall despite the decline in export order volume brought by the uncertain consumption market sentiment. To minimise the impact of the segment that is susceptible to changes in the market environment on its overall performance, the Group has been working on lowering the proportion of export turnover from the segment contributing to the Group's overall performance.

Strategic Investment from TPG Capital ("TPG")

In May 2009, the Group signed an agreement with TPG wherein TPG agrees to make a strategic investment in the Company through subscription of RMB 550 million convertible bonds due 2014 with 100 million warrants. TPG will hold 278,510,572 shares of the Company, equivalent to approximately 14.5% of the total enlarged issued share capital of the Company, assuming the convertible bonds are subsequently fully converted and the warrants fully exercised.

In line with Daphne's target to enhance its corporate governance standards, TPG's involvement will undoubtedly contribute to further boosting its corporate governance standard and transparency.

Furthermore, the Company has appointed Ms. Mary Ma, Managing Director of TPG, as a Non-Executive Director of the Company. With expertise advice from TPG, the Group is now working towards enhancing its supply chain system and thus aim to raise operational efficiency in the short to medium term. In addition, the strategic partnership will allow the Group to on one hand consolidate its foothold in Mainland China and on the other hand, transform into a world-class company in the long term.

With the capital injected by TPG, the Group is now in a net cash position. It is optimistic about the future development of its brand business. At opportune time, the Group will explore or pursue any opportunities that can allow it to enlarge market share and boost presence.

Financial Review

Results Performance

For the six months ended 30 June 2009, the Group's turnover grew by 11.5% to HK$2,773.9 million (2008: HK$2,487.0 million) and recorded an operating profit of HK$408.7 million (2008: HK$356.9 million). Including the loss on fair value of warrants issued during the review period, the profit attributable to equity holders managed a modest increase to HK$261.4 million (2008: HK$258.4 million). Basic earnings per share was HK15.96 cents (2008: HK15.78 cents).

An analysis of major business performance by reportable segment for the six months ended 30 June is as follows:

	Brand Business						Manufacture Business		Trading Business	
	Daphne		Shoebox		Licensed brands					
HK$ million	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Revenue from external customers	*1,957.8*	*1,724.7*	*432.9*	*261.0*	*162.0*	*189.1*	*17.7*	-	*203.5*	*312.2*
Inter-segment revenue	-	-	-	-	-	-	*501.7*	*617.8*	*30.0*	*38.7*
Total segment revenue	1,957.8	1,724.7	432.9	261.0	162.0	189.1	519.4	617.8	233.5	350.9
Gross profit	1,162.7	1,045.5	235.0	142.5	42.4	86.3	64.7	43.4	11.5	19.7
Operating profit/(loss)	384.1	347.0	55.4	28.6	(43.1)	4.5	24.5	0.8	(2.5)	(5.2)

During the period under review, total revenue from external customers of brand business amounted to HK$2,552.7 million (2008: HK$2,174.8 million), representing an increase of 17.4% compared to the same period last year. On the other hand, revenue from OEM customers dropped by 29.2% to HK$221.2 million (2008: HK$312.2 million) for the first half of 2009.

Key Financial Indicators

	For the six months ended 30 June	
	2009	2008
Average inventory turnover (days) *(Note 1)*	180	182
Average debtors turnover (days) *(Note 2)*	11	13
Average creditors turnover (days) *(Note 3)*	86	79
Cash conversion cycle (days) *(Note 4)*	105	116
Capital expenditure (HK$ million)	80.1	113.5
Effective tax rate (%)	29.2	26.0

	As at	
	30 June 2009	31 December2008
Cash and cash equivalents (HK$ million)	1,109.3	148.0
Bank loans (HK$ million)	16.4	270.7
Equity attributable to holders of the Company (HK$ million)	2,111.8	1,854.5
Current ratio (times) *(Note 5)*	2.88	2.04
Net gearing ratio (%) *(Note 6)*	Net cash	6.6

Notes:

1. *The calculation of average inventory turnover (days) is based on average of opening and closing inventory balances divided by cost of sales and multiplied by the number of days of the relevant period.*

2. *The calculation of average debtors turnover (days) is based on average of opening and closing balances of trade receivables divided by turnover and multiplied by the number of days of the relevant period.*

3. *The calculation of average creditors turnover (days) is based on average of opening and closing balances of trade payables divided by purchases and multiplied by the number of days of the relevant period.*

4. *The calculation of cash conversion cycle (days) is based on average inventory turnover (days) plus average debtors turnover (days) minus average creditors turnover (days) of the relevant period.*

5. *The calculation of current ratio (times) is based on total current assets divided by total current liabilities as at the relevant period end.*

6. *The calculation of net gearing ratio (%) is based on net debt (being total of bank loans and convertible bonds, less total cash and cash equivalent) divided by equity attributable to equity holders of the Company as at the relevant period end.*

Liquidity and Financial Resources

As at 30 June 2009, the Group had cash and cash equivalents totalling HK$1,109.3 million (31 December 2008: HK$148.0 million) denominated in Renminbi, Hong Kong dollar, US dollar and New Taiwan dollar. Unutilized banking facilities amounted to HK$320.7 million (31 December 2008: HK$182.3 million). The Group's current ratio improved from 2.04 as at 31 December 2008 to 2.88 as at 30 June 2009. The Group will finance operations and development in the future with cash generated from operations and bank loans.

The Group's net gearing ratio, calculated on the basis of net debt (being total of bank loans of HK$16.4 million (31 December 2008: HK$270.7 million) and convertible bonds of HK$504.7 million (31 December 2008: Nil), less total cash and cash equivalent of HK$1,109.3 million (31 December 2008: HK$148.0 million)) over shareholders' equity of HK$2,111.8 million (31 December 2008: HK$1,854.5 million), was net cash as at 30 June 2009 (31 December 2008: 6.6%). All bank loans were at floating rates during the period under review.

Foreign Exchange Risk Management

The monetary assets, liabilities and transactions of the Group are mainly denominated in Renminbi, Hong Kong dollar, US dollar and New Taiwan dollar. Foreign exchange risks arising from fluctuation of exchange rates of foreign currencies are managed by the Group using foreign exchange forward contracts when necessary.

Pledge of Assets

As at 30 June 2009, the Group's short-term bank loans of HK$16.4 million were unsecured. As at 31 December 2008, short-term bank loans of HK$92.5 million were secured by certain leasehold buildings of net book value of HK$32.5 million and a listed available-for-sale financial asset with nil carrying value.

Significant Capital Investments

During the period, the Group incurred capital expenditure of HK$80.1 million (2008: HK$113.5 million) mainly for retail network expansion.

Contingent Liabilities

As at 30 June 2009, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2009, the Group had over 21,500 employees (31 December 2008: 21,000) in Hong Kong, Taiwan and China. Employee expenditure for the period under review was HK$257.9 million (2008: HK$273.4 million). The Group values its human resources and recognises the importance of retaining high calibre employees. Remuneration packages are generally structured with reference to market terms and individual qualifications. The Group also contributes to employee provident fund schemes and provides medical insurance, purchase discounts and training programmes to staff.

Future Prospects

While the expansion pace in the first half is already ahead of schedule and with the Group's capability to maintain growth under any market condition, the Group will maintain its plans to add 350 "Daphne" points-of-sale and 250 "Shoebox" points-of-sale as full year target of 2009 for further brand development, particularly in lower-tier cities. Via enhancing supply chain system leading to efficient planning, the Group seeks to improve same store sales growth and ready to capture more lucrative opportunities when the economy is picking up in the second half of the year. The Group will speed up expansion in all markets and seek to take full advantage of its extensive national sales network. With a famed brand and supported by consistent marketing and promotional efforts, the Group will actively develop more products and explore opportunities to collaborate with other renowned brands so as to enhance its product portfolio and revenue base. With well-defined objectives and strategies, the Group will continue to strive to generate fruitful returns for shareholders.

INTERIM DIVIDEND

The Board has resolved on 31 August 2009 to declare an interim dividend of HK3.0 cents (2008: HK2.5 cents) per ordinary share for the year ending 31 December 2009. The interim dividend will be payable on or before 29 September 2009 to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 18 September 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 September 2009 to 18 September 2009 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates, must be lodged with the registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 15 September 2009.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

The Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all directors confirmed that they fully complied with the required standard as set out in the Model Code during the six months ended 30 June 2009.

AUDIT COMMITTEE

The Audit Committee, comprises the three independent non-executive directors and one non-executive director of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's unaudited condensed consolidated interim financial statements have been reviewed and approved by the Audit Committee, who is of the opinion that such accounts comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

PUBLICATION OF THE INTERIM RESULTS AND REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkex.com.hk) and the Company (http://www.daphneholdings.com). The interim report containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

By Order of the Board
Daphne International Holdings Limited
Chen Ying-Chieh
Chairman

Hong Kong, 31 August 2009

As at the date of this announcement, the Board comprises Mr. Chen Ying-Chieh, Mr. Chen Hsien Min, Mr. Chang Chih-Kai and Mr. Chang Chih-Chiao being the executive directors, Ms. Ma Xuezheng being the non-executive director and Mr. Hsiao Hsi-Ming, Mr. Huang Shun-Tsai and Mr. Kuo Jung-Cheng being the independent non-executive directors.