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 2010

HIGHLIGHTS OF 2010 INTERIM RESULTS

- Turnover grew by 15% to HK$3,183.1 million

- Gross profit rose by 19% to HK$1,813.4 million

- Profit attributable to equity holders of the Company
  - increased by 13% to HK$326.4 million excluding fair value loss on warrants of HK$136.4 million
  - declined by 27% to HK$190.0 million including fair value loss on warrants of HK$136.4 million

- Basic earnings per share
  - increased by 13% to HK19.93 cents excluding fair value loss on warrants of HK136.4 million
  - dropped by 27% to HK11.60 cents including fair value loss on warrants of HK$136.4 million

- Proposed interim dividend of HK6.0 cents per share

* *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 2010, together with the comparative figures for the corresponding period in 2009.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Unaudited	
		Six months ended 30 June	
	Note	2010	2009
		HK$'000	HK$'000
Turnover	2	3,183,105	2,773,900
Cost of sales		(1,369,707)	(1,254,227)
Gross profit		1,813,398	1,519,673
Other income		38,730	20,035
Other losses - net		(11,303)	(25,811)
Selling and distribution expenses		(1,145,368)	(977,332)
General and administrative expenses		(216,493)	(127,828)
Fair value loss on derivative financial instrument - warrants		(136,359)	(28,504)
Finance costs		(21,835)	(5,905)
Share of profit of an associated company		255	146
Profit before income tax	3	321,025	374,474
Income tax expense	4	(124,483)	(109,492)
Profit for the period		196,542	264,982
Attributable to:			
Equity holders of the Company		190,038	261,384
Non-controlling interests		6,504	3,598
		196,542	264,982
Earnings per share	5		
Basic (HK cents)		11.60	15.96
Diluted (HK cents)		11.28	15.90
Interim dividend	6	98,274	49,137

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Profit for the period	196,542	264,982
Currency translation differences	17,387	19,123
Total comprehensive income for the period	213,929	284,105
Attributable to:		
Equity holders of the Company	207,404	280,225
Non-controlling interests	6,525	3,880
	213,929	284,105

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2010

	Note	Unaudited 30 June 2010 HK$'000	Audited 31 December 2009 HK$'000
Non-current assets			
Intangible assets		132,224	26,875
Land use rights		49,494	43,498
Fixed assets		600,378	560,594
Interest in an associated company		2,957	3,262
Available-for-sale financial assets		63,183	33,624
Long-term rental deposits and prepayments		86,007	92,420
Deferred income tax assets		44,319	41,466
		978,562	801,739
Current assets			
Inventories		929,219	889,319
Trade receivables	7	195,536	181,253
Other receivables, deposits and prepayments		435,928	442,731
Pledged bank deposit		-	2,915
Bank deposit with maturity over three months		34,440	78,000
Cash and cash equivalents		2,067,075	1,544,851
		3,662,198	3,139,069
Current liabilities			
Trade payables	8	619,463	385,317
Other payables and accrued charges		299,587	271,602
Income tax payable		194,478	206,764
Bank loans		10,647	14,567
Derivative financial instrument - warrants		423,840	284,261
		1,548,015	1,162,511
Net current assets		2,114,183	1,976,558
Total assets less current liabilities		3,092,745	2,778,297
Financed by:			
Share capital		163,789	163,789
Reserves		2,191,226	2,039,109
Equity attributable to equity holder of the Company		2,355,015	2,202,898
Non-controlling interests		171,401	39,027
Total equity		2,526,416	2,241,925
Non-current liabilities			
Convertible bonds		530,631	515,625
License fees payable		18,743	17,850
Deferred income tax liabilities		1,597	2,897
Other non-current liabilities		15,358	-
		566,329	536,372
Total equity and non-current liabilities		3,092,745	2,778,297

NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 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 accounts for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual accounts for the year ended 31 December 2009 except that certain comparative figures have been reclassified to conform with changes in presentation in the current period.

In 2010, the Group has adopted the following new/revised HKFRSs that are effective for accounting periods commencing on or after 1 January 2010:

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-setttled Share-based Payment
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners
HK – Int 4 (Amendment)	Determination of Length of Lease Term in respect of Hong Kong Land Leases
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009

HKFRS 3 (Revised) "Business Combination" introduces significant changes in the accounting for business combinations occurring on or after 1 January 2010. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reporting results.

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss.

As part of improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease prepayments in the consolidated balance sheet. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the leasee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of amendment to HKAS 17 has had no effect on the consolidated accounts of the Group for the current and prior accounting periods.

The adoption of the new/revised HKFRSs had no material effect on the preparation and presentation of the results and financial position of the Group for the current or prior accounting periods.

The Group had not early adopted the following new/revised HKFRSs that have been issued but not yet effective in these condensed consolidated interim accounts.

HKAS 24 (Revised)	Related Party Disclosures [4]
HKAS 32 (Amendment)	Classification of Rights Issues [1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters [2]
HKFRS 9	Financial Instruments [5]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement [4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments [2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010 [3]

[1] Effective for accounting periods beginning on or after 1 February 2010
[2] Effective for accounting periods beginning on or after 1 July 2010
[3] Effective for accounting periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[4] Effective for accounting periods beginning on or after 1 January 2011
[5] Effective for accounting periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of the above new/revised HKFRSs may result in new or amended presentation and disclosures on the accounts but will have no significant impact on the Group's results and financial position.

2 Turnover and segment reporting

The Group is principally engaged in the manufacturing and distribution of footwear and apparel products. The directors defined reporting segments as brand business and manufacturing business. Brand business represents trading and distribution of footwear products and accessories under self-owned brands, "Daphne" and "Shoebox" and other self-owned and licensed brands. Manufacturing business represents manufacturing and sales of footwear products under original-equipment manufacturing arrangements and for distribution by brand business. The comparative figures have been reclassified to conform with the current period's presentation.

The analysis of the Group's turnover and operating results by reportable segment is as follows:

	Unaudited For the six months ended 30 June 2010					
	Brand Business			Manufacturing Business	Inter-segment elimination	Group
	Daphne	Shoebox	Others			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	2,149,493	592,154	152,615	288,843	-	3,183,105
Inter-segment revenue	207	-	-	284,613	(284,820)	-
Total segment revenue	2,149,700	592,154	152,615	573,456	(284,820)	3,183,105
Segment results	407,315	103,937	(33,857)	37,495	6,228	521,118
Unallocated corporate income						1,586
Unallocated corporate expenses						(43,740)
Fair value loss on derivative financial instrument - warrants						(136,359)
Finance costs						(21,835)
Share of profit of an associated company						255
Profit before income tax						321,025
Depreciation and amortisation	31,781	12,390	7,966	8,766		60,903
Capital expenditure	64,061	17,465	855	21,971		104,352

	Unaudited For the six months ended 30 June 2009					
	Brand Business			Manufacturing Business	Inter-segment elimination	Group
	Daphne	Shoebox	Others			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	1,957,779	432,927	162,026	221,168	-	2,773,900
Inter-segment revenue	-	-	-	309,481	(309,481)	-
Total segment revenue	1,957,779	432,927	162,026	530,649	(309,481)	2,773,900
Segment results	384,103	55,402	(43,102)	22,059	3,364	421,826
Unallocated corporate income						1,500
Unallocated corporate expenses						(14,589)
Fair value loss on derivative financial instrument - warrants						(28,504)
Finance costs						(5,905)
Share of profit of an associated company						146
Profit before income tax						374,474
Depreciation and amortisation	41,548	9,320	4,604	7,453		62,925
Impairment of goodwill	-	-	10,606	-		10,606
Capital expenditure	59,829	11,682	6,394	2,173		80,078

The analysis of the Group's assets and liabilities by reportable segment is as follows:

	Unaudited As at 30 June 2010				
	Brand Business			Manufacturing Business	Group
	Daphne	Shoebox	Others		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	2,645,022	743,393	515,754	534,360	4,438,529
Interest in an associated company					2,957
Available-for-sale financial assets					63,183
Deferred income tax assets					44,319
Unallocated corporate assets					91,772
Total assets					4,640,760
Segment liabilities	640,815	125,141	83,659	270,403	1,120,018
Deferred income tax liabilities					1,597
Derivative financial instrument - warrants					423,840
Convertible bonds					530,631
Unallocated corporate liabilities					38,258
Total liabilities					2,114,344

	Daphne	Shoebox	Others	Manufacturing Business	Group
	Audited As at 31 December 2009				
	Brand Business				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	2,123,992	620,242	180,139	460,878	3,385,251
Interest in an associated company					3,262
Available-for-sale financial assets					33,624
Deferred income tax assets					41,466
Unallocated corporate assets					477,205
Total assets					3,940,808
Segment liabilities	517,105	86,100	39,115	243,256	885,576
Deferred income tax liabilities					2,897
Derivative financial instrument - warrants					284,261
Convertible bonds					515,625
Unallocated corporate liabilities					10,524
Total liabilities					1,698,883

The executive directors who are identified as the chief operating decision-maker assess the performance of the operating segments based on a measure of segment profit before interest, tax and any fair value gain or loss on derivative financial instruments. Certain corporate overhead expenses are allocated to individual segments based on estimated consumption. Trading business which was formerly identified as a separate reportable segment in the interim period ended 30 June 2009 has been combined with manufacturing business to better reflect management perspective on segment information.

Inter-segment revenue is charged in accordance with terms determined and agreed mutually. Revenue from external customers of brand business is mainly derived from Mainland China and revenue from external customers of manufacturing business is mainly derived from overseas countries. None of the customers accounted for 10% or more of the total turnover of the Group during both six months ended 30 June 2010 and 30 June 2009.

The Group's non-current assets, excluding available-for-sale financial assets and deferred income tax assets, are located mainly in Mainland China.

3 Profit before income tax

Profit before income tax is stated after charging the following:

	Six months ended 30 June 2010 HK$'000	Six months ended 30 June 2009 HK$'000
Amortisation of land use rights	548	819
Amortisation of a license right	1,771	983
Amortisation of trademarks	1,575	-
Cost of inventories sold (including provision for slow-moving inventories of HK$18,607,000 (2009: HK$26,537,000))	1,197,575	1,115,108
Depreciation of fixed assets	57,009	62,106
Employee benefits expense (including directors' emoluments and share-based payment expense)	388,941	257,880
Impairment on goodwill	-	10,606
Loss on disposal of fixed assets	8,871	11,679

4 Income tax expense

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Current tax - Mainland China	128,366	117,286
Deferred tax	(3,883)	(7,794)
	124,483	109,492

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 2010 at the rates of taxation prevailing in the countries or places in which the Group operates.

Provision for the China corporate income tax was calculated based on statutory tax rate of 25% (2009: 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 China corporate income tax for such subsidiaries has been provided after taking into account of these tax exemptions and concessions.

Pursuant to the China corporate income tax laws, 5% withholding tax is levied on dividends distributed by the foreign investment enterprises established in Mainland China to foreign investors incorporated in Hong Kong.

Pursuant to the China corporate income tax laws, withholding tax at a reduced rate of 7% by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable.

5 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$190,038,000 (2009: HK$261,384,000) and 1,637,892,384 (2009: 1,637,892,384) ordinary shares in issue throughout the six months ended 30 June 2010.

The calculation of diluted earnings per share is based on the adjusted profit attributable to equity holders of the Company of HK$210,480,000 (2009: HK$263,477,000) and the adjusted weighted average number of ordinary shares of 1,865,743,770 (2009: 1,656,631,063) after taking into consideration of conversion of the convertible bonds and exercise of share options.

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Profit attributable to equity holders of the Company	190,038	261,384
Interest on convertible bonds	20,442	2,093
Adjusted profit attributable to equity holders of the Company	210,480	263,477

	Six months ended 30 June 2010	2009
	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	178,510,572	18,738,679
Effect of exercise of share options	49,340,814	-
Weighted average number of ordinary shares adjusted for effect of dilution	1,865,743,770	1,656,631,063

The warrants are anti-dilutive and are ignored in the calculation of diluted earnings per share for both periods ended 30 June 2010 and 30 June 2009.

6 Interim dividend

During the six months ended 30 June 2010, the Company paid a final dividend of HK5.0 cents (2009: HK3.0 cents) per ordinary share, totalling HK$81,895,000 (2009: HK$49,137,000), for the year ended 31 December 2009.

On 25 August 2010, the Board proposed an interim dividend of HK6.0 cents (2009: HK3.0 cents) per ordinary share, totalling HK$98,274,000 (2009: HK$49,137,000). 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 2010.

7 Trade receivables

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

	30 June 2010 HK$'000	31 December 2009 HK$'000
0 - 30 days	171,792	160,280
31 - 60 days	11,161	11,001
61 - 90 days	3,614	6,361
91 - 120 days	1,939	1,628
121 - 180 days	2,415	1,165
181 - 360 days	1,663	400
Over 360 days	2,952	418
	195,536	181,253

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.

8 Trade payables

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

	30 June 2010 HK$'000	31 December 2009 HK$'000
0 - 30 days	451,431	185,629
31 - 60 days	129,299	159,957
61 - 90 days	19,074	24,059
91 - 120 days	4,099	3,789
121 - 180 days	2,553	1,846
181 - 360 days	3,110	3,893
Over 360 days	9,897	6,144
	619,463	385,317

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2010, as the domestic economy continued its recovery and consumer confidence remained firm, the retail sentiment in China grew at a healthy rate. In line with the favorable market sentiment, the Group's brand business delivered sustainable growth, as both "Daphne" and "Shoebox" continued to achieve satisfactory performance during the period under review.

During the six months ended 30 June 2010, the Group's own-brand business has remained the prime growth driver of the Group, representing 86% (2009: 86%) of the Group's total turnover. As at 30 June 2010, the Group had a total of 4,670 points-of-sale across different city tiers in Mainland China, Hong Kong and Taiwan, solid testimony to its well-established network throughout the Greater China Region.

The recent acquisition of Full Pearl International Limited ("Full Pearl"), a group of retailing companies focusing on quality high-end footwear in first- and second-tier cities in Mainland China, Taiwan and Hong Kong has perfectly complemented the Group's strong position in the mass market and enables it to expand its presence in the flourishing mid-to-high-end female footwear market segments. The Group has achieved good progress in the integration of "Full Pearl" into its existing operational infrastructure. The consolidation efforts, most notably in supply chain, have enabled "Full Pearl" to demonstrate improved business results during the period under review.

"Daphne"

China

During the period under review, there was a substantial increase in the brand's average selling price resulting from the Group's branding positioning and the increasing market demand under stringent supply of stocks. Due to increased purchasing power of target customers and their pursuit of better product quality, the Group is gradually enhancing the brand image and upgrading the brand position in the market through a better product portfolio, leading to an increase in average selling price. Moreover, fewer promotional sales were held in outlets due to the temporary stock-outs during the review period. The labour shortage in the Southern China region caused delayed goods delivery by suppliers. Nevertheless, the Group maintained a stable margin for the brand despite the continuous cost hike and nominal low same store sales growth. Turnover, gross profit and operating profit of "Daphne" all continued to report satisfactory performance, underscoring the Group's sound strategies and a strong brand demand. The number of points-of-sale of "Daphne" as at 30 June 2010 is summarised as follows:

	As at		
	30 June 2010	31 December 2009	Change
Directly-managed stores	1,962	1,904	+58
Directly-managed counters	730	716	+14
Franchised outlets	854	743	+111
Total	3,546	3,363	+183

Taiwan

In Taiwan, with enhanced advertising and promotional activities further supported by an improving economy, "Daphne" is becoming a better known and well-received label in the local market. As a result, business has successfully achieved a turnaround in the first half of 2010. As at 30 June 2010, the Group operates 57 points-of-sale. Striking a balance between cost control and marketing efforts, the Group has been prudent in spending on advertising and promotion, and keep expenditure in line with turnover growth.

"Shoebox"

Another core brand of the Group, "Shoebox" has performed considerably well as evidenced by significant growth in both turnover and operating profit. During the period under review, 111 points-of-sale were added, bringing the total number of stores to 924 as at 30 June 2010. "Shoebox", which recorded a double-digit same store sales growth rate during the period under review, was one of the principal growth drivers for the Group. As this brand mainly targets the mass population, the rising household income driven by recent salary hikes and robust economic growth in Mainland China further boosted consumption of the brand. Besides, "Shoebox" has been gaining acceptance among consumers and the Group believes the brand has immense potential. As a result, the Group is optimistic about the future development of the business through deeper market penetration in Mainland China.

An analysis of "Daphne" and "Shoebox" Points-of-Sale by City Tiers as at 30 June 2010 is as follows:

City tier	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Total
Daphne *	371	640	475	627	554	822	3,489
Shoebox	127	196	173	194	172	62	924
Total	498	836	648	821	726	884	4,413

* *excluding Daphne outlets in Taiwan*

"Full Pearl"

In January 2010, the Group acquired a 59.96% equity interest in "Full Pearl", a retailer of quality high-end footwear. As at 30 June 2010, "Full Pearl" operates 193 stores selling its own brands as well as licensed brands, including the renowned Canadian brand "ALDO" and American fashion brand "Jessica Simpson". The sales network covers mostly shopping malls and department stores in the booming first- and second-tier cities of Mainland China, as well as in Taiwan and Hong Kong.

The acquisition of "Full Pearl" marks a milestone for the Group and helps diversifying its brand portfolio into the mid-to-high-end market and ultimately drives up the Group's profit margins in the long-term. The Group expects the "Full Pearl" operation to generate greater synergies once the operation is fully incorporated into Daphne's supply chain system. The Group is optimistic that "Full Pearl" will become another strong growth driver for the Group in the foreseeable future.

Financial Review

Results Performance

For the six months ended 30 June 2010, the Group's turnover increased by 15% to HK$3,183.1 million (2009: HK$2,773.9 million) while operating profit (being profit before fair value loss on derivative financial instrument – warrants, finance costs, share of profit of an associated company and income tax expense) increased by 17% to HK$479.0 million (2009: HK$408.7 million). Including the HK$136.4 million (2009: HK$28.5 million) fair value loss of warrants, the Group reported a profit attributable to equity holders of HK$190.0 million (2009: HK$261.4 million). Basic earnings per share was HK11.60 cents (2009: HK15.96 cents).

Key Financial Indicators

	For the six months ended 30 June	
	2010	2009
Average inventory turnover (days) *(Note 1)*	120	180
Average debtors turnover (days) *(Note 2)*	11	11
Average creditors turnover (days) *(Note 3)*	77	86
Cash conversion cycle (days) *(Note 4)*	54	105
Capital expenditure (HK$' million)	104.4	80.1
Effective tax rate (%) *(Note 5)*	27.2	27.2

	As at	
	30 June 2010	31 December 2009
Cash and bank balances (HK$' million) *(Note 6)*	2,101.5	1,625.8
Bank loans (HK$' million)	10.6	14.6
Convertible bonds (HK$'million)	530.6	515.6
Equity attributable to holders of the Company (HK$' million)	2,355.0	2,202.9
Current ratio (times) *(Note 7)*	2.4	2.7
Net gearing ratio (%) *(Note 8)*	Net cash	Net cash

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. *Effective tax rate is calculated based on income tax expense including PRC withholding tax divided by profit before income tax excluding fair value loss on warrants.*

6. *Cash and bank balances comprise cash and cash equivalents, bank deposit with maturity over three months and pledged bank deposit.*

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

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

An analysis of major business performance by reportable segments for the six months ended 30 June 2010 is as follows:

	Brand Business						Manufacturing Business	
	Daphne		Shoebox		Others			
HK$' million	2010	2009	2010	2009	2010	2009	2010	2009
Revenue from external customers	*2,149.5*	*1,957.8*	*592.2*	*432.9*	*152.6*	*162.0*	*288.8*	*221.1*
Inter-segment revenue	*0.2*	-	-	-	-	-	*284.6*	*309.5*
Total segment revenue	2,149.7	1,957.8	592.2	432.9	152.6	162.0	573.4	530.6
Segment gross profit	1,292.9	1,162.7	351.3	235.0	67.0	42.4	95.9	76.2
Segment operating profit/(loss)	407.3	384.1	103.9	55.4	(33.9)	(43.1)	37.5	22.1

During the period under review, total revenue from external customers of the brand business amounted to HK$2,894.3 million (2009: HK$2,552.7 million), representing an increase of 13% compared to the same period last year. Moreover, revenue from OEM customers increased by 31% to HK$288.8 million (2009: HK$221.2 million) for the first half of 2010.

Liquidity and Financial Resources

As at 30 June 2010, the Group had cash and bank balances, comprising cash and cash equivalents, bank deposits with maturity over three months and pledged deposits, totalling HK$2,101.5 million (31 December 2009: HK$1,625.8 million) denominated mainly in Renminbi, Hong Kong dollars, US dollars and New Taiwan dollars. The net increase of HK$475.7 million is analysed as follows:

	HK$' million
Net cash generated from operating activities	713.4
Proceeds from disposal of fixed assets	3.8
Capital expenditure	(104.4)
Net dividend paid	(85.0)
Repayment of bank loans	(33.7)
Net cash outflow used in acquisition of subsidiary and other investment	(32.3)
Net interest paid	(0.6)
Effect of exchange rate changes	14.5
	475.7

As at 30 June 2010, unutilised banking facilities amounted to HK$252.9 million (31 December 2009: HK$188.4 million). The Group's current ratio was 2.4 as at 30 June 2010, versus 2.7 as at 31 December 2009. The Group has sufficient resources currently to support expansion and development of business in the future.

The Group's net gearing ratio, calculated on the basis of net debt (being total of bank loans of HK$10.6 million (31 December 2009: HK$14.6 million) and convertible bonds of HK$530.6 million (31 December 2009: HK$515.6 million) less total cash and bank balances of HK$2,101.5 million (31 December 2009: HK$1,625.8 million)) over shareholders' equity of HK$2,355.0 million (31 December 2009: HK$2,202.9 million), was net cash as at 30 June 2010 (31 December 2009: Net cash). 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 dollars, US dollars and New Taiwan dollars. 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 2010, the Group's short-term bank loan of HK$10.6 million was unsecured. As at 31 December 2009, the Group's bank loan of HK$14.6 million was secured by an available-for-sale financial asset with nil carry value and a deposit of HK$2.9 million was pledged for banking facilities.

Significant Capital Investments

During the period, the Group incurred capital expenditure, excluding the acquisition of "Full Pearl" and an available-for-sale financial asset, of HK$104.4 million (2009: HK$80.1 million) mainly for retail network expansion and establishing offices and warehouses.

Contingent Liabilities

As at 30 June 2010, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2010, the Group had more than 23,000 employees (31 December 2009: 21,000) in Hong Kong, Taiwan and China. Employee benefits expense, including directors' emoluments and share-based payment expense, for the period under review was HK$388.9 million (2009: HK$257.9 million). The Group values its human resources and recognises the importance of retaining high calibre professionals. Remuneration packages are generally structured with reference to market conditions and terms as well as individual qualifications. The Group also contributes to employee provident fund schemes and provides medical insurance, purchase discounts and training programmes to staff.

On 27 January 2010 and 22 July 2010, the Company granted an aggregate of 67,525,000 and 2,100,000 share options, respectively, to certain directors and employees. Share-based payment expense of HK$26.5 million (2009: Nil) was recognised in the current period. The grant of share options is a means of the Company to reward executive directors and employees who have contributed to the Group and to encourage them to work towards enhancing the value of Daphne and, in turn, the benefits to the shareholders of the Company.

Subsequent Event

On 25 August 2010, the Company entered a deed of amendment with Premier China Ltd., the holder of warrants of the Company, to amend the denomination of the exercise price of the warrants from Hong Kong Dollar to Renminbi with effect from 25 August 2010. Following the amendment of the terms, no gain or loss from changes in fair value of the warrants will be recognised in the profit and loss account.

Prospects

To best prepare our business to capture the opportunities rising from the thriving consumer market in the Greater China region, the Group plans to continue to sharpen its competitive edge by boosting its operational efficiency and optimising its brand portfolio.

Although the expansion pace of "Daphne" outlets was deferred in the first half of the year due to macroeconomic issues, the Group maintains its opening schedule target for "Daphne" outlets for year 2010 of 500 points-of-sale. For the "Shoebox" brand business, guided by well-defined strategies and objectives, the Group aims to open 250 new points-of-sale this year across the country to tap the vast potential of the mass market for footwear, apparel and accessories.

Moreover, after the completion of the acquisition of "Full Pearl", this business has made a positive contribution in just a few months' time. The Group believes that its investment in "Full Pearl" will boost its extended brand portfolio, complement its strong position in the mass market, and enable it to expand its presence in the flourishing high-end ladies footwear market.

With our dedicated efforts to enhance supply chain management and corporate governance standards, the Group is optimistic about the future development of its brand business and the future market outlook for 2010. The Group will continue to strengthen its competitiveness and long-term value for shareholders in the foreseeable future.

INTERIM DIVIDEND

The Board has resolved on 25 August 2010 to declare an interim dividend of HK6.0 cents (2009: HK3.0 cents) per ordinary share for the year ending 31 December 2010. The interim dividend will be payable on or before 28 September 2010 to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 15 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 September 2010 to 15 September 2010 (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, Hong Kong no later than 4:00 p.m. on 10 September 2010.

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 2010. 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 2010.

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, 25 August 2010

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; Mr. Hsiao Hsi-Ming, Mr. Huang Shun-Tsai and Mr. Kuo Jung-Cheng being the independent non-executive directors and Mr. Kim Jin-Goon being the alternate director to Ms. Ma Xuezheng.