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 2013

HIGHLIGHTS OF 2013 INTERIM RESULTS

- Turnover of the Group was HK$5,168.2 million
- Gross profit was HK$3,013.2 million
- Profit attributable to owners of the Company was HK$310.3 million
- Basic earnings per share was HK18.82 cents
- Interim dividend was HK6.0 cents per share
- Total number of points-of-sale increased by 173 to 7,054

* *For identification purpose only*

INTERIM RESULTS

The board of directors (the "Board") of Daphne International Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2013, together with the comparative figures for the corresponding period in 2012.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	Unaudited Six months ended 30 June 2013 HK$'000	2012 HK$'000
Turnover	2	5,168,163	5,079,473
Cost of sales		(2,154,982)	(1,996,196)
Gross profit		3,013,181	3,083,277
Other income		36,083	39,436
Other losses - net		(10,947)	(9,302)
Selling and distribution expenses		(2,337,905)	(2,131,465)
General and administrative expenses		(249,941)	(282,350)
Operating profit	3	450,471	699,596
Finance costs		(25,946)	(24,438)
Share of profit/(loss) of associates		667	(10,158)
Profit before income tax		425,192	665,000
Income tax expense	4	(108,746)	(171,582)
Profit for the period		316,446	493,418
Attributable to:			
Owners of the Company		310,297	482,648
Non-controlling interests		6,149	10,770
		316,446	493,418
Earnings per share	5		
Basic (HK cents)		18.82	29.36
Diluted (HK cents)		17.69	26.67
Interim dividend	6	98,949	148,263

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Unaudited Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Profit for the period	316,446	493,418
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	69,558	(37,522)
Total comprehensive income for the period	386,004	455,896
Attributable to:		
Owners of the Company	378,067	446,472
Non-controlling interests	7,937	9,424
	386,004	455,896

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2013

	Note	Unaudited 30 June 2013 HK$'000	Audited and restated 31 December 2012 HK$'000
Non-current assets			
Intangible assets		114,510	115,452
Land use rights		50,453	49,747
Fixed assets		1,154,368	1,183,584
Interests in associates		11,600	11,055
Available-for-sale financial asset		624	624
Deposits paid for acquisition of land use rights and fixed assets		53,359	38,841
Long-term rental deposits and prepayments		193,685	194,977
Deferred income tax assets		122,589	111,491
		1,701,188	1,705,771
Current assets			
Inventories		2,615,051	2,368,890
Trade receivables	7	428,821	346,696
Entrusted loans		227,891	-
Other receivables, deposits and prepayments		1,626,230	1,355,333
Structured bank deposits		512,981	-
Pledged deposits		4,358	-
Cash and cash equivalents		735,581	1,494,759
		6,150,913	5,565,678
Current liabilities			
Trade payables	8	1,222,259	865,951
Other payables and accrued charges		582,249	554,591
Current income tax liabilities		85,241	151,167
Bank loan - unsecured		-	7,268
		1,889,749	1,578,977
Net current assets		4,261,164	3,986,701
Total assets less current liabilities		5,962,352	5,692,472
Financed by:			
Share capital		164,914	164,824
Reserves		4,908,309	4,660,512
Equity attributable to owners of the Company		5,073,223	4,825,336
Non-controlling interests		206,462	211,260
Total equity		5,279,685	5,036,596
Non-current liabilities			
Convertible bonds		664,209	639,738
Deferred income tax liabilities		18,368	16,048
Other non-current liability		90	90
		682,667	655,876
Total equity and non-current liabilities		5,962,352	5,692,472

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Basis of preparation and accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and it should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This condensed consolidated interim financial information is presented in Hong Kong dollar ("HKD"), unless otherwise stated. This condensed consolidated interim financial information is unaudited and has been reviewed by the audit committee of the Company and approved for issue by the Board of Directors on 26 August 2013.

The accounting policies used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2012, except as mentioned below.

The following new standards and amendments to standards are effective for accounting periods commencing on or after 1 January 2013:

HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKFRS 1 (Amendment)	Government Loans
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRSs (Amendment)	Improvements to HKFRSs (2009-2011)
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine

HKFRS 10 was issued in May 2011 and replaces all guidance on control and consolidation in HKAS 27 "Consolidated and Separate Financial Statements" and HK(SIC) - Int 12 "Consolidation - Special Purpose Entities".

Under HKFRS 10 "Consolidated Financial Statements", subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group has applied HKFRS 10 retrospectively in accordance with the transition provisions of HKFRS 10.

Some stores in Mainland China are operated under franchise and other relevant contractual agreements with franchisees. Management considered the nature of its relationship with these franchisees and also how they interact with the Group, e.g. financing reliance and business relationships, etc. and determined that the Group has the ability to direct these franchisees to act on the Group's behalf. Hence, the Group considered the decision-making rights of these franchisees and its indirect exposure, or rights, to variable returns through these franchisees together with its own and determined it has control over the operation of these stores.

Accordingly the financial position and operating results of these stores have been included in the Group's consolidated financial statements.

In the current period, the Group assessed that the adoption of HKFRS 10 did not have any material impact on the consolidated balance sheet other than a reclassification, increasing both "other receivables, deposits and prepayments" and "other payables and accrued charges" by HK$77,014,000 as at 31 December 2012 (1 January 2012: HK$45,194,000). There was no effect on the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of cash flows and the earnings per share.

There are no other new/amended HKFRSs that are effective for the current interim period would have a significant impact on the results and financial position of the Group.

The Group had not early adopted the following new standards and amendments to standards that have been issued but not yet effective:

HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures [2]
HKFRS 9	Financial Instruments [2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Investment Entities [1]
HKAS 32 (Amendment)	Presentation – Offsetting Financial Assets and Financial Liabilities [1]
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets [1]
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting [1]
HK(IFRIC) – Int 21	Levies [1]

[1] Effective for accounting periods beginning on or after 1 January 2014
[2] Effective for accounting periods beginning on or after 1 January 2015

The adoption of the above new/revised HKFRSs will not have significant impact on the results and financial position of the Group.

2 Segment information

The Group is principally engaged in the manufacturing, distribution and retailing of footwear, apparel and accessories.

The chief operating decision-maker ("CODM") has been identified as the executive directors. CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

CODM assesses the performance of the business from a business unit perspective, i.e. by core brands business, other brands business and manufacturing business.

CODM assesses the performance of the operating segments based on a measure of segment results before finance costs, amortisation and impairment of intangible assets and unallocated corporate income and expenses. Certain corporate overhead expenses, including management fee, rental and utilities were reallocated among individual segments based on estimated consumption.

Revenue from external customers is stated after elimination of inter-segment revenue. Inter-segment revenue is charged in accordance with terms determined and agreed mutually by relevant parties. Revenue from external customers of core brands business and other brands business is mainly derived from Mainland China, Taiwan and Hong Kong and revenue from external customers of manufacturing business is mainly derived from the United States of America. None of the customers accounted for 10% or more of the total turnover of the Group during both six months ended 30 June 2013 and 30 June 2012.

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

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

	Unaudited For the six months ended 30 June				
	Core brands business	Other brands business	Manufacturing business	Inter-segment elimination	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2013					
Revenue from external customers	4,692,208	328,815	147,140	-	5,168,163
Inter-segment revenue	46,431	-	443,489	(489,920)	-
Total segment revenue	4,738,639	328,815	590,629	(489,920)	5,168,163
Segment results	490,478	(39,963)	14,341	3,959	468,815
Amortisation of intangible assets					(3,325)
Unallocated corporate expenses					(15,019)
Operating profit					450,471
Finance costs					(25,946)
Share of profit of associates					667
Profit before income tax					425,192
Amortisation of intangible assets	-	3,325	-	-	3,325
Amortisation of land use rights	307	-	497	-	804
Depreciation of fixed assets	131,685	6,185	11,841	-	149,711
Capital expenditure	121,149	6,967	5,106	-	133,222
2012					
Revenue from external customers	4,602,063	331,994	145,416	-	5,079,473
Inter-segment revenue	37,617	567	510,118	(548,302)	-
Total segment revenue	4,639,680	332,561	655,534	(548,302)	5,079,473
Segment results	778,075	(40,210)	25,008	(4,988)	757,885
Amortisation of intangible assets					(3,432)
Unallocated corporate expenses					(54,857)
Operating profit					699,596
Finance costs					(24,438)
Share of loss of associates					(10,158)
Profit before income tax					665,000
Amortisation of intangible assets	-	3,432	-	-	3,432
Amortisation of land use rights	301	-	526	-	827
Depreciation of fixed assets	99,446	7,692	8,311	-	115,449
Capital expenditure	306,935	7,431	14,892	-	329,258

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

	Core brands business	Other brands business	Manufacturing business	Group
	Unaudited As at 30 June 2013			
	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	6,558,914	593,068	449,671	7,601,653
Goodwill	15,079	999	-	16,078
Other intangible assets	-	98,432	-	98,432
	6,573,993	692,499	449,671	7,716,163
Interests in associates				11,600
Available-for-sale financial asset				624
Deferred income tax assets				122,589
Unallocated corporate assets				1,125
Total assets				7,852,101
Segment liabilities	1,499,539	55,188	315,021	1,869,748
Deferred income tax liabilities				18,368
Convertible bonds				664,209
Unallocated corporate liabilities				20,091
Total liabilities				2,572,416
	Audited and restated As at 31 December 2012			
	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	5,736,724	714,598	581,180	7,032,502
Goodwill	15,079	984	-	16,063
Other intangible assets	-	99,389	-	99,389
	5,751,803	814,971	581,180	7,147,954
Interests in associates				11,055
Available-for-sale financial asset				624
Deferred income tax assets				111,491
Unallocated corporate assets				325
Total assets				7,271,449
Segment liabilities	1,202,159	83,971	272,596	1,558,726
Deferred income tax liabilities				16,048
Convertible bonds				639,738
Unallocated corporate liabilities				20,341
Total liabilities				2,234,853

3 Operating profit

Operating profit before is stated after charging the following:

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Amortisation of land use rights	804	827
Amortisation of license rights	1,380	1,516
Amortisation of trademarks	1,945	1,916
Cost of inventories sold (including provision for slow-moving inventories of HK$79,466,000 (2012: HK$27,121,000))	1,866,772	1,787,593
Depreciation of fixed assets	149,711	115,449
Employee benefits expense (including directors' emoluments and share-based payment expense)	723,519	692,796
Loss on disposal of fixed assets	12,990	5,337

4 Income tax expense

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Current tax	116,168	183,356
Deferred tax	(7,422)	(11,774)
	108,746	171,582

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the six months ended 30 June 2013. Income tax on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the six months ended 30 June 2013 at the rates of income tax prevailing in the places in which the Group operates.

Provision for the China corporate income tax was calculated based on statutory tax rate of 25% (2012: 25%) on the assessable income of each of the Group's entities except that one subsidiary of the Company operating in Mainland China was entitled to a 50% reduction in corporate income tax during the six months ended 30 June 2013 and 30 June 2012 and corporate income tax is calculated using the applicable preferential income tax rate granted to the subsidiary.

Pursuant to the China corporate income tax laws, 10% withholding tax is levied on all foreign investors, except that only 5% is levied for foreign investors which are incorporated in Hong Kong, in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 31 December 2007. The Company has pre-determined a dividend declaration policy in respect of its foreign-invested subsidiaries established in Mainland China and deferred income tax liabilities are provided to the extent that profits are expected to be distributed by the subsidiaries in the foreseeable future.

Pursuant to the China corporate income tax laws, withholding tax at a reduced rate of 7% (2012: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable. During the six months ended 30 June 2013, withholding tax rate of 5% was levied on management fee received or receivable from a Group's entity in Mainland China by the Group's establishment in Taiwan.

5 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of HK$310,297,000 (2012: HK$482,648,000) and the weighted average number of 1,648,802,053 (2012: 1,643,859,087) ordinary shares in issue during the six months ended 30 June 2013.

The calculation of diluted earnings per share is based on the adjusted profit attributable to owners of the Company of HK$335,807,000 (2012: HK$506,573,000) and the adjusted weighted average number of 1,898,537,574 (2012: 1,899,473,476) ordinary shares after taking into consideration of conversion of the convertible bonds and exercise of share options and warrants.

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Profit attributable to owners of the Company	310,297	482,648
Interest on convertible bonds	25,510	23,925
Adjusted profit attributable to owners of the Company	335,807	506,573
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	1,648,802,053	1,643,859,087
Effect of conversion of convertible bonds	178,510,572	178,510,572
Effect of exercise of share options	16,241,452	19,420,848
Effect of exercise of warrants	54,983,497	57,682,969
Weighted average number of ordinary shares adjusted for effect of dilution	1,898,537,574	1,899,473,476

For the six months ended 30 June 2013, 2,600,000 (2012: 3,300,000) share options outstanding are anti-dilutive and are ignored in the calculation of diluted earnings per share since the exercise price of the share options was higher than the average market price during the period.

6 Interim dividend

During the six months ended 30 June 2013, the Company paid a final dividend of HK9.0 cents (2012: HK9.0 cents) per ordinary share, totalling HK$148,423,000 (2012: HK$148,263,000), for the year ended 31 December 2012.

On 26 August 2013, the Board resolved to declare an interim dividend of HK6.0 cents (2012: HK9.0 cents) per ordinary share, totalling HK$98,949,000 (2012: HK$148,263,000). The proposed dividend is not reflected as a dividend payable in this interim financial information but will be reflected as an appropriation of retained profits for the year ending 31 December 2013.

7 Trade receivables

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

	30 June 2013 HK$'000	31 December 2012 HK$'000
0 - 30 days	367,594	234,392
31 - 60 days	37,962	73,478
61 - 90 days	10,005	20,022
91 - 120 days	4,677	8,135
121 - 180 days	5,864	5,989
181 - 360 days	2,719	4,101
Over 360 days	-	579
	428,821	346,696

Most of the sales of the Group are retail sales which are made in cash or via credit cards. 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 2013 HK$'000	31 December 2012 HK$'000
0 - 30 days	505,110	400,350
31 - 60 days	388,529	217,710
61 - 90 days	303,348	228,815
91 - 120 days	16,221	9,711
121 - 180 days	2,579	4,082
181 - 360 days	6,293	5,137
Over 360 days	179	146
	1,222,259	865,951

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Performance

For the six months ended 30 June 2013, the Group's turnover increased by 1.7% to HK$5,168.2 million (2012: HK$5,079.5 million). Gross profit was HK$3,013.2 million (2012: HK$3,083.3 million). Operating profit decreased by 35.6% to HK$450.5 million (2012: HK$699.6 million). Profit attributable to owners of the Company was HK$310.3 million (2012: HK$482.6 million). Basic earnings per share was HK18.82 cents (2012: HK29.36 cents). The Board recommended the payment of an interim dividend of HK6.0 cents (2012: HK9.0 cents) per share for the year ending 31 December 2013. The dividend payout ratio is 31.9% (2012: 30.7%).

Market Overview

In the first half of 2013, China saw a general deceleration in its growth rate as compared with the past. Its GDP growth slowed to 7.5% in the second quarter of 2013 from 7.7% of the previous quarter. This was attributed to the Chinese government's macroeconomic controls and the softness in external economies. In the retail sector, the government policy to promote thriftiness when conducting government functions, and the atypical weather overshadowed store traffic and sales. According to the National Bureau of Statistics of China, the total retail sales of consumer goods for the first half of 2013 was 12.7%, against 14.4% for the same period last year.

Core Brands Business

During the period under review, consumer sentiment in Mainland China remained to be soft. Poor weather conditions and unusually cold spring season dampened the store traffic and exerted further downward pressure on the sales performance. As street stores dominated our sales network, the Group was under greater exposure to the impact of the prolonged unfavourable weather. Avian flu outbreak in Eastern China during the period also casted certain negative effect to the foot traffic of our stores. As a result, turnover of the Group's Core Brands business, "Daphne" and "Shoebox" in the Mainland China market, recorded a growth of 2.1% to HK$4,738.6 million (2012: HK$4,639.7 million), with negative same store sales growth, and a slower store opening pace. Average selling price during the period under review was slightly decreased by about 1% as compared to that of the same period last year, and therefore is not a major contributing factor to the lower sales performance.

To cope with the sluggish market environment, the Group slowed down the pace of store opening during the period under review. As at 30 June 2013, the Group had 6,581 points-of-sale (including 5,690 directly-managed stores and 891 franchised stores) under its Core Brands, with a net increase of 212 points-of-sale during the period under review as compared to 366 net store openings for the same period last year. By adding 263 directly-managed stores and reducing 51 franchised stores, the proportion of directly-managed stores increased to approximately 86% of the total store portfolio of Core Brands, up from 83% for the same period last year.

Distribution of points-of-sale of core brands business by city tier

City tier / As at	Tier 1	Tier 2	Tier 3	Tiers 4-6	Total
30 June 2013	747	1,428	1,025	3,381	6,581
31 December 2012	721	1,342	981	3,325	6,369

After a weak first quarter in sales due to unfavourable weather, discount was marginally increased in the second quarter this year to drive sales growth. Together with aggressive off-season items clearance and inventory provision, the gross profit margin decreased by 2.6 ppt. in the first half of the year. As sales growth was lower than expected, the inventory turnover days of the Group for the interim period increased to 209 days when compared to 202 days of last year's same period.

Under such a slow-sales-growth environment, the larger fixed-cost base resulted from the increased proportion of directly-managed stores last year led to a negative operating leverage. Together with the inflationary pressure in the rental and staff costs, the operating margin of the Core Brands business in the first half of the year decreased to 10.4% (2012: 16.8%).

Other Brands business

The Other Brands business of the Group mainly refers to the operation of mid- to high-end brands, including own-brands and brands with exclusive distribution rights, in Mainland China, Hong Kong and Taiwan. Brands such as "AEE", "Ameda", "ALDO", and "AEROSOLES" in this business segment caters to the growing middle-class consumer segment and broadens the Group's customer base in the long run. Affected by the general softness of the market, turnover of Other Brands business recorded a marginal decline to HK$328.8 million (2012: HK$332.6 million), and contributed approximately 6% (2012: 7%) to the Group's total turnover during the interim period. Consolidation of this segment continued during the period, including rationalisation of store network and adjustment in brand positioning. Therefore, the Group made a reduction of 39 points-of-sales to 473 points-of-sales for its Other Brands business as of 30 June 2013.

Efficiency Improvement initiatives

The Group remained committed to the efficiency improvement initiatives introduced earlier this year, despite the sluggish market environment during the period under review. We enhanced our product design and adjusted our product range to broaden the appeal of our offerings. We also improved our staff training programs and store operation management to increase sales productivity. Customer Relations Management system ("CRM") was utilised to enable more targeted marketing. We also stepped up measures to monitor and control costs, especially labour and rental costs.

FINANCIAL REVIEW

Financial and Operational Highlights

	For the six months ended 30 June	
	2013	2012
Turnover (HK$' million)	5,168.2	5,079.5
Gross profit (HK$' million)	3,013.2	3,083.3
Gross profit margin (%)	58.3	60.7
Operating profit (HK$' million)	450.5	699.6
Operating profit margin (%)	8.7	13.8
Profit attributable to owners of the Company (HK$' million)	310.3	482.6
Net profit margin (%)	6.0	9.5
Basic earnings per share (HK cents)	18.82	29.36
Interim dividend per share (HK cents)	6.0	9.0
Average inventory turnover (days) *(Note 1)*	209	202
Average debtors turnover (days) *(Note 2)*	14	12
Average creditors turnover (days) *(Note 3)*	89	79
Cash conversion cycle (days) *(Note 4)*	134	135
Capital expenditure (HK$' million) *(Note 5)*	133.2	329.3
Effective tax rate (%)	25.6	25.8
	As at	
	30 June 2013	31 December 2012
Cash and bank balances (HK$' million) *(Note 6)*	1,252.9	1,494.8
Bank loan (HK$' million)	-	7.3
Convertible bonds (HK$' million)	664.2	639.7
Equity attributable to owners of the Company (HK$' million)	5,073.2	4,825.3
Current ratio (times) *(Note 7)*	3.3	3.5
Net gearing ratio (%) *(Note 8)*	Net cash	Net cash

Notes:

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

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

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

5. *Capital expenditure comprises acquisition of land use rights and fixed assets and cash expenditure on license rights.*

6. *Cash and bank balances comprise cash and cash equivalents, pledged deposits and structured bank deposits.*

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 the total of bank loan and convertible bonds, less cash and bank balances) divided by the equity attributable to owners of the Company as at the relevant period end.*

Segmental Analysis

The business performance of individual segments for the six months ended 30 June is summarised as follows:

	Core brands business		Other brands business		Manufacturing business	
	2013	2012	2013	2012	2013	2012
	HK$' million	HK$' million	HK$' million	HK$' million	HK$' million	HK$' million
Revenue from external customers	*4,692.2*	*4,602.1*	*328.8*	*332.0*	*147.1*	*145.4*
Inter-segment revenue	*46.4*	*37.6*	*-*	*0.6*	*443.5*	*510.1*
Total segment revenue	4,738.6	4,639.7	328.8	332.6	590.6	655.5
Segment gross profit	2,760.2	2,821.8	194.7	192.4	54.7	74.6
Segment gross margin	58.2%	60.8%	59.2%	57.9%	9.3%	11.4%
Segment operating profit/(loss)	490.5	778.1	(40.0)	(40.2)	14.3	25.0
Segment operating margin	10.4%	16.8%	(12.2%)	(12.1%)	2.4%	3.8%

Liquidity and Financial Resources

As at 30 June 2013, the Group had cash and bank balances, comprising cash and cash equivalents, pledged deposits and structured bank deposits, amounting to HK$1,252.9 million (31 December 2012: HK$1,494.8 million) denominated mainly in Renminbi.

The net decrease in cash and bank balances of HK$241.9 million (2012: HK$245.8 million) is analysed as follows:

	For the six months ended 30 June	
	2013	2012
	HK$' million	HK$' million
Net cash generated from operating activities	257.3	198.5
Net interest received	0.9	9.4
Proceeds from issue of shares upon exercise of share options	7.3	39.6
Proceeds from disposal of fixed assets	0.5	1.4
Capital expenditure	(133.2)	(329.3)
Net dividend paid	(151.8)	(152.5)
Repayment of bank loan	(7.2)	-
Increase in entrusted loans	(227.9)	-
Repayment of amount due to a non-controlling shareholder	(9.4)	-
Effect of exchange rate changes	21.6	(12.9)
	(241.9)	(245.8)

As at 30 June 2013, unutilised banking facilities amounted to HK$64.1 million (31 December 2012: HK$146.6 million). The Group's current ratio was 3.3 as at 30 June 2013, versus 3.5 (as restated) as at 31 December 2012. The Group has sufficient resources currently to support expansion and development of business in future.

To maximise the return on idle liquid resources, during the period, the Group placed a number of principal-protected structured deposits with licensed banks in Mainland China. Interest income earned from bank deposits for the period was HK$16.7 million (2012: HK$20.1 million).

As at 30 June 2013, the Group's net gearing, calculated on the basis of net debt (being total bank loan and convertible bonds less cash and bank balances) over shareholders' equity, was in a net cash (31 December 2012: net cash) position. The bank loan was at floating rate during the period under review.

Foreign Exchange Risk Management

The Group did not engage in any foreign exchange derivatives during the period under review (2012: nil). Management closely monitors the market situation and may consider tools to manage foreign exchange risk whenever necessary.

Pledge of Assets

As at 30 June 2013, the Group's bank deposits amounting to HK$4.4 million (31 December 2012: nil) were pledged for banking facilities.

Capital Expenditure

During the period, the Group incurred capital expenditure of HK$133.2 million (2012: HK$329.3 million) mainly for retail network expansion and renovation, acquisition of land use rights and construction of production facilities, regional warehouses and offices, etc.

Contingent Liabilities

As at 30 June 2013 and 31 December 2012, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2013, the Group had over 28,000 employees (31 December 2012: 27,000) in Mainland China, Hong Kong, Taiwan and Korea. Employee benefits expense, including directors' emoluments and share-based payment expense, for the period under review was HK$723.5 million (2012: HK$692.8 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 conditions and terms as well as individual qualifications. The Group also provides mandatory provident funds schemes, medical insurance, staff purchase discounts and training programmes to employees.

OUTLOOK

The Chinese government announced a series of measures recently to stabilize economic growth. Such economic stimulus measures included extending tax relief to small enterprises, driving further urbanization and accelerating investment in infrastructure. These measures are expected to spur economic growth in medium term, if not in the second half of 2013.

Urbanization is expected to boost domestic consumption, an increasingly important growth driver of the Chinese economy, and it may even propel a long-sought switch to a more sustainable consumption-driven growth model. Its benefits to the retail sector, including the ladies' footwear market, will become apparent in the medium to long run.

However, to cope with the prevailing challenges in the current operating environment, the management team is dedicated to taking necessary steps to improve results of 2013, as well as building stronger fundamentals to achieve long-term growth. A comprehensive action plan has been formulated with emphasis on the following areas:

1. **Increase sales productivity and enhance SSSG**

The Group will step up the strategic initiatives which were launched earlier this year with an aim to boost sales productivity. For instance, it will put in place enhanced training program, and refine the incentive programs for its front-line staff. It will also focus on the follow-through and the execution of various programs to increase their effectiveness. Store managers will be provided with new management tools and monitoring system to improve their management efficiency.

To improve the overall store portfolio quality, the Group will adopt a new approach to the consolidation of non-performing stores, and will overhaul the store opening procedure to increase the profitability of new stores. In addition, the regional and local sales offices are being restructured to drive sales growth, and improve efficiency of front-line staff training and new stores development.

More support will be provided to ensure the smooth and efficient implementation of those ongoing initiatives in the second half of the year such as the adoption of a more comprehensive Key Performance Indicators ("KPI") system for front-line managers, "Train the Trainers" program, and "Sales Talent Development" scheme. The front-line management capability will therefore be strengthened to facilitate sustainable performance in the future.

In view of the uncertainties in current macroeconomic environment, the Group will continue its cautious pace in new store openings, and adopt prudent cost control and business development. As a result, more efforts and resources can be focused on improving the same-store sales and productivity of new stores.

2. **Strengthen product offerings and supply chain management**

The Group seeks to improve its responsiveness to customer preference by shortening the production cycle and reducing replenishment lead time. The diversity of product range will be increased to enhance appeal to a broader and more varied customer base as well as to increase the value per transaction.

The setup of the new retail management system is in good progress and will commence operation for "Shoebox" in the fourth quarter of 2013. The system will be extended to "Daphne" in 2014 and will enhance the sales growth and inventory management by allowing more efficient product planning and allocation.

3. **Bolster brand image and increase marketing efficiency**

The image of "Daphne" brand will be bolstered through the launch of a nation-wide integrated marketing program with multi-media exposure comprising television, print, online channels and movie sponsorship. New approaches will be adopted for brand building such as community events and pop concerts. Emphasis will be placed on new media and communication platforms, as well as customer relationship management (CRM) with an aim to build stronger customer relations and increase marketing effectiveness. Furthermore, the Group will continue to review and refine its pricing and promotion strategies to improve its profitability.

With regard to the e-commerce, the Group realises this new channel will provide promising growth opportunities and has increased resources and efforts on developing its e-commerce business since the beginning of 2013. A series of projects have been under planning and will roll-out gradually. The Group will monitor this fast-changing shopping platform, and will adjust and respond accordingly to maintain its competitiveness in the overall women footwear market.

Despite the low visibility of the market outlook in the second half of the year, the Group is committed to implementing all key initiatives and believes their benefits will be gradually reflected in the medium term. Although the Group sees softness of the market prolonging in July and August , the management team is making efforts to strengthen and accelerate the launch of fall/winter collection in an effort to achieve sales increase for the season. In sum, the Group will make every effort to revive growth and improve its performance in the second half of 2013.

INTERIM DIVIDEND

The Board has resolved on 26 August 2013 to declare an interim dividend of HK6.0 cents (2012: HK9.0 cents) per ordinary share for the year ending 31 December 2013. The interim dividend will be payable on or before 8 October 2013 to shareholders whose names appear on the register of members of the Company at 4:30 p.m. on 25 September 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 September 2013 to 25 September 2013 (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 4:30 p.m. on 19 September 2013.

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 2013. 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 adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period except for deviation from Code Provision A.2.1.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr Chen Ying-Chieh holds positions of the Chairman of the Board and the Chief Executive Officer of the Company. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. Going forward, the Group will periodically review the effectiveness of this arrangement and considers segregating the roles when it thinks appropriate.

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 2013.

AUDIT COMMITTEE

The Audit Committee, comprises the three independent non-executive directors of the Company, Mr Lee Ted Tak Tai, Mr Huang Shun-Tsai, Mr Kuo Jung-Cheng and one non-executive director of the Company, Mr Kim Jin-Goon, 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 information has been reviewed and approved by the Audit Committee, who is of the opinion that such financial information complies 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, 26 August 2013

As at the date of this announcement, the Board comprises Mr. Chen Ying-Chieh, Mr. Chen Tommy Yi-Hsun, Mr. Chang Chih-Kai and Mr. Chang Chih-Chiao being the executive directors, Mr. Kim Jin-Goon being the non-executive director; Mr. Huang Shun-Tsai, Mr. Kuo Jung-Cheng and Mr. Lee Ted Tak Tai being the independent non-executive directors and Mr. Lau Wai Kei, Ricky, being the alternate director to Mr. Kim Jin-Goon.