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 2012

HIGHLIGHTS OF 2012 INTERIM RESULTS

- Turnover of the Group grew by 28.9% to HK$5,079.5 million
- Gross profit rose by 27.8% to HK$3,083.3 million
- Profit attributable to owners of the Company increased by 9.6% to HK$482.6 million
- Basic earnings per share increased by 9.2% to HK29.36 cents
- Proposed interim dividend of HK9.0 cents per share
- Total number of points-of-sale increased by 416 to 6,581

* *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 2012, together with the comparative figures for the corresponding period in 2011.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Note	Unaudited Six months ended 30 June 2012 HK$'000	2011 HK$'000
Turnover	2	5,079,473	3,939,310
Cost of sales		(1,996,196)	(1,526,889)
Gross profit		3,083,277	2,412,421
Other income		39,436	45,100
Other losses - net		(9,302)	(16,962)
Selling and distribution expenses		(2,131,465)	(1,547,377)
General and administrative expenses		(282,350)	(262,983)
Operating profit	3	699,596	630,199
Finance costs		(24,438)	(23,027)
Share of (loss)/profit of associates		(10,158)	297
Profit before income tax		665,000	607,469
Income tax expense	4	(171,582)	(166,572)
Profit for the period		493,418	440,897
Attributable to:			
Owners of the Company		482,648	440,232
Non-controlling interests		10,770	665
		493,418	440,897
Earnings per share	5		
Basic (HK cents)		29.36	26.88
Diluted (HK cents)		26.67	24.81
Interim dividend	6	148,263	131,031

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited Six months ended 30 June 2012 HK$'000	Unaudited Six months ended 30 June 2011 HK$'000
Profit for the period	493,418	440,897
Currency translation differences	(37,522)	62,954
Total comprehensive income for the period	455,896	503,851
Attributable to:		
Owners of the Company	446,472	500,858
Non-controlling interests	9,424	2,993
	455,896	503,851

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2012

	Note	Unaudited 30 June 2012 HK$'000	Audited 31 December 2011 HK$'000
Non-current assets			
Intangible assets		125,487	129,926
Land use rights		49,828	51,196
Fixed assets		1,155,070	899,662
Interests in associates		9,037	3,359
Available-for-sale financial asset		624	16,624
Deposits paid for acquisition of land use rights and fixed assets		5,124	63,947
Long-term rental deposits and prepayments		194,330	175,564
Deferred income tax assets		121,046	106,469
		1,660,546	1,446,747
Current assets			
Inventories		2,370,813	2,058,526
Trade receivables	7	381,065	274,303
Other receivables, deposits and prepayments		1,119,411	926,096
Cash and cash equivalents		1,549,950	1,795,744
		5,421,239	5,054,669
Current liabilities			
Trade payables	8	1,002,559	819,131
Other payables and accrued charges		586,847	563,497
Current income tax liabilities		252,089	250,612
Bank loan - unsecured		7,069	6,998
		1,848,564	1,640,238
Net current assets		3,572,675	3,414,431
Total assets less current liabilities		5,233,221	4,861,178
Financed by:			
Share capital		164,736	164,096
Reserves		4,226,875	3,871,771
Equity attributable to owners of the Company		4,391,611	4,035,867
Non-controlling interests		200,694	195,759
Total equity		4,592,305	4,231,626
Non-current liabilities			
Convertible bonds		613,537	605,879
License fee payables		4,174	4,138
Deferred income tax liabilities		23,115	19,445
Other non-current liabilities		90	90
		640,916	629,552
Total equity and non-current liabilities		5,233,221	4,861,178

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 2012 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 accounts for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This condensed consolidated interim financial information is presented in Hong Kong dollars ("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 15 August 2012.

The accounting policies 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 2011, except as mentioned below.

The following amendments to standards are effective for accounting periods commencing on or after 1 January 2012:

HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates First-time Adopters
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transfers of Financial Assets

The adoption of the above amended HKFRSs does not have 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:

HKAS 1 (Amendment)	Presentation of Financial Statements [1]
HKAS 19 (2011)	Employee Benefits [2]
HKAS 27 (2011)	Separate Financial Statements [2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [2]
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Liabilities [3]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Liabilities [2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures [4]
HKFRS 9	Financial Instruments [4]
HKFRS 10	Consolidated Financial Statements [2]
HKFRS 11	Joint Arrangements [2]
HKFRS 12	Disclosure of Interests in Other Entities [2]
HKFRS 13	Fair Value Measurement [2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine [2]
Fourth Annual Improvements Project (2011)	Improvements to HKFRSs published in June 2012 [2]

[1] Effective for accounting periods beginning on or after 1 July 2012
[2] Effective for accounting periods beginning on or after 1 January 2013
[3] Effective for accounting periods beginning on or after 1 January 2014
[4] 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.

On 1 January 2012, the Group has retained its significant influence over an equity investment in Mainland China previously classified as an available-for-sale financial asset. The Group has reclassified the investment as an associate accordingly and adopted equity method of accounting.

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 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 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 2012 and 30 June 2011.

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 2012				
	Core brands business	Other brands business	Manufacturing business	Inter-segment elimination	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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

	Core brands business	Other brands business	Manufacturing business	Inter-segment elimination	Unallocated	Group
	Unaudited For the six months ended 30 June 2011					
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	3,464,997	239,048	235,265	-	-	3,939,310
Inter-segment revenue	12,838	-	409,286	(422,124)	-	-
Total segment revenue	3,477,835	239,048	644,551	(422,124)	-	3,939,310
Segment results	683,284	(30,267)	42,858	(3,264)	-	692,611
Amortisation of intangible assets						(3,203)
Unallocated corporate income						1,500
Unallocated corporate expenses						(60,709)
Operating profit						630,199
Finance costs						(23,027)
Share of profit of an associate						297
Profit before income tax						607,469
Amortisation of intangible assets	-	3,203	-	-	-	3,203
Amortisation of land use rights	292	-	520	-	-	812
Depreciation of fixed assets	64,614	6,405	7,427	-	-	78,446
Fair value loss on available-for-sale financial assets	-	-	-	-	17,000	17,000
Capital expenditure	119,704	11,072	15,371	-	-	146,147

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 2012			
	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	5,443,251	688,193	693,908	6,825,352
Goodwill	15,079	965	-	16,044
Other intangible assets	-	109,443	-	109,443
	5,458,330	798,601	693,908	6,950,839
Interests in associates				9,037
Available-for-sale financial asset				624
Deferred income tax assets				121,046
Unallocated corporate assets				239
Total assets				7,081,785
Segment liabilities	1,382,557	101,726	336,698	1,820,981
Deferred income tax liabilities				23,115
Convertible bonds				613,537
Unallocated corporate liabilities				31,847
Total liabilities				2,489,480
	Audited As at 31 December 2011			
	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	4,969,060	658,967	613,546	6,241,573
Goodwill	15,079	974	-	16,053
Other intangible assets	-	113,873	-	113,873
	4,984,139	773,814	613,546	6,371,499
Interest in an associate				3,359
Available-for-sale financial assets				16,624
Deferred income tax assets				106,469
Unallocated corporate assets				3,465
Total assets				6,501,416
Segment liabilities	1,130,010	139,014	316,843	1,585,867
Deferred income tax liabilities				19,445
Convertible bonds				605,879
Unallocated corporate liabilities				58,599
Total liabilities				2,269,790

3 Operating profit

Operating profit before is stated after charging the following:

	Six months ended 30 June 2012 HK$'000	2011 HK$'000
Amortisation of land use rights	827	812
Amortisation of license rights	1,516	1,356
Amortisation of trademarks	1,916	1,847
Cost of inventories sold (including provision for slow-moving inventories of HK$27,121,000 (2011: HK$15,084,000))	1,787,593	1,305,022
Depreciation of fixed assets	115,449	78,446
Employee benefits expense (including directors' emoluments and share-based payment expense)	692,796	543,069
Loss on disposal of fixed assets	5,337	5,160

4 Income tax expense

	Six months ended 30 June 2012 HK$'000	2011 HK$'000
Current tax	183,356	172,193
Deferred tax	(11,774)	(5,621)
	171,582	166,572

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the six months ended 30 June 2012. Income tax on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the six months ended 30 June 2012 at the rates of taxation 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% (2011: 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 income tax during the six months ended 30 June 2012 and 30 June 2011 and taxation 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% (2011: 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 owners of the Company of HK$482,648,000 (2011: HK$440,232,000) and the weighted average number of 1,643,859,087 (2011: 1,637,892,384) ordinary shares in issue during the six months ended 30 June 2012.

The calculation of diluted earnings per share is based on the adjusted profit attributable to owners of the Company of HK$506,573,000 (2011: HK$462,449,000) and the adjusted weighted average number of 1,899,473,476 (2011: 1,863,925,685) ordinary shares after taking into consideration of conversion of the convertible bonds and exercise of share options and warrants.

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Profit attributable to owners of the Company	482,648	440,232
Interest on convertible bonds	23,925	22,217
Adjusted profit attributable to owners of the Company	506,573	462,449
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	1,643,859,087	1,637,892,384
Effect of conversion of convertible bonds	178,510,572	178,510,572
Effect of exercise of share options	19,420,848	6,136,821
Effect of exercise of warrants	57,682,969	41,385,908
Weighted average number of ordinary shares adjusted for effect of dilution	1,899,473,476	1,863,925,685

For the six months ended 30 June 2012, 3,300,000 (2011: 4,100,000) 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 2012, the Company paid a final dividend of HK9.0 cents (2011: HK6.0 cents) per ordinary share, totalling HK$148,263,000 (2011: HK$98,274,000), for the year ended 31 December 2011.

On 15 August 2012, the Board proposed an interim dividend of HK9.0 cents (2011: HK8.0 cents) per ordinary share, totalling HK$148,263,000 (2011: HK$131,031,000). 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 2012.

7 Trade receivables

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

	30 June 2012 HK$'000	31 December 2011 HK$'000
0 - 30 days	224,066	215,865
31 - 60 days	109,907	40,294
61 - 90 days	30,292	9,762
91 - 120 days	7,896	4,422
121 - 180 days	4,393	1,974
181 - 360 days	3,232	818
Over 360 days	1,279	1,168
	381,065	274,303

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 2012 HK$'000	31 December 2011 HK$'000
0 - 30 days	452,270	592,334
31 - 60 days	383,197	157,978
61 - 90 days	149,219	46,896
91 - 120 days	10,580	14,650
121 - 180 days	2,343	3,448
181 - 360 days	4,612	3,351
Over 360 days	338	474
	1,002,559	819,131

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Performance

For the six months ended 30 June 2012, the Group's turnover increased by 28.9% to HK$5,079.5 million (2011: HK$3,939.3 million). Gross profit increased to HK$3,083.3 million (2011: HK$2,412.4 million) with a year-on-year growth of 27.8%. Operating profit increased by 11.0% to HK$699.6 million (2011: HK$630.2 million). Profit attributable to owners of the Company was HK$482.6 million (2011: HK$440.2 million). Basic earnings per share was HK29.36 cents (2011: HK26.88 cents). The Board recommended payment of an interim dividend of HK9.0 cents (2011: HK8.0 cents) per share for the year ending 31 December 2012, representing an increase of 12.5% compared to the same period last year. The dividend payout ratio is 30.7% (2011: 29.8%).

Market Overview

The global economy was filled with uncertainties in the first half of 2012. The deepening European debt crisis had unnerved investors around the world with recession fears in Europe and its lingering effect on economies around the world. The US economy, on the other hand, has been recovering at a slower-than-expected pace. Meanwhile, slowing economy growth in China – the GDP of China expanded by only 7.8% in the first half of 2012 – along with sluggish overseas demand, and rising costs made the operating environment for many small-to-mid-cap enterprises more challenging. Furthermore, continued government austerity measures on the property market, depressed capital market and inflation cast negative wealth effect on the general consumer sentiment. As a result, consumer spending growth in China experienced a slowdown in momentum during the period under review.

According to the National Bureau of Statistics of China, the total retail sales of consumer goods grew by 14.4% in the first half of 2012, down from 16.8% for the same period last year.

Core Brands Business

Despite the volatility of the retail market during the period, the Group's core brands business, "Daphne" and "Shoebox" in the Mainland China market, continued to deliver strong turnover growth of 33.4%, reaching HK$4,639.7 million (2011: HK$3,477.8 million). Supported by ample stock supply, the strong turnover growth was mainly due to improved product design, strengthened marketing efforts and a broader store network. Strong performance also showed in the same store sales growth, and in the number of transactions reflecting the expansion of our customer base and our gain in market share.

Under a tough market environment in the ladies' footwear sector in China, the average selling price of core brands decreased by 3.9% due to intensified promotions during the period. The decrease in average selling price, together with rising production cost, led to a decrease in the gross profit margin for the core brands business to 60.8% (2011: 62.5%).

The increasing trend of the general wage and rental expenses continued in the Mainland market during the period and increased our cost burden significantly. In addition, to bolster the overall management, the Group stepped up investment in system enhancement projects which led to increased overhead cost. As a result, the operating margin for the core brands business decreased to 16.8% (2011: 19.6%) during the period under review.

The Group believes a stable store expansion plan is crucial to its continuous growth, and accordingly adopted a strategic store-opening plan with focus on directly-managed stores. This will not only strengthen brand building in the long term, but also facilitate prompt response to market changes. As at 30 June 2012, the Group had 5,968 points-of-sale (including 4,958 directly-managed stores and 1,010 franchised stores) under its core brands, with a net increase of 366 points-of-sale during the period under review. By adding 411 directly-managed stores and decreasing 45 franchised stores, the proportion of directly-managed stores increased to approximately 83% of the total store portfolio of core brands, up from approximately 81% at the end of 2011.

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 2012	668	1,222	908	3,170	5,968
31 December 2011	614	1,100	863	3,025	5,602

Other Brands Business

The other brands business of the Group is mainly attributed by 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", "dulala", "ALDO" and "AEROSOLES" in this business segment cater to the growing middle-class consumer segment, help broaden the Group's customer base and allow Daphne customers to trade up. For the period ended 30 June 2012, turnover of other brands business increased by 39.1% to HK$332.6 million (2011: HK$239.0 million). This segment contributed approximately 7% (2011: 6%) to the Group's turnover during the period. However, the performance of other brands business was affected by the weakness in the department store channel during the period. Taking a more prudent approach in its expansion, the Group had 613 points-of-sale for its other brands business as at 30 June 2012, as compared to 563 points-of-sale at the end of 2011.

Manufacturing Business

The emphasis is to allocate more production capacity to support the expansion of the core brands business by decreasing the volume manufactured for the OEM customers. Therefore, we continued to see a reduction in the OEM segment during the period. The Group aims to strengthen in-house production of its own brands, which is in line with Group's strategy to enhance its brand value and the long-term growth.

Cost and Inventory Management

The period under review saw rising cost pressure. As a result, a number of cost control and efficiency improvement measures were put in place at the front-line and back-office levels to boost overall productivity. In addition, several system enhancement projects were initiated, in areas such as merchandising and planning. The Group believes these improvement measures and projects will enhance the Group's overall competitiveness, and therefore gradually contribute to the performance later this year and in the following years.

In light of the volatility in the market demand under a slowing economy, there was buildup of inventory near the end of the period under review. The Group will closely monitor the market situation and ensure its marketing and promotions are closely aligned to changes in the prevailing market environment, while stepping up other distribution channels, such as e-commerce and clearance outlets, in an effort to drive sales and enhance inventory level.

FINANCIAL REVIEW

Financial and Operational Highlights

	For the six months ended 30 June	
	2012	2011
Turnover (HK$' million)	5,079.5	3,939.3
Gross profit (HK$' million)	3,083.3	2,412.4
Gross profit margin (%)	60.7	61.2
Operating profit (HK$' million)	699.6	630.2
Operating profit margin (%)	13.8	16.0
Profit attributable to owners of the Company (HK$' million)	482.6	440.2
Net profit margin (%)	9.5	11.2
Basic earnings per share (HK cents)	29.36	26.88
Interim dividend per share (HK cents)	9.0	8.0
Average inventory turnover (days) *(Note 1)*	202	149
Average debtors turnover (days) *(Note 2)*	12	11
Average creditors turnover (days) *(Note 3)*	79	71
Cash conversion cycle (days) *(Note 4)*	135	89
Capital expenditure (HK$' million) *(Note 5)*	329.3	146.1
Effective tax rate (%)	25.8	27.4
	As at	
	30 June 2012	31 December 2011
Cash and cash equivalents (HK$' million)	1,550.0	1,795.7
Bank loan (HK$' million)	7.1	7.0
Convertible bonds (HK$' million)	613.5	605.9
Equity attributable to owners of the Company (HK$' million)	4,391.6	4,035.9
Current ratio (times) *(Note 6)*	2.9	3.1
Net gearing ratio (%) *(Note 7)*	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. *Capital expenditure comprises acquisition of land use rights and fixed assets and cash expenditure on license rights.*

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

7. *The calculation of net gearing ratio (%) is based on net debt (being total of bank loan and convertible bonds, less cash and cash equivalents) divided by 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	
	2012	2011	2012	2011	2012	2011
	HK$' million	HK$' million	HK$' million	HK$' million	HK$' million	HK$' million
Revenue from external customers	*4,602.1*	*3,465.0*	*332.0*	*239.0*	*145.4*	*235.3*
Inter-segment revenue	*37.6*	*12.8*	*0.6*	*-*	*510.1*	*409.3*
Total segment revenue	4,639.7	3,477.8	332.6	239.0	655.5	644.6
Segment gross profit	2,821.8	2,171.9	192.4	148.4	74.6	96.2
Segment operating profit/(loss)	778.1	683.3	(40.2)	(30.3)	25.0	42.9

Liquidity and Financial Resources

As at 30 June 2012, the Group had bank balances and cash totaling HK$1,550.0 million (31 December 2011: HK$1,795.7 million) denominated mainly in Renminbi, US dollar, New Taiwan dollar and Hong Kong dollar.

The net decrease in bank balances and cash of HK$245.8 million (2011: increase of HK$79.9 million) is analysed as follows:

	For the six months ended 30 June	
	2012	2011
	HK$' million	HK$' million
Net cash generated from operating activities	198.5	294.3
Proceeds from disposal of fixed assets	1.4	0.7
Capital expenditure	(329.3)	(146.1)
Net dividend paid	(152.5)	(102.0)
Repayment of bank loan	-	(4.0)
Net cash flow used in acquisition of other investments	-	(15.3)
Net interest received	9.4	17.0
Proceeds from issue of shares upon exercise of share options	39.6	-
Effect of exchange rate changes	(12.9)	35.3
	(245.8)	79.9

As at 30 June 2012, unutilised banking facilities amounted to HK$173.6 million (31 December 2011: HK$173.6 million). The Group's current ratio was 2.9 as at 30 June 2012, versus 3.1 as at 31 December 2011. 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 registered banks in Mainland China. The interest income earned for the period was HK$20.1 million (2011: HK$27.4 million).

As at 30 June 2012, the Group's net gearing, calculated on the basis of net debt (being total bank loan and convertible bonds less cash and cash equivalents) over shareholders' equity, was in a net cash (31 December 2011: 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 (2011: 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 2012 and 31 December 2011, no assets were pledged as security for banking facilities of the Group.

Capital Expenditure

During the period, the Group incurred capital expenditure of HK$329.3 million (2011: HK$146.1 million) mainly for retail network expansion and renovation, purchase and construction of regional warehouses and offices, etc.

Contingent Liabilities

As at 30 June 2012 and 31 December 2011, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2012, the Group had over 28,000 employees (31 December 2011: 25,000) in Mainland China, Hong Kong, Taiwan and Korea. Employee and directors' expenditure, including share-based payment expense of HK$17.9 million (2011: HK$21.8 million), for the period under review was HK$692.8 million (2011: HK$543.1 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.

PROSPECTS

There is an emerging consensus that the second half of this year will remain challenging for retail operators, as the continued instability in the global economy and the uncertainty in the local market outlook will likely impact the overall consumer sentiment. The high base effect of last year's strong performance will also soften our growth rates in the second half of this fiscal year. Nevertheless, the Group remains cautiously optimistic as Daphne's vast Mainland China market is essentially driven by continuous urbanisation and the general wage growth. The Chinese government has stated an aim to raise the minimum wage by no less than 13% every year between 2011 and 2015. Rising disposable income will invariably translate into increased consumer spending, thus benefiting the retail sector, in particular the mass segment, in medium and long term.

Indeed, the Company will focus on capturing market share in the domestic market through upgrading its product portfolio of the upcoming Autumn/Winter Collection. It will broaden its marketing campaigns to reach target customers more effectively through a variety of media. In addition, the Group strives to improve operating efficiency through comprehensive internal operations and management control measures. Initiatives to improve staff productivity are also introduced, and scheduled to roll out in the second half of the year.

Daphne was ranked the second in the award of the Best Mid-Cap Companies in China 2012 by FinanceAsia, a leading regional financial publication, which was an endorsement of the Group's efforts to strengthen corporate management. With stable expansion and a sound business strategy, the Group is confident of its current expansion plan while adapting to evolving market conditions, so as to drive for long term growth and shareholder value.

INTERIM DIVIDEND

The Board has resolved on 15 August 2012 to declare an interim dividend of HK9.0 cents (2011: HK8.0 cents) per ordinary share for the year ending 31 December 2012. The interim dividend will be payable on or before 26 September 2012 to shareholders whose names appear on the register of members of the Company at 4:30 p.m. on 12 September 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 September 2012 to 12 September 2012 (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 7 September 2012.

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 2012. 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 (the "Listing Rules") throughout the period save for the deviation stated below.

On 27 January 2011, Mr. Chen Ying-Chieh, the Chairman of the Company, was appointed as the Chief Executive Officer of the Company. This was in deviation from Code Provision A.2.1 of the Code. 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 2012.

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, 15 August 2012

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.