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**)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS OF 2016 ANNUAL RESULTS

- Turnover dropped by 22.4% to HK$6,501.7 million
- Gross profit decreased by 29.9% to HK$3,311.7 million
- Loss attributable to shareholders was HK$819.1 million
- Basic loss per share was HK49.7 cents
- Total number of points-of-sale decreased by 1,030 to 4,900
- Net cash increased by 52.3% to HK$692.8 million

* *for identification purpose only*

ANNUAL RESULTS

The board of directors (the "Board") of Daphne International Holdings Limited (the "Company") announces the audited consolidated annual results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2016, together with the comparative figures for 2015.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	**2016**	2015
		HK$'000	HK$'000
Turnover	3	**6,501,677**	8,379,095
Cost of sales		**(3,190,004)**	(3,654,366)
Gross profit		**3,311,673**	4,724,729
Other income	4	**76,685**	66,004
Other losses – net	5	**(59,544)**	(65,334)
Selling and distribution expenses		**(3,768,768)**	(4,695,995)
General and administrative expenses			
Factories relocation expenses		**-**	(117,283)
Other general and administrative expenses		**(379,534)**	(409,744)
		(379,534)	(527,027)
Operating loss	6	**(819,488)**	(497,623)
Finance costs	7	**(6,526)**	(12,059)
Share of losses of associates and joint ventures		**(2,160)**	(2,778)
Loss before income tax		**(828,174)**	(512,460)
Income tax (expense)/credit	8	**(9,363)**	132,373
Loss for the year		**(837,537)**	(380,087)
Attributable to:			
Shareholders		**(819,127)**	(378,888)
Non-controlling interests		**(18,410)**	(1,199)
		(837,537)	(380,087)
Loss per share, basic and diluted (HK cents)	9	**(49.7)**	(23.0)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DEECEMBER 2016

	2016 HK$'000	2015 HK$'000
Loss for the year	**(837,537)**	(380,087)
Other comprehensive income/(loss)		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences	**212**	(437)
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**(280,152)**	(226,591)
Total comprehensive loss for the year	**(1,117,477)**	(607,115)
Attributable to:		
Shareholders	**(1,092,092)**	(600,183)
Non-controlling interests	**(25,385)**	(6,932)
	(1,117,477)	(607,115)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Intangible assets		**20,641**	66,715
Land use rights		**72,567**	80,136
Property, plant and equipment		**902,112**	1,190,401
Investment properties		**51,520**	-
Interests in associates		**1,801**	2,007
Interests in joint ventures		**353**	2,028
Available-for-sale financial asset		**-**	374
Deposits paid for acquisition of land use rights		**-**	119
Long-term rental deposits and prepayments		**91,385**	125,287
Deferred income tax assets		**329,216**	334,136
		1,469,595	1,801,203
Current assets			
Inventories		**1,414,500**	2,091,619
Trade receivables	11	**208,118**	237,874
Other receivables, deposits and prepayments		**955,786**	1,475,031
Income tax recoverable		**-**	65,886
Derivative financial instruments		**15,662**	15,919
Pledged bank deposits		**-**	3,225
Bank deposit with maturity over three months		**16,721**	-
Cash and cash equivalents		**972,769**	1,072,401
		3,583,556	4,961,955
Current liabilities			
Trade payables	12	**807,034**	982,616
Other payables and accrued charges		**370,166**	442,053
Current income tax liabilities		**16,478**	50,387
Bank loans – unsecured		**296,694**	620,792
		1,490,372	2,095,848
Net current assets		**2,093,184**	2,866,107
Total assets less current liabilities		**3,562,779**	4,667,310

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

	2016	2015
	HK$'000	HK$'000
Equity attributable to shareholders		
Share capital	**164,914**	164,914
Reserves	**3,206,484**	4,297,701
	3,371,398	4,462,615
Non-controlling interests	**160,652**	186,511
Total equity	**3,532,050**	4,649,126
Non-current liabilities		
Deferred income tax liabilities	**30,729**	18,094
Other non-current liability	**-**	90
	30,729	18,184
Total equity and non-current liabilities	**3,562,779**	4,667,310

NOTES TO THE FINANCIAL INFORMATION

1 General information

Daphne International Holdings Limited and its subsidiaries are principally engaged in the manufacturing, distribution and retailing of footwear and accessories in Mainland China.

The Company was incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") unless otherwise stated.

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(i) Standard and amendments to standards effective and adopted by the Group in 2016

HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKFRSs (Amendment)	Improvements to HKFRSs (2012-2014)

The adoption of these new standard and amendments has no material impact on the results and financial position of the Group.

(ii) New standards and amendments to standards that have been issued but are not yet effective and not early adopted by the Group

HKAS 7 (Amendment)	Disclosure Initiative [1]
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses [1]
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions [2]
HKFRS 9	Financial Instruments [2]
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [4]
HKFRS 15	Revenue from Contracts with Customers [2]
HKFRS 15 (Amendment)	Clarifications to HKFRS 15 [2]
HKFRS 16	Leases [3]

1 Effective for accounting periods beginning on or after 1 January 2017
2 Effective for accounting periods beginning on or after 1 January 2018
3 Effective for accounting periods beginning on or after 1 January 2019
4 Effective date to be determined

The Group is in the process of assessing the impact of the adoption of the above new/revised HKFRSs but not yet in a position to comment on the impact on the results and the financial position of the Group.

3 Segment information

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

The chief operating decision-maker ("CODM") has been identified as the executive directors. The CODM assesses the performance of the business from a business unit perspective, i.e. core brands business, other brands business and manufacturing business and allocate resources accordingly.

The 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 arrived at after elimination of inter-segment revenue. Inter-segment revenue is charged in accordance with terms as 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 Mainland China. None of the customers accounted for 10% or more of the total turnover of the Group for each of the two years ended 31 December 2016 and 2015.

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

The following is an analysis of the Group's revenue and results by reportable segment as reviewed by the CODM:

	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Year ended 31 December 2016					
Revenue from external customers	**5,691,472**	**808,806**	**1,399**	**-**	**6,501,677**
Inter-segment revenue	**244,563**	**4,228**	**206,413**	**(455,204)**	**-**
Total segment revenue	**5,936,035**	**813,034**	**207,812**	**(455,204)**	**6,501,677**
Segment results	**(744,127)**	**7,825**	**(12,344)**	**15,735**	**(732,911)**
Amortisation of intangible assets					**(4,446)**
Impairment of intangible assets					**(37,464)**
Corporate income					**836**
Corporate expenses					**(45,503)**
Operating loss					**(819,488)**
Finance costs					**(6,526)**
Share of losses of associates and joint ventures					**(2,160)**
Loss before income tax					**(828,174)**
Other information for disclosure:					
Amortisation of intangible assets	**-**	**4,446**	**-**	**-**	**4,446**
Impairment of intangible assets	**-**	**37,464**	**-**	**-**	**37,464**
Amortisation of land use rights	**1,112**	**-**	**1,153**	**-**	**2,265**
Depreciation of property, plant and equipment	**220,616**	**7,780**	**16,586**	**-**	**244,982**
Provision for/(reversal of) impairment of property, plant and equipment	**3,806**	**-**	**(5,805)**	**-**	**(1,999)**
Depreciation of investment properties	**-**	**-**	**1,151**	**-**	**1,151**
Impairment of an investment property	**-**	**-**	**9,979**	**-**	**9,979**
Capital expenditure	**88,838**	**16,162**	**5,922**	**-**	**110,922**
Year ended 31 December 2015					
Revenue from external customers	7,521,043	832,650	25,402	-	8,379,095
Inter-segment revenue	199,117	-	822,703	(1,021,820)	-
Total segment revenue	7,720,160	832,650	848,105	(1,021,820)	8,379,095
Segment results	(362,364)	1,340	(105,955)	(4,954)	(471,933)
Amortisation of intangible assets					(5,079)
Impairment of an intangible asset					(4,000)
Corporate income					9,205
Corporate expenses					(25,816)
Operating loss					(497,623)
Finance costs					(12,059)
Share of losses of associates and joint ventures					(2,778)
Loss before income tax					(512,460)
Other information for disclosure:					
Amortisation of intangible assets	-	5,079	-	-	5,079
Impairment of an intangible asset	-	4,000	-	-	4,000
Amortisation of land use rights	1,174	-	1,264	-	2,438
Depreciation of property, plant and equipment	285,366	8,124	21,900	-	315,390
Impairment of property, plant and equipment	4,383	-	13,439	-	17,822
Capital expenditure	253,730	7,786	39,990	-	301,506

The following is an analysis of the Group's assets and liabilities by reportable segment as reviewed by the CODM:

	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Group HK$'000
As at 31 December 2016				
Segment assets	**4,179,288**	**249,985**	**242,242**	**4,671,515**
Goodwill	**15,079**	**-**	**-**	**15,079**
Other intangible assets	**-**	**5,562**	**-**	**5,562**
	4,194,367	**255,547**	**242,242**	**4,692,156**
Interests in associates				**1,801**
Interests in joint ventures				**353**
Deferred income tax assets				**329,216**
Derivative financial instruments				**15,662**
Corporate assets				**13,963**
Total assets				**5,053,151**
Segment liabilities	**960,352**	**143,085**	**51,456**	**1,154,893**
Deferred income tax liabilities				**30,729**
Corporate liabilities				**335,479**
Total liabilities				**1,521,101**
As at 31 December 2015				
Segment assets	5,590,887	380,196	291,107	6,262,190
Goodwill	15,079	-	-	15,079
Other intangible assets	-	51,636	-	51,636
	5,605,966	431,832	291,107	6,328,905
Interests in associates				2,007
Interests in joint ventures				2,028
Available-for-sale financial asset				374
Deferred income tax assets				334,136
Derivative financial instrument				15,919
Corporate assets				79,789
Total assets				6,763,158
Segment liabilities	1,151,206	128,470	165,118	1,444,794
Deferred income tax liabilities				18,094
Corporate liabilities				651,144
Total liabilities				2,114,032

4 Other income

	2016 HK$'000	2015 HK$'000
Franchise and royalty income	**5,325**	7,718
Government subsidies	**5,880**	6,208
Gross rental income	**3,199**	1,885
Income derived from television programme (Note)	**34,475**	-
Interest income	**16,342**	29,214
Others	**11,464**	20,979
	76,685	66,004

Note: During the year ended 31 December 2016, the Group recognised income arising from the investment in a television programme amounting to HK$34,475,000. The related production cost amounting to HK$60,929,000 is recognised in "selling and distribution expenses" (Note 6).

5 Other losses - net

	2016 HK$'000	2015 HK$'000
Fair value gain on derivative financial instruments	**11,001**	16,449
Gain on disposal of an available-for-sale financial asset	**36**	-
Impairment of intangible assets	**(37,464)**	(4,000)
Impairment of an investment property	**(9,979)**	-
Loss on disposal of property, plant and equipment	**(22,219)**	(35,394)
Net exchange loss	**(2,918)**	(24,567)
Reversal of/(provision for) impairment of property, plant and equipment	**1,999**	(17,822)
	(59,544)	(65,334)

6 Operating loss

Operating loss is stated after charging the following:

	2016 HK$'000	2015 HK$'000
Amortisation of land use rights	**2,265**	2,438
Amortisation of license rights	**2,134**	2,644
Amortisation of trademarks	**2,312**	2,435
Auditors' remuneration	**4,764**	4,907
Cost of inventories sold, including provision for slow-moving inventories of HK$34,212,000 (2015: HK$216,900,000)	**3,089,148**	3,292,164
Depreciation of property, plant and equipment	**244,982**	315,390
Depreciation of investment properties	**1,151**	-
Employee benefits expense (including directors' emoluments and share-based payment expense)	**889,438**	1,325,482
Net provision for impairment of trade receivables	**111**	862
Operating lease rentals (including concessionaire fees) in respect of land and buildings	**1,924,513**	2,434,023
Production cost of a television programme	**60,929**	-

7 Finance costs

	2016	2015
	HK$'000	HK$'000
Interest on bank loans	**6,526**	5,148
Interest on convertible bonds	**-**	6,911
	6,526	12,059

8 Income tax (expense)/credit

	2016	2015
	HK$'000	HK$'000
Current income tax	**(12,524)**	(34,561)
Over/(under) provision in prior years	**36**	(2,391)
Deferred income tax	**3,125**	169,325
	(9,363)	132,373

The weighted average domestic tax rates is 24% (2015: 27%). The decrease is caused by a change in the profit or loss before income tax of the Group's subsidiaries in the respective places.

The applicable rate of Hong Kong profits tax is 16.5% (2015: 16.5%). No provision for Hong Kong profits tax has been made in the financial statements as the Group does not have any assessable profit arising in Hong Kong during the years ended 31 December 2016 and 2015.

Provision for China corporate income tax is calculated based on the statutory tax rate of 25% (2015: 25%) on the assessable income of each of the Group's entities.

Income tax on overseas (other than Hong Kong and Mainland China) profits has been calculated on the estimated assessable profits for the year at the applicable rates of income tax prevailing in the places where the Group operates.

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.

Pursuant to the China corporate income tax laws, withholding tax at a reduced rate of 7% (2015: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable net with value-added tax. Withholding tax of 7.5% (2015: 7.5%) is applied to management fee received or receivable from a Group's entity with tax jurisdiction in Mainland China.

9 Loss per share

Basic loss per share is calculated by dividing the loss attributable to shareholders of HK$819,127,000 (2015: HK$378,888,000) by the weighted average number of 1,649,142,384 (2015: 1,649,142,384) shares in issue during the year.

For each of the two years ended 31 December 2016 and 2015, basic and diluted loss per share are the same as there was no dilutive potential share.

10 Dividends

The board of directors does not recommend the payment of a dividend in respect of the year ended 31 December 2016 (2015: Nil).

11 Trade receivables

	2016	2015
	HK$'000	HK$'000
Trade receivables	**209,816**	239,682
Less: Provision for impairment	**(1,698)**	(1,808)
Trade receivables - net	**208,118**	237,874

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

	2016	2015
	HK$'000	HK$'000
0 - 30 days	**120,709**	140,814
31 - 60 days	**52,135**	57,711
61 - 90 days	**17,436**	20,189
91 - 120 days	**5,484**	7,851
121 - 180 days	**6,274**	4,593
181 - 360 days	**5,267**	2,845
Over 360 days	**813**	3,871
	208,118	237,874

The carrying values of trade receivables approximate their fair values. 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.

12 Trade payables

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

	2016	2015
	HK$'000	HK$'000
0 - 30 days	**394,146**	402,218
31 - 60 days	**198,496**	297,712
61 - 90 days	**202,838**	273,146
91 - 120 days	**2,986**	2,637
121 - 180 days	**393**	4,431
181 - 360 days	**7,500**	1,741
Over 360 days	**675**	731
	807,034	982,616

13 Capital commitments for purchase of land use rights and property, plant and equipment

	2016	2015
	HK$'000	HK$'000
Contracted but not provided for	**6,624**	1,326

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Market Overview

The business environment in 2016 remained challenging for retailers in China as the country was restructuring its economy and trying to make domestic consumption a key growth driver. China's gross domestic product (GDP) growth decelerated from 6.9% in 2015 to 6.7% in 2016, which was the lowest in the past 26 years. The growth rate of China's total retail sales of consumer goods also slowed down for the seventh consecutive year to 10.4% in 2016 from 10.7% in 2015. The merchandise sales by the top 100 retailers in China decreased by 0.5% in 2016, as reported by The National Commercial Information Centre of China.

In addition, online competition became more intense as more shoe brands used online channels to clear their excess inventory with very aggressive promotions. Moreover, operating costs which included rental, labour and logistics costs, continued their increasing trend in 2016, albeit at a slower rate. These developments posed more challenges to retailers, who had already been plagued by the prevalent weak consumer sentiment.

Furthermore, consumer behaviour has been changing very rapidly in recent years, due to the growing market penetration of smart phones, increasing popularity of online shopping and more frequent overseas travels. Many retailers, including Daphne, are adapting their operations substantially for these fast-evolving patterns of consumer behaviour.

Group Performance

The Group had a very tough year in 2016 and its turnover decreased by 22.4% to HK$6,501.7 million (2015: HK$8,379.1 million). This was mainly attributable to the decline in turnover of Core Brands Business which decreased its points-of-sale ("POS") considerably and recorded a decrease in same-store sales. Gross profit declined by 29.9% to HK$3,311.7 million (2015: HK$4,724.7 million) and the gross margin decreased to 50.9% (2015: 56.4%). The erosion of gross margin was mainly due to the increased proportion of revenues generated from the sales of heavily discounted aged products.

Operating loss was HK$819.5 million compared with the operating loss of HK$497.6 million for the previous year. Loss attributable to shareholders was HK$819.1 million for the year of 2016 (2015: HK$378.9 million).

Basic loss per share was HK49.7 cents compared with the basic loss per share of HK23.0 cents in 2015. The board of directors did not recommend the payment of a final dividend (2015: Nil).

As a result of the aggressive effort to liquidate aged inventory and the prudent approach to inventory management, the Group's inventory level decreased by 32.4% to HK$1,414.5 million as at 31 December 2016 (2015: HK$2,091.6 million), and the number of average inventory turnover days also reduced by 17 days to 201 days (2015: 218 days).

The Group stepped up the rationalisation of stores with a net decrease of 1,030 POS and, as a result, the total number of its POS was 4,900 as at 31 December 2016. The Group's sales network had 4,598 POS under its Core Brands Business ("Daphne" and "Shoebox" in Mainland China) and 302 POS for its Other Brands Business.

Despite the rising operating costs in China, stringent cost control measures and rationalisation initiatives enabled the Group to reduce the operating expenses by 20.4% in 2016, thus saving HK$1,080.5 million. The decrease in operating expenses was broadly in line with the decline in sales.

Meanwhile, the Group's drive to liquidate the aged inventory helped improve its net cash position to HK$692.8 million (2015: HK$454.8 million). Besides, despite the intensifying online competition in 2016, the Group's e-commerce business continued its strong sales growth and remained profitable.

Core Brands Business

The Group's Core Brands Business refers to the retail business of footwear products and accessories under its own brands, "Daphne" and "Shoebox" in Mainland China.

In view of the soft market conditions, the Group accelerated the closure of non-performing stores since the second quarter of 2016 and ended the year with a net closure of 999 POS (including a net decrease of 810 directly-managed stores and a net decrease of 189 franchised stores). This means a 17.8% reduction in the number of stores compared with that at the end of the year 2015. The Group had a total of 4,598 POS under its Core Brands, comprising 4,246 directly-managed stores and 352 franchised stores, as at 31 December 2016.

Number of POS of Core Brands Business:

	At 31 December 2016		At 31 December 2015		Change	
Directly-managed stores	**4,246**	***92%***	5,056	*90%*	-810	*-16.0%*
Franchised stores	**352**	***8%***	541	*10%*	-189	*-34.9%*
Total	**4,598**	***100%***	5,597	*100%*	-999	*-17.8%*

Number of POS of Core Brands Business by city tier:

	At 31 December 2016		At 31 December 2015		Change	
Tier 1	**514**	***11%***	637	*11%*	-123	*-19.3%*
Tier 2	**1,125**	***25%***	1,376	*25%*	-251	*-18.2%*
Tier 3	**890**	***19%***	1,030	*18%*	-140	*-13.6%*
Tier 4-6	**2,069**	***45%***	2,554	*46%*	-485	*-19.0%*
Total	**4,598**	***100%***	5,597	*100%*	-999	*-17.8%*

As a result of the significant reduction in the number of POS and the decrease in same-store sales, turnover of the Core Brands Business decreased by 23.1% to HK$5,936.0 million (2015: HK$7,720.1 million). The segment revenue generated from sales to external customers of the Core Brands Business accounted for 88% of the Group's total revenue for 2016 (2015: 90%).

The highly competitive market was characterised by aggressive promotions on both online and offline sales channels, which were caused by the high level of excessive inventory in the industry. Retailers were offering aggressive discounts to liquidate the aged stocks. This, together with the increased proportion of aged products in the sales mix, caused the gross margin of the Core Brands Business to decrease by 6.4 percentage points to 47.3% in 2016 (2015: 53.7%). The average selling price ("ASP") of the Core Brands Business decreased by 4.8% to RMB159. However, the ASP and gross margin of the products launched in 2016 were similar to those in 2015.

The decrease in sales, the substantial reduction in gross profit, and the charges for rationalisation initiatives exerted great pressure on the operating margin. Since fixed cost accounted for a greater portion in the cost structure of the Group's retail operation, the decrease in sales resulted in a greater percentage decrease in net operating profit. As a result, the operating margin of the Core Brands Business decreased by 7.8 percentage points to -12.5% (2015: -4.7%).

Other Brands Business

The Other Brands Business of the Group mainly consists of the operations of mid- to high-end brands (including the Group's own brands, and brands for which the Group has exclusive distribution rights, comprising "AEE", "STEP HIGHER", "AEROSOLES" and "ALDO" in Mainland China, Hong Kong and Taiwan), as well as its growing e-commerce unit. For the year ended 31 December 2016, aggregated turnover of the Other Brands Business decreased by 2.4% to HK$813.0 million (2015: HK$832.7 million). However, the Other Brands Business segment increased its contribution to the Group's total turnover in 2016 to 12% (2015: 10%). Its contribution to the Group's operating profit also increased to HK$7.8 million. However, gross margin of the Other Brands Business decreased slightly due to the increased proportion of e-commerce's contribution in this segment's total revenue.

Turnover of the portfolio of mid- to high-end brands decreased due to a net reduction of 31 POS during the year. However, this portfolio managed to reduce loss during the year under review.

The Group's e-commerce business continued its strong sales growth and yielded a small profit. Its sales growth is mostly driven by sales volume. Although old products accounted for a higher proportion in the operation's sales mix, the e-commerce business saw a slight increase in gross margin as it enhanced its promotional strategies. As the Group engaged customers more actively in its marketing activities, it broadened its online customer base in 2016. More renowned international shoe brands entered the Tmall and participated in Alibaba's Single's Day event in 2016, and therefore intensified the competition. Daphne still ranked among the top three local brands of women's shoes in this most important online shopping event in China. Also, throughout the year, Daphne's e-commerce business maintained its strong growth momentum. These showed that Daphne's brand equity remained strong in the online marketplace. Besides, the Group strengthened its integration of online and offline businesses through its extensive offline store network and warehouse sharing programme.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	For the year ended 31 December		
	2016	2015	Change
Turnover (HK$' million)	**6,501.7**	8,379.1	-22.4%
Gross profit (HK$' million)	**3,311.7**	4,724.7	-29.9%
Operating loss (HK$' million)	**(819.5)**	(497.6)	+64.7%
Loss attributable to shareholders (HK$' million)	**(819.1)**	(378.9)	+116.2%
Gross margin (%)	**50.9**	56.4	-5.5ppt
Operating margin (%)	**-12.6**	-5.9	-6.7ppt
Net margin (%)	**-12.6**	-4.5	-8.1ppt
Basic loss per share (HK cents)	**(49.7)**	(23.0)	+116.1%

Key Financial Indicators

	For the year ended 31 December		
	2016	2015	Change
Average inventory turnover (days) *(Note 1)*	**201**	218	-17
Average debtors turnover (days) *(Note 2)*	**13**	12	+1
Average creditors turnover (days) *(Note 3)*	**130**	113	+17
Cash conversion cycle (days) *(Note 4)*	**84**	117	-33
Capital expenditure (HK$' million)	**110.9**	301.5	-63.2%

	As at 31 December		
	2016	2015	Change
Cash and bank balances (HK$' million) *(Note 5)*	**989.5**	1,075.6	-8.0%
Bank loans (HK$' million)	**296.7**	620.8	-52.2%
Equity attributable to shareholders (HK$' million)	**3,371.4**	4,462.6	-24.5%
Current ratio (times) *(Note 6)*	**2.4**	2.4	-
Net gearing ratio (%) *(Note 7)*	**Net cash**	Net cash	N/A

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 number of days in the year.*

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 number of days in the year.*

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 number of days in the year.*

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).*

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

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

7. *The calculation of net gearing ratio (%) is based on net debt (being bank loans less cash and bank balances) divided by equity attributable to shareholders as at year end.*

Analysis of Results by Business Segment

For the year ended 31 December 2016, the Group recorded turnover of HK$6,501.7 million, a decrease of 22.4% compared to last year. The business performance of individual segments is summarised as follows:

	Core Brands Business		Other Brands Business		Manufacturing Business	
(HK$ million)	**2016**	2015	**2016**	2015	**2016**	2015
Revenue from external customers	***5,691.5***	*7,521.0*	***808.8***	*832.7*	***1.4***	*25.4*
Inter-segment revenue	***244.5***	*199.1*	***4.2***	*-*	***206.4***	*822.7*
Total segment revenue	**5,936.0**	7,720.1	**813.0**	832.7	**207.8**	848.1
Segment gross profit	**2,808.2**	4,149.2	**480.1**	505.6	**11.9**	74.9
Segment gross margin	***47.3%***	*53.7%*	***59.0%***	*60.7%*	***5.7%***	*8.8%*
Segment operating (loss)/profit	**(744.1)**	(362.4)	**7.8**	1.3	**(12.3)**	(106.0)
Segment operating margin	***-12.5%***	*-4.7%*	***1.0%***	*0.2%*	***-5.9%***	*-12.5%*

During the year ended 31 December 2016, total segment revenue of the Core Brands Business decreased by 23.1% to HK$5,936.0 million from HK$7,720.1 million in last year. It is mainly due to the closure of stores and decline in the same-store sales. Gross margin of the Core Brands Business also shrinked from 53.7% to 47.3% as a result of the clearance of the old stocks during the year.

During the year under review, the Group engaged in the production of a television programme named “Lady Bees” so as to revitalise, ramp up and diversify our marketing activities to promote “Daphne” brand image. This led to the increased operating expenses totalling HK$60.9 million although the income derived from this television programme was HK$34.5 million. As a whole, this segment recorded an operating loss of HK$744.1 million (2015: HK$362.4 million).

Total segment revenue of Other Brands Business remained much the same as last year amounting to HK$813.0 million (2015: HK$832.7 million). The increase in operating profit was mainly attributable to the e-commerce business.

Manufacturing Business segment recorded a significant drop in its total segment revenue from HK$848.1 million in last year to HK$207.8 million for the year because the Group ceased most of the production facilities in factories located in coastal area last year and incurred one-off restructuring costs amounting to HK$130.7 million last year. Given that there was no such one-off restructuring cost during the year, this segment still recorded an operating loss of HK$12.3 million (2015: HK$106.0 million).

Other Income

Other income increased by HK$10.7 million from HK$66.0 million in last year to HK$76.7 million for the year ended 31 December 2016. The major changes are due to the income from "Lady Bees" television programme and decrease in interest income during the year.

Operating Expenses

Overall, the Group's operating expenses (including other losses - net, selling & distribution and general & administrative expenses) decreased by HK$1,080.5 million or 20.4% to HK$4,207.8 million from HK$5,288.3 million in last year. The drop in operating expenses was generally in line with sales decrease and led mainly by rental cost, staff cost and shop overhead costs.

Operating Loss

As a result of the above, the Group's operating loss in 2016 increased by HK$321.9 million or 64.7% to HK$819.5 million from HK$497.6 million in last year.

Income Tax Expense/(Credit)

The Group's income tax expense for the year was HK$9.4 million compared to income tax credit of HK$132.4 million in 2015. This is mainly attributable to no deferred tax assets were recognised for certain timing differences and tax losses.

Loss Attributable to Shareholders

For the year ended 31 December 2016, the Group's loss attributable to shareholders increased by 116.2% to HK$819.1 million compared to that of HK$378.9 million in 2015. Basic loss per share was HK49.7 cents (2015: HK23.0 cents).

Inventories

As at 31 December 2016, the Group's inventories decreased by HK$677.1 million from HK$2,091.6 million to HK$1,414.5 million. Average inventory turnover was 201 days, 17 days less than last year. Included in the inventories, the balance of provision for slow-moving and obsolete items was HK$527.0 million as at 31 December 2016 (2015: HK$527.4 million).

Trade Receivables

The amount of trade receivables as at 31 December 2016 decreased by HK$29.8 million, or 12.5%, to HK$208.1 million compared to that of HK$237.9 million in 2015. Average debtors turnover remained stable at around 13 days (2015: 12 days).

Trade Payables

The Group's trade payables decreased by HK$175.6 million, or 17.9%, to HK$807.0 million (2015: HK$982.6 million) although the average creditors turnover increased by 17 days to 130 days (2015: 113 days). This reflected a better working capital management.

Liquidity and Financial Resources

The Group maintains a stable and healthy balance sheet. As at 31 December 2016, the Group had cash and bank balances, comprising cash and cash equivalents, bank deposit with maturity over three months and pledged bank deposits, amounting to HK$989.5 million (2015: HK$1,075.6 million), which were denominated mainly in Renminbi.

As at 31 December 2016, the Group's short-term bank loans were HK$296.7 million (2015: HK$620.8 million) and therefore the Group's net cash amounted to HK$692.8 million (2015: HK$454.8 million). The bank loans were denominated mainly in USD and at floating rates during the year.

The net decrease in cash and bank balances of HK$86.1 million (2015: HK$453.1 million) during the year is analysed as follows:

	For the year ended 31 December	
	2016	2015
	HK$' million	HK$' million
Net cash generated from operating activities	**327.4**	5.4
Capital expenditure	**(110.9)**	(301.5)
Proceeds from disposal of property, plant and equipment	**7.3**	5.5
Decrease in entrusted loans	**-**	3.0
Net dividend paid	**(0.5)**	(1.0)
Net interest received	**9.8**	24.1
Net bank loans (repaid)/borrowed	**(324.1)**	524.3
Redemption of convertible bonds	**-**	(695.5)
Effect of exchange rate changes and others	**4.9**	(17.4)
	(86.1)	(453.1)

For the year ended 31 December 2016, the Group's interest expenses on bank loans amounted to HK$6.5 million compared to last year's HK$12.1 million and there was no interest on convertible bonds (2015: HK$6.9 million) as the Company had redeemed the convertible bonds upon its maturity in April 2015. The Group's interest income was HK$16.3 million (2015: HK$29.2 million).

As at 31 December 2016, the Group was granted banking facilities amounting to HK$320.5 million (2015: HK$788.6 million). The Group's net gearing ratio, calculated on the basis of net debt (being bank loans less cash and bank balances) over equity attributable to shareholders, was in a net cash (2015: net cash) position. Current ratio was 2.4 as at 31 December 2016 (2015: 2.4). The management considered that the Group has sufficient resources currently to support expansion and development of business in future.

Foreign Exchange Risk Management

Management closely monitors the market situation and may consider tools to manage foreign exchange risk whenever necessary. During each of the two years ended 31 December 2016, the Group entered into foreign exchange forward contracts to hedge the foreign exchange risk exposure on bank loans denominated in USD and HKD. The aggregate notional principal amount of the outstanding forward foreign exchange contracts to sell RMB for USD at 31 December 2016 was HK$294.5 million (2015: HK$387.5 million).

Pledge of Assets

As at 31 December 2016, no bank deposits (2015: HK$3.2 million) were pledged for banking facilities.

Capital Expenditure

During the year, the Group incurred capital expenditure of HK$110.9 million (2015: HK$301.5 million) mainly for retail network expansion and renovation.

Contingent Liabilities

As at 31 December 2016 and 2015, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2016, the Group had a workforce of about 15,000 (2015: 18,000) people predominantly in Mainland China, Taiwan and Hong Kong. Employee benefits expense, including directors' emoluments, retirement benefit costs and share-based payment expense, for the year was HK$889.4 million (2015: HK$1,325.5 million). The decrease of HK$436.1 million or 32.9% was mainly due to the reduction in headcount of factories, stores and back office. 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. In addition, share options, share appreciation rights and discretionary bonuses are granted to eligible employees based on the performance of the Group and of the individual employee. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchase discounts and training programmes to employees.

AWARDS

Daphne ranked top for the sixth consecutive year in the "China Brand Power Index 2016" (in the "Women's Shoes" category) and won the "Golden Brand" award as it ranked top for the fifth year in a row. These awards reflected Daphne's strong brand awareness and loyalty in China. This independent annual survey was conducted by "Chnbrand", an institution funded by the Ministry of Industry and Information Technology of China and recognised as one of the most credible brand rating organisations in China. This survey derived the rankings by industry and category from the interview results of 16,440 consumers in 33 cities across China about brand awareness and loyalty.

Moreover, the Group received a merit certificate from the Hong Kong Investor Relations Association in its "Investor Relations Awards 2016", in recognition of its hard work on improving corporate governance and investor relations.

OUTLOOK

Fashion retailers had to deal with a number of challenges throughout 2016. For instance, local consumer sentiment remained soft due to China's economic slowdown. Operating costs were on an upward trend. These factors are still present and 2017 is set to be affected by instability and uncertainties in the world's political and economic arena. The same-store sales of the Group's Core Brands Business for the first quarter-to-date of 2017 recorded a decline of approximately 10% when compared to the same period in the previous year which is comparable to that of the fourth quarter of 2016.

However, some industries in China already started turning the corner in 2016 and corporate confidence which hit a decade-low in early 2016 also began to stabilise towards the end of 2016, according to CEIC Report. Some economists say that China's economy is stabilising and the trend is likely to continue in 2017.

Also, the Chinese government forecasted that the country's gross domestic product would grow by 6.5 percent in 2017, or 0.2 percentage points lower than in 2016, but the country will still rank high among the fastest-growing major economies. In its "13th Five-Year Plan", the Chinese government has determined to make domestic demand a major driver of the country's economic growth, and as such, the Group is optimistic about the outlook of consumption and that of the market for women's footwear in China.

In response to the current challenges, the Group's management team conducted a thorough review of its operations and business functions. It has placed an emphasis on how to differentiate the Core Brands from the competition and how to enhance the shopping experience in order to stimulate sales and boost customer traffic. It has also sought to enhance the brands' appeal for the more sophisticated and discerning customers today. To stand out from the crowd, the Group will have a major uplift of its products and project a refreshing brand image.

The brand revamp not only involves a new brand identity, but also includes new product design and a new approach to marketing. New logos together with new store concepts will be introduced to project a young, contemporary, stylish and vibrant brand image. In addition to the expansion and restructuring of the design team, a prominent designer with rich experience in global and regional shoe brands has recently joined the Group to lead the design team and help revitalise the creative processes. The Group is also reviewing the product range and product mix and may adjust them as part of the brand revamp and product upgrade.

To make the brand even more interesting and alluring, the Group will launch crossover projects in partnership with emerging star fashion brands, online key-opinion leaders and celebrities to broaden its appeal for different types of customers and offer a platform for its marketing.

To ensure the success of the brand revamp and product upgrade, the Group has also invested in and adjusted the key business functions such as marketing, staff training and development, production and supply chain management.

The Group has also pledged to enhance the shopping experience, so as to freshen up the customers' perception on its Core Brands and increase its competitiveness. Therefore it will focus its efforts of operational management on customer service. For instance, it will enrich the training system and offer more training to all levels of the frontline staff. It will also adopt a new standard of service, add new elements to the service culture and apply the service monitoring scheme more widely in its operations.

The consolidation of the Group's store network is almost completed. The Group will continue to optimise the sales channel mix by decreasing the proportion of street stores in the total number of retail outlets. The Group will also make every endeavour to sustain the strong growth momentum of its e-commerce business. For instance, it will leverage its extensive store network to accelerate the integration of online and offline business to gain synergy.

To build up its operations for sustainable and long-term growth, the Group has been endeavouring to make the Core Brands unique and refreshing. The Group is confident the actions underway will enable it to further the development and pave the way for the growth in the future.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2016. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited. Following specific enquiry by the Company, all directors have confirmed that they fully complied with the required standards as set out in the Model Code during the year ended 31 December 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied Corporate Governance Code (the “CG Code”) as contained in Appendix 14 to the Listing Rules throughout the year except for the deviations from code provisions A.2.1 and A.6.7 which are explained below.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Chen Ying-Chieh, who acted as the Chairman of the Board and the Chief Executive Officer of the Company, has resigned from the position of Chief Executive Officer and Mr. Chang Chih-Kai, an executive director of the Company, has been appointed as the Chief Executive Officer with effect from 16 April 2016. As such, the Company has complied with this code provision A.2.1 of the CG code since 16 April 2016.

During the year, the Company held an annual general meeting (the “AGM”) on 25 May 2016. Due to unavoidable business engagements, Mr. Huang Shun-Tsai, the independent non-executive director of the Company, was unable to attend the AGM. This was in deviation from code provision A.6.7 of the CG code.

REVIEW OF FINANCIAL STATEMENTS AND RESULTS ANNOUNCEMENT

The Group’s audited consolidated financial statements for the year ended 31 December 2016 including the accounting principles and practices adopted have been reviewed by the Audit Committee of the Company.

The figures in respect of the Group’s consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary results announcement have been agreed by the Group’s independent auditor, PricewaterhouseCoopers (“PwC”), to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on the preliminary results announcement.

FINAL DIVIDEND

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company will be held on 24 May 2017. A notice of the forthcoming annual general meeting will be issued and disseminated to shareholders in due course. The register of members will be closed from 22 May 2017 to 24 May 2017, both dates inclusive. In order to qualify to attend and vote at the forthcoming annual general meeting, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 19 May 2017.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the HKExnews (www.hkexnews.hk) and the Company (www.daphneholdings.com). The annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the same websites in due course.

By Order of the Board
Daphne International Holdings Limited
Chang Chih-Kai
Executive Director & CEO

Hong Kong, 28 March 2017

As at the date of this announcement, the Board of the Company comprises three Executive Directors, namely Mr. Chang Chih-Chiao, Mr. Chang Chih-Kai and Mr. Chen Tommy Yi-Hsun; one Non-executive Director, namely Mr. Chen Ying-Chieh; and three Independent Non-executive Directors, namely Mr. Huang Shun-Tsai, Mr. Kuo Jung-Cheng, and Mr. Lee Ted Tak Tai.