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 2013

HIGHLIGHTS OF 2013 ANNUAL RESULTS

- Turnover decreased marginally to HK$10,446.5 million
- Gross profit dropped by 6.3% to HK$5,838.3 million
- Profit attributable to owners of the Company declined by 65.6% to HK$329.1 million
- Basic earnings per share was HK20.0 cents
- Proposed final dividend was HK2.0 cents per share and total annual dividend of HK8.0 cents per share
- Total number of points-of-sale decreased by 179 to 6,702

* *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 (the "Group") for the year ended 31 December 2013, together with the comparative figures for 2012 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 HK$'000	2012 HK$'000
Turnover	2	10,446,540	10,529,100
Cost of sales		(4,608,253)	(4,300,268)
Gross profit		5,838,287	6,228,832
Other income	3	94,531	110,073
Other losses - net	4	(58,256)	(19,786)
Selling and distribution expenses		(4,874,889)	(4,410,251)
General and administrative expenses		(479,521)	(543,968)
Operating profit	5	520,152	1,364,900
Finance costs	6	(52,567)	(49,436)
Share of loss of associates and a joint venture		(3,154)	(8,150)
Profit before income tax		464,431	1,307,314
Income tax expense	7	(130,097)	(332,551)
Profit for the year		334,334	974,763
Attributable to:			
Owners of the Company		329,144	955,673
Non-controlling interests		5,190	19,090
		334,334	974,763
Earnings per share	8		
Basic (HK cents)		20.0	58.1
Diluted (HK cents)		19.4	52.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 HK$'000	2012 HK$'000
Profit for the year	334,334	974,763
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences	(369)	(435)
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences	128,293	50,417
Total comprehensive income for the year	462,258	1,024,745
Attributable to:		
Owners of the Company	454,815	1,004,755
Non-controlling interests	7,443	19,990
	462,258	1,024,745

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2013

	Note	2013 HK$'000	(Restated) 2012 HK$'000	(Restated) 2011 HK$'000
Non-current assets				
Intangible assets		84,870	115,452	129,926
Land use rights		54,512	49,747	51,196
Property, plant and equipment		1,187,682	1,183,584	899,662
Interests in associates		7,683	11,055	3,359
Interest in a joint venture		46	-	-
Available-for-sale financial asset		374	624	16,624
Deposits paid for acquisition of land use rights and property, plant and equipment		62,057	38,841	63,947
Long-term rental deposits and prepayments		182,950	194,977	175,564
Deferred income tax assets		151,248	111,491	106,469
		1,731,422	1,705,771	1,446,747
Current assets				
Inventories		2,642,920	2,368,890	2,058,526
Trade receivables	10	365,726	346,696	274,303
Entrusted loans		104,161	-	-
Other receivables, deposits and prepayments		1,603,685	1,355,333	971,290
Structured bank deposits		637,992	-	-
Pledged bank deposits		4,464	-	-
Bank deposits with maturity over three months		32,625	-	-
Cash and cash equivalents		699,321	1,494,759	1,795,744
		6,090,894	5,565,678	5,099,863
Current liabilities				
Trade payables	11	1,126,304	865,951	819,131
Other payables and accrued charges		588,897	554,591	608,691
Derivative financial instrument		1,315	-	-
Current income tax liabilities		25,323	151,167	250,612
Convertible bonds		689,178	-	-
Bank loan – unsecured		117,000	7,268	6,998
		2,548,017	1,578,977	1,685,432
Net current assets		3,542,877	3,986,701	3,414,431
Total assets less current liabilities		5,274,299	5,692,472	4,861,178

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2013

	2013 HK$'000	(Restated) 2012 HK$'000	(Restated) 2011 HK$'000
Equity attributable to owners of the Company			
Share capital	164,914	164,824	164,096
Reserves	4,878,808	4,660,512	3,871,771
	5,043,722	4,825,336	4,035,867
Non-controlling interests	206,107	211,260	195,759
Total equity	5,249,829	5,036,596	4,231,626
Non-current liabilities			
Convertible bonds	-	639,738	605,879
Deferred income tax liabilities	24,470	16,048	19,445
Other non-current liability	-	90	90
License fee payables	-	-	4,138
	24,470	655,876	629,552
Total equity and non-current liabilities	5,274,299	5,692,472	4,861,178

1. 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 available-for-sale financial asset, 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 judgement in the process of applying the Group's accounting policies.

(i) New standards, interpretation and amendments to standards effective and adopted by the Group in 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: Disclosure – 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.

HKFRS 12 "Disclosures of Interests in Other Entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

Some stores in Mainland China are operated under franchise and other relevant contractual agreements with franchisees. Management has considered the nature of its relationship with these franchisees and also how the franchisees and the operation of the stores 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 over these stores and its indirect exposure, or rights, to variable returns in these stores through these franchisees together with its own and determined it has control over the operation of these stores.

In 2013, the Group also appointed a few limited liability companies to provide certain day-to-day operational and administrative services to some stores in Mainland China. Based on the contractual terms in the service agreements, management considered the Group has the power to direct the relevant activities of these companies and it has the ability to use its power over these companies to affect its exposure to returns.

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

In the current year, the Group assessed that the adoption of HKFRS 10 and HKFRS 12 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 year that would have a significant impact on the results and financial position of the Group.

(ii) *New standards, interpretation and amendments to standards that have been issued but are not effective*

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

HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions [2]
HAKS 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]
HKFRS 9	Financial Instruments [4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Investment Entities [1]
HKFRS 14	Regulatory Deferral Accounts [3]
HKFRSs (Amendment)	Improvements to HKFRSs (2010-2012) [2]
HKFRSs (Amendment)	Improvements to HKFRSs (2011-2013) [2]
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 July 2014
[3] Effective for accounting periods beginning on or after 1 January 2016
[4] Effective date to be determined

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

2. Turnover and 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 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.

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 the United States of America. 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 2013.

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

	Year ended 31 December 2013				
	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Financial information reviewed by the CODM:					
Revenue from external customers	9,431,154	731,821	283,565	-	10,446,540
Inter-segment revenue	130,152	-	948,263	(1,078,415)	-
Total segment revenue	9,561,306	731,821	1,231,828	(1,078,415)	10,446,540
Segment results	616,219	(86,095)	17,916	5,744	553,784
Amortisation of intangible assets					(6,650)
Impairment of intangible assets					(27,767)
Corporate income					10,152
Corporate expenses					(9,367)
Operating profit					520,152
Finance costs					(52,567)
Share of loss of associates and a joint venture					(3,154)
Profit before income tax					464,431
Income tax expense					(130,097)
Profit for the year					334,334
Other information:					
Amortisation of intangible assets	-	6,650	-	-	6,650
Impairment of intangible assets	-	27,767	-	-	27,767
Amortisation of land use rights	958	-	1,002	-	1,960
Depreciation of property, plant and equipment	271,256	13,010	20,072	-	304,338
Capital expenditure	311,536	15,483	17,192	-	344,211

	As at 31 December 2013			
	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Group HK$'000
Segment assets	6,510,821	654,739	412,175	7,577,735
Goodwill	15,079	-	-	15,079
Other intangible assets	-	69,791	-	69,791
	6,525,900	724,530	412,175	7,662,605
Interests in associates				7,683
Interest in a joint venture				46
Available-for-sale financial asset				374
Deferred income tax assets				151,248
Unallocated corporate assets				360
Total assets				7,822,316
Segment liabilities	1,344,152	81,562	291,983	1,717,697
Deferred income tax liabilities				24,470
Convertible bonds				689,178
Unallocated corporate liabilities				141,142
Total liabilities				2,572,487

	Year ended 31 December 2012				
	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Financial information reviewed by the CODM:					
Revenue from external customers	9,508,496	690,940	329,664	-	10,529,100
Inter-segment revenue	83,400	-	1,069,419	(1,152,819)	-
Total segment revenue	9,591,896	690,940	1,399,083	(1,152,819)	10,529,100
Segment results	1,475,728	(127,555)	98,121	5,080	1,451,374
Amortisation of intangible assets					(6,764)
Impairment of an intangible asset					(7,000)
Corporate income					61
Corporate expenses					(72,771)
Operating profit					1,364,900
Finance costs					(49,436)
Share of loss of associates					(8,150)
Profit before income tax					1,307,314
Income tax expense					(332,551)
Profit for the year					974,763
Other information:					
Amortisation of intangible assets	-	6,764	-	-	6,764
Impairment of an intangible asset	-	7,000	-	-	7,000
Amortisation of land use rights	602	-	1,085	-	1,687
Depreciation of property, plant and equipment	220,058	14,332	17,819	-	252,209
Capital expenditure	448,302	49,532	23,175	-	521,009

	(Restated) As at 31 December 2012			
	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Group HK$'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. Other income

	2013 HK$'000	2012 HK$'000
Government subsidies	37,192	49,895
Interest income	33,374	43,047
Franchise and royalty income	7,260	6,248
Gross rental income	1,553	1,503
Dividend income from an available-for-sale financial asset	18	61
Others	15,134	9,319
	94,531	110,073

4. Other losses – net

	2013 HK$'000	2012 HK$'000
Impairment of intangible assets	(27,767)	(7,000)
Loss on disposal of property, plant and equipment	(42,985)	(17,398)
Loss on termination of a license right	-	(1,789)
Net exchange gain	13,811	6,401
Unrealised fair value loss on a derivative financial instrument	(1,315)	-
	(58,256)	(19,786)

5. Operating profit

Operating profit is stated after charging/(crediting) the following:

	2013 HK$'000	2012 HK$'000
Amortisation of land use rights	1,960	1,687
Amortisation of license rights	2,704	2,906
Amortisation of trademarks	3,946	3,858
Auditors' remuneration	6,385	6,117
Cost of inventories sold including provision for slow-moving inventories of HK$244,523,000 (2012: HK$56,835,000)	3,993,691	3,773,128
Depreciation of property, plant and equipment	304,338	252,209
Employee benefits expense including directors' emoluments	1,477,488	1,389,068
Net (written back)/provision for impairment of trade receivables	(437)	1,672
Operating lease rentals (including concessionaire fees) in respect of land and buildings	2,554,537	2,263,358

6. Finance costs

	2013 HK$'000	2012 HK$'000
Interest on convertible bonds	51,934	48,425
Interest relating to license fee payables	430	765
Interest on bank loans	203	200
Others	-	46
	52,567	49,436

7. Income tax expense

	2013 HK$'000	2012 HK$'000
Current tax	146,356	340,299
Under/(over) provision in prior years	12,122	(229)
Deferred tax	(28,381)	(7,519)
	130,097	332,551

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 two years ended 31 December 2013.

Provision for China corporate income tax is calculated based on the statutory tax rate of 25% (2012: 25%) on the assessable income of each of the Group's entities except that a subsidiary of the Company operating in Mainland China was entitled to a 50% reduction in corporate income tax during the year ended 31 December 2012 and corporate income tax was calculated using the applicable preferential income tax rate granted to the subsidiary.

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% (2012: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable. Withholding tax of 5% (2012: 5%) is applied to management fee received or receivable from a Group's entity with tax jurisdiction in Mainland China.

8. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of HK$329,144,000 (2012: HK$955,673,000) by the weighted average number of 1,648,973,617 (2012: 1,645,685,226) ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the adjusted profit attributable to owners of the Company of HK$329,144,000 (2012: HK$1,004,098,000) by the adjusted weighted average number of 1,693,557,106 (2012: 1,896,601,345) ordinary shares, after taking into consideration of the exercise of share options and warrants (2012: the conversion of convertible bonds and exercise of share options and warrants).

	2013 HK$'000	2012 HK$'000
Profit attributable to owners of the Company	329,144	955,673
Interest on convertible bonds	-	48,425
Adjusted profit attributable to owners of the Company	329,144	1,004,098

	2013 Number of shares	2012 Number of shares
Weighted average number of ordinary shares in issue	1,648,973,617	1,645,685,226
Effect of conversion of convertible bonds	-	178,510,572
Effect of exercise of share options	4,193,459	16,967,862
Effect of exercise of warrants	40,390,030	55,437,685
Weighted average number of ordinary shares adjusted for effect of dilution	1,693,557,106	1,896,601,345

For the year ended 31 December 2013, 7,100,000 (2012: 3,300,000) share options outstanding at year end, or lapsed or exercised during the year 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 year.

For the year ended 31 December 2013, convertible bonds are anti-dilutive (2012: dilutive) and are ignored in the calculation of diluted earnings per share.

9. Dividends

	2013 HK$'000	2012 HK$'000
Interim dividend, paid, of HK6.0 cents (2012: HK9.0 cents) per ordinary share	98,949	148,263
Final dividend, proposed, of HK2.0 cents (2012: HK9.0 cents) per ordinary share	32,983	148,387
	131,932	296,650

At a meeting held on 25 March 2014, the Board proposed a final dividend of HK2.0 cents per share in respect of the year ended 31 December 2013 to be approved by the shareholders at the forthcoming annual general meeting. The proposed dividend is not reflected as a dividend payable in these financial statements.

10. Trade receivables

	2013 HK$'000	2012 HK$'000
Trade receivables	367,776	349,129
Less: Provision for impairment of receivables	(2,050)	(2,433)
Trade receivables - net	365,726	346,696

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

	2013 HK$'000	2012 HK$'000
0 - 30 days	224,222	234,392
31 - 60 days	91,075	73,478
61 - 90 days	23,111	20,022
91 - 120 days	11,856	8,135
121 - 180 days	8,880	5,989
181 - 360 days	5,129	4,101
Over 360 days	1,453	579
	365,726	346,696

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.

11. Trade payables

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

	2013 HK$'000	2012 HK$'000
0 - 30 days	449,884	400,350
31 - 60 days	390,908	217,710
61 - 90 days	267,655	228,815
91 - 120 days	9,639	9,711
121 - 180 days	3,769	4,082
181 - 360 days	4,059	5,137
Over 360 days	390	146
	1,126,304	865,951

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Market Overview

The GDP growth of China was 7.7% in 2013, the weakest growth rate in more than a decade. Total retail sales growth for consumer goods slowed to 13.1% in the year from 14.3% in the previous year. The general deceleration in China's economic growth and the uncertainties in the market outlook led to weak consumer confidence. This, together with inflationary pressure in labour and rental costs, clouded the retail sector during the year. Nonetheless, the series of reforms by the Chinese government to spur growth in domestic consumption, including further urbanisation and rising household income, should gradually offer steady growth in consumer demand in the future, which will be reflected in due course in the retail sector.

Group Performance

For the year of 2013, the Group's turnover decreased by 0.8% to HK$10,446.5 million (2012: HK$ 10,529.1 million). Gross profit declined by 6.3% to HK$5,838.3 million (2012: HK$6,228.8 million). Operating profit amounted to HK$520.2 million (2012: HK$1,364.9 million). Profit attributable to owners of the Company was HK$329.1 million (2012: HK$955.7 million).

Basic earnings per share were HK20.0 cents (2012: HK58.1 cents). The Board has proposed a final dividend of HK2.0 cents (2012: HK9.0 cents) per share. Together with the interim dividend of HK6.0 cents per share, it brings the annual dividend to HK8.0 cents (2012: HK18.0 cents) per share for 2013.

As at 31 December 2013, the Group's points-of-sale (POS) totalled 6,702, representing a net decrease of 179 POS during the year. The sales network comprised 6,319 POS under its Core Brands ("Daphne" and "Shoebox" in Mainland China) and 383 POS for Other Brands.

As a result of the preparation for an earlier Chinese New Year in 2014 and unsatisfactory sales of the summer season in 2013, inventory turnover days for the Group increased to 198 days compared to 188 days last year, but already reduced from 209 days in the first half of 2013.

The Group ranked in the Top 75 for investors relations in Greater China in the investor perception survey for the IR Magazine Asia Awards 2013/2014, among more than 2,400 listed companies in the region. This serves as recognition of the Group's endeavour in improving its investor relations and transparency by the investor community.

Core Brands Business

Consumer sentiment remained weak in Mainland China. Unfavourable weather patterns and keen competition added pressures on sales performance. A higher proportion of newly trained frontline staff, which was a result of the high staff turnover in early 2013, further weakened the Group's ability to combat the sluggish market environment during the year.

The Group's Core Brands business represents the distribution of ladies' footwear for the mass market under its own brands, "Daphne" and "Shoebox" in Mainland China, through a network of both directly-managed and franchised stores. With a negative same store sales growth and net store closures, turnover of the Core Brands business was HK$9,561.3 million, about flat when compared to last year (2012: HK$9,591.9 million). The Group had a net decrease of 50 POS for the Core Brands for 2013 after rationalising the store portfolio in the fourth quarter of the year, as compared to 767 net store openings for 2012. Segment revenue from external customers of Core Brand business maintained at 90% of the Group's total revenue in 2013 (2012: 90%). Same store sales recorded a low double-digit decrease in 2013 led by volume drop, on top of the high base for 2012. Average selling price during the year was essentially flat when compared to last year.

To cope with the softer market and manage store rental pressures, the Group conducted a stringent review of the store portfolio in the second-half of 2013 and initiated closures of non-performing stores in order to enhance the quality of the overall store portfolio. The Group ended the year of 2013 with a net decrease of 50 points-of-sale for the Core Brands, after net closures of 245 stores in the fourth quarter. As at 31 December 2013, the Group had a total of 6,319 points-of-sale under its Core Brands, comprising 5,491 directly-managed stores and 828 franchised stores. The proportion of directly-managed stores to the total store portfolio of Core Brands increased to 87%, from 85% last year.

Store Number Change of Core Brands by Quarter

Year	**Q1**	**Q2**	**Q3**	**Q4**	**Full Year**
2013	+100	+112	-17	-245	-50
2012	+149	+217	+180	+221	+767

Store Number Change of Core Brands by Store Category

	As at 31 Dec 2013	**As at 31 Dec 2012**	**Change**
Directly-managed POS	5,491	5,427	+64
Franchised POS	828	942	-114
Total POS	6,319	6,369	-50

Distribution of Points-of-sale of Core Brands by City Tier

City Tier / As at	**Tier 1**	**Tier 2**	**Tier 3**	**Tiers 4-6**	**Total**
31 December 2013	703	1,394	992	3,230	6,319
31 December 2012	721	1,342	981	3,325	6,369

Due to the change in product sales mix, aggressive clearance of off-season items and a significant increase in inventory provision, the gross profit margin of Core Brands contracted by 3.1 ppt from 59.0% to 55.9%. With pressures from increasing rental and labour costs, pronounced negative operating leverage under the sluggish sales environment, and additional impairment loss on closures of non-performing stores, the operating margin of the Core Brands business decreased to 6.4% (2012: 15.4%).

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 international brands with exclusive distribution rights, in Mainland China, Hong Kong and Taiwan. Brands such as “AEE”, “Step Higher”, “ALDO”, and “AEROSOLES” in this business segment cater to the middle-class consumer segment and will broaden the Group’s customer base in the long run. Turnover of Other Brands increased by 5.9% to HK$731.8 million (2012: HK$690.9 million) for the year, representing 7% (2012: 7%) of the Group’s total turnover. As the consolidation of the mid- to high-end brand portfolio, including rationalisation of its sales network, has shown satisfactory progress, the operating loss for this segment decreased to HK$86.1 million in 2013, as compared to HK$127.6 million last year. The number of POS under Other Brands decreased by 129 to 383 (2012: 512) as at 31 December 2013.

Efficiency Improvement Initiatives

During the year, the Group dedicated its efforts towards improving staff retention and training, closing down non-performing stores and adopting a more prudent approach towards inventory management. The Group also stepped up measures to monitor and control its expenses focusing on labour and rental costs. Additionally, a new Retail Management System came into operation for one of the Core Brands in the fourth quarter of 2013. It is expected that this system will be fully implemented in the overall Core Brands business in 2014, and will therefore enhance the Group’s future sales productivity and inventory management. The management believes these initiatives will strongly underpin the foundations for future improvement in the Group’s financial performance.

FINANCIAL REVIEW

Financial and Operational Highlights

	For the year ended 31 December		
	2013	2012	Change
Turnover (HK$’ million)	10,446.5	10,529.1	-0.8%
Gross profit (HK$’ million)	5,838.3	6,228.8	-6.3%
Operating profit (HK$’ million)	520.2	1,364.9	-61.9%
Profit attributable to owners of the Company (HK$’ million)	329.1	955.7	-65.6%
Gross profit margin (%)	55.9	59.2	-3.3ppt
Operating profit margin (%)	5.0	13.0	-8.0ppt
Net profit margin (%)	3.2	9.1	-5.9ppt
Basic earnings per share (HK cents)	20.0	58.1	-65.6%
Dividend per share (HK cents)	8.0	18.0	-55.6%
Average inventory turnover (days) *(Note 1)*	198	188	+10
Average debtors turnover (days) *(Note 2)*	12	11	+1
Average creditors turnover (days) *(Note 3)*	85	75	+10
Cash conversion cycle (days) *(Note 4)*	125	124	+1
Capital expenditure (HK$ million) *(Note 5)*	344.2	521.0	-33.9%

	As at 31 December		
	2013	2012	Change
Cash and bank balances (HK$ million) *(Note 6)*	1,374.4	1,494.8	-8.1%
Bank loan (HK$ million)	117.0	7.3	+1,509.8%
Convertible bonds (HK$ million)	689.2	639.7	+7.7%
Equity attributable to owners of the Company (HK$ million)	5,043.7	4,825.3	+4.5%
Current ratio (times) *(Note 7)*	2.4	3.5	-1.1
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 cost of sales and multiplied by 365 days.*

2. *The calculation of average debtors turnover (days) is based on the average of opening and closing balances of trade receivables divided by turnover and multiplied by 365 days.*

3. *The calculation of average creditors turnover (days) is based on the average of opening and closing balances of trade payables divided by purchases and multiplied by 365 days.*

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. *Capital expenditure comprises acquisition of land use rights and property, plant and equipment, cash expenditure on license rights and capital contribution to a joint venture.*

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

7. *The calculation of current ratio (times) is based on the total current assets divided by total current liabilities as at 31 December.*

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 equity attributable to owners of the Company as at 31 December.*

Segmental Analysis

The business performance of individual segment for the year ended 31 December 2013 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	*9,431.2*	*9,508.5*	*731.8*	*690.9*	*283.6*	*329.7*
Inter-segment revenue	*130.1*	*83.4*	-	-	*948.2*	*1,069.4*
Total segment revenue	9,561.3	9,591.9	731.8	690.9	1,231.8	1,399.1
Segment gross profit	5,344.6	5,661.8	405.6	375.6	83.5	187.1
Segment gross margin	*55.9%*	*59.0%*	*55.4%*	*54.4%*	*6.8%*	*13.4%*
Segment operating profit/(loss)	616.2	1,475.7	(86.1)	(127.6)	17.9	98.1
Segment operating margin	*6.4%*	*15.4%*	*(11.8%)*	*(18.5%)*	*1.5%*	*7.0%*

Liquidity and Financial Resources

As at 31 December 2013, the Group had cash and bank balances, comprising cash and cash equivalents, pledged bank deposits, structured bank deposits and bank deposits with maturity over three months, amounting to HK$1,374.4 million (2012: HK$1,494.8 million) denominated mainly in Renminbi. The net decrease in cash and bank balances of HK$120.4 million (2012: HK$300.9 million) is analysed as follows:

	2013 HK$'million	2012 HK$'million
Net cash generated from operating activities	432.6	431.3
Net interest received	6.0	21.7
Proceeds from issue of shares upon exercise of share options	7.3	45.1
Proceeds from disposal of property, plant and equipment	2.2	3.1
Capital expenditure	(344.2)	(521.0)
Net dividend paid	(250.7)	(300.8)
Net bank loan borrowed	109.9	-
Increase in entrusted loans	(104.2)	-
Effect of exchange rate changes	24.7	19.7
Others	(4.0)	-
	(120.4)	(300.9)

As at 31 December 2013, the Group had unutilised banking facilities amounting to HK$63.6 million (2012: HK$146.6 million) and current ratio (being current assets divided by current liabilities) was 2.4 (2012: 3.5). The Group has sufficient resources currently to support expansion and development of business in the future.

To maximise the return on idle liquid resources, the Group placed a number of principal-protected structured deposits with registered banks in Mainland China during the year. Total interest income earned for the year was HK$33.4 million (2012: HK$43.0 million).

As at 31 December 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 equity attributable to owners of the Company, was in a net cash (2012: net cash) position.

Foreign exchange risk management

Management closely monitors the market situation and may consider tools to manage foreign exchange risk whenever necessary. During the year, the Group entered into a foreign exchange forward contract to hedge the foreign exchange risk exposure on a bank loan denominated in United States dollar. No foreign exchange derivative was engaged during the year ended 31 December 2012.

Pledge of Assets

As at 31 December 2013, the Group's bank deposits amounting to HK$4.5 million (2012: nil) were pledged for banking facilities.

Capital Expenditure

During the year, the Group incurred a capital expenditure of HK$344.2 million (2012: HK$521.0 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 31 December 2013 and 31 December 2012, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2013, the Group had over 27,000 (2012: 27,000) employees predominantly in Mainland China, Taiwan and Hong Kong. Employee benefits expense, including directors' emoluments and share-based payment expense, for the year was HK$1,477.5 million (2012: HK$1,389.1 million). The Group values human resources and recognises the importance of retaining high calibre employees. Remuneration packages are generally structured by reference to market terms and individual qualifications. In addition, share options and discretionary bonuses are granted to eligible employees based on the performance of the Group and the individual employee. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchase discounts and training programmes to employees.

OUTLOOK

The impact of China's slowing economic growth and sluggish consumer sentiment experienced in 2013 will likely continue in the first half of 2014 ahead of anticipated improvement later in the year. The same store sales for the first quarter of 2014, as affected by the shorter shopping period prior to the earlier Chinese New Year in 2014, is estimated to decline in the range of low-teens versus the same period in the previous year, even though the Group saw modest signs of sales improvement in the second half of March after spring season emerged.

Faced with a softer retail market, increased competition from both e-commerce and some regional industry players, the Group conducted detailed studies and analysis of both the market and its operations in the fourth quarter of 2013. Based on the findings and conclusions, the Group devised strategies and measures to improve its sales, operations and overall performance for the current year, with a focus on its core competitive strengths in order to drive further differentiation from its competitors as well as adapting to changing market conditions. Measures to improve performance have been grouped into three key objectives: boosting the sales productivity, enhancing the supply chain and inventory management, as well as strengthening merchandising and marketing. Measures being implemented are elaborated below.

Boost Sales Productivity

First, a new store image will be introduced together with the renovation of major stores and the strengthening of visual merchandising. These measures will lead to the improvement of the appeal of stores and their products, increase foot traffic, and enhance the overall shopping experience.

Second, as a review of the channel strategy, the Group has initiated an in-depth analysis and monitoring of sales trends of the various retail channels in which it is engaged. Some diversification in its distribution channels may be considered, if deemed appropriate, to adapt to changes in the retail market.

For the development of its sales network, the Group has adopted a more prudent approach around new store openings. The emphasis is now on the quality of individual stores as well as overall store portfolio.

Third, the Group also launched a series of measures in early 2014 to boost the productivity of its sales force. The incentive scheme for senior managers in the frontline has been adjusted to both foster stronger alignment of management and the Group’s interests, and increase the accountability of its regional and branch offices.

Moreover, in order to reinforce the delivery of the comprehensive set of KPIs introduced in 2013, a new store management system and procedures, together with management training and a complete set of management tools, will be provided to area managers in order to increase their efficiency in managing and tracking the performance of their individual stores. Store managers have also now been empowered with greater responsibilities and a broader scope of work to improve their accountability. The new systematic, standardised and detailed approach to store management is expected to enhance efficiency and sales productivity.

To improve the retention rate and productivity of the sales staff, the Group is also providing more competitive incentive packages, adopting a more efficient staff scheduling system, and stepping up staff development efforts. It is also seeking to enhance the customer experience by improving frontline sales techniques through polished training programmes and by fostering a stronger service culture. For example, the content of training programme is being enriched, e-learning is introduced and more frequent tracking of the progress is added. These initiatives are backed up by increased training resources.

For e-commerce, a flourishing channel outside of brick-and-mortar retail stores, the Group will aim to build a stronger presence in this competitive market. The Group will broaden partnerships with the country’s leading e-commerce companies to increase market coverage and enhance the online shopping experience. It will also expand and strengthen the e-commerce operation including the backend support functions, to facilitate future growth. More integrated promotional and marketing campaigns across the online and offline sales channels leveraging Customer Relations Management will also be launched.

Enhance supply chain and inventory management

The Group will pursue a more customer-focused supply chain management approach, and a more efficient inventory management to support sales growth and increase profitability. For example, product allocation and replenishment will be further customised at the individual store level. By radically upgrading and increasing the sophistication of its systems to ensure its products meet the specific needs of customers at the local level, the Group aims to optimise the mix of the first-batch new products in its stores. As a result the Group will deliver a more appealing product portfolio to local customers.

This endeavour will also be enhanced by the roll-out of the new Retail Management System, which is being implemented as planned. This new system will enable automation of product allocation as well as more efficient product planning, stock replenishment and inventory management. It is expected to begin its full operation in both Shoebox and Daphne stores across the country in the second half of 2014. This will increase the Group's efficiency and effectiveness in product allocation in the future.

A task force was set up to focus on inventory management with the aim to optimise the inventory level, enhance the inventory mix, and increase efforts to clear off-season products via more diverse distribution channels. The Group will also make efforts to enhance its product quality and improve stock replenishment lead times.

To maintain tight control over product costs, the Group has also adopted measures to achieve greater cost efficiency in its procurement processes, and moved certain production lines to western China to mitigate the pressure of rising labour costs.

Strengthen Merchandising and Marketing

The Group will strive to achieve greater differentiation from its competitors with a distinctive brand image, delivering appealing products via improving merchandising and introducing more effective marketing, while the shopping environment and service experience are enhanced. In respect of its products, the Group will expand its product categories, putting increased emphasis on the prevailing trends in product design, and offer greater diversity in its product portfolio.

Moreover, the Group will step up its marketing efforts by increasing the breadth and depth of its marketing and brand-building activities, with an aim to bolster the image of its key brands. A wider variety of marketing activities will be employed such as digital marketing including online and mobile marketing, community and charitable events, and cross-over campaigns. The Group will tap its customer membership of approximately 10 million for business growth by the improved application of its Customer Relationship Management program. This will strengthen customer loyalty and encourage repeat purchases from these members. Furthermore, the Group will continue to review and refine its pricing and promotion strategies to improve its profitability.

Considering the existing low penetration rate of ladies' footwear in China, the Chinese ladies' footwear market will invariably benefit from the Chinese government's policies to foster domestic consumption and urbanisation, and increase disposable income, and therefore continue its growth in medium and long term. However, it may face some headwinds in the near term as the government's economic policies will introduce some volatility in consumers spending patterns. By focusing on its core strengths and increasing the operational and management efficiency of its business, the Group will be well positioned to both compete and grow, and therefore deliver enhanced value to its shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2013. Neither the Company nor any of its subsidiaries has purchased or sold 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 of the Listing Rules. Following specific enquiry by the Company, all directors of the Company confirmed that they had complied with the required standards as set out in the Model Code during the year ended 31 December 2013.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year except for the deviations from code provisions A.2.1 and A.6.7 which are explained below.

Mr. Chen Ying-Chieh is the Chairman of the Board and the Chief Executive Officer of the Company. This was in deviation from code provision A.2.1 of the CG Code which stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. As Mr. Chen has been with the Group for over 20 years and he has extensive experience in the footwear distribution industry, the Board believes that it is in the best interest of the Group to have Mr. Chen taking up both roles for continuous effective management and business development of the Group. The Board will periodically review the balance of power and authority between the Board and the management of the Company and considers segregating the roles when it thinks appropriate.

The Company held an annual general meeting (the "AGM") and an extraordinary general meeting (the "EGM") on 13 May 2013 and 27 August 2013 respectively. Due to unavoidable business engagements, Mr. Kim Jin-Goon, the non-executive director of the Company, was unable to attend the AGM and the EGM, in which Mr. Lau Wai Kei, Ricky as the alternate director to Mr. Kim; attended both general meetings. Mr. Huang Shun-Tsai, Mr. Kuo Jung-Cheng and Mr. Lee Ted Tak Tai, the independent non-executive directors of the Company, were unable to attend the EGM. These were in deviations from code provision A.6.7 of the CG Code.

AUDIT COMMITTEE

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

ANNUAL GERNAL MEETING

The annual general meeting of the Company will be held on 22 May 2014. A notice of the annual general meeting will be issued and disseminated to shareholders in due course.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK2.0 cents (2012: HK9.0 cents) per ordinary share for the year ended 31 December 2013. Subject to the approval by shareholders of the Company at the annual general meeting to be held on 22 May 2014, the payment of the final dividend will be paid on or before 11 June 2014 to shareholders whose names appear on the register of members of the Company on 30 May 2014.

CLOSURE OF REGISTER OF MEMBERS

For determining entitlement to attend and vote at the annual general meeting of the Company, the register of members will be closed from 20 May 2014 to 22 May 2014, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attendance and voting at the annual general meeting of the Company, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration not later than 4:30 p.m. on 19 May 2014.

For determining entitlement to the final dividend, the register of members will be closed from 29 May 2014 to 30 May 2014, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at the above address for registration not later than 4:30 p.m. on 28 May 2014.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL 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 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the same websites in due course.

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

Hong Kong, 25 March 2014

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