# 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 2014

### HIGHLIGHTS OF 2014 ANNUAL RESULTS

- Turnover slightly dropped by 0.9% to HK$10,355.6 million
- Gross profit decreased by 1.7% to HK$5,737.6 million
- Profit attributable to owners of the Company declined by 46.5% to HK$176.0 million
- Basic earnings per share was HK10.7 cents
- Total number of points-of-sale increased by 55 to 6,757

* *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 2014, together with the comparative figures for 2013.

### CONSOLIDATED INCOME STATEMENT
### FOR THE YEAR ENDED 31 DECEMBER 2014

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Turnover | 3 | **10,355,616** | 10,446,540 |
| Cost of sales | | **(4,618,058)** | (4,608,253) |
| Gross profit | | **5,737,558** | 5,838,287 |
| Other income | 4 | **83,883** | 94,531 |
| Other losses - net | 5 | **(24,761)** | (58,256) |
| Selling and distribution expenses | | **(5,042,300)** | (4,874,889) |
| General and administrative expenses | | **(491,984)** | (479,521) |
| Operating profit | 6 | **262,396** | 520,152 |
| Finance costs | 7 | **(33,837)** | (52,567) |
| Share of losses of associates and joint ventures | | **(7,219)** | (3,154) |
| Profit before income tax | | **221,340** | 464,431 |
| Income tax expense | 8 | **(39,191)** | (130,097) |
| Profit for the year | | **182,149** | 334,334 |
| Attributable to: | | | |
| Owners of the Company | | **176,031** | 329,144 |
| Non-controlling interests | | **6,118** | 5,190 |
| | | **182,149** | 334,334 |
| Earnings per share | 9 | | |
| Basic (HK cents) | | **10.7** | 20.0 |
| Diluted (HK cents) | | **10.7** | 19.4 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DEECEMBER 2014**

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit for the year | **182,149** | 334,334 |
| Other comprehensive income | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| Currency translation differences | **81** | (369) |
| Item that will not be reclassified subsequently to profit or loss: | | |
| Currency translation differences | **(125,138)** | 128,293 |
| Total comprehensive income for the year | **57,092** | 462,258 |
| Attributable to: | | |
| Owners of the Company | **53,998** | 454,815 |
| Non-controlling interests | **3,094** | 7,443 |
| | **57,092** | 462,258 |

**CONSOLIDATED BALANCE SHEET**
**AS AT 31 DECEMBER 2014**

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| **Non-current assets** | | | |
| Intangible assets | | **78,948** | 84,870 |
| Land use rights | | **76,509** | 54,512 |
| Property, plant and equipment | | **1,377,485** | 1,187,682 |
| Interests in associates | | **2,214** | 7,683 |
| Interests in joint ventures | | **4,071** | 46 |
| Available-for-sale financial asset | | **374** | 374 |
| Deposits paid for acquisition of land use rights and property, plant and equipment | | **26,750** | 62,057 |
| Long-term rental deposits and prepayments | | **163,780** | 182,950 |
| Deferred income tax assets | | **177,753** | 151,248 |
| | | **1,907,884** | 1,731,422 |
| **Current assets** | | | |
| Inventories | | **2,273,330** | 2,642,920 |
| Trade receivables | 11 | **326,555** | 365,726 |
| Entrusted loans | | **3,070** | 104,161 |
| Other receivables, deposits and prepayments | | **1,552,393** | 1,603,685 |
| Income tax recoverable | | **68,503** | - |
| Structured bank deposits | | **1,064,716** | 637,992 |
| Pledged bank deposits | | **6,928** | 4,464 |
| Bank deposits with maturity over three months | | **-** | 32,625 |
| Cash and cash equivalents | | **457,034** | 699,321 |
| | | **5,752,529** | 6,090,894 |
| **Current liabilities** | | | |
| Trade payables | 12 | **1,005,154** | 1,126,304 |
| Other payables and accrued charges | | **550,935** | 588,897 |
| Derivative financial instrument | | **-** | 1,315 |
| Income tax liabilities | | **55,535** | 25,323 |
| Convertible bonds | | **680,716** | 689,178 |
| Bank loans – unsecured | | **96,460** | 117,000 |
| | | **2,388,800** | 2,548,017 |
| **Net current assets** | | **3,363,729** | 3,542,877 |
| **Total assets less current liabilities** | | **5,271,613** | 5,274,299 |

**CONSOLIDATED BALANCE SHEET**
**AS AT 31 DECEMBER 2014**

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Equity attributable to owners of the Company** | | |
| Share capital | **164,914** | 164,914 |
| Reserves | **4,893,038** | 4,878,808 |
| | **5,057,952** | 5,043,722 |
| Non-controlling interests | **194,439** | 206,107 |
| **Total equity** | **5,252,391** | 5,249,829 |
| **Non-current liabilities** | | |
| Deferred income tax liabilities | **19,132** | 24,470 |
| Other non-current liability | **90** | - |
| | **19,222** | 24,470 |
| **Total equity and non-current liabilities** | **5,271,613** | 5,274,299 |

## NOTES TO THE FINANCIAL INFORMATION

## 1 General information

Daphne International Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the manufacturing, distribution and retailing of footwear, apparel and accessories in Mainland China and export sales with major customers in the United States of America.

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. These consolidated financial statements have been approved for issue by the Board on 24 March 2015.

## 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 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 interpretation and amendments to standards effective and adopted by the Group in 2014*

| | |
|---|---|
| HKAS 32 (Amendment) | Presentation - Offsetting Financial Assets and Financial Liabilities |
| HKAS 36 (Amendment) | Recoverable Amount Disclosures for Non-Financial Assets |
| HKAS 39 (Amendment) | Novation of Derivatives and Continuation of Hedge Accounting |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments) | Investment Entities |
| HK(IFRIC) - Int 21 | Levies |

The adoption of these new interpretation 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 16 and HKAS 38 (Amendment) | Clarification of Acceptable Methods of Depreciation and Amortisation [2] |
| HKAS 16 and HKAS 41 (Amendment) | Agriculture: Bearer Plants [2] |
| HKAS 19 (2011) (Amendment) | Defined Benefit Plans: Employee Contributions [1] |
| HKAS 27 (Amendment) | Equity Method in Separate Financial Statements [2] |
| HKFRS 9 | Financial Instruments [4] |
| HKFRS 10 and HKAS 28 (Amendment) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [2] |
| HKFRS 11 (Amendment) | Accounting for Acquisitions of Interests in Joint Operations [2] |

| | |
|---|---|
| HKFRS 14 | Regulatory Deferral Accounts [2] |
| HKFRS 15 | Revenue from Contracts with Customers [3] |
| HKFRSs (Amendment) | Improvements to HKFRSs (2010-2012) [1] |
| HKFRSs (Amendment) | Improvements to HKFRSs (2011-2013) [1] |
| HKFRSs (Amendment) | Improvements to HKFRSs (2012-2014) [2] |

[1] Effective for accounting periods beginning on or after 1 July 2014
[2] Effective for accounting periods beginning on or after 1 January 2016
[3] Effective for accounting periods beginning on or after 1 January 2017
[4] Effective for accounting periods beginning on or after 1 January 2018

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

## 3 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 stated 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 2014 and 2013.

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 segments:

| | 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 2014** | | | | | |
| Revenue from external customers | **9,303,190** | **838,445** | **213,981** | **-** | **10,355,616** |
| Inter-segment revenue | **189,457** | **-** | **1,047,470** | **(1,236,927)** | **-** |
| Total segment revenue | **9,492,647** | **838,445** | **1,261,451** | **(1,236,927)** | **10,355,616** |
| Segment results | **225,172** | **17,909** | **58,748** | **(8,493)** | **293,336** |
| Amortisation of intangible assets | | | | | **(5,134)** |
| Corporate income | | | | | **9,605** |
| Corporate expenses | | | | | **(35,411)** |
| Operating profit | | | | | **262,396** |
| Finance costs | | | | | **(33,837)** |
| Share of losses of associates and joint ventures | | | | | **(7,219)** |
| Profit before income tax | | | | | **221,340** |
| Other information: | | | | | |
| Amortisation of intangible assets | **-** | **5,134** | **-** | **-** | **5,134** |
| Amortisation of land use rights | **732** | **-** | **1,003** | **-** | **1,735** |
| Depreciation of property, plant and equipment | **267,292** | **12,122** | **22,022** | **-** | **301,436** |
| Impairment of property, plant and equipment | **3,441** | **395** | **-** | **-** | **3,836** |
| Capital expenditure | **466,077** | **9,132** | **43,698** | **-** | **518,907** |
| Year ended 31 December 2013 | | | | | |
| 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 losses of associates and a joint venture | | | | | (3,154) |
| Profit before income tax | | | | | 464,431 |
| 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 |

The following is an analysis of the Group's assets and liabilities by reportable segments:

| | Core brands business HK$'000 | Other brands business HK$'000 | Manu-facturing business HK$'000 | Group HK$'000 |
|---|---|---|---|---|
| **<u>As at 31 December 2014</u>** | | | | |
| Segment assets | **6,409,650** | **505,702** | **409,611** | **7,324,963** |
| Goodwill | **15,079** | **-** | **-** | **15,079** |
| Other intangible assets | **-** | **63,869** | **-** | **63,869** |
| | **6,424,729** | **569,571** | **409,611** | **7,403,911** |
| Interests in associates | | | | **2,214** |
| Interests in joint ventures | | | | **4,071** |
| Available-for-sale financial asset | | | | **374** |
| Deferred income tax assets | | | | **177,753** |
| Corporate assets | | | | **72,090** |
| Total assets | | | | **7,660,413** |
| Segment liabilities | **1,252,360** | **65,864** | **230,956** | **1,549,180** |
| Deferred income tax liabilities | | | | **19,132** |
| Convertible bonds | | | | **680,716** |
| Corporate liabilities | | | | **158,994** |
| Total liabilities | | | | **2,408,022** |
| <u>As at 31 December 2013</u> | | | | |
| 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 |
| 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 |
| Corporate liabilities | | | | 141,142 |
| Total liabilities | | | | 2,572,487 |

## 4 Other income

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Interest income | **47,118** | 33,374 |
| Government subsidies | **14,647** | 37,192 |
| Franchise and royalty income | **8,217** | 7,260 |
| Gross rental income | **1,820** | 1,553 |
| Dividend income from an available-for-sale financial asset | **-** | 18 |
| Others | **12,081** | 15,134 |
| | **83,883** | 94,531 |

## 5 Other losses - net

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Loss on disposal of property, plant and equipment | **(22,036)** | (42,985) |
| Impairment of property, plant and equipment | **(3,836)** | - |
| Impairment of intangible assets | **-** | (27,767) |
| Net exchange (loss)/gain | **(1,454)** | 13,811 |
| Fair value gain/(loss) on derivative financial instruments | **3,145** | (1,315) |
| Loss on disposal of a subsidiary | **(580)** | - |
| | **(24,761)** | (58,256) |

## 6 Operating profit

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

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Amortisation of land use rights | **1,735** | 1,960 |
| Amortisation of license rights | **2,651** | 2,704 |
| Amortisation of trademarks | **2,483** | 3,946 |
| Auditors' remuneration | **5,441** | 5,785 |
| Cost of inventories sold, including write-back of provision for slow-moving inventories of HK$119,751,000 (2013: provision for slow-moving inventories of HK$244,523,000) | **4,069,662** | 3,993,691 |
| Depreciation of property, plant and equipment | **301,436** | 304,338 |
| Employee benefits expense (including directors' emoluments and share-based payment expense) | **1,504,278** | 1,477,488 |
| Net provision for/(write-back of) impairment of trade receivables | **48** | (437) |
| Operating lease rentals (including concessionaire fees) in respect of land and buildings | **2,584,209** | 2,554,537 |

## 7 Finance costs

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Interest on convertible bonds | **32,192** | 51,934 |
| Interest on bank loans | **1,645** | 203 |
| Interest relating to license fee payables | **-** | 430 |
| | **33,837** | 52,567 |

## 8 Income tax expense

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Current income tax | **75,421** | 146,356 |
| (Over)/under provision in prior years | **(235)** | 12,122 |
| Deferred income tax | **(35,995)** | (28,381) |
| | **39,191** | 130,097 |

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 2014.

Provision for China corporate income tax is calculated based on the statutory tax rate of 25% (2013: 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% (2013: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable. Withholding tax of 5% (2013: 5%) is applied to management fee received or receivable from a Group's entity with tax jurisdiction in Mainland China.

## 9 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of HK$176,031,000 (2013: HK$329,144,000) by the weighted average number of 1,649,142,384 (2013: 1,648,973,617) shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit attributable to owners of the Company of HK$176,031,000 (2013: HK$329,144,000) by the adjusted weighted average number of 1,649,142,384 (2013: 1,693,557,106) shares, after taking into consideration of the exercise of share options and warrants.

| | Number of shares | |
|---|---|---|
| | **2014** | 2013 |
| Weighted average number of shares in issue | **1,649,142,384** | 1,648,973,617 |
| Effect of exercise of share options | **-** | 4,193,459 |
| Effect of exercise of warrants | **-** | 40,390,030 |
| Weighted average number of shares adjusted for effect of dilution | **1,649,142,384** | 1,693,557,106 |

During the year, 44,515,000 (2013: 7,100,000) share options outstanding at year end, or lapsed or exercised 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 2014, convertible bonds are anti-dilutive (2013: anti-dilutive) and are ignored in the calculation of diluted earnings per share.

## 10 Dividends

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Interim dividend, paid, of HK3.5 cents (2013: HK6.0 cents) per share | **57,720** | 98,949 |
| Nil final dividend proposed (2013: HK2.0 cents per share) | **-** | 32,983 |
| | **57,720** | 131,932 |

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2014.

## 11 Trade receivables

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Trade receivables | **327,574** | 367,776 |
| Less: Provision for impairment | **(1,019)** | (2,050) |
| Trade receivables - net | **326,555** | 365,726 |

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

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| 0 - 30 days | **207,657** | 224,222 |
| 31 - 60 days | **71,825** | 91,075 |
| 61 - 90 days | **18,658** | 23,111 |
| 91 - 120 days | **7,555** | 11,856 |
| 121 - 180 days | **10,444** | 8,880 |
| 181 - 360 days | **9,985** | 5,129 |
| Over 360 days | **431** | 1,453 |
| | **326,555** | 365,726 |

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 balances due to related parties by invoice date, is as follows:

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| 0 - 30 days | **468,140** | 449,884 |
| 31 - 60 days | **237,993** | 390,908 |
| 61 - 90 days | **289,588** | 267,655 |
| 91 - 120 days | **2,976** | 9,639 |
| 121 - 180 days | **1,836** | 3,769 |
| 181 - 360 days | **3,304** | 4,059 |
| Over 360 days | **1,317** | 390 |
| | **1,005,154** | 1,126,304 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The year 2014 was extremely challenging for retailers in Mainland China, whose gross domestic product ("GDP") grew by 7.4%, the slowest in over two decades. The continued slowdown in the market dented consumer confidence. The Group also faced keen competition from local regional players and online retailers.

On the other hand, operating costs were increasing, especially the labour costs. The absence of the pre-Chinese New Year festive shopping season due to calendar shift, together with the unusual weather patterns, seriously affected retailers, especially those in the fashion sector.

***Group Performance***

For the year of 2014, the Group's turnover amounted to HK$10,355.6 million (2013: HK$10,446.5 million). Gross profit declined by 1.7% to HK$5,737.6 million (2013: HK$5,838.3 million). Operating profit was HK$262.4 million (2013: HK$520.2 million), and profit attributable to owners of the Company was HK$176.0 million (2013: HK$329.1 million).

Basic earnings per share were HK10.7 cents (2013: HK20.0 cents). The board of directors did not recommend the payment of any final dividend, and as such, the total dividend per share in respect of the year of 2014 was HK3.5 cents (2013: HK8.0 cents) per share.

As at 31 December 2014, the Group's points-of-sale ("POS") totaled 6,757, representing a net increase of 55 POS during the year. The Group's sales network includes 6,402 POS under its Core Brands ("Daphne" and "Shoebox" in Mainland China) and 355 POS for Other Brands business.

To cope with the challenges in Mainland China's operating environment and mass market for ladies' shoes, the Group stepped up a number of measures to adapt itself to the market conditions, and managed to make positive progress in the following areas during 2014:

- The Group maintained comparable annual turnover despite the tough market situation. It also narrowed the same-store sales decline as compared to that of 2013. Although the gross profit margin of the retail business was adversely affected by the aggressive destocking, the Group managed to have a positive growth in the sales volume. Thanks to the improvement of store traffic and the broadening of customer base.

- The total value of inventory was decreased by 14.0% or HK$369.6 million. Inventory turnover days for the Group decreased by 4 days to 194 days in 2014 as compared to 198 days in 2013, showing a substantial improvement from 208 days recorded in the first half of 2014. The inventory mix also improved. These are resulted from the Group's aggressive efforts in clearing aged stocks, and in improving the quality of inventory.

- The cash situation was improved, as evidenced by the increase in cash and bank balances to HK$1,528.7 million as at 31 December 2014 from HK$1,374.4 million in 2013, and net cash position increased to HK$751.5 million from HK$568.2 million last year, in spite of a large one-time office purchase during 2014. This is mainly resulted from the vigorous efforts to liquidate the old inventory during the year.

- Brand image has been revitalised with the implementation of the celebrity-driven marketing strategy in 2014. New image ambassadors were signed during the year, including Ms. Jun Ji-Hyun (the most popular Korean actress in the region), Mr. Nicholas Tse (top actor and singer from Hong Kong) and Ms. Puff Guo (top singer and actress from Taiwan). In addition, the Group also created crossover brand and product line, such as the "Ondul" brand in collaboration with top actress in Mainland China, Ms. Gao Yuan Yuan, and the "Hello Kitty Collection by Daphne" product line. Store image was enhanced through a renovation programme of more than 600 stores and the launch of a new store design. These were also accompanied by the increase in the marketing activities. These investments in marketing not only revitalised the brand image, but also helped improve the store traffic and increased the Group's competitiveness with local and online competitors.

- In Baidu's Digital Brand Equity Survey 2014, "Daphne" is the only local brand among the top 5 brands in the Apparel and Accessories Category, after 4 renowned international brands. In other words, "Daphne" ranked top in ladies' footwear sector in China. The survey results were based on the the analysis of online content, positive mentions, search behaviours, etc. from the big data of Baidu, the most popular search engine in China. This shows the strong brand equity of "Daphne" in China.

- The Group's e-commerce business delivered strong sales growth and contributed more to the Group's turnover. The growth is mostly driven by sales volume. In Alibaba's most important online shopping event "Singles' Day 2014", "Daphne" brand ranked top in Tmall's ladies' shoes category. The Group also strengthened its partnerships with key online shopping platforms, including Tmall, VIP.com and JD.com. The Group's online customer base was also broadened with the support of more interactive and diversified online promotions.

- The Group has also been rationalising cost structure and investing in various aspects to build a healthier and solid platform for future growth. In addition to the decisive measures to manage inventory and revitalise the brand and store image, the Group also stabilised the sales force and improved staff retention rate, and as such, an increase in labour cost was deemed necessary. New store management programmes were introduced and sales skill training programmes were conducted. New stores' performance improved after the store opening procedures were further scrutinised.

In addition, the Group continued its best endeavours to improve its disclosure and corporate governance during the year. This earned the Group recognition from the investors community. It ranked among the Top 100 for investor relations ("IR") in Greater China in the investor perception survey conducted for the IR Magazine Asia Awards 2014/2015 among over 2,400 listed companies in the region.

***Core Brands Business***

The Group's Core Brands business represents the distribution of ladies' footwear in the mass market under its own brands, "Daphne" and "Shoebox" in Mainland China, through a network of both directly managed and franchised stores. Despite a low-single-digit decline in the same-store sales, turnover at this business segment was HK$9,492.6 million, comparable to that for 2013 (2013: HK$9,561.3 million).

The segment revenue from external customers of the Core Brands business still accounted for 90% of the Group's total revenue in 2014 (2013: 90%). Average selling price for the year saw a mid-single-digit decrease, which is mainly due to the aggressive clearance of aged stocks.

The Group had a net increase of 83 POS under the Core Brands business for 2014, as it resumed net store openings during the second half of the year. As at 31 December 2014, the Group had a total of 6,402 POS under Core Brands business, comprising 5,748 directly-managed stores, and 654 franchised stores. The proportion of directly-managed stores was further increased to 90% (2013: 87%) in the total store portfolio of Core Brands business.

*Number of POS of Core Brands business:*

| | **At 31 December 2014** | | At 31 December 2013 | | Change | |
|---|---|---|---|---|---|---|
| Directly-managed stores | **5,748** | ***90%*** | 5,491 | *87%* | +257 | +4.7% |
| Franchised stores | **654** | ***10%*** | 828 | *13%* | -174 | -21.0% |
| Total | **6,402** | ***100%*** | 6,319 | *100%* | +83 | +1.3% |

*Number of POS of Core Brands business by city tier:*

| | **At 31 December 2014** | | At 31 December 2013 | | Change | |
|---|---|---|---|---|---|---|
| Tier 1 | **731** | ***12%*** | 703 | *11%* | +28 | *+4.0%* |
| Tier 2 | **1,607** | ***25%*** | 1,394 | *22%* | +213 | *+15.3%* |
| Tier 3 | **1,238** | ***19%*** | 992 | *16%* | +246 | *+24.8%* |
| Tier 4-6 | **2,826** | ***44%*** | 3,230 | *51%* | -404 | *-12.5%* |
| Total | **6,402** | ***100%*** | 6,319 | *100%* | +83 | *+1.3%* |

As a result of the aggressive destocking of old products during the year, the gross profit margin of Core Brands business contracted by 2.1 percentage points to 53.8 % from 55.9%. In the second half of the year, the Group was determined to manage the inventory level, therefore it carried out more aggressive promotions and offered substantial discounts to drive the top line, in particular, to clear aged products. These efforts led to a positive same-store sales growth for the third quarter. However, the favourable effect of the measures to drive up the top line was offset by the offering of heavy discounts which were necessitated by intense competition. Moreover, the absence of the pre-Chinese New Year festive shopping season in 2014 aggravated the negative operating leverage, and further impacted the net profit margin. The continuous increase in operating costs, especially labour costs, exerted further downward pressure on the Group's operating margin as well. As a result, the operating margin of Core Brands business decreased to 2.4 % (2013: 6.4%).

***Other Brands Business***

The Other Brands business of the Group mainly comprises the operations of mid- to high-end brands (including own brands and brands with exclusive distribution rights comprising "AEE", "Step Higher", "AEROSOLES" and "ALDO" in Mainland China, Hong Kong and Taiwan). However, during the year, e-commerce gathered strong momentum and increased its revenue contribution to this business segment. The overall turnover at the Other Brands business rose by 14.6% to HK$838.4 million (2013: HK$731.8 million), and accounted for 8% of the Group's total turnover in 2014, up from 7% in 2013. Also, this business segment successfully achieved a turnaround to an operating profit of HK$17.9 million for the year from the operating loss of HK$86.1 million in last year.

The portfolio of mid- to high-end brands recorded a mild decrease in turnover due to a net decrease of 28 POS for the year of 2014. However, the Group remained focused on projecting a more distinctive brand image and product offerings, which helped increase the stores' sales efficiency and improved the average profitability per store of this brand portfolio. The portfolio of mid- to high-end brands performed better during the year with narrowed operating loss.

The remarkable performance of e-commerce was attributable to increased intensity and diversity of online marketing activities, close partnerships with major online shopping platforms, and strong online sales of out-of-season items. The e-commerce business unit continued to see improvement in its net profit, although its contribution to the Group's profit was still not material.

## FINANCIAL REVIEW

### *Financial and Operational Highlights*

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2014** | 2013 | Change |
| Turnover (HK$' million) | **10,355.6** | 10,446.5 | -0.9% |
| Gross profit (HK$' million) | **5,737.6** | 5,838.3 | -1.7% |
| Operating profit (HK$' million) | **262.4** | 520.2 | -49.6% |
| Profit attributable to owners of the Company (HK$' million) | **176.0** | 329.1 | -46.5% |
| Gross profit margin (%) | **55.4** | 55.9 | -0.5ppt |
| Operating profit margin (%) | **2.5** | 5.0 | -2.5ppt |
| Net profit margin (%) | **1.7** | 3.2 | -1.5ppt |
| Basic earnings per share (HK cents) | **10.7** | 20.0 | -46.5% |
| Dividend per share (HK cents) | **3.5** | 8.0 | -56.3% |
| Average inventory turnover (days) *(Note 1)* | **194** | 198 | -4 |
| Average debtors turnover (days) *(Note 2)* | **12** | 12 | - |
| Average creditors turnover (days) *(Note 3)* | **103** | 85 | +18 |
| Cash conversion cycle (days) *(Note 4)* | **103** | 125 | -22 |
| Capital expenditure (HK$' million) *(Note 5)* | **518.9** | 344.2 | +50.8% |

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | 2013 | Change |
| Cash and bank balances (HK$' million) *(Note 6)* | **1,528.7** | 1,374.4 | +11.2% |
| Bank loans (HK$' million) | **96.5** | 117.0 | -17.6% |
| Convertible bonds (HK$' million) | **680.7** | 689.2 | -1.2% |
| Equity attributable to owners of the Company (HK$' million) | **5,058.0** | 5,043.7 | +0.3% |
| Current ratio (times) *(Note 7)* | **2.4** | 2.4 | - |
| Net gearing ratio (%) *(Note 8)* | **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 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 the 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 the 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 joint ventures.*

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 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 loans 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 segments for the year ended 31 December is summarised as follows:

| *(HK$ million)* | Core Brands Business | | Other Brands Business | | Manufacturing Business | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| *Revenue from external customers* | ***9,303.2*** | *9,431.2* | ***838.4*** | *731.8* | ***214.0*** | *283.6* |
| *Inter-segment revenue* | ***189.4*** | *130.1* | ***-*** | *-* | ***1,047.5*** | *948.2* |
| Total segment revenue | **9,492.6** | 9,561.3 | **838.4** | 731.8 | **1,261.5** | 1,231.8 |
| Segment gross profit | **5,103.3** | 5,344.6 | **525.3** | 405.6 | **117.6** | 83.5 |
| *Segment gross margin* | ***53.8%*** | *55.9%* | ***62.7%*** | *55.4%* | ***9.3%*** | *6.8%* |
| Segment operating profit/(loss) | **225.2** | 616.2 | **17.9** | (86.1) | **58.7** | 17.9 |
| *Segment operating margin* | ***2.4%*** | *6.4%* | ***2.1%*** | *(11.8%)* | ***4.7%*** | *1.5%* |

***Liquidity and Financial Resources***

As at 31 December 2014, 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$1,528.7 million (2013: HK$1,374.4 million) denominated mainly in Renminbi. The net increase in cash and bank balances of HK$154.3 million (2013: net decrease HK$120.4 million) during the year is analysed as follows:

| *(HK$ million)* | **2014** | 2013 |
|---|---|---|
| Net cash generated from operating activities | **667.8** | 432.6 |
| Capital expenditure | **(518.9)** | (344.2) |
| Net dividend paid | **(92.2)** | (250.7) |
| Net interest received | **39.9** | 6.0 |
| Proceeds from issue of shares upon exercise of share options | **-** | 7.3 |
| Proceeds from disposal of property, plant and equipment | **1.6** | 2.2 |
| Net bank loans (repaid)/borrowed | **(20.5)** | 109.9 |
| Decrease/(increase) in entrusted loans | **99.4** | (104.2) |
| Effect of exchange rate changes and others | **(22.8)** | 20.7 |
| | **154.3** | (120.4) |

On 25 April 2014, the Company entered into a Deed of Amendment relating to the convertible bonds issued in 2009. The terms of the convertible bonds were amended to the effect that the maturity date of the convertible bonds will be extended to 24 April 2015, all interest accrued but unpaid for the period from 1 January 2014 to 24 April 2014 will be irrevocably waived, and the convertible bonds will not carry any interest from 25 April 2014 to 24 April 2015. Moreover, the warrants issued in 2009 were lapsed upon the expiry on 11 June 2014.

As at 31 December 2014, the Group had unutilised banking facilities amounting to HK$61.6 million (2013: HK$63.6 million). The Group’s current ratio was 2.4 as at 31 December 2014 (2013: 2.4). The Group has sufficient resources currently to support expansion and development of business in the future, and to meet its liabilities when they fall due.

To maximise the return on idle liquid resources, during the year, the Group placed a number of principal-protected structured bank deposits with registered banks in Mainland China. Total bank interest income earned for the year was HK$47.1 million (2013: HK$33.4 million).

As at 31 December 2014, the Group’s net gearing, calculated on the basis of net debt (being total bank loans and convertible bonds less cash and bank balances) over equity attributable to owners of the Company, was in a net cash (2013: 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 each of the two years ended 31 December 2014, 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.

### *Pledge of Assets*

As at 31 December 2014, the Group's pledged bank deposits amounting to HK$6.9 million (2013: HK$4.5 million) were pledged for banking facilities.

### *Capital Expenditure*

During the year, the Group incurred capital expenditure of HK$518.9 million (2013: HK$344.2 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 2014 and 31 December 2013, the Group had no significant contingent liabilities.

### *Human Resources*

As at 31 December 2014, the Group had a workforce of about 26,000 (2013: 27,000) people predominantly in Mainland China, Taiwan and Hong Kong. Employee benefits expense, including directors' emoluments and share-based payment expense, for the year was HK$1,504.3 million (2013: HK$1,477.5 million). The Group values its human resources and recognises the importance of retaining high calibre employees. Remuneration packages are generally structured with reference to market conditions and terms as well as individual qualifications. 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.

**OUTLOOK**

China is still among the fastest-growing major economies in the world despite its economic slowdown. The Group is confident that we will be able to revitalise our operation and improve performance on the back of the country's incessant urbanisation, and its proactive policies to increase personal income and create more jobs in the coming years. We are well-positioned to tap the immense potential of China's consumption market.

In the present stage of development, the Group has to tackle simultaneously the challenges posed by sluggish consumer sentiment, fast-changing consumer behavior, more intense competition, as well as making structural adjustments and adaptations to the country's economic slowdown under the new norm. These are no easy tasks, but the Group is committed to making its best endeavours to withstand all the issues and difficulties, so as to resume growth, improve the financial returns, and enhance the shareholders' value.

From the solid progress we have made, we believe that we are steering towards the right direction in evolving our growth model. Nevertheless, these improvement measures will take time to translate into financial returns.

Although the headwinds may prevail, and signs of consistent improvement in the retail market are yet to be seen, the Group will continue to execute its dynamic strategies and strive for progress in the following key strategic initiatives in the coming year for medium and long term growth:

- Strengthen Inventory Management – The Group will continue to make inventory management its priority by clearing excess aged stocks and by attaining healthier inventory mix and level. The Group is mindful of the need to strike the delicate balance between sales growth and inventory management, and therefore it will endeavour to make structural adjustments in its inventory management. The Group is confident that the gross profit margin will gradually improve as the destocking pressure continues to reduce and the sales mix becomes more balanced.

- Bolster Brand Image, and Step Up Marketing and Merchandising – To strengthen the brand image, enhance its appeal to broader customer base, and better deploy the celebrity-driven marketing strategy, the Group is working on its development of multi-facets for "Daphne" brand through more in-depth customer segmentation. The Group aims to give a more distinctive image to each of the product lines by refining the product offering and pricing strategy, revamping the product display, equipping sales staff better with brand knowledge to guide shopping, forming stronger association with each of the appointed celebrities, and stepping up its marketing efforts. These measures will not only differentiate Daphne's products further from the competitors, but also make Daphne's products stand out and appeal to a broader range of customers.

- Accelerate Growth of E-commerce – Encouraged by its success in the biggest online shopping event "Singles' Day 2014", the Group will continue to channel great energy into fuelling the growth of its e-commerce business. It will analyse the success factors for that event, and will strive to replicate the success in its overall online operation to boost its performance. In addition, the Group will generate synergies between its online and offline platforms through integration.

With its more than 20 years of experience in the ladies' footwear industry in China, the Group has a long track record of success through both tough and positive economic circumstances. As a well-established nation-wide consumer brand in China, the Group has the largest ladies' footwear retail network (under one single brand) in China, and always ranks among the top brands in numerous consumer brand surveys and market share analysis by Euromonitor. This unparalleled leadership position in China, even more prominent in the mass segment, offers the Group a solid base as well as strong leverage to propel for future prosperity.

In view of the uncertainties in play, and the increasingly complicated and fast-changing market, the Group will seize opportunities for growth and tackle challenges by taking full advantage of its well-scaled business model, financial strength, strong brand equity, and adaptability. The Group will press ahead with all the improvement initiatives and is confident that it will resume growth in the medium and long term.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2014. 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 2014.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year except for the deviations from code provision 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.

During the year, the Company held an annual general meeting (the "AGM") on 22 May 2014. Due to unavoidable business engagements, Mr. Kim Jin-Goon, the non-executive director of the Company, and Mr. Huang Shun-Tsai, the independent non-executive director of the Company, were unable to attend the AGM. These were in deviations from code provision A.6.7 of the CG code although Mr. Lau Wai Kei, Ricky, the alternate director to Mr. Kim Jin-Goon, attended the AGM.

## 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 controls 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.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend (2013: HK2.0 cents per share) for the year ended 31 December 2014.

## ANNUAL GERNAL MEETING

It is proposed that the forthcoming annual general meeting of the Company will be held on 20 May 2015. 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 18 May 2015 to 20 May 2015, both dates inclusive. In order to qualify to attend and vote at the forthcoming annual general meeting, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 15 May 2015.

## PUBLICATION OF THE ANNUAL RESULTS ANNONCEMENT 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**
**Chen Ying-Chieh**
*Chairman*

Hong Kong, 24 March 2015

*As at the date of this announcement, the Board comprises Mr. Chen Ying-Chieh, Mr. Chang Chih-Chiao, Mr. Chang Chih-Kai 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.*