DAPHNE INTERNATIONAL HOLDINGS LIMITED
達芙妮國際控股有限公司*

(*Incorporated in the Cayman Islands with limited liability*)
(**Stock code: 210**)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

HIGHLIGHTS OF 2014 INTERIM RESULTS

- Turnover slightly dropped by 1.7% to HK$5,080.7 million
- Gross profit decreased by 4.9% to HK$2,865.5 million
- Profit attributable to owners of the Company declined by 44.5% to HK$172.4 million
- Basic earnings per share was HK10.5 cents
- Interim dividend was HK3.5 cents per share
- Total number of points-of-sale decreased by 104 to 6,598

* *for identification purpose only*

INTERIM RESULTS

The board of directors (the "Board") of Daphne International Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2014, together with the comparative figures for the corresponding period in 2013.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Unaudited Six months ended 30 June	
	Note	**2014** **HK$'000**	2013 HK$'000
Turnover	3	**5,080,665**	5,168,163
Cost of sales		**(2,215,146)**	(2,154,982)
Gross profit		**2,865,519**	3,013,181
Other income		**42,400**	36,083
Other gains/(losses) - net		**2,719**	(10,947)
Selling and distribution expenses		**(2,424,859)**	(2,337,905)
General and administrative expenses		**(245,041)**	(249,941)
Operating profit	4	**240,738**	450,471
Finance costs		**(21,756)**	(25,946)
Share of (loss)/profit of associates and joint ventures		**(2,572)**	667
Profit before income tax		**216,410**	425,192
Income tax expense	5	**(41,615)**	(108,746)
Profit for the period		**174,795**	316,446
Attributable to:			
Owners of the Company		**172,360**	310,297
Non-controlling interests		**2,435**	6,149
		174,795	316,446
Earnings per share	6		
Basic (HK cents)		**10.5**	18.8
Diluted (HK cents)		**10.5**	17.7

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Profit for the period	**174,795**	316,446
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences arising from foreign operations	**121**	547
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences arising from non-foreign operations	**(153,754)**	69,011
Total comprehensive income for the period	**21,162**	386,004
Attributable to:		
Owners of the Company	**22,287**	378,067
Non-controlling interests	**(1,125)**	7,937
	21,162	386,004

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2014

	Note	**Unaudited 30 June 2014 HK$'000**	Audited 31 December 2013 HK$'000
Non-current assets			
Intangible assets		**81,226**	84,870
Land use rights		**52,024**	54,512
Property, plant and equipment		**1,110,215**	1,187,682
Interests in associates		**5,137**	7,683
Interests in joint ventures		**164**	46
Available-for-sale financial asset		**374**	374
Deposits paid for acquisition of land use rights and property, plant and equipment		**195,203**	62,057
Long-term rental deposits and prepayments		**176,946**	182,950
Deferred income tax assets		**154,421**	151,248
		1,775,710	1,731,422
Current assets			
Inventories		**2,438,447**	2,642,920
Trade receivables	8	**372,487**	365,726
Entrusted loans		**46,466**	104,161
Other receivables, deposits and prepayments		**1,643,264**	1,603,685
Income tax recoverable		**63,122**	-
Derivative financial instrument		**1,639**	-
Structured bank deposits		**850,037**	637,992
Pledged bank deposits		**6,813**	4,464
Bank deposits with maturity over three months		**-**	32,625
Cash and cash equivalents		**570,514**	699,321
		5,992,789	6,090,894
Current liabilities			
Trade payables	9	**1,147,537**	1,126,304
Other payables and accrued charges		**484,630**	588,897
Derivative financial instrument		**-**	1,315
Current income tax liabilities		**35,294**	25,323
Convertible bonds		**666,938**	689,178
Bank loans – unsecured		**146,460**	117,000
		2,480,859	2,548,017
Net current assets		**3,511,930**	3,542,877
Total assets less current liabilities		**5,287,640**	5,274,299

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2014

	Unaudited 30 June 2014 HK$'000	Audited 31 December 2013 HK$'000
Equity attributable to owners of the Company		
Share capital	**164,914**	164,914
Reserves	**4,912,392**	4,878,808
	5,077,306	5,043,722
Non-controlling interests	**190,666**	206,107
Total equity	**5,267,972**	5,249,829
Non-current liabilities		
Deferred income tax liabilities	**19,668**	24,470
	19,668	24,470
Total equity and non-current liabilities	**5,287,640**	5,274,299

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and it should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This condensed consolidated interim financial information is presented in Hong Kong dollar ("HK$"), unless otherwise stated. This condensed consolidated interim financial information is unaudited and has been reviewed by the audit committee of the Company and approved for issue by the Board on 19 August 2014.

2 Principal accounting policies

In the current interim period, the Group has applied, for the first time, certain amendments to HKFRSs and a new interpretation that are mandatorily effective for the financial year ending 31 December 2014. The application of the amendments to HKFRSs and the new interpretation in the current interim period has had no material impact on the results and financial position of the Group.

Save as described above, the accounting policies applied in the condensed consolidated interim financial information for the six months ended 30 June 2014 are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

3 Segment information

The Group is principally engaged in the manufacturing, distribution and retailing of footwear products, 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 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 USA. None of the customers accounted for 10% or more of the total turnover of the Group during both six months ended 30 June 2014 and 30 June 2013.

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

	Core brands business HK$'000	Other brands business HK$'000	Manufacturing business HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Six months ended 30 June 2014 (Unaudited)					
Revenue from external customers	**4,613,393**	**358,054**	**109,218**	**-**	**5,080,665**
Inter-segment revenue	**71,625**	**-**	**471,847**	**(543,472)**	**-**
Total segment revenue	**4,685,018**	**358,054**	**581,065**	**(543,472)**	**5,080,665**
Segment results	**264,795**	**(8,470)**	**(21,223)**	**6,866**	**241,968**
Amortisation of intangible assets					**(2,543)**
Corporate income					**20,203**
Corporate expenses					**(18,890)**
Operating profit					**240,738**
Finance costs					**(21,756)**
Share of loss of associates and joint ventures					**(2,572)**
Profit before income tax					**216,410**
Amortisation of intangible assets	**-**	**2,543**	**-**	**-**	**2,543**
Amortisation of land use rights	**345**	**-**	**500**	**-**	**845**
Depreciation of property, plant and equipment	**128,501**	**6,119**	**11,047**	**-**	**145,667**
Capital expenditure	**234,182**	**2,691**	**9,796**	**-**	**246,669**
Six months ended 30 June 2013 (Unaudited)					
Revenue from external customers	4,692,208	328,815	147,140	-	5,168,163
Inter-segment revenue	46,431	-	443,489	(489,920)	-
Total segment revenue	4,738,639	328,815	590,629	(489,920)	5,168,163
Segment results	490,478	(39,963)	14,341	3,959	468,815
Amortisation of intangible assets					(3,325)
Corporate expenses					(15,019)
Operating profit					450,471
Finance costs					(25,946)
Share of profit of associates					667
Profit before income tax					425,192
Amortisation of intangible assets	-	3,325	-	-	3,325
Amortisation of land use rights	307	-	497	-	804
Depreciation of property, plant and equipment	131,685	6,185	11,841	-	149,711
Capital expenditure	121,149	6,967	5,106	-	133,222

	Core brands business HK$'000	Other brands business HK$'000	Manufacturing business HK$'000	Group HK$'000
As at 30 June 2014 (Unaudited)				
Segment assets	**6,506,727**	**518,752**	**448,986**	**7,474,465**
Goodwill	**15,079**	**-**	**-**	**15,079**
Other intangible assets	**-**	**66,147**	**-**	**66,147**
	6,521,806	**584,899**	**448,986**	**7,555,691**
Interests in associates				**5,137**
Interests in joint ventures				**164**
Available-for-sale financial asset				**374**
Deferred income tax assets				**154,421**
Derivative financial instrument				**1,639**
Corporate assets				**51,073**
Total assets				**7,768,499**
Segment liabilities	**1,338,511**	**57,451**	**296,205**	**1,692,167**
Deferred income tax liabilities				**19,668**
Convertible bonds				**666,938**
Corporate liabilities				**121,754**
Total liabilities				**2,500,527**
As at 31 December 2013 (Audited)				
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
Interests 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 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Amortisation of land use rights	**845**	804
Amortisation of license rights	**1,312**	1,380
Amortisation of trademarks	**1,231**	1,945
Cost of inventories sold, including written-back of provision for slow-moving inventories of HK$29,288,000 (2013: provision for slow-moving inventories of HK$79,466,000)	**2,012,040**	1,866,772
Depreciation of property, plant and equipment	**145,667**	149,711
Employee benefits expense (including directors' emoluments and share-based payment expense)	**736,870**	723,519
Loss on disposal of property, plant and equipment	**9,689**	12,990
Operating lease rentals (including concessionaire fees) in respect of land and buildings	**1,263,198**	1,260,921

5 Income tax expense

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Current income tax	**53,657**	116,168
Deferred income tax	**(12,042)**	(7,422)
	41,615	108,746

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the six months ended 30 June 2014. Income tax on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the six months ended 30 June 2014 at the rates of income tax prevailing in the places in which the Group operates.

Provision for the China corporate income tax was calculated based on statutory tax rate of 25% (2013: 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 six months ended 30 June 2014 and 30 June 2013 and corporate income tax is calculated using the applicable preferential income tax rate granted to the subsidiary.

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

Pursuant to the China corporate income tax laws, withholding tax at a reduced rate of 7% (2013: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable. During the six months ended 30 June 2014 and 30 June 2013, withholding tax rate of 5% was applied to management fee received or receivable from a Group's entity with tax jurisdiction in Mainland China.

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average tax rate used for the six months ended 30 June 2014 is 22% (2013: 20%).

6 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of HK$172,360,000 (2013: HK$310,297,000) and the weighted average number of 1,649,142,384 (2013: 1,648,802,053) shares in issue during the six months ended 30 June 2014.

For the six months ended 30 June 2014, basic and diluted earnings per share are the same since the share options, convertible bonds and warrants outstanding during the period are anti-dilutive.

For the six months ended 30 June 2013, the calculation of diluted earnings per share was based on the adjusted profit attributable to owners of the Company of HK$335,807,000 and the adjusted weighted average number of 1,898,537,574 ordinary shares after taking into consideration of conversion of the convertible bonds and exercise of share options and warrants.

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

7 Dividends

During the six months ended 30 June 2014, the Company paid a final dividend of HK2.0 cents (2013: HK9.0 cents) per share, totalling HK$32,983,000 (2013: HK$148,423,000), for the year ended 31 December 2013.

On 19 August 2014, the Board resolved to declare an interim dividend of HK3.5 cents (2013: HK6.0 cents) per share, totalling HK$57,720,000 (2013: HK$98,949,000). The proposed dividend is not reflected as a dividend payable in this interim financial information but will be reflected as an appropriation of retained earnings for the year ending 31 December 2014.

8 Trade receivables

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

	30 June 2014 HK$'000	31 December 2013 HK$'000
0 - 30 days	**234,757**	224,222
31 - 60 days	**74,172**	91,075
61 - 90 days	**38,393**	23,111
91 - 120 days	**12,458**	11,856
121 - 180 days	**8,470**	8,880
181 - 360 days	**3,646**	5,129
Over 360 days	**591**	1,453
	372,487	365,726

9 Trade payables

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

	30 June 2014 HK$'000	31 December 2013 HK$'000
0 - 30 days	**452,929**	449,884
31 - 60 days	**394,333**	390,908
61 - 90 days	**285,553**	267,655
91 - 120 days	**9,931**	9,639
121 - 180 days	**1,087**	3,769
181 - 360 days	**3,410**	4,059
Over 360 days	**294**	390
	1,147,537	1,126,304

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Group Performance

For the six months ended 30 June 2014, the Group's turnover slightly dropped by 1.7% to HK$5,080.7 million (2013: HK$5,168.2 million). Gross profit decreased to HK$2,865.5 million (2013: HK$3,013.2 million) with a year-on-year decline of 4.9%. Operating profit decreased by 46.6% to HK$240.7 million (2013: HK$450.5 million). Profit attributable to owners of the Company declined by 44.5% to HK$172.4 million (2013: HK$310.3 million). Basic earnings per share was HK10.5 cents (2013: HK18.8 cents). The Board recommended the payment of an interim dividend of HK3.5 cents (2013: HK6.0 cents) per share for the year ending 31 December 2014. The dividend payout ratio is 33.5% (2013: 31.9%).

Market Overview

China's gross domestic product (GDP) growth slowed down to 7.4% in the first half of 2014, compared to 7.6% in the same period last year. The growth in total retail sales of consumer goods decelerated to 12.1% for the first half of 2014 versus 12.7% for the same period last year. The soft consumer sentiment is reflected in the 0.2% year-on-year decrease in the sales of the top 100 retail enterprises in China in the first half of 2014, in contrast with the 10.7% growth in the same period last year. E-commerce channel also intensifies the competition. In addition, the increasing labour and rental costs exerted additional pressure on the retail sector. These challenges from both the macro-economic and operating environment are expected to prevail in the remaining of year 2014.

Core Brands Business

The Group's Core Brands business represents the distribution of ladies' footwear products for the mass market under its own brands, "Daphne" and "Shoebox" in Mainland China, through a network of both directly-managed stores and franchised stores. Turnover of the Core Brands business amounted to HK$4,685.0 million, slightly decreased by 1.1% when compared to the same period last year (2013: HK$4,738.6 million), despite a negative same store sales growth and net store reduction. Remained cautious in its store network development, the Group had a net decrease of 85 points-of-sale ("POS") during the period and had a total of 6,234 POS under its Core Brands, comprising 5,473 directly-managed stores and 761 franchised stores, as at the end of June 2014. Segment revenue from external customers maintained at 91% of the Group's total revenue during the period under review (2013: 91%).

Number of POS of Core Brands business:

	At 30 June 2014		At 31 December 2013		Change	
Directly-managed stores	**5,473**	***88%***	5,491	*87%*	-18	-0.3%
Franchised stores	**761**	***12%***	828	*13%*	-67	-8.1%
Total	**6,234**	***100%***	6,319	*100%*	-85	-1.3%

Number of POS of Core Brands business by city tier:

	At 30 June 2014		At 31 December 2013		Change	
Tier 1	**673**	***11%***	703	*11%*	-30	*-4.3%*
Tier 2	**1,395**	***22%***	1,394	*22%*	+1	*+0.1%*
Tier 3	**995**	***16%***	992	*16%*	+3	*+0.3%*
Tier 4-6	**3,171**	***51%***	3,230	*51%*	-59	*-1.8%*
Total	**6,234**	***100%***	6,319	*100%*	-85	*-1.3%*

Same-store sales recorded a mid-single digit decrease during the period, but the decline narrowed on a quarter-on-quarter basis with the decrease reduced. Nevertheless, the sales trend has been improving since mid-March during the period under review, even though there was a dip in May which was caused by prolonged rainstorms and the associated widespread of flooding across Mainland China.

Average selling price decreased by about 5.5% as compared to that of the same period last year, which is mostly due to the increased sales mix of off-season items with deeper discounts. The gross profit margin contraction narrowed from quarter to quarter.

Opportunistic clearance of out-of-season items led to a gross profit margin contraction for Core Brands business during the first half of the year to 56.0% (2013: 58.2%). However, the progress of such clearance initiative was in line with our plan, and contributed to the improvement of the Group's inventory turnover days during the interim period to 208 days (2013: 209 days).

Celebrity-driven marketing campaigns, including those by Ms. Jun Ji-Hyun, Mr. Nicholas Tse and Ms. Gao Yuan-Yuan, were launched in June, and we believe they refreshed the brand image and improved store traffic. In addition, cross-branded shoes with Hello Kitty were launched to enhance appeal for young customers.

The inflationary pressure on key operating costs, such as labour and rental costs, continued and further affected the operating margin of the Core Brands business in the first half of the year, which decreased to 5.7% (2013: 10.4%).

Other Brands Business

The Other Brands business of the Group is mainly attributed by the operation of mid- to high-end brands (including own-brands, and brands with exclusive distribution rights comprising "AEE", "Step Higher", "AEROSOLES" and "ALDO", in Mainland China, Hong Kong and Taiwan). However, e-commerce increased its contribution to this business segment with its strong growth momentum during the period under review, and therefore resulted an increase of 8.9% in the overall turnover of the Other Brands business segment and recorded HK$358.1 million (2013: HK$328.8 million). This segment contributed to approximately 7% (2013: 6%) to the Group's total turnover during the interim period.

Nevertheless, turnover of mid- to high-end brand portfolio recorded a moderate decrease due to a net reduction of 109 POS, if comparing the total number of 364 POS as of 30 June 2014 and that of 473 POS as of 30 June 2013. Encouragingly, the average profitability per store improved. On the other hand, during the period under review, this brand portfolio had net closures of 19 POS.

The enhanced performance of e-commerce was a result of increased diversity of marketing activities, in particular, those linked with new product launches. Strong online sales of off-season items also helped fuel this positive trajectory.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	Six months ended 30 June		
	2014	2013	Change
Turnover (HK$' million)	**5,080.7**	5,168.2	-1.7%
Gross profit (HK$' million)	**2,865.5**	3,013.2	-4.9%
Operating profit (HK$' million)	**240.7**	450.5	-46.6%
Profit attributable to owners of the Company (HK$' million)	**172.4**	310.3	-44.5%
Gross profit margin (%)	**56.4**	58.3	-1.9ppt
Operating profit margin (%)	**4.7**	8.7	-4.0ppt
Net profit margin (%)	**3.4**	6.0	-2.6ppt
Basic earnings per share (HK cents)	**10.5**	18.8	-44.1%
Interim dividend per share (HK cents)	**3.5**	6.0	-41.7%

Key Financial Indicators

	Six months ended 30 June		
	2014	2013	Change
Average inventory turnover (days) *(Note 1)*	**208**	209	-1
Average debtors turnover (days) *(Note 2)*	**13**	14	-1
Average creditors turnover (days) *(Note 3)*	**114**	89	+25
Cash conversion cycle (days) *(Note 4)*	**107**	134	-27
Capital expenditure (HK$' million) *(Note 5)*	**246.7**	133.2	+85.2%

	As at		
	30 June 2014	31 December 2013	Change
Cash and bank balances (HK$' million) *(Note 6)*	**1,427.4**	1,374.4	+3.9%
Bank loans (HK$' million)	**146.5**	117.0	+25.2%
Convertible bonds (HK$' million)	**666.9**	689.2	-3.2%
Equity attributable to owners of the Company (HK$' million)	**5,077.3**	5,043.7	+0.7%
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 the number of days of the relevant period.*

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

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

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

5. *Capital expenditure comprises acquisition of land use rights and 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 the relevant period end.*

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 the equity attributable to owners of the Company as at the relevant period end.*

Segmental Analysis

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

	Core Brands Business		Other Brands Business		Manufacturing Business	
(HK$ million)	**2014**	2013	**2014**	2013	**2014**	2013
Revenue from external customers	***4,613.4***	*4,692.2*	***358.1***	*328.8*	***109.2***	*147.1*
Inter-segment revenue	***71.6***	*46.4*	**-**	-	***471.8***	*443.5*
Total segment revenue	**4,685.0**	4,738.6	**358.1**	328.8	**581.0**	590.6
Segment gross profit	**2,622.1**	2,760.2	**223.3**	194.7	**13.3**	54.7
Segment gross margin	***56.0%***	*58.2%*	***62.4%***	*59.2%*	***2.3%***	*9.3%*
Segment operating profit/(loss)	**264.8**	490.5	**(8.5)**	(40.0)	**(21.2)**	14.3
Segment operating margin	***5.7%***	*10.4%*	***(2.4%)***	*(12.2%)*	***(3.6%)***	*2.4%*

Liquidity and Financial Resources

As at 30 June 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$1,427.4 million (31 December 2013: HK$1,374.4 million) denominated mainly in Renminbi. The net increase in cash and bank balances of HK$53.0 million (2013: net decrease HK$241.9 million) is analysed as follows:

	For the six months ended 30 June	
	2014	2013
	HK$' million	HK$' million
Net cash generated from operating activities	**279.3**	257.3
Capital expenditure	**(246.7)**	(133.2)
Net dividend paid	**(34.0)**	(151.8)
Net interest (paid)/received	**(8.6)**	0.9
Proceeds from issue of shares upon exercise of share options	**-**	7.3
Repayment of amount due to a non-controlling shareholder	**-**	(9.4)
Proceeds from disposal of property, plant and equipment	**1.3**	0.5
Net bank loans borrowed/(repaid)	**29.5**	(7.2)
Decrease/(Increase) in entrusted loans	**55.5**	(227.9)
Effect of exchange rate changes	**(23.3)**	21.6
	53.0	(241.9)

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 30 June 2014, the Group had unutilised banking facilities amounting to HK$200.5 million (31 December 2013: HK$63.6 million). The Group's current ratio was 2.4 as at 30 June 2014 (31 December 2013: 2.4). The Group has sufficient resources currently to support expansion and development of business in the future.

To maximise the return on idle liquid resources, during the period, the Group placed a number of principal-protected structured bank deposits with registered banks in Mainland China. Total bank interest income earned for the period was HK$19.3 million (2013: HK$16.7 million).

As at 30 June 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 (31 December 2013: net cash) position. The bank loans were at floating rates during the period under review.

Foreign Exchange Risk Management

Management closely monitors the market situation and may consider tools to manage foreign exchange risk whenever necessary. During the period, 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 (2013: nil).

Pledge of Assets

As at 30 June 2014, the Group's bank pledged deposits amounting to HK$6.8 million (31 December 2013: HK$4.5 million) were pledged for banking facilities.

Capital Expenditure

During the period, the Group incurred capital expenditure of HK$246.7 million (2013: HK$133.2 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 30 June 2014 and 31 December 2013, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2014, the Group had over 27,000 employees (31 December 2013: 27,000) predominantly in Mainland China, Taiwan and Hong Kong. Employee benefits expense, including directors' emoluments and share-based payment expense, for the period under review was HK$736.9 million (2013: HK$723.5 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

Industry headwinds still remain as the overall retail market challenges prevail. In the second half of the year, visibility in the market is still low despite the moderate improvement in sales towards the end of the second quarter. Nevertheless, the Group has been adapting to changes in the market as we enhance our competitive advantages to consolidate our leading position in the ladies' shoes market.

Initiatives to enhance operational efficiency progressed in line with plan, but will take time for the measures to translate into positive contributions to sales and key performance indicators.

In addition, we are conducting analysis and studies on the attempts we made and the outcomes along the implementation process of the key strategic initiatives during the first half of the year. Based on the findings and conclusions, the Group will adjust and refine the efficiency enhancement measures, improve the execution, as well as to devise a comprehensive business plan, so that we could come out even stronger from the market competition and deliver the desirable results.

The focus of the upcoming strategic plan will continue to revolve around the following areas:

- Enhance the sales operation and its productivity
- Improve the product offerings and strengthen the supply chain management
- Bolster brand image and increase marketing efficiency

The scope of the business plan will cover both the offline and online businesses. We will also make efforts to generate synergy through interaction and integration of these two business platforms. We will consider expanding the offline business by exploring alternative sales channels.

As the Chinese government continues to drive urbanisation, boost domestic consumption and restructure its economy to achieve economic growth, the retail market, including the ladies' footwear market, will certainly benefit from such policies in the medium and long terms. In the meantime, the Group is determined to make every endeavour to strengthen its foothold in the market, so as to be poised to capture future growth opportunities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2014. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

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 confirmed that they fully complied with the required standards as set out in the Model Code during the six months ended 30 June 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 period 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 period, 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 unaudited condensed consolidated interim financial information has been reviewed and approved by the Audit Committee, who is of the opinion that such financial information complies with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

INTERIM DIVIDEND

The Board has resolved on 19 August 2014 to declare an interim dividend of HK3.5 cents (2013: HK6.0 cents) per share for the year ending 31 December 2014. The payment of the interim dividend will be paid on or before 23 September 2014 to shareholders whose names appear on the register of members of the Company on 12 September 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 11 September 2014 to 12 September 2014 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 10 September 2014.

PUBLICATION OF THE INTERIM RESULTS ANNONCEMENT AND INTERIM REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.daphneholdings.com). The interim 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, 19 August 2014

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.