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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 2015

FINANCIAL HIGHLIGHTS

- Turnover dropped by 13.9% to HK\$4,374.3 million
- Gross profit decreased by 7.4% to HK\$2,654.6 million
- Profit attributable to owners of the Company was HK\$2.5 million
- Basic earnings per share was HK0.2 cent
- Total number of points-of-sale decreased by 188 to 6,569

* *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 2015, together with the comparative figures for the corresponding period in 2014.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015

		Unaudited	
		Six months ended 30 June	
	Note	2015	2014
		HK\$'000	HK\$'000
Turnover	3	4,374,270	5,080,665
Cost of sales		(1,719,673)	(2,215,146)
Gross profit		2,654,597	2,865,519
Other income	4	27,118	42,400
Other (losses)/gains- net	5	(27,248)	2,719
Selling and distribution expenses		(2,433,638)	(2,424,859)
General and administrative expenses		(209,807)	(245,041)
Operating profit	6	11,022	240,738
Finance costs	7	(8,460)	(21,756)
Share of loss of associates and joint ventures		(1,571)	(2,572)
Profit before income tax		991	216,410
Income tax credit/(expense)	8	7,954	(41,615)
Profit for the period		8,945	174,795
Attributable to:			
Owners of the Company		2,534	172,360
Non-controlling interests		6,411	2,435
		8,945	174,795
Earnings per share	9		
Basic (HK cents)		0.2	10.5
Diluted (HK cents)		0.2	10.5

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

	Unaudited	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Profit for the period	8,945	174,795
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences arising from foreign operations	214	121
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences arising from non-foreign operations	(184)	(153,754)
Total comprehensive income for the period	8,975	21,162
Attributable to:		
Owners of the Company	2,893	22,287
Non-controlling interests	6,082	(1,125)
	8,975	21,162

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2015**

	Note	Unaudited 30 June 2015 HK\$'000	Audited 31 December 2014 HK\$'000
Non-current assets			
Intangible assets		76,283	78,948
Land use rights		85,325	76,509
Property, plant and equipment		1,325,117	1,377,485
Interests in associates		2,151	2,214
Interests in joint ventures		2,754	4,071
Available-for-sale financial asset		374	374
Deposits paid for acquisition of land use rights and property, plant and equipment		28,210	26,750
Long-term rental deposits and prepayments		164,640	163,780
Deferred income tax assets		191,479	177,753
		<u>1,876,333</u>	<u>1,907,884</u>
Current assets			
Inventories		2,251,479	2,273,330
Trade receivables	11	339,648	326,555
Entrusted loans		-	3,070
Other receivables, deposits and prepayments		1,575,530	1,552,393
Income tax recoverable		70,330	68,503
Structured bank deposits		167,972	1,064,716
Pledged bank deposits		3,351	6,928
Cash and cash equivalents		744,223	457,034
		<u>5,152,533</u>	<u>5,752,529</u>
Current liabilities			
Trade payables	12	724,671	1,005,154
Other payables and accrued charges		487,327	550,935
Derivative financial instrument		4,042	-
Income tax liabilities		34,203	55,535
Convertible bonds		-	680,716
Bank loans – unsecured		495,139	96,460
		<u>1,745,382</u>	<u>2,388,800</u>
Net current assets		<u>3,407,151</u>	<u>3,363,729</u>
Total assets less current liabilities		<u>5,283,484</u>	<u>5,271,613</u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2015**

	Unaudited 30 June 2015 HK\$'000	Audited 31 December 2014 HK\$'000
Equity attributable to owners of the Company		
Share capital	164,914	164,914
Reserves	4,898,880	4,893,038
	<u>5,063,794</u>	<u>5,057,952</u>
Non-controlling interests	200,024	194,439
	<u>5,263,818</u>	<u>5,252,391</u>
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Non-current liabilities		
Deferred income tax liabilities	19,576	19,132
Other non-current liability	90	90
	<u>19,666</u>	<u>19,222</u>
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Total equity and non-current liabilities	<u><u>5,283,484</u></u>	<u><u>5,271,613</u></u>

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 2015 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 2014, 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 25 August 2015.

2 Principal accounting policies

In the current interim period, the Group has applied, for the first time, certain amendments to HKFRSs that are mandatorily effective for the financial year ending 31 December 2015. The application of the amendments to HKFRSs 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 2015 are consistent with those of the annual financial statements for the year ended 31 December 2014, 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 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 2015 and 30 June 2014.

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	Manufacturing business HK\$'000	Inter- segment elimination HK\$'000	Group HK\$'000
Six months ended 30 June 2015 (Unaudited)					
Revenue from external customers	3,956,344	389,017	28,909	-	4,374,270
Inter-segment revenue	78,560	-	455,267	(533,827)	-
Total segment revenue	4,034,904	389,017	484,176	(533,827)	4,374,270
Segment results	41,844	4,978	6,649	(10,553)	42,918
Amortisation of intangible assets					(2,529)
Corporate income					2,546
Corporate expenses					(31,913)
Operating profit					11,022
Finance costs					(8,460)
Share of loss of associates and joint ventures					(1,571)
Profit before income tax					991
Amortisation of intangible assets	-	2,529	-	-	2,529
Amortisation of land use rights	593	-	660	-	1,253
Depreciation of property, plant and equipment	148,232	4,455	11,109	-	163,796
Capital expenditure	107,416	2,215	31,644	-	141,275
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

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	Manufacturing business HK\$'000	Group HK\$'000
<u>As at 30 June 2015 (Unaudited)</u>				
Segment assets	5,941,964	421,161	350,538	6,713,663
Goodwill	15,079	-	-	15,079
Other intangible assets	-	61,204	-	61,204
	<u>5,957,043</u>	<u>482,365</u>	<u>350,538</u>	<u>6,789,946</u>
Interests in associates				2,151
Interests in joint ventures				2,754
Available-for-sale financial asset				374
Deferred income tax assets				191,479
Corporate assets				42,162
Total assets				<u>7,028,866</u>
Segment liabilities	<u>876,013</u>	<u>142,816</u>	<u>200,570</u>	<u>1,219,399</u>
Deferred income tax liabilities				19,576
Derivative financial instrument				4,042
Corporate liabilities				522,031
Total liabilities				<u>1,765,048</u>
<u>As at 31 December 2014 (Audited)</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
	<u>6,424,729</u>	<u>569,571</u>	<u>409,611</u>	<u>7,403,911</u>
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				<u>7,660,413</u>
Segment liabilities	<u>1,252,360</u>	<u>65,864</u>	<u>230,956</u>	<u>1,549,180</u>
Deferred income tax liabilities				19,132
Convertible bonds				680,716
Corporate liabilities				158,994
Total liabilities				<u>2,408,022</u>

4 Other income

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Interest income	16,804	19,290
Franchise and royalty income	3,688	3,653
Government subsidies	3,099	8,044
Gross rental income	622	945
Others	2,905	10,468
	<u>27,118</u>	<u>42,400</u>

5 Other (losses)/gains - net

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Fair value (loss)/gain on derivative financial instruments	(4,042)	4,960
Loss on disposal of a subsidiary	-	(580)
Loss on disposal of property, plant and equipment	(9,233)	(9,689)
Net exchange (loss)/gain	(13,973)	8,028
	<u>(27,248)</u>	<u>2,719</u>

6 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Amortisation of land use rights	1,253	845
Amortisation of license rights	1,310	1,312
Amortisation of trademarks	1,219	1,231
Cost of inventories sold, including written-back of provision for slow-moving inventories of HK\$12,662,000 (2014: HK\$29,288,000)	1,514,122	2,012,040
Depreciation of property, plant and equipment	163,796	145,667
Employee benefits expense (including directors' emoluments and share-based payment expense)	656,296	736,870
Operating lease rentals (including concessionaire fees) in respect of land and buildings	1,269,727	1,263,198
	<u>1,269,727</u>	<u>1,263,198</u>

7 Finance costs

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Interest on convertible bonds	6,980	20,953
Interest on bank loans	1,480	803
	<u>8,460</u>	<u>21,756</u>

8 Income tax credit/(expense)

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Current income tax	(5,571)	(53,657)
Deferred income tax	13,525	12,042
	<u>7,954</u>	<u>(41,615)</u>

No provision for Hong Kong profits tax has been made as the Group has sufficient tax losses to set off against its estimated assessable profits arising from Hong Kong during the six months ended 30 June 2015 and 30 June 2014.

Provision for the China corporate income tax has been calculated based on statutory tax rate of 25% (2014: 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 period 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% (2014: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable net with value-added tax. During the six months ended 30 June 2015 and 30 June 2014, withholding tax rate of 7.5% 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 2015 is 22% (2014: 22%).

9 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\$2,534,000 (2014: HK\$172,360,000) and the weighted average number of 1,649,142,384 (2014: 1,649,142,384) shares in issue during the six months ended 30 June 2015.

For the six months ended 30 June 2015 and 30 June 2014, basic and diluted earnings per share are the same since the share options, convertible bonds and warrants outstanding during the periods are anti-dilutive.

10 Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: HK3.5 cents per share).

11 Trade receivables

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

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
0 - 30 days	194,472	207,657
31 - 60 days	95,741	71,825
61 - 90 days	24,183	18,658
91 - 120 days	9,698	7,555
121 - 180 days	5,401	10,444
181 - 360 days	5,684	9,985
Over 360 days	4,469	431
	339,648	326,555

12 Trade payables

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

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
0 - 30 days	250,866	468,140
31 - 60 days	282,083	237,993
61 - 90 days	180,369	289,588
91 - 120 days	5,326	2,976
121 - 180 days	1,366	1,836
181 - 360 days	2,987	3,304
Over 360 days	1,674	1,317
	724,671	1,005,154

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

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Authorised but not contracted	55,087	51,672
Contracted but not provided for	12,016	6,929
	67,103	58,601

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Group Performance

For the six months ended 30 June 2015, the Group's turnover decreased by 13.9% to HK\$4,374.3 million (2014: HK\$5,080.7 million). Gross profit decreased to HK\$2,654.6 million (2014: HK\$2,865.5 million) with a year-on-year decline of 7.4%. Operating profit decreased to HK\$11.0 million (2014: HK\$240.7 million). Profit attributable to owners of the Company was HK\$2.5 million (2014: HK\$172.4 million). Basic earnings per share was HK0.2 cent (2014: HK10.5 cents). The Board did not recommend the payment of an interim dividend in respect of the six months ended 30 June 2015 (2014: HK3.5 cents per share).

Market Overview

China's gross domestic product (GDP) growth further slowed down to 7.0% in the first half of 2015, from 7.4% in the same period last year. The growth in total retail sales of consumer goods decelerated to 10.4% for the first half of 2015 from 12.1% and 12.7% for the same period in 2014 and 2013 respectively. Chinese economy has entered into a "new normal" as the growth continued to decelerate. This led to adjustments in various industries and sectors, and the economic environment became volatile, which was reflected in the soft consumer sentiment. Besides, e-commerce channel continued its high growth, and therefore intensified the competition with retailers.

The delayed spring and summer seasons in 2015 placed further challenge to fashion retailers. Local regional chains in the mass market segment of ladies' shoes resorted to earlier launch of deeper discounts, and resulted a highly promotional and discount-driven competitive environment. Retailers were squeezed further from the inflationary pressure of operating costs including labour cost.

Core Brands Business

The Group's Core Brands business refers to the retail business of ladies' footwear under its own brands, "Daphne" and "Shoebox" in Mainland China. During the first half of the year, the consumer sentiment remained soft, yet the erratic weather with delayed spring and summer seasons further dampened the appetite for shopping. This led to intensified competition in the mass market segment for ladies' shoes as some aggressive peers offered deep discounts much earlier. Nevertheless, the Group upheld its discounting policy until the adverse effect of the weather subsided.

Against this backdrop, turnover of the Core Brands business recorded a year-on-year decline of 13.9% for the first half of the year to HK\$4,034.9 million (2014: HK\$4,685.0 million), as a result of a negative same store sales performance and net store closures. Pressing on with its cautious approach to store network development, the Group had a net decrease of 181 points-of-sale ("POS") during the period and had a total of 6,221 POS under its Core Brands, comprising 5,631 directly-managed stores and 590 franchised stores, as at 30 June 2015. Segment revenue from external customers still accounted for 90% of the Group's total revenue during the period under review (2014: 91%).

Number of POS of Core Brands business:

	At 30 June 2015		At 31 December 2014		Change	
Directly-managed stores	5,631	91%	5,748	90%	-117	-2.0%
Franchised stores	590	9%	654	10%	-64	-9.8%
Total	6,221	100%	6,402	100%	-181	-2.8%

Number of POS of Core Brands business by city tier:

	At 30 June 2015		At 31 December 2014		Change	
Tier 1	724	12%	731	12%	-7	-1.0%
Tier 2	1,556	25%	1,607	25%	-51	-3.2%
Tier 3	1,183	19%	1,238	19%	-55	-4.4%
Tier 4-6	2,758	44%	2,826	44%	-68	-2.4%
Total	6,221	100%	6,402	100%	-181	-2.8%

In an attempt of further market segmentation, the Group enriched and restructured Daphne product range into seven product series in spring & summer season this year to enhance its appeal to a broader customer base and to increase its differentiation from the competitors. The enhanced product series, namely, are Parties & Evening Charm, Cosmopolitan, Soft & Comfort, Daphne Young, Ondul, Hello Kitty Collection by Daphne, and Dulala. Each of them is tailored to different customer niches and serves different occasions. The Group also added one of the top young actresses in Mainland China, Cecilia Liu, to its group of spokespersons (including the popular Korean actress, Jun Ji-Hyun, and pop singer and leading actor, Nicholas Tse) to endorse one of its core product lines - Cosmopolitan. By increasing the association of the product lines with the spokespersons, the Group built a strong brand image, and improved the marketing efforts.

Gross profit margin for Core Brands business expanded by about 2.9 percentage points to 58.9%, due to the improved sales mix of new products during the first half of the year, in spite of a year-on-year drop of about 8.2% in its average selling price. However, the decrease in sales exerted significant pressure on inventory management and operating margin. Although the overall inventory level for the interim period was lower than that of six months ago, inventory turnover days increased to 238 days because of the lower sales. Due to the high fixed cost structure of the Group's retail operation, and inflationary pressure on key operating costs, the operating profit margin of Core Brands business was significantly affected by negative operating leverage and decreased to 1.0% (2014: 5.7%).

Other Brands Business

The Other Brands business of the Group mainly consists of the operations of mid- to high-end brands (including own-brands, and brands with exclusive distribution rights comprising "AEE", "Step Higher", "AEROSOLE" and "ALDO", in Mainland China, Hong Kong and Taiwan) while the fast-growing e-commerce unit increased its contribution to this business segment in recent two years. For the six months ended 30 June 2015, turnover of the Other Brands business increased by 8.6% year-on-year to HK\$389.0 million (2014: HK\$358.1 million). The Other Brands business segment accounted for approximately 9% (2014: 7%) of the Group's total turnover during the period under review.

Turnover of mid- to high-end brand portfolio decreased slightly due to a net reduction of 7 POS during the period under review. However, this brand portfolio's performance continued to improve as a result of the persistent effort to focus on the performance on a per-store basis.

The Group's e-commerce business continued to achieve sales growth, and maintained its profitability. Its sales growth is mostly driven by volume, and its increased sales mix in new products helped enhance its gross profit margin. It has also strengthened its partnership with major online shopping platforms, especially Tmall, which will increase its competitiveness over its online peers in the future. Moreover, the Group remained committed to its O2O ("online-to-offline") initiatives which will offer stronger support to its online sales, allowing the Group to provide faster delivery and more efficient service, and to enhance overall inventory management.

The Other Brands business continued to improve its gross profit margin, and recorded an operating profit of HK\$5.0 million (2014: loss of HK\$8.5 million).

Awards

Daphne's strong brand awareness and customer loyalty in China was evidenced by its top ranking in the "China Brand Power Index 2015" (Women's Shoes category), and the Group had won this accolade for the fifth consecutive year. This independent annual survey was conducted by Chnbrand, an institution funded by the Chinese Government's Ministry of Industry and Information Technology, and reputed as one of the most credible brand rating organisations in China. By interviewing 11,500 consumers in 30 cities across China, this survey examined brand awareness and loyalty by industry and category.

The Group was also awarded "Best IR Company" in the small-cap category in the inaugural Investor Relations Award 2015 organised by the Hong Kong Investor Relations Association. The Group was delighted to receive recognition for its endeavours in corporate governance and investor relations.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	Six months ended 30 June		Change
	2015	2014	
Turnover (HK\$' million)	4,374.3	5,080.7	-13.9%
Gross profit (HK\$' million)	2,654.6	2,865.5	-7.4%
Operating profit (HK\$' million)	11.0	240.7	-95.4%
Profit attributable to owners of the Company (HK\$' million)	2.5	172.4	-98.5%
Gross profit margin (%)	60.7	56.4	+4.3ppt
Operating profit margin (%)	0.3	4.7	-4.4ppt
Net profit margin (%)	0.1	3.4	-3.3ppt
Basic earnings per share (HK cents)	0.2	10.5	-98.1%
Interim dividend per share (HK cents)	-	3.5	-100.0%

Key Financial Indicators

	Six months ended 30 June		Change
	2015	2014	
Average inventory turnover (days) (Note 1)	238	208	+30
Average debtors turnover (days) (Note 2)	14	13	+1
Average creditors turnover (days) (Note 3)	105	114	-9
Cash conversion cycle (days) (Note 4)	147	107	+40
Capital expenditure (HK\$' million) (Note 5)	141.3	246.7	-42.7%

	As at		Change
	30 June 2015	31 December 2014	
Cash and bank balances (HK\$' million) (Note 6)	915.5	1,528.7	-40.1%
Bank loans (HK\$' million)	495.1	96.5	+413.1%
Convertible bonds (HK\$' million)	-	680.7	-100.0%
Equity attributable to owners of the Company (HK\$' million)	5,063.8	5,058.0	+0.1%
Current ratio (times) (Note 7)	3.0	2.4	+0.6
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 and structured bank deposits.*
- 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:

<i>(HK\$ million)</i>	Core Brands Business		Other Brands Business		Manufacturing Business	
	2015	2014	2015	2014	2015	2014
<i>Revenue from external customers</i>	3,956.3	4,613.4	389.0	358.1	28.9	109.2
<i>Inter-segment revenue</i>	78.6	71.6	-	-	455.3	471.8
Total segment revenue	4,034.9	4,685.0	389.0	358.1	484.2	581.0
<i>Segment gross profit</i>	2,376.5	2,622.1	249.0	223.3	39.6	13.3
<i>Segment gross margin</i>	58.9%	56.0%	64.0%	62.4%	8.2%	2.3%
<i>Segment operating profit/(loss)</i>	41.8	264.8	5.0	(8.5)	6.6	(21.2)
<i>Segment operating margin</i>	1.0%	5.7%	1.3%	(2.4%)	1.4%	(3.6%)

Liquidity and Financial Resources

As at 30 June 2015, the Group had cash and bank balances, comprising cash and cash equivalents, pledged bank deposits and structured bank deposits, amounting to HK\$915.5 million (31 December 2014: HK\$ 1,528.7 million) denominated mainly in Renminbi.

The net decrease in cash and bank balances of HK\$613.2 million (2014: increase HK\$53.0 million) is analysed as follows:

	For the six months ended 30 June	
	2015 HK\$' million	2014 HK\$' million
Net cash (used in)/generated from operating activities	(213.6)	279.3
Capital expenditure	(141.3)	(246.7)
Net dividend paid	(0.5)	(34.0)
Net interest received/(paid)	15.3	(8.6)
Proceeds from disposal of property, plant and equipment	6.6	1.3
Net bank loans borrowed	398.7	29.5
Decrease in entrusted loans	3.1	55.5
Redemption of convertible bonds	(695.5)	-
Effect of exchange rate changes and others	14.0	(23.3)
	(613.2)	53.0

On 12 June 2009, the Company issued unlisted and unsecured RMB denominated USD settled convertible bonds due in 2014 with a principal amount of RMB550 million in which the maturity date was subsequently extended to 24 April 2015 pursuant to the Deed of Amendment relating to the convertible bonds. The Company had redeemed the convertible bonds in full for a total amount of approximately HK\$695,464,000 upon its maturity on 24 April 2015. All the payment was satisfied by the Group's internal cash and bank borrowings. As at 30 June 2015, no convertible bonds were outstanding.

As at 30 June 2015, the Group had unutilised banking facilities amounting to HK\$282.8 million (31 December 2014: HK\$61.6 million). The Group's current ratio was 3.0 as at 30 June 2015 (31 December 2014: 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\$16.8 million (2014: HK\$19.3 million).

As at 30 June 2015, the Group's net gearing, calculated on the basis of net debt (being bank loans less cash and bank balances (31 December 2014: total of 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 2014: 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 six months ended 30 June 2015 and 30 June 2014, the Group entered into a foreign exchange forward contract to hedge the foreign exchange risk exposure on a bank loan denominated in USD.

Pledge of Assets

As at 30 June 2015, the Group's pledged bank deposits amounting to HK\$3.4 million (31 December 2014: HK\$6.9 million) were pledged for banking facilities.

Capital Expenditure

During the period, the Group incurred capital expenditure of HK\$141.3 million (2014: HK\$246.7 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 2015 and 31 December 2014, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2015, the Group had a workforce of about 23,000 people (31 December 2014: 26,000) 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\$656.3 million (2014: HK\$736.9 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

Although the uncertain market outlook in the second half of 2015 now is further clouded with the recent volatility in the stock market, the management team has dedicated itself to taking necessary steps to improve the second-half results of 2015 as well as building stronger fundamentals to pursue long-term growth. To cope with the intensified competition both online and offline, the Group puts focus of its improvement programme on boosting sales, improving inventory management, expense control and accelerating its e-commerce growth. While stepping up its promotional activities for the remainder of the summer season, the Group is also reviewing and modifying its strategies for merchandising, pricing and promotion for the upcoming autumn and winter seasons. The Group will also consider store rationalisation, along with some major adjustments in its offline distribution channels. For the initiatives to enhance operational efficiency, the Group is committed to improve its execution through ongoing review and fine-tuning. The Group is also working on an expansion plan for its e-commerce business and will allocate more resources to fuel its growth and O2O initiatives, which will include deepening its collaboration with various e-commerce platforms. While the performance of the Group for the first half is below expectations, the Group endeavours to improve its performance for the second half of the year.

The Chinese government has been implementing policies to promote domestic consumption. Urbanisation continues and disposable income of both urban and rural populations grows consistently, along with the trend of increasing minimum wages. Beyond cycles, the mass market is still a structurally growing sector where Daphne is positioned firmly at the top. Although the headwind is strong, the Group is determined to make bold moves to adapt to the "new normal" of China and strengthen its competitiveness, by leveraging its core strengths, unparalleled national brand equity, and healthy balance sheet, so as to strive for growth in the medium and long term.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

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 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 2015.

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. As Mr. Chen has been with the Group for over 20 years and 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 considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

During the period, the Company held an annual general meeting (the “AGM”) on 20 May 2015. Due to unavoidable business engagements, Mr. Huang Shun-Tsai, the independent non-executive director of the Company, was unable to attend the AGM. This was in deviations from code provision A.6.7 of the CG code.

AUDIT COMMITTEE

The Audit Committee, comprises the three independent non-executive directors of the Company, Mr. Lee Ted Tak Tai, Mr. Huang Shun-Tsai and Mr. Kuo Jung-Cheng, 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.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the websites of the HKExnews (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, 25 August 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. Huang Shun-Tsai, Mr. Kuo Jung-Cheng and Mr. Lee Ted Tak Tai being the independent non-executive directors.