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 2016

FINANCIAL HIGHLIGHTS

- Turnover dropped by 22.3% to HK$3,400.8 million
- Gross profit decreased by 29.0% to HK$1,884.2 million
- Loss attributable to owners of the Company was HK$163.6 million
- Basic loss per share was HK9.9 cents
- Total number of points-of-sale decreased by 466 to 5,464

* *for identification purpose only*

INTERIM RESULTS

The board of directors 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 2016, together with the comparative figures for the corresponding period in 2015.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Note	Unaudited Six months ended 30 June **2016** **HK$'000**	 2015 HK$'000
Turnover	3	**3,400,845**	4,374,270
Cost of sales		**(1,516,637)**	(1,719,673)
Gross profit		**1,884,208**	2,654,597
Other income	4	**48,419**	27,118
Other losses - net	5	**(20,720)**	(27,248)
Selling and distribution expenses		**(1,990,748)**	(2,433,638)
General and administrative expenses		**(170,619)**	(209,807)
Operating (loss)/profit	6	**(249,460)**	11,022
Finance costs	7	**(3,393)**	(8,460)
Share of loss of associates and joint ventures		**(797)**	(1,571)
(Loss)/profit before income tax		**(253,650)**	991
Income tax credit	8	**83,701**	7,954
(Loss)/profit for the period		**(169,949)**	8,945
Attributable to:			
Owners of the Company		**(163,596)**	2,534
Non-controlling interests		**(6,353)**	6,411
		(169,949)	8,945
(Loss)/earnings per share, basic and diluted (HK cents)	9	**(9.9)**	0.2

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
(Loss)/profit for the period	**(169,949)**	8,945
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences	**289**	214
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**(94,391)**	(184)
Total comprehensive (loss)/income for the period	**(264,051)**	8,975
Attributable to:		
Owners of the Company	**(255,451)**	2,893
Non-controlling interests	**(8,600)**	6,082
	(264,051)	8,975

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2016

	Note	**Unaudited 30 June 2016 HK$'000**	Audited 31 December 2015 HK$'000
Non-current assets			
Intangible assets		**63,118**	66,715
Land use rights		**77,150**	80,136
Property, plant and equipment		**1,062,742**	1,190,401
Interests in associates		**1,941**	2,007
Interests in joint ventures		**1,020**	2,028
Available-for-sale financial asset		**374**	374
Deposits paid for acquisition of land use rights and property, plant and equipment		**117**	119
Long-term rental deposits and prepayments		**116,635**	125,287
Deferred income tax assets		**414,524**	334,136
		1,737,621	1,801,203
Current assets			
Inventories		**1,769,040**	2,091,619
Trade receivables	11	**276,895**	237,874
Other receivables, deposits and prepayments		**1,264,530**	1,475,031
Income tax recoverable		**63,241**	65,886
Derivative financial instruments		**5,019**	15,919
Pledged bank deposits		**818**	3,225
Bank deposit with maturity over three months		**17,535**	-
Cash and cash equivalents		**573,851**	1,072,401
		3,970,929	4,961,955
Current liabilities			
Trade payables	12	**616,756**	982,616
Other payables and accrued charges		**350,715**	442,053
Current income tax liabilities		**29,836**	50,387
Bank loans – unsecured		**304,551**	620,792
		1,301,858	2,095,848
Net current assets		**2,669,071**	2,866,107
Total assets less current liabilities		**4,406,692**	4,667,310

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2016

	Unaudited 30 June 2016 HK$'000	Audited 31 December 2015 HK$'000
Equity attributable to owners of the Company		
Share capital	**164,914**	164,914
Reserves	**4,042,843**	4,297,701
	4,207,757	4,462,615
Non-controlling interests	**177,437**	186,511
Total equity	**4,385,194**	4,649,126
Non-current liabilities		
Deferred income tax liabilities	**21,498**	18,094
Other non-current liability	**-**	90
	21,498	18,184
Total equity and non-current liabilities	**4,406,692**	4,667,310

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 2016 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 2015, 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 for the six months ended 30 June 2016 is unaudited and has been reviewed by the audit committee of the Company and approved for issue by the board of directors on 23 August 2016.

2 Principal accounting policies

In the current interim period, the Group has applied, for the first time, certain amendments to HKFRSs and a new standard that are mandatorily effective for the financial year ending 31 December 2016. The application of the amendments to HKFRSs and the new standard 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 2016 are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

3 Segment information

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

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

The CODM assesses the performance of the operating segments based on a measure of segment results before finance costs, amortisation of intangible assets and unallocated corporate income and expenses. Certain corporate overhead expenses, including management fee, rental and utilities were reallocated among individual segments based on estimated consumption.

Revenue from external customers is arrived at after elimination of inter-segment revenue. Inter-segment revenue is charged in accordance with terms 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 during both six months ended 30 June 2016 and 2015.

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

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

	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Six months ended 30 June 2016 (Unaudited)					
Revenue from external customers	**3,009,931**	**388,849**	**2,065**	**-**	**3,400,845**
Inter-segment revenue	**103,637**	**-**	**108,151**	**(211,788)**	**-**
Total segment revenue	**3,113,568**	**388,849**	**110,216**	**(211,788)**	**3,400,845**
Segment results	**(236,356)**	**1,660**	**770**	**7,402**	**(226,524)**
Amortisation of intangible assets					**(2,248)**
Corporate income					**1,165**
Corporate expenses					**(21,853)**
Operating loss					**(249,460)**
Finance costs					**(3,393)**
Share of loss of associates and joint ventures					**(797)**
Loss before income tax					**(253,650)**
Other information for disclosure:					
Amortisation of intangible assets	**-**	**2,248**	**-**	**-**	**2,248**
Amortisation of land use rights	**565**	**-**	**584**	**-**	**1,149**
Depreciation of property, plant and equipment	**122,654**	**3,800**	**11,011**	**-**	**137,465**
Impairment of property, plant and equipment	**3,035**	**-**	**-**	**-**	**3,035**
Capital expenditure	**54,519**	**5,937**	**4,810**	**-**	**65,266**
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
Other information for disclosure:					
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

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

	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Group HK$'000
As at 30 June 2016 (Unaudited)				
Segment assets	**4,627,719**	**297,732**	**262,643**	**5,188,094**
Goodwill	**15,079**	**-**	**-**	**15,079**
Other intangible assets	**-**	**48,039**	**-**	**48,039**
	4,642,798	**345,771**	**262,643**	**5,251,212**
Interests in associates				**1,941**
Interests in joint ventures				**1,020**
Available-for-sale financial asset				**374**
Deferred income tax assets				**414,524**
Derivative financial instruments				**5,019**
Corporate assets				**34,460**
Total assets				**5,708,550**
Segment liabilities	**845,697**	**80,385**	**55,690**	**981,772**
Deferred income tax liabilities				**21,498**
Corporate liabilities				**320,086**
Total liabilities				**1,323,356**
As at 31 December 2015 (Audited)				
Segment assets	5,590,887	380,196	291,107	6,262,190
Goodwill	15,079	-	-	15,079
Other intangible assets	-	51,636	-	51,636
	5,605,966	431,832	291,107	6,328,905
Interests in associates				2,007
Interests in joint ventures				2,028
Available-for-sale financial asset				374
Deferred income tax assets				334,136
Derivative financial instrument				15,919
Corporate assets				79,789
Total assets				6,763,158
Segment liabilities	1,151,206	128,470	165,118	1,444,794
Deferred income tax liabilities				18,094
Corporate liabilities				651,144
Total liabilities				2,114,032

4 Other income

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
Franchise and royalty income	**2,913**	3,688
Government subsidies	**3,314**	3,099
Gross rental income	**733**	622
Income derived from television programme	**25,792**	-
Interest income	**6,778**	16,804
Sale of derivative intellectual property rights	**3,123**	-
Others	**5,766**	2,905
	48,419	27,118

5 Other losses - net

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
Fair value loss on derivative financial instruments	**(5,377)**	(4,042)
Impairment of property, plant and equipment	**(3,035)**	-
Loss on disposal of property, plant and equipment	**(9,101)**	(9,233)
Net exchange loss	**(3,207)**	(13,973)
	(20,720)	(27,248)

6 Operating (loss)/profit

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

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
Amortisation of land use rights	**1,149**	1,253
Amortisation of license rights	**1,079**	1,310
Amortisation of trademarks	**1,169**	1,219
Cost of inventories sold, including write-back of provision for slow-moving inventories of HK$44,974,000 (2015: HK$12,662,000)	**1,461,117**	1,514,122
Depreciation of property, plant and equipment	**137,465**	163,796
Employee benefits expense (including directors' emoluments and share-based payment expense)	**445,081**	656,296
Operating lease rentals (including concessionaire fees) in respect of land and buildings	**1,026,478**	1,296,727
Production cost of television programme	**62,055**	-

7 Finance costs

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
Interest on bank loans	**3,393**	1,480
Interest on convertible bonds	**-**	6,980
	3,393	8,460

8 Income tax credit

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
Current income tax	**(897)**	(5,571)
Under provision in prior years	**(81)**	-
Deferred income tax	**84,679**	13,525
	83,701	7,954

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 2016 is 27% (2015: 22%).

The application rate of Hong Kong profits tax is 16.5% (2015: 16.5%). No provision for Hong Kong profits tax has made as the Group does not have any assessable profit arising in Hong Kong during the six months ended 30 June 2016 and has sufficient tax losses to set off against its estimated assessable profits arising from Hong Kong during the six months ended 30 June 2015.

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

Income tax on overseas (other than Hong Kong and Mainland China) profits has been calculated on the estimated assessable profits for the 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% (2015: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable net with value-added tax. During the six months ended 30 June 2016, withholding tax rate of 7.5% (2015: 7.5%) was applied to management fee received or receivable from a Group's entity with tax jurisdiction in Mainland China.

9 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to owners of the Company of HK$163,596,000 (2015: profit of HK$2,534,000) and the weighted average number of 1,649,142,384 (2015: 1,649,142,384) shares in issue during the six months ended 30 June 2016.

For the six months ended 30 June 2016 and 30 June 2015, basic and diluted (loss)/earnings per share are the same since there was no dilutive potential share.

10 Dividend

The board of directors did not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

11 Trade receivables

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

	30 June 2016 HK$'000	31 December 2015 HK$'000
0 - 30 days	**161,359**	140,814
31 - 60 days	**74,846**	57,711
61 - 90 days	**23,523**	20,189
91 - 120 days	**7,027**	7,851
121 - 180 days	**6,495**	4,593
181 - 360 days	**3,379**	2,845
Over 360 days	**266**	3,871
	276,895	237,874

12 Trade payables

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

	30 June 2016 HK$'000	31 December 2015 HK$'000
0 - 30 days	**287,165**	402,218
31 - 60 days	**168,707**	297,712
61 - 90 days	**149,131**	273,146
91 - 120 days	**3,589**	2,637
121 - 180 days	**2,218**	4,431
181 - 360 days	**4,934**	1,741
Over 360 days	**1,012**	731
	616,756	982,616

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

	30 June 2016 HK$'000	31 December 2015 HK$'000
Contracted but not provided for	**748**	1,326

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Group Performance

For the six months ended 30 June 2016, the Group's turnover decreased by 22.3% to HK$3,400.8 million (2015: HK$4,374.3 million) mainly due to a material year-on-year decrease in the number of points-of-sale ("POS"), and decrease in same-store sales. Gross profit decreased to HK$1,884.2 million (2015: HK$2,654.6 million) with a year-on-year decline of 29.0%, mainly because of the increase in the sales proportion of aged products. Operating expenses decreased by 18.3%, broadly in line with the decrease in the Group's turnover. However an operating loss of HK$249.5 million was recorded, against the operating profit of HK$11.0 million in the same period last year. Loss attributable to owners of the Company was HK$163.6 million (2015: profit of HK$2.5 million). Loss per share was HK9.9 cents compared to the basic earnings per share of HK0.2 cent for the corresponding period in 2015.

The board of directors did not recommend the payment of an interim dividend in respect of the financial year ending 31 December 2016 (2015: Nil).

During the first half of 2016, the Group's inventory turnover days were 232 days, improved by 6 days compared to the same period last year, which was attributable to the aggressive efforts the Group made in clearing its aged products. Therefore, the inventory level was reduced to HK$1,769.0 million as at 30 June 2016, with a drop of 15.4% when compared with that of HK$2,091.6 million as at 31 December 2015.

Market Overview

The global market environment has been tough in 2016, and China is undergoing its transition of shifting the major economic driver to domestic consumption from fixed asset investment. Despite various measures introduced by the government to boost the economy, China's gross domestic product (GDP) growth continued to slowdown to 6.7% in the first half of 2016, the lowest in the past 25 years, from 7% in the same period last year. The growth rate of China's total retail sales of consumer goods also decelerated to 10.3% in the first half of 2016, following the growth of 10.7% in the year of 2015 when the momentum of the slowdown continued for the fifth consecutive year. According to the National Commercial Information Centre of China, merchandise sales of the top 100 retailers in China had a year-on-year decrease of 3.8% in the first half of 2016. Difficult market conditions will probably persist for a while.

Chinese customer behaviours are fast-changing than ever because of their increased exposures with more overseas travels, continued urbanisation, rising market penetration of smart phones and technological advancements. The prevailing sports fashion trend in recent year also caused some dilution impact on the consumption of women's footwear.

Competition in the mass segment of women's footwear become intense since the second quarter of 2016, as the frequent rainstorms and flooding in China during the period further dampened the already soft consumer sentiment and slow store traffic. Also the inflationary pressure of operating costs exerted additional challenge to retailers in general.

Core Brands Business

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

In the first quarter of 2016, the Group saw quarter-to-quarter improvement in the same-store sales growth for Core Brands business. However, due to the global warming effect, there were frequent rainstorms and flooding in a number of provinces of China in the second quarter. The store traffic, which was already low because of the weakening economy, was hit further by the bad weather. Therefore, same-store sales of the Core Brands declined further in the second quarter, compared to that in the first quarter of the year, and resulted a negative same-store sales growth of a percentage in the low teens for the period under review.

Moreover, the Group continued the rationalisation of its store network and had a net closure of 450 POS under the Core Brands for the period under review. As a result, there was a total of 5,147 POS (comprising 4,656 directly-managed stores and 491 franchised stores) as at 30 June 2016, or down by 17.3% compared to the total number of 6,221 POS under the Core Brands as at 30 June 2015.

Number of POS of Core Brands Business:

	At 30 June 2016		At 31 December 2015		Change	
Directly-managed stores	**4,656**	***90%***	5,056	***90%***	-400	-7.9%
Franchised stores	**491**	***10%***	541	***10%***	-50	-9.2%
Total	**5,147**	***100%***	5,597	***100%***	-450	-8.0%

Number of POS of Core Brands Business by City Tier:

	At 30 June 2016		At 31 December 2015		Change	
Tier 1	**588**	***11%***	637	*11%*	-49	-7.7%
Tier 2	**1,260**	***25%***	1,376	*25%*	-116	-8.4%
Tier 3	**949**	***18%***	1,030	*18%*	-81	-7.9%
Tier 4-6	**2,350**	***46%***	2,554	*46%*	-204	-8.0%
Total	**5,147**	***100%***	5,597	*100%*	-450	-8.0%

Under these circumstances, the year-on-year decrease in the number of stores, together with a negative same-store sales performance, were reflected by the year-on-year decrease of 22.8% in the Core Brands turnover which amounted to HK$3,113.6 million (2015: HK$4,034.9 million) for the period under review. The decline in sales of Core Brands was more driven by the decrease in sales volume, as the average selling price decreased by only 4.2% during the period. The segment revenue from external customers accounted for approximately 89% (2015: 90%) of the Group's total revenue during the period under review.

The Group made aggressive efforts in clearing aged inventory during the second quarter. Consequently, gross profit margin decreased by 5.9 percentage points because of the heavier weighting of aged products in the sales mix and their lower average selling price as compared with those in the same period last year. Given the high fixed cost structure of the Group's retail operation, the decrease in sales, together with a decrease in gross profit margin, exerted significant downward pressure on operating margin. Therefore, a negative operating margin of 7.6% (2015: positive operating margin of 1.0%) resulted.

Other Brands Business

The revenue at the Other Brands business of the Group was mainly contributed by the operations of mid- to high-end brands (including the Group's own brands, and brands with exclusive distribution rights comprising "AEE", "STEP HIGHER", "AEROSOLES" and "ALDO", in Mainland China, Hong Kong and Taiwan), although the e-commerce business unit with its strong growth kept increasing its contribution to the Group's turnover. The Other Brands business segment accounted for approximately 11% (2015: 9%) of the Group's total revenue during the period under review.

Turnover of the Other Brands business was about flat at HK$388.8 million (2015: HK$389.0 million), as the turnover growth of e-commerce offset the decrease in the revenue from the mid- to high-end brand portfolio and others. Overall gross profit margin of the Other Brands business dropped by 7.1 percentage points to 56.9% mainly due to the market's intensifying effort in sales promotions, and increased weighting of e-commerce business and aged products in the sales mix. As a result, the Other Brands business recorded an operating profit of HK$1.7 million (2015: HK$5.0 million) for the period under review.

Due to the adverse impact of the unfavourable weather during the second quarter in China and the net closure of 16 POS, turnover of mid- to high-end brands portfolio decreased moderately for the period under review.

Leveraging the strong brand equity of Daphne, the Group's e-commerce business unit remained on track for strong sales growth, and continued to be a profitable business unit. This thriving e-commerce business unit continued to increase its contribution to the Group's total revenue during the period under review. New online stores were opened for the Group's various product categories and brands on both the major and emerging online shopping platforms, thus enabling the Group to reach more and different types of customers online. Also, the strategic partnership with key online shopping platforms, including Tmall, gave more support to the Group's endeavor to drive sales and offered prominent exposures of the Group's brands in the latter's promotional events. This helped boost the number of online transactions, thus resulting in strong growth in the Group's online sales during the period under review. The warehouse-sharing programme, as one of the major online-to-offline ("O2O") initiatives, was in good progress during the period under review, and will further enhance the dispatch and delivery services of the Group's e-commerce business and overall inventory management when it is implemented more widely in the Group's store network in long run.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	Six months ended 30 June		
	2016	2015	Change
Turnover (HK$' million)	**3,400.8**	4,374.3	-22.3%
Gross profit (HK$' million)	**1,884.2**	2,654.6	-29.0%
Operating (loss)/profit (HK$' million)	**(249.5)**	11.0	N/A
(Loss)/profit attributable to owners of the Company (HK$' million)	**(163.6)**	2.5	N/A
Gross profit margin (%)	**55.4**	60.7	-5.3ppt
Operating profit margin (%)	**-7.3**	0.3	-7.6ppt
Net profit margin (%)	**-4.8**	0.1	-4.9ppt
Basic (loss)/earnings per share (HK cents)	**(9.9)**	0.2	N/A

Key Financial Indicators

	Six months ended 30 June		
	2016	2015	Change
Average inventory turnover (days) *(Note 1)*	**232**	238	-6
Average debtors turnover (days) *(Note 2)*	**14**	14	-
Average creditors turnover (days) *(Note 3)*	**124**	105	+19
Cash conversion cycle (days) *(Note 4)*	**122**	147	-25
Capital expenditure (HK$' million) *(Note 5)*	**65.3**	141.3	-53.8%

	As at		
	30 June 2016	31 December 2015	Change
Cash and bank balances (HK$' million) *(Note 6)*	**592.2**	1,075.6	-44.9%
Bank loans (HK$' million)	**304.6**	620.8	-50.9%
Equity attributable to owners of the Company (HK$' million)	**4,207.8**	4,462.6	-5.7%
Current ratio (times) *(Note 7)*	**3.1**	2.4	+0.7
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.*

6. *Cash and bank balances comprise cash and cash equivalents, pledged bank deposits and bank deposit 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 bank loans less cash and bank balances) divided by the equity attributable to owners of the Company as at the relevant period end.*

Analysis of Results by Business Segment

For the six months ended 30 June 2016, the Group recorded turnover of HK$3,400.8 million, a decrease of 22.3% compared to the corresponding period last year. The business performance of individual segments for the period under review is summarised as follows:

	Core Brands Business		Other Brands Business		Manufacturing Business	
(HK$ million)	**2016**	2015	**2016**	2015	**2016**	2015
Revenue from external customers	***3,009.9***	*3,956.3*	***388.8***	*389.0*	***2.1***	*28.9*
Inter-segment revenue	***103.7***	*78.6*	**-**	-	***108.1***	*455.3*
Total segment revenue	**3,113.6**	4,034.9	**388.8**	389.0	**110.2**	484.2
Segment gross profit	**1,649.7**	2,376.5	**221.2**	249.0	**5.9**	39.6
Segment gross margin	***53.0%***	*58.9%*	***56.9%***	*64.0%*	***5.4%***	*8.2%*
Segment operating (loss)/profit	**(236.4)**	41.8	**1.7**	5.0	**0.8**	6.6
Segment operating margin	***-7.6%***	*1.0%*	***0.4%***	*1.3%*	***0.7%***	*1.4%*

During the first half of 2016, total revenue of the Core Brands business decreased by 22.8% to HK$3,113.6 million from HK$4,034.9 million for the corresponding period in 2015. It is mainly due to the closure of stores and decline in the same-store sales. The gross profit margin of the Core Brands business also declined from 58.9% to 53.0% during the period under review as result of the decrease in the average selling price and product mix.

During the six months ended 30 June 2016, the Group engaged in the production of a television programme named “Lady Bees” so as to revitalise, ramp up and diversify our marketing activities to promote “Daphne” brand image. This led to the increased operating expenses totaling HK$62.1 million although the net advertising income derived from the television programme and sale of its derivative intellectual rights were HK$25.8 million and HK$3.1 million respectively. As a whole, this segment recorded an operating loss of HK$236.4 million (2015: profit of HK$41.8 million).

Revenue of Other Brands business remained much the same as last year amounting to HK$388.8 million (2015: HK$389.0 million) for the period under review. However, the gross profit margin also dropped from 64.0% to 56.9% during the period under review mainly due to the fierce market competitions with more discounting and promotion as well as stock clearance. With the steady growth and contribution from e-commerce business in this business segment, it recorded a marginal profit of HK$1.7 million (2015: HK$5.0 million) for the period under review.

Liquidity and Financial Resources

The Group maintains a stable and healthy balance sheet. As at 30 June 2016, the Group had cash and bank balances, comprising cash and cash equivalents, pledged bank deposits and bank deposit with maturity over three months, amounting to HK$592.2 million (31 December 2015: HK$1,075.6 million) denominated mainly in Renminbi.

As at 30 June 2016, the Group's short-term bank loans were HK$304.6 million (31 December 2015: HK$620.8 million). The bank loans were denominated mainly in United States dollar and at floating rates during the period under review.

The net decrease in cash and bank balances of HK$483.4 million (2015: HK$613.2 million) is analysed as follows:

	Six months ended 30 June	
	2016	2015
	HK$' million	HK$' million
Net cash used in operating activities	**(104.3)**	(213.6)
Capital expenditure	**(65.3)**	(141.3)
Net dividend paid	**(0.5)**	(0.5)
Net interest received	**3.4**	15.3
Proceeds from disposal of property, plant and equipment	**5.0**	6.6
Net bank loans (repaid)/borrowed	**(316.2)**	398.7
Decrease in entrusted loans	**-**	3.1
Redemption of convertible bonds	**-**	(695.5)
Effect of exchange rate changes	**(5.5)**	14.0
	(483.4)	(613.2)

During the first half of 2016, the Group's interest income on bank balances and deposits was HK$6.8 million (2015: HK$16.8 million) and interest expenses on bank loans amounted to HK$3.4 million (2015: HK$1.5 million). There was no interest on convertible bonds (2015: HK$7.0 million).

As at 30 June 2016, the Group was granted with banking facilities amounting to HK$321.3 million (31 December 2015: HK$788.6 million). The Group's current ratio was 3.1 as at 30 June 2016 (31 December 2015: 2.4). The management considered that the Group has sufficient resources currently to support expansion and development of its business in future.

As at 30 June 2016, the Group's net gearing, calculated on the basis of net debt (being bank loans less cash and bank balances) over equity attributable to owners of the Company, was in a net cash (31 December 2015: net cash) position.

Foreign Exchange Risk Management

Management closely monitors the market situation and may consider tools to manage foreign exchange risk whenever necessary. During the six months ended 30 June 2016 and 30 June 2015, the Group entered into foreign exchange forward contracts to hedge the foreign exchange risk exposure on bank loans denominated in United States dollar.

Pledge of Assets

As at 30 June 2016, the Group's pledged bank deposits amounting to HK$0.8 million (31 December 2015: HK$3.2 million) were pledged for certain banking facilities.

Capital Expenditure

During the interim period, the Group incurred capital expenditure of HK$65.3 million (2015: HK$141.3 million) mainly for retail network expansion and renovation.

Contingent Liabilities

As at 30 June 2016 and 31 December 2015, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2016, the Group had a workforce of about 16,000 (31 December 2015: 18,000) people predominantly in Mainland China, Taiwan and Hong Kong. Employee benefits expense, including directors' emoluments, retirement benefit costs and share-based payment expense, for the period under review was HK$445.1 million (2015: HK$656.3 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.

AWARDS

During the period under review, Daphne ranked top in the "China Brand Power Index 2016" (Women's Shoes category) for the sixth consecutive year and won the "Golden Brand" award for its winning of 5 years in a row. These accolades prove high brand awareness of and great loyalty to Daphne brand in Mainland China. 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 16,440 consumers in 33 cities across China, this survey examined brand awareness and loyalty by industry and category.

Besides, the Group received a merit certificate from the Hong Kong Investor Relations Association in its 2nd "Investor Relations Awards 2016" in recognition of its endeavours to enhance corporate governance and investor relations.

OUTLOOK

The outlook for the retail market in China in general remains challenging. The slowdown in the country's economy will continue and consumer sentiment will likely remain soft. However, China, as the world's second largest economy, will continue to play a vital role in driving the world's economic growth and be able to overcome the challenges of its economic restructuring, and will continue its urbanisation. The Group is confident that consumption in China will continue to grow in the medium and long term.

Despite the current headwinds, the Group will stay focused on its adaptation to the new normal of China and remain committed to its improvement plan which, the Group believes, will transform it into a leaner but stronger company.

The Group will continue the rationalisation of its network of stores until the Group resumes profitability. The Group is in good progress in its pursuit for a more balanced channel mix for its stores. Priority will also be given to inventory optimisation for the rest of the year. On top of further reduction in the inventory level, the Group aims to make more improvement in the inventory mix by end of 2016, which will lay a solid foundation for healthy growth of gross profit margin in the future.

To leverage its strong brand equity and maintain its leadership in e-commerce, the Group will continue to invest in its e-commerce business to support its growth. It will continue to strengthen its partnership with both major as well as emerging online shopping platforms and seek more support from them for its promotional activities and big-data analysis. After opening more online stores for its different product categories and sub-brands, the Group will continue to build customer base and increase the market penetration for these products to boost sales. Faster product delivery for online transactions will be available to more cities when the warehouse sharing programme, as a key O2O initiative, will be more widely implemented in the Group's nationwide network of stores in the coming months.

The Group will continue its stringent expense control which plays an important role in addressing a retailer's challenge in a sluggish market. In addition to the rationalisation of workforce according to the size of the store network, the Group is also looking to ways of streamlining the workflows and organisational structure at both store and back office levels.

As part of the differentiation strategy, the Group will continue to adopt the multi-brand and multi-category approach and put emphasis on product differentiation. It is making various adjustments to foster a successful growth of its new multi-brand store format recently launched. After increasing product categories under its own brands to tap new customer segments and help refresh the brand image, the Group is monitoring the progress and conducting analysis for its future product planning.

With its strong brand equity and focus on its core strengths, the Group is determined to strengthen its foothold in the market, and endeavours to improve the Group's performance for the remaining of the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2016, 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 Stock Exchange of Hong Kong Limited. Following specific enquiry by the Company, all directors of the Company confirmed that they fully complied with the required standards as set out in the Model Code during the six months ended 30 June 2016.

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.

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

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

REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The Audit Committee, comprises 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, risk management 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 ANNONCEMENT 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 of Directors
Daphne International Holdings Limited
Chen Ying-Chieh
Chairman

Hong Kong, 23 August 2016

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