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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 2017

FINANCIAL HIGHLIGHTS

- Turnover dropped by 19.6% to HK$2,732.7 million
- Gross profit decreased by 19.2% to HK$1,522.0 million
- Operating loss decreased by 17.7% to HK$205.2 million
- Loss attributable to shareholders was HK$209.5 million
- Basic loss per share was HK12.7 cents
- Total number of points-of-sale decreased by 330 to 4,570

* *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 2017, together with the comparative figures for the corresponding period in 2016.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	Unaudited Six months ended 30 June **2017** **HK$'000**	 2016 HK$'000
Turnover	3	**2,732,707**	3,400,845
Cost of sales		**(1,210,702)**	(1,516,637)
Gross profit		**1,522,005**	1,884,208
Other income	4	**24,660**	48,419
Other gains/(losses) - net	5	**754**	(20,720)
Selling and distribution expenses		**(1,587,829)**	(1,990,748)
General and administrative expenses		**(164,832)**	(170,619)
Operating loss	6	**(205,242)**	(249,460)
Finance costs	7	**(3,506)**	(3,393)
Share of results of associates and joint ventures		**(29)**	(797)
Loss before income tax		**(208,777)**	(253,650)
Income tax (expense)/credit	8	**(2,433)**	83,701
Loss for the period		**(211,210)**	(169,949)
Attributable to:			
Shareholders		**(209,463)**	(163,596)
Non-controlling interests		**(1,747)**	(6,353)
		(211,210)	(169,949)
Loss per share, basic and diluted *(HK cents)*	9	**(12.7)**	(9.9)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Loss for the period	**(211,210)**	(169,949)
Other comprehensive income / (loss)		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences	**1,040**	289
Revaluation of available-for-sale financial asset	**3,744**	-
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**116,404**	(94,391)
Total comprehensive loss for the period	**(90,022)**	(264,051)
Attributable to:		
Shareholders	**(91,763)**	(255,451)
Non-controlling interests	**1,741**	(8,600)
	(90,022)	(264,051)

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2017

	Note	**Unaudited 30 June 2017 HK$'000**	Audited 31 December 2016 HK$'000
Non-current assets			
Intangible assets		**20,681**	20,641
Land use rights		**71,945**	72,567
Property, plant and equipment		**863,979**	902,112
Investment properties		**52,033**	51,520
Interests in associates		**1,799**	1,801
Interests in joint ventures		**374**	353
Available-for-sale financial asset		**4,055**	-
Long-term rental deposits and prepayments		**85,851**	91,385
Deferred income tax assets		**340,674**	329,216
		1,441,391	1,469,595
Current assets			
Inventories		**1,254,707**	1,414,500
Trade receivables	11	**252,539**	208,118
Other receivables, deposits and prepayments		**901,628**	955,786
Derivative financial instruments		**-**	15,662
Pledged bank deposits		**174,965**	-
Bank deposit with maturity over three months		**-**	16,721
Cash and cash equivalents		**675,237**	972,769
		3,259,076	3,583,556
Current liabilities			
Trade payables	12	**641,840**	807,034
Other payables and accrued charges		**329,599**	370,166
Derivative financial instrument		**916**	-
Current income tax liabilities		**13,944**	16,478
Bank loans		**242,807**	296,694
		1,229,106	1,490,372
Net current assets		**2,029,970**	2,093,184
Total assets less current liabilities		**3,471,361**	3,562,779

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2017

	Unaudited 30 June 2017 HK$'000	Audited 31 December 2016 HK$'000
Equity attributable to shareholders		
Share capital	**164,914**	164,914
Reserves	**3,118,874**	3,206,484
	3,283,788	3,371,398
Non-controlling interests	**162,393**	160,652
Total equity	**3,446,181**	3,532,050
Non-current liabilities		
Deferred income tax liabilities	**25,180**	30,729
Total equity and non-current liabilities	**3,471,361**	3,562,779

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2017 have 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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

These condensed consolidated interim financial statements are presented in Hong Kong dollar ("HK$"), unless otherwise stated. These condensed consolidated interim financial statements for the six months ended 30 June 2017 are unaudited and have been reviewed by the audit committee of the Company and approved for issue by the board of directors on 29 August 2017.

2 Principal accounting policies

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs that are mandatorily effective for the financial year ending 31 December 2017. 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.

HKAS 7 (Amendment)	Statement of Cash Flows
HKAS 12 (Amendment)	Income Taxes
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities

Save as described above, the accounting policies applied in the condensed consolidated interim financial statements for the six months ended 30 June 2017 are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

The following new standards, new interpretations and amendments to standards have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKAS 28 (Amendment)	Investment in Associates and Joint Ventures	1 January 2018
HKAS 40 (Amendment)	Investment Property	1 January 2018
HKFRS 1 (Amendment)	First Time Adoption of HKFRS	1 January 2018
HKFRS 2 (Amendment)	Share-based Payment	1 January 2018
HKFRS 4 (Amendment)	Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018 [(i)]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date to be determined
HKFRS 15	Revenue from Contracts with Customers	1 January 2018 [(ii)]
HKFRS 16	Leases	1 January 2019 [(iii)]
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

Notes:

(i) HKFRS 9 "Financial Instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets because a fair value through other comprehensive income ("FVOCI") election is available for the equity instrument which is currently classified as available-for-sale and the Group does not have the following financial assets:

- Debt instruments that are classified as available-for-sale financial assets;
- Debt instruments classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for non-derivative financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(ii) HKFRS 15 "Revenue from Contracts with Customers"

This new standard will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group is currently assessing the impact of adopting HKFRS 15 on the Group's consolidated financial statements, by identifying the separate performance obligations in the contracts with customers and allocating the transactions price, if applicable, which could affect the timing of the revenue recognition. The directors of the Company is currently in the process of evaluating the full impact of HKFRS 15 on the Group's consolidated financial statements.

(iii) HKFRS 16 "Leases"

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$1,240,041,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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. None of the customers accounted for 10% or more of the total turnover of the Group during both six months ended 30 June 2017 and 2016.

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 2017 (Unaudited)					
Revenue from external customers	**2,351,816**	**380,891**	**-**	**-**	**2,732,707**
Inter-segment revenue	**113,319**	**-**	**85,053**	**(198,372)**	**-**
Total segment revenue	**2,465,135**	**380,891**	**85,053**	**(198,372)**	**2,732,707**
Segment results	**(191,126)**	**4,138**	**189**	**-**	**(186,799)**
Amortisation of intangible assets					**(145)**
Corporate income					**4,540**
Corporate expenses					**(22,838)**
Operating loss					**(205,242)**
Finance costs					**(3,506)**
Share of results of associates and joint ventures					**(29)**
Loss before income tax					**(208,777)**
Other information for disclosure:					
Amortisation of intangible assets	**-**	**145**	**-**	**-**	**145**
Amortisation of land use rights	**968**	**-**	**105**	**-**	**1,073**
Depreciation of property, plant and equipment	**86,012**	**4,181**	**4,001**	**-**	**94,194**
Impairment of property, plant and equipment	**1,647**	**-**	**-**	**-**	**1,647**
Capital expenditure	**41,443**	**2,123**	**1,718**	**-**	**45,284**
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 results 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

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 2017 (Unaudited)				
Segment assets	**3,788,000**	**219,461**	**115,657**	**4,123,118**
Goodwill	**15,079**	**-**	**-**	**15,079**
Other intangible assets	**-**	**5,602**	**-**	**5,602**
	3,803,079	**225,063**	**115,657**	**4,143,799**
Interests in associates				**1,799**
Interests in joint ventures				**374**
Investment properties				**52,033**
Available-for-sale financial asset				**4,055**
Deferred income tax assets				**340,674**
Corporate assets				**157,733**
Total assets				**4,700,467**
Segment liabilities	**808,513**	**115,952**	**37,873**	**962,338**
Deferred income tax liabilities				**25,180**
Derivative financial instrument				**916**
Corporate liabilities				**265,852**
Total liabilities				**1,254,286**
As at 31 December 2016				
Segment assets	4,179,288	249,985	100,685	4,529,958
Goodwill	15,079	-	-	15,079
Other intangible assets	-	5,562	-	5,562
	4,194,367	255,547	100,685	4,550,599
Interests in associates				1,801
Interests in joint ventures				353
Investment properties				51,520
Deferred income tax assets				329,216
Derivative financial instruments				15,662
Corporate assets				104,000
Total assets				5,053,151
Segment liabilities	960,352	143,085	33,629	1,137,066
Deferred income tax liabilities				30,729
Corporate liabilities				353,306
Total liabilities				1,521,101

4 Other income

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Franchise and royalty income	**1,285**	2,913
Government subsidies	**460**	3,314
Gross rental income	**5,081**	733
Income derived from television programme	**-**	25,792
Interest income	**11,429**	6,778
Sale of derivative intellectual property rights	**-**	3,123
Others	**6,405**	5,766
	24,660	48,419

5 Other gains/(losses) - net

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Fair value loss on derivative financial instruments	**(14,321)**	(5,377)
Gain on disposal of subsidiaries	**3,841**	-
Impairment of property, plant and equipment	**(1,647)**	(3,035)
Loss on disposal of property, plant and equipment	**(986)**	(9,101)
Net exchange gain/(loss)	**13,867**	(3,207)
	754	(20,720)

6 Operating loss

Operating loss is stated after charging the following:

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Amortisation of land use rights	**1,073**	1,149
Amortisation of license rights	**145**	1,079
Amortisation of trademarks	**-**	1,169
Auditors' remuneration	**2,780**	2,944
Cost of inventories sold, including write-back of provision for slow-moving inventories of HK$37,084,000 (2016: HK$44,974,000)	**1,157,684**	1,461,117
Depreciation of property, plant and equipment	**94,194**	137,465
Depreciation of investment properties	**1,205**	-
Employee benefits expense	**406,750**	445,081
Operating lease rentals (including concessionaire fees) in respect of land and buildings	**827,818**	1,026,478
Production cost of a television programme	**-**	62,055

7 Finance costs

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Interest on bank loans	**3,506**	3,393

8 Income tax (expense)/credit

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Current income tax	**(9,258)**	(897)
Under-provision in prior years	**(596)**	(81)
Deferred income tax	**7,421**	84,679
	(2,433)	83,701

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 2017 is 24% (2016: 27%).

The application rate of Hong Kong profits tax is 16.5% (2016: 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 2017 and 30 June 2016.

Provision for China corporate income tax is calculated based on statutory tax rate of 25% (2016: 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% (2016: 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 2017, withholding tax rate of 7.5% (2016: 7.5%) is applied to management fee received or receivable from a Group's entity with tax jurisdiction in Mainland China.

9 Loss per share

Basic loss per share is calculated by dividing the loss attributable to shareholders of HK$209,463,000 (2016: HK$163,596,000) by the weighted average number of 1,649,142,384 (2016: 1,649,142,384) shares in issue during the six months ended 30 June 2017.

For the six months ended 30 June 2017 and 2016, basic and diluted loss per share are the same as there was no dilutive potential share.

10 Dividend

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

11 Trade receivables

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

	30 June 2017 HK$'000	31 December 2016 HK$'000
0 - 30 days	**140,380**	120,709
31 - 60 days	**65,331**	52,135
61 - 90 days	**21,158**	17,436
91 - 120 days	**6,835**	5,484
121 - 180 days	**3,877**	6,274
181 - 360 days	**14,459**	5,267
Over 360 days	**499**	813
	252,539	208,118

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 2017 HK$'000	31 December 2016 HK$'000
0 - 30 days	**234,953**	394,146
31 - 60 days	**176,924**	198,496
61 - 90 days	**203,317**	202,838
91 - 120 days	**17,005**	2,986
121 - 180 days	**143**	393
181 - 360 days	**2,382**	7,500
Over 360 days	**7,116**	675
	641,840	807,034

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

	30 June 2017 HK$'000	31 December 2016 HK$'000
Contracted but not provided for	**17,742**	6,624

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Group Performance

For the six months ended 30 June 2017, the Group's turnover decreased by 19.6% to HK$2,732.7 million (2016: HK$3,400.8 million). The decrease was mainly attributable to a year-on-year decrease of 16.4% in the number of the Group's points-of-sale ("POS"), and decrease in same-store sales at its Core Brands Business. The Group's gross margin increased slightly to 55.7% (2016: 55.4%), although gross profit decreased to HK$ 1,522.0 million (2016: HK$ 1,884.2 million). Operating expenses decreased by 19.7% year-on-year, in line with the decrease in the Group's turnover. Operating loss decreased by 17.7% to HK$205.2 million (2016: HK$249.5 million). However, loss attributable to shareholders was HK$209.5 million (2016: HK$163.6 million) because no deferred tax asset would be recognised for certain temporary differences and tax losses when compared to those for the same period of 2016. Basic loss per share was HK12.7 cents compared to HK9.9 cents for the corresponding period in 2016. The board of directors did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

During the first half of 2017, the Group's inventory turnover days were 200 days, down by 32 days compared to the same period last year. The inventory level was further reduced by 11.3% to HK$1,254.7 million from HK$1,414.5 million as at 31 December 2016. This was a result of the Group's prudent inventory management and its efforts in the clearance of aged products. The financial position of the Group remained solid with the net cash, being cash and bank balances less bank borrowings, at HK$607.4 million as at 30 June 2017 (31 December 2016: HK$692.8 million).

With a net closure of 330 POS during the period under review, the Group had a total number of 4,570 POS as at 30 June 2017.

Market Overview

China's gross domestic product (GDP) growth was 6.9% in the first half of 2017, slightly improved by 0.2 percentage point compared to 6.7% in the same period last year. The growth rate of China's total retail sales of consumer goods was 10.4% in the first half of 2017, up by 0.1 percentage point compared with that for the same period last year. However, the mass market for women's footwear was yet to see a consistent improving trend and remained to be intensely competitive. The Group's local peers seemed to be anxious and gave considerable markdowns even as early as the beginning of spring and summer seasons in 2017.

Although the inflation rate decelerated, operating costs such as the costs of labour and logistics continued their growth trend during the first half of 2017.

Core Brands Business

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

The Group continued rationalisation of its stores in the soft market environment and had net closures of 306 POS under the Core Brands for the period under review. Therefore, its Core Brands Business had a total of 4,292 POS (comprising 3,987 directly-managed stores and 305 franchised stores) as at 30 June 2017, which meant a year-on-year reduction of 16.6% from the 5,147 POS as at 30 June 2016.

Number of POS of Core Brands Business:

	At 30 June 2017		At 31 December 2016		Change	
Directly-managed stores	**3,987**	***93%***	4,246	*92%*	-259	*-6.1%*
Franchised stores	**305**	***7%***	352	*8%*	-47	*-13.4%*
Total	**4,292**	***100%***	4,598	*100%*	-306	*-6.7%*

Number of POS of Core Brands Business by City Tier:

	At 30 June 2017		At 31 December 2016		Change	
Tier 1	**448**	***10%***	514	*11%*	-66	*-12.8%*
Tier 2	**1,062**	***25%***	1,125	*25%*	-63	*-5.6%*
Tier 3	**817**	***19%***	890	*19%*	-73	*-8.2%*
Tier 4-6	**1,965**	***46%***	2,069	*45%*	-104	*5.0%*
Total	**4,292**	***100%***	4,598	*100%*	-306	*-6.7%*

Same-store sales performance was erratic during the first half of 2017 as it was affected by the macro environment factors, increasing competition and the Group's strategic decisions. The Group's adherence to its strategy for stable pricing for new products exerted immense pressure on its sales as the mass market of women's footwear in China was still very competitive and local peers stepped up its discounts much earlier and faster on their spring and summer products during the period under review.

Against this backdrop, the Group's Core Brands turnover decreased by 20.8% to HK$2,465.1 million (2016: HK$3,113.6 million), as a result of a year-on-year decrease of 16.6% in Core Brands POS from 5,147 as at 30 June 2016 to 4,292 as at 30 June 2017, and negative same-store sales growth. While the average selling price was comparable to that for the same period last year, the decline in sales at Core Brands was mostly driven by the decrease in sales volume. The segment revenue from external customers accounted for 86% of the Group's total revenue during the six months ended 30 June 2017 (2016: 89%).

The Group continued its efforts in clearance of aged inventory. Its negative effect on the gross margin more than offset the positive impact brought by its adherence to stable pricing strategy for new products during the period under review. This led to a small decrease in gross margin at the Core Brands Business from 53.0% to 52.5% during the period under review.

The Group managed to narrow its operating loss at the Core Brands Business to HK$191.1 million (2016: HK$236.4 million) for the period under review, although its operating margin decreased to -7.8% (2016: -7.6%) as a result of the decrease in sales and gross profit, as well as the negative operating leverage.

The Group made concrete plans for its brand revamp and devoted time and resources to preparations and groundwork during the period under review to ensure smooth implementation later. The Group carried out its brand revamp initiatives since the second quarter of the year as planned, including the opening of its first new image store for Daphne in June this year. As the Group made crossover projects a core part of its brand marketing, it formulated a comprehensive marketing programme to launch the fall and winter collections through its first crossover project with a hip and cool fashion brand "Opening Ceremony" from the United States. Soft marketing on social media has commenced since June while its launch of shoes into the market would be in early autumn of the year.

Leveraging its online stores and social media platforms, the Group revitalised and enriched its customer relations management programme including its customer loyalty programme, in order to improve its connection with customers, drive repeat business, and expand the customer base.

Other Brands Business

The Group's Other Brands Business mainly consists of its e-commerce business and the operations of mid- to high-end brands (including the Group's own brands, and brands under exclusive distributionships such as "AEE", "STEP HIGHER", "AEROSOLES" and "ALDO", in Mainland China, Hong Kong and Taiwan). The Other Brands Business segment accounted for approximately 14% (2016: 11%) of the Group's total revenue during the period under review.

Turnover at the Other Brands Business decreased slightly to HK$380.9 million (2016: HK$388.8 million), as the turnover growth of its e-commerce business could not offset the decrease in the revenue from the mid- to high-end brands portfolio and others which resulted from a year-on-year net decrease of 12.3% in the POS from 317 as at 30 June 2016 to 278 as at 30 June 2017. However, overall gross margin of the Other Brands Business increased by 1.4 percentage point to 58.3% mainly due to the increased proportion of new products in the sales mix. Benefitting from the increased contribution of the Group's e-commerce unit, the Other Brands Business saw its operating margin improve and its operating profit increased to HK$4.1million (2016: HK$1.7 million).

The sales network for the Group's mid- to high-end brands portfolio had a net closure of 24 POS during the period under review from 302 as at 31 December 2016 to 278 as at 30 June 2017. This contributed to a decrease in the turnover of mid- to high-end brands portfolio for the period under review.

The Group's e-commerce business continued to record sales growth and remained profitable for the period under review. Therefore, its contribution to the Group's revenue continued to increase. In addition to the facelift given to its virtual stores at online shopping sites to align with the new brand images, the Group also increased the intensity of its online marketing and promotional activities. The Group continued to develop its online-to-offline ("O2O") solution to achieve shorter delivery time of products, share inventory between online and offline stores, and bring more convenience to both online and offline customers including an official launch of store pickup service at the Group's selected stores for customers who have placed orders online.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	Six months ended 30 June		
	2017	2016	Change
Turnover (HK$' million)	**2,732.7**	3,400.8	-19.6%
Gross profit (HK$' million)	**1,522.0**	1,884.2	-19.2%
Operating loss (HK$' million)	**(205.2)**	(249.5)	-17.7%
Loss attributable to shareholders (HK$' million)	**(209.5)**	(163.6)	+28.0%
Gross margin (%)	**55.7**	55.4	+0.3ppt
Operating margin (%)	**-7.5**	-7.3	-0.2ppt
Net margin (%)	**-7.7**	-4.8	-2.9ppt
Basic loss per share (HK cents)	**(12.7)**	(9.9)	+28.3%

Key Financial Indicators

	Six months ended 30 June		
	2017	2016	Change
Average inventory turnover (days) *(Note 1)*	**200**	232	-32
Average debtors turnover (days) *(Note 2)*	**15**	14	+1
Average creditors turnover (days) *(Note 3)*	**138**	124	+14
Cash conversion cycle (days) *(Note 4)*	**77**	122	-45
Capital expenditure (HK$' million) *(Note 5)*	**45.3**	65.3	-30.6%

	As at		
	30 June 2017	31 December 2016	Change
Cash and bank balances (HK$' million) *(Note 6)*	**850.2**	989.5	-14.1%
Bank loans (HK$' million)	**242.8**	296.7	-18.2%
Equity attributable to shareholders (HK$' million)	**3,283.8**	3,371.4	-2.6%
Current ratio (times) *(Note 7)*	**2.7**	2.4	+0.3
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/year 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 shareholders as at the relevant period/year end.*

Analysis of Results by Business Segment

For the six months ended 30 June 2017, the Group recorded turnover of HK$2,732.7 million, a decrease of 19.6% 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)	**2017**	2016	**2017**	2016	**2017**	2016
Revenue from external customers	***2,351.8***	*3,009.9*	***380.9***	*388.8*	***-***	*2.1*
Inter-segment revenue	***113.3***	*103.7*	***-***	*-*	***85.1***	*108.1*
Total segment revenue	**2,465.1**	3,113.6	**380.9**	388.8	**85.1**	110.2
Segment gross profit	**1,294.9**	1,649.7	**222.0**	221.2	**5.2**	5.9
Segment gross margin	***52.5%***	*53.0%*	***58.3%***	*56.9%*	***6.1%***	*5.4%*
Segment operating (loss)/profit	**(191.1)**	(236.4)	**4.1**	1.7	**0.2**	0.8
Segment operating margin	***-7.8%***	*-7.6%*	***1.1%***	*0.4%*	***0.2%***	*0.7%*

During the first half of 2017, total revenue of the Core Brands Business decreased by 20.8% to HK$2,465.1 million from HK$3,113.6 million for the corresponding period in 2016. It is mainly due to the closure of stores and decline in the same-store sales. The gross margin of the Core Brands Business also declined slightly from 53.0% to 52.5% during the period under review as result of the product mix.

Revenue of Other Brands Business remained much the same as last year amounting to HK$380.9 million (2016: HK$388.8 million) for the period under review. However, the gross margin increased from 56.9% to 58.3% for the first half of 2017 mainly due to increase in selling price and product mix. With the steady growth and contribution from e-commerce business in this business segment, it recorded an improved operating profit of HK$4.1 million (2016: HK$1.7 million) for the period under review.

Other Income

Other income decreased by HK$23.7 million to HK$24.7 million (2016: HK$48.4 million) mainly attributable to the one-off income derived from a television programme amounting to HK$25.8 million in the corresponding period last year.

Operating Expenses

The Group's operating expenses (including other gains/(losses) – net, selling & distribution and general & administrative expenses) dropped by HK$430.2 million or 19.7%, from HK$2,182.1 million to HK$1,751.9 million during the period under review. The drop was generally in line with the decrease in sales and number of stores as well as the lack of the non-recurring production cost of the television programme amounting to HK$62.1 million in the corresponding period last year.

Operating Loss

As a result of the above, the Group recorded an operating loss amounting to HK$205.2 million, narrowed by HK$44.3 million or improved by 17.7% as compared to the loss of HK$249.5 million in the corresponding period last year. Operating margin remained at -7.5% (2016: -7.3%) similar to the same period last year.

Income Tax (Expense)/Credit

For the period ended 30 June 2017, the Group's income tax expense was HK$2.4 million, compared to an income tax credit of HK$83.7 million same period last year because no deferred tax assets were recognised for certain timing differences and tax losses during the period under review.

Loss Attributable to Shareholders

Due to the income tax effect, the Group's loss attributable to shareholders increased by HK$45.9 million to HK$209.5 million (2016: HK$163.6 million). Basic loss per share was HK12.7 cents (2016: HK9.9 cents) during the period under review.

Inventories

As at 30 June 2017, the Group's inventories decreased by HK$159.8 million or 11.3%, from HK$1,414.5 million to HK$1,254.7 million. Average inventory turnover was 200 days (2016: 232 days) during the period under review. Included in the inventories, the balance of provision for slow-moving and obsolete items was HK$506.3 million (31 December 2016: HK$527.0 million).

Trade Receivables

The amount of trade receivables as at 30 June 2017 increased by HK$44.4 million or 21.3% to HK$252.5 million (31 December 2016: HK$208.1 million) mainly due to more credit sales from department stores and shopping malls. As a result, the average debtors turnover also slightly increased from 14 days to 15 days during the period under review.

Trade Payables

On the other hand, the Group's trade payables decreased by HK$165.2 million or 20.5%, from HK$807.0 million to HK$641.8 million while its average creditors turnover increased by 14 days, from 124 days to 138 days during the period under review. This is mainly attributable to the stringent measures on working capital management.

Liquidity and Financial Resources

The Group maintains a stable and healthy balance sheet. As at 30 June 2017, the Group had equity attributable to shareholders totaling HK$3,283.8 million (31 December 2016: HK$3,371.4 million). Cash and bank balances, comprising cash and cash equivalents, pledged bank deposits and bank deposit with maturity over three months, amounted to HK$850.2 million (31 December 2016: HK$989.5 million), which were denominated mainly in Renminbi.

As at 30 June 2017, the Group's short-term bank loans were HK$242.8 million (31 December 2016: HK$296.7 million). The bank loans were denominated mainly in United States dollar and at floating rates during the period under review. As at 30 June 2017, the Group was granted with banking facilities amounting to HK$417.8 million (31 December 2016: HK$320.5 million). Certain of these banking facilities were secured by pledged bank deposits amounting to HK$175.0 million (31 December 2016: Nil).

The net decrease in cash and bank balances of HK$139.3 million (2016: HK$483.4 million) is analysed as follows:

	Six months ended 30 June	
	2017	2016
	HK$' million	HK$' million
Net cash used in operating activities	**(69.8)**	(104.3)
Capital expenditure	**(45.3)**	(65.3)
Net dividend paid	**-**	(0.5)
Net interest received	**7.9**	3.4
Proceeds from disposal of property, plant and equipment	**0.9**	5.0
Net bank loans repaid	**(53.9)**	(316.2)
Effect of exchange rate changes	**20.9**	(5.5)
	(139.3)	(483.4)

During the first half of 2017, the Group's interest income on bank balances and deposits was HK$11.4 million (2016: HK$6.8 million) while finance costs on short-term bank loans amounted to HK$3.5 million (2016: HK$3.4 million).

The Group's current ratio was 2.7 times as at 30 June 2017 (31 December 2016: 2.4 times). The management considered that the Group has sufficient resources currently to support expansion and development of its business in future.

As at 30 June 2017, the Group's net gearing, calculated on the basis of net debt (being bank loans less cash and bank balances) over equity attributable to shareholders, was in a net cash (31 December 2016: 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 2017 and 2016, the Group entered into forward foreign exchange contracts to hedge the foreign exchange risk exposure on bank loans denominated in United States dollar. The notional principal amount of the outstanding forward foreign exchange contracts to sell RMB for USD as at 30 June 2017 was HK$155.0 million (31 December 2016: HK$294.5 million).

Pledge of Assets

As at 30 June 2017, the Group's pledged bank deposits amounting to HK$175.0 million (31 December 2016: Nil) were pledged for certain banking facilities.

Capital Expenditure

During the interim period, the Group incurred capital expenditure of HK$45.3 million (2016: HK$65.3 million) mainly for retail network expansion and renovation.

Contingent Liabilities

As at 30 June 2017 and 31 December 2016, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2017, the Group had a workforce of about 14,000 (31 December 2016: 15,000) 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$406.8 million (2016: HK$445.1 million). The decrease was mainly due to the reduction in headcount.

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

Even though there were some new entrants in the Top 15 ranking of the "China Brand Power Index 2017" (Women's Shoes category), an independent annual survey conducted by Chnbrand, Daphne retained its number one position in the ranking for the seventh consecutive year. It also won the "Golden Award" by Chnbrand for more than five years in a row. These awards reflected the strong awareness of the Daphne brand in Mainland China. "Chnbrand" is an institution funded by the Chinese Government's Ministry of Industry and Information Technology, and reputed to be one of the most credible brand rating organisations in China. By interviewing 15,885 consumers in 35 cities across the country, the survey examined brand awareness and customer loyalty and classified the findings by industry and type of products.

Besides, the Group was nominated for the Best IR Company (Small Cap category) in the Investor Relations Awards 2017 organised by the Hong Kong Investor Relations Association in recognition of its efforts to ensure good corporate governance and investor relations.

OUTLOOK

As the Group endeavours in various aspects of its operation to achieve a thorough brand revamp, the year 2017 is likely to mark a significant stage of the Group's transition.

The Group is committed to its plan for business transformation which features a comprehensive brand revamp together with product upgrade. Some measures may take some time to prepare for full implementation and then to yield results. The Group is ready to undertake challenges it may face during the implementation process.

The design and production of the fall and winter collections in 2017 by the energised design team is well under way. Although the upgrading of product design would be intended to be gradual to ensure a smooth transition, the Group believes that the new elements added to the upcoming product portfolio should bring a refreshing look to its fall and winter products. The initial customer response to the announcement of the crossover project by the Group and "Opening Ceremony" has been encouraging. The Group expects that the respective launches of its autumn and winter collections will add impetus to the Daphne brand.

Also, the Group initiated organisational restructuring in late June to facilitate more effective and consistent brand management, and more direct and efficient internal communication to support the business transformation. The Group expects that this move will enhance the shopping experience and sales efficiency at its stores in the medium and long term.

Other than the efforts to enhance the brand equity and products, the Group continues to optimise its store network and channel mix amid the intense competition in the mass market for women's shoes. Besides, the Group is planning a roll-out of Daphne's new-image stores in coming months. The Group also strives to foster the growth of its e-commerce business by stepping up its online and offline customer engagement via its online stores and social media platforms. It will continue with its omni-channel solution by taking more O2O initiatives while leveraging its vast offline presence.

Although this year will only see the beginning of the Group's efforts for its massive brand revamp and taking new initiatives in business transformation, the progress made in the past eight months made the Group confident that it is heading in the right direction. The Group's determination to succeed in its strategic business transformation is unwavering.

Looking ahead, although the competition in the mass market for women's footwear may remain intense, the dedicated, visionary management team will continue to execute its strategic brand development and business transformation steadily. The team endeavours to develop the Group into a thriving business that can achieve healthy growth and deliver sustainable financial performance in long run.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2017, 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 Lister 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 2017.

CHANGES IN DIRECTORS' INFORMATION

Changes in directors' details since the date of the Annual Report 2016 of the Company and up to the date of release of the interim results of the Company which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are set out below:

1. With effect from 17 May 2017, Mr. Chen Ying-Chieh, a non-executive director of the Company, has resigned as the Chairman of the board of directors and ceased to be an authorised representative of the Company; and

2. With effect from 17 May 2017, Mr. Chang Chih-Kai, an executive director and the Chief Executive Officer of the Company, has been appointed as the Chairman of the board of directors, an authorised representative of the Company and a member of Remuneration Committee.

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 ("CEO") should be separated and should not be performed by the same individual. Mr. Chang Chih-Kai acted as the Chairman and the CEO of the Company since 17 May 2017. This was in deviation from code provision A.2.1.

The board of directors is of the opinion that vesting the roles of both Chairman and CEO in Mr. Chang Chih-Kai has the benefit of ensuring consistent leadership within the Group thus enabling more effective and efficient strategic planning for the Group. The board of directors also believes that the balance of power and authority will not be compromised and is adequately ensured by the existing board of directors which comprises experienced and competent individuals with more than one-third of the board of directors being independent non-executive directors.

During the period under review, the Company held an annual general meeting (the "AGM") on 24 May 2017. 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 STATEMENTS

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 statements has been reviewed and approved by the Audit Committee, who is of the opinion that such financial statements 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 of Directors
Daphne International Holdings Limited
Chang Chih-Kai
Chairman

Hong Kong, 29 August 2017

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.