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 2018

FINANCIAL HIGHLIGHTS

- Turnover dropped by 17.3% to HK$2,259.0 million
- Gross profit decreased by 29.0% to HK$1,080.2 million
- Operating loss increased by 138.6% to HK489.7 million
- Loss attributable to shareholders was HK$492.6 million
- Basic loss per share was 29.9 HK cents
- Inventory level reduced by 23.0% to HK$960.3 million and average inventory turnover further improved to 169 days
- Maintained a net cash position

* *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 2018, together with the comparative figures for the corresponding period in 2017.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	Unaudited Six months ended 30 June **2018** **HK$'000**	2017 HK$'000
Turnover	6	**2,259,010**	2,732,707
Cost of sales		**(1,178,797)**	(1,210,702)
Gross profit		**1,080,213**	1,522,005
Other income	7	**22,222**	24,660
Other (losses)/gains - net	8	**(15,710)**	754
Selling and distribution expenses		**(1,415,308)**	(1,587,829)
General and administrative expenses		**(161,120)**	(164,832)
Operating loss	9	**(489,703)**	(205,242)
Finance costs	10	**(2,572)**	(3,506)
Share of results of associates and joint ventures		**(504)**	(29)
Loss before income tax		**(492,779)**	(208,777)
Income tax expense	11	**(6,229)**	(2,433)
Loss for the period		**(499,008)**	(211,210)
Attributable to:			
Shareholders		**(492,633)**	(209,463)
Non-controlling interests		**(6,375)**	(1,747)
		(499,008)	(211,210)
Loss per share, basic and diluted *(HK cents)*	12	**(29.9)**	(12.7)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Unaudited Six months ended 30 June **2018** **HK$'000**	Unaudited Six months ended 30 June 2017 HK$'000
Loss for the period	**(499,008)**	(211,210)
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of a foreign subsidiary	**(156)**	1,040
Change in fair value of a financial asset at fair value through other comprehensive income	**(70)**	3,744
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**(16,696)**	116,404
Total comprehensive loss for the period	**(515,930)**	(90,022)
Attributable to:		
Shareholders	**(510,248)**	(91,763)
Non-controlling interests	**(5,682)**	1,741
	(515,930)	(90,022)

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2018

	Note	**Unaudited 30 June 2018 HK$'000**	Audited 31 December 2017 HK$'000
Non-current assets			
Land use rights		**46,390**	47,769
Property, plant and equipment		**674,287**	859,290
Investment properties		**194,044**	67,481
Interests in associates		**1,622**	1,803
Interests in joint ventures		**1,649**	2,487
Available-for-sale financial asset		**-**	3,698
Intangible assets		**20,533**	20,741
Long-term rental deposits and prepayments		**80,270**	85,590
Deferred income tax assets		**265,104**	270,136
		1,283,899	1,358,995
Current assets			
Inventories		**960,328**	1,246,878
Trade receivables	14	**196,131**	181,310
Other receivables, deposits and prepayments		**687,491**	827,337
Pledged bank deposits		**161,123**	181,403
Bank deposit with maturity over three months		**-**	4,785
Cash and cash equivalents		**213,733**	299,830
		2,218,806	2,741,543
Assets of disposal group classified as held-for-sale		**21,616**	53,322
		2,240,422	2,794,865
Current liabilities			
Trade payables	15	**503,965**	581,157
Other payables and accrued charges		**317,211**	362,601
Contract liabilities		**4,978**	-
Income tax payable		**6,789**	4,511
Bank loan		**156,882**	156,274
		989,825	1,104,543
Liabilities of disposal group classified as held-for-sale		**202**	247
		990,027	1,104,790
Net current assets		**1,250,395**	1,690,075
Total assets less current liabilities		**2,534,294**	3,049,070

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2018

	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Equity attributable to shareholders		
Share capital	**164,914**	164,914
Reserves	**2,200,635**	2,709,993
	2,365,549	2,874,907
Non-controlling interests	**155,072**	160,754
Total equity	**2,520,621**	3,035,661
Non-current liabilities		
Deferred income tax liabilities	**13,673**	13,409
Total equity and non-current liabilities	**2,534,294**	3,049,070

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 General information

Daphne International Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the manufacturing, distribution and retailing of footwear and accessories in Mainland China.

The Company was incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

These condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

These condensed consolidated interim financial statements for the six months ended 30 June 2018 are unaudited and have been reviewed by the Audit Committee of the Company and approved for issue by the Board of Directors on 28 August 2018.

2 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2018 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 Principal accounting policies

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies applied in the condensed consolidated interim financial statements for the six months ended 30 June 2018 are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

(i) New and amended standards effective and adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments, if applicable, as a result of adopting the following standards:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Notes 3(ii) to 3(iii) below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(ii) HKFRS 9 "Financial Instruments" – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group adopted HKFRS 9 from 1 January 2018. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate HKFRS 9 categories. The majority of the Group's financial assets include:

- investments in unlisted companies previously classified as available-for-sale financial assets was reclassified to financial assets at fair value through other comprehensive income under HKFRS 9; and

- loans and receivables previously measured at amortised cost which meet the conditions for classification at amortised cost under HKFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. The Group has trade receivables and other receivables that are subject to HKFRS 9's new ECL model.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings as at 1 January 2018 was immaterial.

The following table shows the impact on each individual line item. Line items that were not affected by the changes have not been included.

	As at 31 December 2017 HK$'000	Impact on initial adoption of HKFRS 9 HK$'000	As at 1 January 2018 HK$'000
Non-current assets			
Available-for-sale financial asset	3,698	(3,698)	-
Financial asset at fair value through other comprehensive income	-	3,698	3,698

(iii) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption

HKFRS 15 replaces 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 Group adopted HKFRS 15 from 1 January 2018. The Group has adopted the modified retrospective approach and the comparatives were not restated. The impact of the adoption of HKFRS 15 was immaterial and there was no adjustment in retained earnings as at 1 January 2018.

Management has assessed and identified the effects of applying the new standard on the Group's financial statements as follows:

"Receipt in advance from customers" and "deferred revenue" which were previously included in other payables and accrued charges, amounting to HK$5,798,000 and HK$246,000 respectively as at 1 January 2018, are now included under contract liabilities to reflect the terminology of HKFRS 15.

The adoption of HKFRS 15 does not have a significant impact when the Group recognises revenue from sales of goods.

The following table shows the impact on each individual line item. Line items that were not affected by the changes have not been included.

	As at 31 December 2017 HK$'000	Impact on initial adoption of HKFRS 15 HK$'000	As at 1 January 2018 HK$'000
Current liabilities			
Other payables and accrued charges	362,601	(6,044)	356,557
Contract liabilities	-	6,044	6,044

(iv) New and amended standards and interpretations issued but not yet adopted by the Group

HKFRS 16 "Leases" 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 the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately HK$983,665,000. 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.

4 Financial risk management

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow interest rate risk, credit risk and liquidity risk. These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There has been no material change in the Group's risk management and policies since 31 December 2017.

5 Critical accounting estimates and judgments

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

6 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 2018 and 2017.

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 2018 (Unaudited)					
Revenue from external customers	**1,945,965**	**313,045**	**-**	**-**	**2,259,010**
Inter-segment revenue	**134,503**	**-**	**104,473**	**(238,976)**	**-**
Total segment revenue	**2,080,468**	**313,045**	**104,473**	**(238,976)**	**2,259,010**
Segment results	**(481,878)**	**(5,720)**	**1,811**	**10,571**	**(475,216)**
Amortisation of intangible assets					**(157)**
Corporate income					**2,260**
Corporate expenses					**(16,590)**
Operating loss					**(489,703)**
Finance costs					**(2,572)**
Share of results of associates and joint ventures					**(504)**
Loss before income tax					**(492,779)**
Other information for disclosure:					
Amortisation of intangible assets	**-**	**157**	**-**	**-**	**157**
Amortisation of land use rights	**503**	**-**	**353**	**-**	**856**
Depreciation of investment properties	**1,317**	**-**	**1,046**	**-**	**2,363**
Depreciation of property, plant and equipment	**64,069**	**3,738**	**6,342**	**-**	**74,149**
Capital expenditure	**59,057**	**763**	**8,958**	**-**	**68,778**
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	1,091	(185,708)
Amortisation of intangible assets					(145)
Corporate income					4,540
Corporate expenses					(23,929)
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 investment properties	-	-	1,205	-	1,205
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

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
<u>As at 30 June 2018 (Unaudited)</u>				
Segment assets	**2,861,721**	**161,344**	**172,746**	**3,195,811**
Goodwill	**15,079**	**-**	**-**	**15,079**
Other intangible assets	**-**	**5,454**	**-**	**5,454**
	2,876,800	**166,798**	**172,746**	**3,216,344**
Interests in associates				**1,622**
Interests in joint ventures				**1,649**
Deferred income tax assets				**265,104**
Assets of disposal group classified as held-for-sale				**21,616**
Corporate assets				**17,986**
Total assets				**3,524,321**
Segment liabilities	**693,878**	**81,033**	**52,747**	**827,658**
Deferred income tax liabilities				**13,673**
Liabilities of disposal group classified as held-for-sale				**202**
Corporate liabilities				**162,167**
Total liabilities				**1,003,700**
<u>As at 31 December 2017 (Audited)</u>				
Segment assets	3,390,977	157,634	172,858	3,721,469
Goodwill	15,079	-	-	15,079
Other intangible assets	-	5,662	-	5,662
	3,406,056	163,296	172,858	3,742,210
Interests in associates				1,803
Interests in joint ventures				2,487
Available-for-sale financial asset				3,698
Deferred income tax assets				270,136
Assets of disposal group classified as held-for-sale				53,322
Corporate assets				80,204
Total assets				4,153,860
Segment liabilities	800,344	86,988	46,719	934,051
Deferred income tax liabilities				13,409
Liabilities of disposal group classified as held-for-sale				247
Corporate liabilities				170,492
Total liabilities				1,118,199

7 Other income

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Franchise and royalty income	**252**	1,285
Government subsidies	**5,962**	460
Gross rental income	**6,396**	5,081
Interest income	**4,164**	11,429
Others	**5,448**	6,405
	22,222	24,660

8 Other (losses)/gains - net

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Fair value loss on derivative financial instruments	**-**	(14,321)
Impairment of property, plant and equipment	**-**	(1,647)
(Loss)/gain on disposal of a subsidiary	**(1,334)**	3,841
Loss on disposal of property, plant and equipment	**(12,612)**	(986)
Net exchange (loss)/gain	**(2,084)**	13,867
Others	**320**	-
	(15,710)	754

9 Operating loss

Operating loss is stated after charging the following:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Amortisation of land use rights	**856**	1,073
Amortisation of license rights	**157**	145
Auditors' remuneration	**2,431**	2,780
Cost of inventories sold, including provision for slow-moving inventories of HK$2,422,000 (2017: write-back of HK$37,084,000)	**1,136,906**	1,157,684
Depreciation of investment properties	**2,363**	1,205
Depreciation of property, plant and equipment	**74,149**	94,194
Employee benefits expense	**420,655**	406,750
Operating lease rentals (including concessionaire fees) in respect of land and buildings	**693,513**	827,818

10 Finance costs

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Interest on bank loan	**2,572**	3,506

11 Income tax expense

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Current income tax	**3,444**	9,258
Under-provision in prior years	**-**	596
Deferred income tax	**2,785**	(7,421)
	6,229	2,433

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 2018 was 24.6% (2017: 24.3%).

12 Loss per share

Basic loss per share is calculated by dividing the loss attributable to shareholders of HK$492,633,000 (2017: HK$209,463,000) by the weighted average number of 1,649,142,384 (2017: 1,649,142,384) shares in issue during the six months ended 30 June 2018.

For the six months ended 30 June 2018 and 30 June 2017, basic and diluted loss per share were the same since there was no dilutive potential share.

13 Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

14 Trade receivables

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

	30 June 2018	31 December 2017
	HK$'000	HK$'000
0 - 30 days	**100,166**	109,753
31 - 60 days	**58,474**	47,884
61 - 90 days	**17,537**	14,449
91 - 120 days	**7,803**	3,333
121 - 180 days	**5,476**	2,910
181 - 360 days	**6,417**	2,934
Over 360 days	**258**	47
	196,131	181,310

15 Trade payables

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

	30 June 2018 HK$'000	31 December 2017 HK$'000
0 - 30 days	**188,118**	272,888
31 - 60 days	**153,662**	91,435
61 - 90 days	**150,427**	207,666
91 - 120 days	**5,324**	5,560
121 - 180 days	**1,664**	185
181 - 360 days	**1,755**	513
Over 360 days	**3,157**	3,054
	504,107	581,301
Less: Transfer to disposal group classified as held-for-sale	**(142)**	(144)
	503,965	581,157

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

	30 June 2018 HK$'000	31 December 2017 HK$'000
Contracted but not provided for	**1,546**	2,621

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's Performance

For the six months ended 30 June 2018, the Group's turnover decreased by 17.3% to HK$2,259.0 million compared with HK$2,732.7 million for the same period last year. This was mainly attributable to a year-on-year decrease of 25.9% in the number of points-of-sale ("POS") from 4,570 as at 30 June 2017 to 3,386 as at 30 June 2018 and the decrease in the same-store sales at its Core Brands Business. The Group's gross profit decreased to HK$1,080.2 million (2017: HK$1,522.0 million) as a result of increased proportion of aged products in the sales mix. Gross profit margin decreased to 47.8% (2017: 55.7%).

During the first half of 2018, operating loss was HK$489.7 million compared with the operating loss of HK$205.2 million for the same period last year. Loss attributable to shareholders was HK$492.6 million (2017: HK$209.5 million). Basic loss per share was 29.9 HK cents compared with the basic loss of 12.7 HK cents per share for the corresponding period in 2017. The Board of Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

The Group continued its efforts to rationalise and adjust its store network to align with its new brand image. After a net closure of 450 POS during the period under review, the Group had a total number of 3,386 POS as at 30 June 2018 (At 31 December 2017: 3,836 POS).

Core Brands Business

The Group's Core Brands Business is the retailing business of footwear products and accessories under its own brands, "Daphne" and "Shoebox", in mainland China.

As one of the key transformation initiatives, the Group continued the adjustment of its channel mix and the rationalisation of its store network. During the period under review, the Group recorded a net closure of 416 POS (including 394 directly-managed stores and 22 franchised stores), or a decrease of 11.6% in the number of POS of Core Brands Business compared to that as at 31 December 2017.

Number of POS of Core Brands Business:

	At 30 June 2018		At 31 December 2017		Change	
Directly-managed stores	**2,909**	***92%***	3,303	*92%*	-394	*-11.9%*
Franchised stores	**264**	***8%***	286	*8%*	-22	*-7.7%*
Total	**3,173**	***100%***	3,589	*100%*	-416	*-11.6%*

Number of POS of Core Brands Business by City Tier:

	At 30 June 2018		At 31 December 2017		Change	
Tier 1	**330**	***10%***	364	*10%*	-34	*-9.3%*
Tier 2	**750**	***24%***	877	*25%*	-127	*-14.5%*
Tier 3	**605**	***19%***	680	*19%*	-75	*-11.0%*
Tier 4-6	**1,488**	***47%***	1,668	*46%*	-180	*-10.8%*
Total	**3,173**	***100%***	3,589	*100%*	-416	*-11.6%*

Affected by the weak economic environment and intense market competition, Core Brands Business recorded a year-on-year decline of 9.1% in the same-store sales for the first half of 2018. However, the same-store sales decline in the second quarter narrowed slightly when compared to that in the first quarter.

The year-on-year decrease in store number and a weaker same-store sales performance resulted in a year-on-year decrease of 15.6% in the Core Brands Business turnover which amounted to HK$2,080.5 million (2017: HK$2,465.1 million). The segment revenue from external customers accounted for approximately 86% (2017: 86%) of the Group's total revenue during the period under review.

The Group stepped up its efforts in clearance of aged stocks during the period under review, which led to an increased proportion of aged products in the sales mix. As a result, Core Brands Business recorded significant erosion of gross margin, which decreased by 9.5 percentage points year-on-year to 43.0% (2017: 52.5%).

The decrease in sales and the substantial reduction in gross profit exerted significant pressure on operating margin. Moreover, the Group was still adversely affected by the high fixed cost structure of retail operations and inflationary pressure in key operating costs, especially the frontline salespersons cost during the period under review. As a result, the operating loss of Core Brands Business increased to HK$481.9 million (2017: HK$191.1 million) for the first half of 2018. The operating margin was -23.2% (2017: -7.8%).

During the period under review, the Group opened new image stores and continued with store renovation to strengthen its brand image and expand its reach to more consumers nationwide.

Regarding brand marketing, through cooperation with key opinion leaders in online marketing, the Group successfully launched its spring and summer collections under the crossover project with the U.S. fashion brand "Opening Ceremony" in the first quarter of 2018. Besides, the Group continued to step up its customer relations management activities through special membership privileges programme in order to strengthen customer loyalty and to boost repeat business.

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 distributorships). The Other Brands Business segment accounted for approximately 14% (2017: 14%) of the Group's total revenue during the period under review.

During the period under review, the turnover of Other Brands Business decreased to HK$313.0 million (2017: HK$380.9 million) due to a year-on-year decrease of 23.4% in the number of its POS from 278 as at 30 June 2017 to 213 as at 30 June 2018. The gross margin of Other Brands Business decreased by 2.8 percentage points year-on-year to 55.5% (2017: 58.3%) as a result of aggressive clearance of aged products and increased proportion of products sold through e-commerce in sales mix. Other Brands Business recorded an operating loss of HK$5.7 million for the first half of 2018 (2017: an operating profit of HK$4.1 million).

The Group's e-commerce remained profitable in spite of the increasingly competitive online market. Its contribution to the Group's turnover continued to increase. The Group had some of its stores under the Core Brands Business connect to "Tmall's Smart Store" system. The move accelerated the integration of the Group's online and offline operations to better serve its customers. Moreover, through the collaboration with emerging social media and e-commerce platforms, the Group proactively explored new sales channels to adapt itself to consumers' fast-changing shopping behavior.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	Six months ended 30 June		
	2018	2017	Change
Turnover (HK$' million)	**2,259.0**	2,732.7	-17.3%
Gross profit (HK$' million)	**1,080.2**	1,522.0	-29.0%
Operating loss (HK$' million)	**(489.7)**	(205.2)	-138.6%
Loss attributable to shareholders (HK$' million)	**(492.6)**	(209.5)	-135.2%
Gross margin (%)	**47.8**	55.7	-7.9ppt
Operating margin (%)	**-21.7**	-7.5	-14.2ppt
Net margin (%)	**-21.8**	-7.7	-14.1ppt
Basic loss per share (HK cents)	**(29.9)**	(12.7)	-135.4%

Key Financial Indicators

	Six months ended 30 June		
	2018	2017	Change
Average inventory turnover (days) *(Note 1)*	**169**	200	-31
Average debtors turnover (days) *(Note 2)*	**15**	15	-
Average creditors turnover (days) *(Note 3)*	**113**	138	-25
Cash conversion cycle (days) *(Note 4)*	**71**	77	-6
Capital expenditure (HK$' million)	**68.8**	45.3	+51.9%

	As at		
	30 June 2018	31 December 2017	Change
Cash and bank balances (HK$' million) *(Note 5)*	**374.9**	486.3	-22.9%
Bank loan (HK$' million)	**156.9**	156.3	+0.4%
Equity attributable to shareholders (HK$' million)	**2,365.5**	2,874.9	-17.7%
Current ratio (times) *(Note 6)*	**2.3**	2.5	-0.2
Net gearing ratio (%) *(Note 7)*	**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. *Cash and bank balances comprise cash and cash equivalents, bank deposit with maturity over three months and pledged bank deposits, including those transferred to assets of disposal group classified as held-for-sale.*

6. *The calculation of current ratio (times) is based on total current assets divided by total current liabilities as at the relevant period/year end.*

7. *The calculation of net gearing ratio (%) is based on net debt (being bank loan 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 2018, the Group recorded turnover of HK$2,259.0 million, a decrease of 17.3% compared to that for 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)	**2018**	2017	**2018**	2017	**2018**	2017
Revenue from external customers	***1,946.0***	*2,351.8*	***313.0***	*380.9*	**-**	-
Inter-segment revenue	***134.5***	*113.3*	**-**	-	***104.5***	*85.1*
Total segment revenue	**2,080.5**	2,465.1	**313.0**	380.9	**104.5**	85.1
Segment gross profit	**894.1**	1,294.9	**173.6**	222.0	**1.9**	5.2
Segment gross margin	***43.0%***	*52.5%*	***55.5%***	*58.3%*	***1.8%***	*6.1%*
Segment operating (loss)/profit	**(481.9)**	(191.1)	**(5.7)**	4.1	**1.8**	0.2
Segment operating margin	***-23.2%***	*-7.8%*	***-1.8%***	*1.1%*	***1.7%***	*0.2%*

During the first half of 2018, total revenue of the Core Brands Business decreased by 15.6% to HK$2,080.5 million from HK$2,465.1 million for the corresponding period in 2017. It is mainly due to the closure of stores and decline in the same-store sales. Gross margin of the Core Brands Business also declined from 52.5% in the first half of 2017 to 43.0% during the period under review as result of increased proportion of aged products in the sales mix and the lower average selling price.

Revenue of Other Brands Business also decreased by 17.8% year-on-year to HK$313.0 million (2017: HK$380.9 million) for the period under review. Gross margin decreased from 58.3% in the first half of 2017 to 55.5% for the first half of 2018 mainly due to the increased proportion of aged products in the product mix.

Other Income

Other income amounted to HK$22.2 million (2017: HK$24.7 million) during the period under review.

Operating Expenses

The Group's operating expenses (including other losses/gains, selling & distribution and general & administrative expenses) dropped by HK$159.8 million or 9.1%, to HK$1,592.1 million during the period under review from HK$1,751.9 million for the corresponding period in 2017. The drop was generally in line with the decrease in sales and number of stores.

Operating Loss

As a result of the above-mentioned reasons, the Group recorded an operating loss of HK$489.7 million, compared with the operating loss of HK$205.2 million in the corresponding period last year. Operating margin deteriorated further to -21.7% (2017: -7.5%).

Income Tax Expense

For the period ended 30 June 2018, the Group's income tax expense was HK$6.2 million, compared with HK$2.4 million for the same period last year.

Loss Attributable to Shareholders

For the period ended 30 June 2018, the Group's loss attributable to shareholders increased by HK$283.1 million to HK$492.6 million (2017: HK$209.5 million). Basic loss per share was 29.9 HK cents (2017: 12.7 HK cents) during the period under review.

Inventories

As at 30 June 2018, the Group's inventories decreased by HK$286.6 million or 23.0%, to HK$960.3 million from HK$1,246.9 million as at 31 December 2017. Average inventory turnover was 169 days (2017: 200 days) during the period under review. Included in the inventories, the balance of provision for slow-moving and obsolete items was HK$534.9 million as at 30 June 2018 (At 31 December 2017: HK$537.9 million).

Trade Receivables

The amount of trade receivables as at 30 June 2018 increased by HK$14.8 million or 8.2% to HK$196.1 million (At 31 December 2017: HK$181.3 million) mainly due to more credit sales from department stores and shopping malls. Average debtors turnover remained at 15 days (2017: 15 days).

Trade Payables

On the other hand, the Group's trade payables decreased by HK$77.2 million or 13.3%, to HK$504.0 million as at 30 June 2018 from HK$581.2 million as at 31 December 2017. As a result, its average creditors turnover decreased by 25 days, from 138 days for the same period last year to 113 days during the period under review.

Liquidity and Financial Resources

The Group maintains a stable and healthy balance sheet. As at 30 June 2018, the Group had equity attributable to shareholders totalling HK$2,365.5 million (At 31 December 2017: HK$2,874.9 million). Cash and bank balances amounted to HK$374.9 million (At 31 December 2017: HK$486.3 million), which were denominated mainly in Renminbi.

As at 30 June 2018, the Group's short-term bank loan was HK$156.9 million (At 31 December 2017: HK$156.3 million). As such, the Group had net cash of HK$218.0 million (At 31 December 2017: HK$330.0 million). The bank loan was denominated in United States dollar and at floating interest rates during the period under review. The Group did not hedge its exposure to exchange fluctuation and interest rate risk.

As at 30 June 2018, the Group was granted banking facilities that amounted to HK$160.0 million (At 31 December 2017: HK$163.0 million). Certain of these banking facilities were secured by pledged bank deposits amounting to HK$161.1 million (At 31 December 2017: HK$181.4 million).

During the first half of 2018, the net decrease in cash and bank balances of HK$111.4 million (2017: HK$139.3 million) is analysed as follows:

	Six months ended 30 June	
	2018	2017
	HK$' million	HK$' million
Net cash used in operating activities	**(60.3)**	(69.8)
Capital expenditure	**(68.8)**	(45.3)
Net interest received	**1.6**	7.9
Proceeds from disposal of a subsidiary and a financial asset at fair value through other comprehensive income	**34.2**	-
Proceeds from disposal of property, plant and equipment	**1.4**	0.9
Net bank loan repaid	**(0.9)**	(53.9)
Effect of exchange rate changes	**(18.6)**	20.9
	(111.4)	(139.3)

During the first half of 2018, the Group's interest income on bank balances and deposits was HK$4.2 million (2017: HK$11.4 million) while finance costs on a short-term bank loan amounted to HK$2.6 million (2017: HK$3.5 million).

The Group's current ratio was 2.3 times as at 30 June 2018 (At 31 December 2017: 2.5 times). The managment is of the opinion that the Group has sufficient financial resources to fulfil its financial obligations as and when they fall due.

As at 30 June 2018, the Group's net gearing, calculated on the basis of net debt (being bank loan less cash and bank balances) divided by equity attributable to shareholders, indicated that the Group was in a net cash (At 31 December 2017: net cash) position.

Foreign Exchange Risk Management

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and the Group may use forward foreign exchange contracts when major fluctuation in the relevant foreign currency is anticipated. During the six months ended 30 June 2018, the Group did not enter into any forward foreign exchange contract.

Pledge of Assets

As at 30 June 2018, the Group pledged bank deposits of HK$161.1 million (At 31 December 2017: HK$181.4 million) to secure certain banking facilities.

Capital Expenditure

During the interim period, the Group incurred capital expenditure of HK$68.8 million (2017: HK$45.3 million) mainly for retail network expansion and renovation.

Contingent Liabilities

As at 30 June 2018 and 31 December 2017, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2018, the Group had a workforce of about 10,800 (At 31 December 2017: 13,000) 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$420.7 million (2017: HK$406.8 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 for the employees.

AWARDS

Daphne ranked top for the eighth consecutive year in the "China Brand Power Index 2018" (in the "Women's Shoes" category). This award reflected Daphne's strong brand awareness and loyalty in China. This independent annual survey was conducted by "Chnbrand", an institution funded by the Ministry of Industry and Information Technology of China and recognised as one of the most credible brand rating organisations in China. This survey ranks companies by industry and category based on the findings from the interviews with 2,666,430 consumers in 40 cities across China about brand awareness and loyalty.

In addition, the Group received a Certificate of Excellence from the Hong Kong Investor Relations Association in "The 4th Session of Investor Relations Awards" in recognition of its efforts to ensure good corporate governance and to maintain good investor relations.

OUTLOOK

The prospect of a recovery in China's mass market for women's footwear is clouded by frequent price wars waged by local shoe brands and retailers. To cope with the situation, the Group will press on with its business transformation initiatives and will make timely adjustments to them to adapt to the market condition.

To strengthen its upgraded brand image, the Group will continue to optimise its store network by opening more new image stores nationwide and by speeding up the renovation of its stores. In the third quarter of 2018, the Group will launch its next significant crossover collection. It is also planning a series of integrated marketing campaigns to engage more consumers through both the online and offline channels.

The upgrading of the products as a business transformation initiative will remain the key to satisfying customers' different needs and wants. The Group will continue with its product upgrade by increasing the proportion of trendy products and those made of new materials in the sales mix to meet the ever-changing fashion trends. By increasing its investment in product development, the Group is committed to the improvement of product quality to make its products more comfortable for its customers to wear. The on-going efforts to upgrade the supply chain will also give support to the product upgrade. Moreover, it plans to step up the development of other product categories to capture more business opportunities.

While further increasing e-commerce's contribution to the Group's turnover, the Group plans to have more of its stores connect to "Tmall's Smart Store" system to attract more customers to its offline sales channel. Its e-commerce department will collaborate with its product development team in launching exclusive products that target the young consumers who shop online and follow fashion trends.

As a customer-centric company, the Group will conduct an in-depth, multi-dimentional analysis of the data of its existing customers. This will enable the Group to better predict market trends and consumer preferences. Powered by the big data analytics, the Group will be able to do its product planning with more precision so as to stay abreast of the trend in consumer demand. Besides, customised marketing strategy will be implemented to improve marketing efficiency and boost customer loyalty.

Business transformation is a voyage fraught with uncertainty but it is also full of opportunities. The data for the second half of 2018 to the present shows a slight improvement trend in the sales of the Core Brands Business. The sales channel adjustment that leads to a higher number of new image stores will also gradually yield results. As a customer-centric company whose decision is data-driven, the Group will enhance its capability to analyse customer profiles and then to develop its products to meet diverse needs and desires so as to embrace the "New Retail" movement. The Group believes that its experienced management team, strong brands, and a wide sales network can help it succeed in its business transformation.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2018, 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 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 (the "Stock Exchange"). 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 2018.

CHANGES IN DIRECTORS' INFORMATION

There were no changes in directors' details since the date of the Annual Report 2017 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.

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, who 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 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 also believes that the balance of power and authority will not be compromised and is adequately ensured by the existing Board which comprises experienced and competent individuals with more than one-third of the Board being independent non-executive directors.

During the period under review, the Company held an annual general meeting (the "AGM") on 25 May 2018. Due to unavoidable business engagements, Mr. Chen Ying-Chieh, the non-executive director and Mr. Huang Shun-Tsai, the independent non-executive director of the Company, were unable to attend the AGM. This was in deviations from code provision A.6.7.

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 have 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, 28 August 2018

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.