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 2020

FINANCIAL HIGHLIGHTS

- Turnover dropped by 85% to HK$212.1 million
- Loss attributable to shareholders narrowed by 64% to HK$141.3 million
- Inventory level reduced by 48% to HK$83.7 million
- Cash and bank balances maintained at HK$93.5 million

* *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 2020, together with the comparative figures for the corresponding period in 2019.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Unaudited Six months ended 30 June **2020** **HK$'000**	2019 HK$'000
Turnover	4	**212,134**	1,402,802
Cost of sales		**(146,102)**	(751,528)
Gross profit		**66,032**	651,274
Other income	5	**15,820**	12,306
Other gains - net	6	**4,950**	12,421
Selling and distribution expenses		**(140,188)**	(917,636)
General and administrative expenses		**(83,928)**	(131,851)
Operating loss	7	**(137,314)**	(373,486)
Finance costs	8	**(881)**	(13,232)
Share of losses of associates and joint ventures		**(304)**	(363)
Loss before income tax		**(138,499)**	(387,081)
Income tax expense	9	**(894)**	(7,326)
Loss for the period		**(139,393)**	(394,407)
Attributable to:			
Shareholders		**(141,257)**	(389,866)
Non-controlling interests		**1,864**	(4,541)
		(139,393)	(394,407)
Loss per share, basic and diluted *(HK cents)*	10	**(8.6)**	(23.6)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Loss for the period	**(139,393)**	(394,407)
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences	**170**	(125)
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**(12,237)**	31,746
Total comprehensive loss for the period	**(151,460)**	(362,786)
Attributable to:		
Shareholders	**(152,120)**	(359,483)
Non-controlling interests	**660**	(3,303)
	(151,460)	(362,786)

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2020

	Note	**Unaudited 30 June 2020 HK$'000**	Audited 31 December 2019 HK$'000
Non-current assets			
Property, plant and equipment		**120,908**	167,265
Investment properties		**395,549**	369,645
Right-of-use assets		**38,429**	68,622
Interests in associates		**1,036**	1,481
Interests in joint ventures		**-**	1,002
		555,922	608,015
Current assets			
Inventories		**83,660**	162,013
Trade receivables	12	**57,608**	64,875
Other receivables, deposits and prepayments		**91,425**	142,689
Cash and cash equivalents		**93,181**	182,059
		325,874	551,636
Assets classified as held-for-sale		**52,648**	71,713
		378,522	623,349
Current liabilities			
Trade payables	13	**115,943**	138,700
Other payables and accrued charges		**134,405**	226,912
Lease liabilities		**11,185**	25,621
Contract liabilities		**7,085**	7,407
Current income tax liabilities		**5,739**	5,169
		274,357	403,809
Liabilities directly associated with assets classified as held-for-sale		**5,591**	8,045
		279,948	411,854
Net current assets		**98,574**	211,495
Total assets less current liabilities		**654,496**	819,510

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2020

	Unaudited 30 June 2020 HK$'000	Audited 31 December 2019 HK$'000
Equity attributable to shareholders		
Share capital	**164,914**	164,914
Reserves	**375,677**	527,797
	540,591	692,711
Non-controlling interests	**104,302**	103,642
Total equity	**644,893**	796,353
Non-current liabilities		
Lease liabilities	**7,168**	20,469
Deferred income tax liabilities	**2,435**	2,688
	9,603	23,157
Total equity and non-current liabilities	**654,496**	819,510

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 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 2020 are unaudited and have been reviewed by the Audit Committee of the Company and approved for issue by the Board of Directors on 25 August 2020.

2 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Going concern basis

The Group reported a loss for the period ended 30 June 2020 of HK$139,393,000 (2019: HK$394,407,000) and a net cash outflow from operations of HK$91,869,000 (2019: net cash inflow from operations of HK$20,612,000). The Group also recorded a cash outflow in relation to lease payments of HK$8,657,000 (2019: HK$133,955,000) during the period ended 30 June 2020, which was classified as financing activities. As at 30 June 2020, the Group had cash and cash equivalents of HK$93,181,000 (At 31 December 2019: HK$182,059,000).

In the first half of 2020, the Group's operation performance was adversely impacted by the COVID-19 outbreak which has led to continuing uncertainties and a marked downturn in domestic and global economic activities. In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity requirements and operating performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Management have taken into account the following plans and measures to ensure the Group will have sufficient working capital in the next twelve months:

(a) The Group continued its efforts to implement various restructuring measures with a view to improving the operating results and strengthening its working capital position. The Group has substantially scaled down its physical store network and restructured its back office to minimise its operating costs. These measures, among others, include negotiation with suppliers to adjust the terms of the purchase orders and further cost control measures.

(b) The Group intended to dispose certain of its non-core properties with a carrying value of approximately HK$52,212,000 within the twelve months from 30 June 2020 in an effort to enhance its liquidity position.

(c) The Chairman of the Company confirmed his intention to arrange a loan facility to the Group amounting to approximately HK$50,000,000 as and when needed. The Group continues to look for additional sources of financing to enhance its financial position.

Notwithstanding the above, whether management are able to achieve its plans and measures as described above, which incorporate assumptions about future events and conditions, are subject to inherent uncertainties. In particular, whether the Group will be able to continue as a going concern would depend upon (a) successful implementation of the above-mentioned measures on improvement of the operating results and cash flows of the Group; (b) successful disposal of non-core properties and collection of sales proceeds in the expected timeframe; and (c) successful draw down of funds from the financial support be provided by the Chairman as mentioned above and raising of additional new sources of financing, as and when needed.

The directors, after due consideration of the basis of management's plans and measures, are confident that the Group will have sufficient working capital to meet its financial obligations as and when they fall due at least in the next twelve months from 30 June 2020. Accordingly, the directors considered it is appropriate to prepare the condensed consolidated interim financial statements of the Group on a going concern basis.

3 Principal accounting policies

The accounting policies applied in the condensed consolidated interim financial statements for the six months ended 30 June 2020 are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2019, except for the adoption of amended standards that are effective for its reporting period beginning on 1 January 2020 as set out below.

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The adoption of these amended standards listed above did not have any material impact on the Group's accounting policies.

4 Segment information

The Group is principally engaged in the distribution and retailing of footwear and accessories in mainland China.

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, 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 and Taiwan. None of the customers accounted for 10% or more of the total turnover of the Group during both six months ended 30 June 2020 and 2019.

The Group's non-current 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	Other Brands Business	Manu-facturing Business	Inter-segment elimination/ Corporate	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Six months ended 30 June 2020 (Unaudited)					
Revenue from external customers	**104,776**	**107,358**	**-**	**-**	**212,134**
Inter-segment revenue	**-**	**-**	**-**	**-**	**-**
Total segment revenue	**104,776**	**107,358**	**-**	**-**	**212,134**
Segment results	**(84,779)**	**(40,724)**	**-**	**-**	**(125,503)**
Corporate income					**1,438**
Corporate expenses					**(13,249)**
Operating loss					**(137,314)**
Finance costs					**(881)**
Share of losses of associates and joint ventures					**(304)**
Loss before income tax					**(138,499)**
Other information for disclosure:					
Depreciation of investment properties	**4,683**	**-**	**-**	**2,560**	**7,243**
Depreciation of property, plant and equipment	**7,340**	**789**	**-**	**2,271**	**10,400**
Depreciation of right-of-use assets	**8,738**	**2,272**	**-**	**232**	**11,242**
Capital expenditure	**953**	**-**	**-**	**-**	**953**
Six months ended 30 June 2019 (Unaudited)					
Revenue from external customers	1,193,382	209,420	-	-	1,402,802
Inter-segment revenue	87,972	-	65,176	(153,148)	-
Total segment revenue	1,281,354	209,420	65,176	(153,148)	1,402,802
Segment results	(358,152)	(4,211)	(15,549)	4,978	(372,934)
Corporate income					2,247
Corporate expenses					(2,799)
Operating loss					(373,486)
Finance costs					(13,232)
Share of losses of associates and joint ventures					(363)
Loss before income tax					(387,081)
Other information for disclosure:					
Depreciation of investment properties	3,082	-	-	630	3,712
Depreciation of property, plant and equipment	40,492	5,005	7,180	-	52,677
Depreciation of right-of-use assets	129,773	10,374	111	338	140,596
Capital expenditure	20,649	221	62	-	20,932

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	Manufacturing Business HK$'000	Group HK$'000
As at 30 June 2020 (Unaudited)				
Segment assets	**349,408**	**67,578**	**-**	**416,986**
Investment properties				**395,549**
Interests in associates				**1,036**
Assets classified as held-for-sale				**52,648**
Corporate assets				**68,225**
Total assets				**934,444**
Segment liabilities	**227,789**	**39,450**	**-**	**267,239**
Deferred income tax liabilities				**2,435**
Liabilities directly associated with assets classified as held-for-sale				**5,591**
Corporate liabilities				**14,286**
Total liabilities				**289,551**
As at 31 December 2019 (Audited)				
Segment assets	609,326	103,836	66,463	779,625
Investment properties				369,645
Interests in associates				1,481
Interests in joint ventures				1,002
Assets classified as held-for-sale				71,713
Corporate assets				7,898
Total assets				1,231,364
Segment liabilities	358,374	48,451	5,662	412,487
Deferred income tax liabilities				2,688
Liabilities directly associated with assets classified as held-for-sale				8,045
Corporate liabilities				11,791
Total liabilities				435,011

5 Other income

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Franchise and royalty income	**3,523**	-
Government subsidies	**1,468**	704
Gross rental income	**5,893**	6,141
Interest income	**286**	1,403
Others	**4,650**	4,058
	15,820	12,306

6 Other gains - net

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Gain on disposal of a subsidiary	**-**	7,836
Gain on disposal of property, plant and equipment	**5,192**	8,359
Loss on disposal of a joint venture	**(336)**	-
Net exchange gain/(loss)	**94**	(3,774)
	4,950	12,421

7 Operating loss

Operating loss is stated after charging the following:

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Auditors' remuneration	**1,857**	2,591
Cost of inventories sold, including write-back of provision for slow-moving inventories of HK$72,426,000 (2019: HK$3,086,000)	**135,128**	723,901
Depreciation of investment properties	**7,243**	3,712
Depreciation of property, plant and equipment	**10,400**	52,677
Depreciation of right-of-use assets	**11,242**	140,596
Employee benefits expense	**80,170**	305,108
Expenses relating to short-term leases and variable lease payments	**35,401**	299,204
Loss on termination of leases	**1,244**	-
Net impairment loss on financial assets	**2,417**	4,208

8 Finance costs

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Interest on bank loans	**-**	2,866
Interest on lease liabilities	**881**	10,366
	881	13,232

9 Income tax expense

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Current income tax	**864**	4,701
Deferred income tax	**30**	2,625
	894	7,326

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 2020 is 21% (2019: 25%).

10 Loss per share

Basic loss per share is calculated by dividing the loss attributable to shareholders of HK$141,257,000 (2019: HK$389,866,000) by the weighted average number of 1,649,142,384 (2019: 1,649,142,384) shares in issue during the six months ended 30 June 2020.

For the six months ended 30 June 2020 and 2019, basic and diluted loss per share are the same since there was no dilutive potential share.

11 Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

12 Trade receivables

	30 June 2020 HK$'000	31 December 2019 HK$'000
Trade receivables	**74,302**	79,976
Less: loss allowance	**(16,694)**	(15,101)
Trade receivables - net	**57,608**	64,875

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

	30 June 2020 HK$'000	31 December 2019 HK$'000
0 - 30 days	**26,661**	22,058
31 - 60 days	**13,984**	16,777
61 - 90 days	**2,587**	12,328
91 - 180 days	**3,638**	10,302
181 - 360 days	**9,234**	10,034
Over 360 days	**18,198**	8,477
	74,302	79,976

13 Trade payables

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

	30 June 2020 HK$'000	31 December 2019 HK$'000
0 - 30 days	**14,253**	19,579
31 - 60 days	**19,800**	32,133
61 - 90 days	**15,492**	24,294
91 - 180 days	**33,533**	19,324
181 - 360 days	**13,939**	37,597
Over 360 days	**18,926**	5,773
	115,943	138,700

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The outbreak of the novel coronavirus pneumonia ("COVID-19") epidemic in early 2020 has dealt a heavy blow to China's economy. Large-scale factory shutdowns have nearly brought all economic activities to a halt. However, the nationwide campaign to prevent and control the spread of the epidemic has been making headway. Business and daily lives have gradually returned to normal. The Chinese government has also adopted various policies which are conducive to a recovery in economy. As a result, the market for consumer goods has shown signs of a recovery on the back of the gradual release of pent-up demand.

As an interesting development, the epidemic has given rise to the "stay-at-home" economy which accelerates a shift in consumption patterns towards online shopping. This has presented a huge opportunity to the e-commerce market. During the time of quarantine, online shopping is not only a way to shop but also a leisure activity. Online shopping has become such a strong habit that it has also sped up the digitalisation of traditional retail and consumer service companies. This, in turn, has ushered in a new round of rapid development of the e-commerce market. Retail and consumer service companies have to adapt themselves to the preferences and consumption patterns of online shoppers in many aspects, including operation model, takt time and methods of promotion. This has given rise to such ideas as "quick responses for small orders", "live commerce" and "online-only items".

Group Performance

With the Group's large-scale business transformation actions and the adoption of the "asset-light" business model last year, the network of the Group's stores has been scaled down significantly from 2,820 stores at the beginning of last year to 425 at the end of last year. Affected by this structural change, the Group's turnover decreased by HK$1,190.7 million to HK$212.1 million for the six months ended 30 June 2020, compared with HK$1,402.8 million in the same period last year. This was mainly due to the year-on-year decrease of 87% in the number of sales points of the Group (from 2,208 as at 30 June 2019 to 293 as at 30 June 2020), and the serious impact of the COVID-19 epidemic on the operation of stores and the consumer market. During the period under review, the Group's gross profit also fell to HK$66.0 million (2019: HK$651.3 million) due to the decrease in sales and its gross profit margin fell to 31.1% (2019: 46.4%).

In the first half of 2020, the operating loss was HK$137.3 million, compared with the operating loss of HK$373.5 million in the same period last year. The loss attributable to shareholders was HK$141.3 million (2019: HK$389.9 million). Basic loss per share was 8.6 HK cents, compared with the basic loss of 23.6 HK cents per share for the same period in 2019. The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

The overall retail market was seriously affected by the COVID-19 epidemic and the retail of women's shoes was no exception. In the first quarter when the epidemic was at its height, the overall customer traffic recorded by the retail industry dropped rapidly, bringing offline sales activities to a halt. During that period, certain landlords granted certain rent reductions to the Group's directly-managed stores and partnership stores. The concessions offset a small portion of the operating costs of its physical stores. At the same time, the Group also provided appropriate discounts to its business partners and franchisees to help them tide over the difficulties. In the second quarter, China's economy showed signs of a recovery on the back of the gradual stabilisation of the epidemic. Most of the Group's stores across the country have gradually reopened since April. This, coupled with the logistics sector's return to normal, contributed to a gradual recovery in the business of the brick-and-mortar stores in the second quarter. Nevertheless, the retail market remained gloomy amid weak consumer sentiments.

The Group continued with the strategic transformation of its business by switching over to the "asset-light" business model, shifting the focus back to its Core Brands Business, completely withdrawing from the business of retailing at physical stores under the mid-range and high-end brands (including such operations in mainland China and Taiwan), and closing all the points-of-sale ("POS") of its Other Brands Business. In the first half of 2020, the Group recorded 132 net closures of POS, including the closure of 67 POS of its Core Brands Business and the closure of 65 POS of its Other Brands Business. As of 30 June 2020, the Group had a total of 293 POS. All of them belonged to its Core Brands Business.

Core Brands Business

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

In the first half of 2020, the Group continued to adjust the network of its sales channels to pursue an "asset-light" business model. During the period under review, the Group's Core Brands Business recorded 67 net closures of POS (including the closure of 24 directly-managed/partnership stores and 43 franchised stores). The number of POS decreased by 19% compared with that as at 31 December 2019.

The same-store sales at the Group's Core Brands Business fell by about 50% year-on-year. The weak same-store sales performance, coupled with the further shrinkage of the sales network, resulted in a year-on-year decrease of approximately 92% in the turnover at the Group's Core Brands Business to HK$104.8 million (2019: HK$1,281.4 million).

The overall average selling price ("ASP") was also facing downward pressure due to the weak retail market. The Group has also made structural adjustments to the ASP in response to the market environment. The Group's supply chain model of making "quick responses for small orders" began to yield effect so the Group was able to offer less and less discounts on its new products in the first half of the year, thus stabilising the prices of its products. As a result, the offline ASP of products under the Core Brands Business increased in the first half of the year. At the same time, during the period under review, the Group orders small batches of goods in a timely manner with "quick responses for small orders" as its mode of operation. This has enabled the Group to avoid developing sizeable inventory even if sales were under downward pressure.

However, the supply chain model for ordering a small quantity of goods to meet demand in short intervals has also led to an increase in unit cost, which partially offset the increase in ASP. In addition, the shrinkage of the network of stores also entailed the clearance of old aged inventory at wholesale, which led to a decrease in the gross profit margin at the Core Brands Business to 30.4% in the first half of 2020 (2019: 42.5%). Affected by the continued negative operating leverage, the Core Brands Business recorded an operating loss of HK$84.8 million (2019: HK$358.2 million).

During the period under review, the Group actively carried out product upgrades to further increase the proportion of athleisure products in the product mix to tap the potential of the market and attract more young and trendy consumers. This has also enabled to the Group to develop more customer groups. In addition, the Group launched its first original domestic brand "Ascent" (「芙搖直上」) in June to capitalise on the growing popularity with both the trendy domestic brands and heritage brands in mainland China. "Ascent" made its debut at the Tmall National Style Awards, which was shown in an online live broadcast, exuding its own distinctive charm of a trendy domestic brand. The product series of "Ascent" met with enthusiastic responses from young consumers upon its launch. "Ascent" not only has driven up Daphne's sales but also has enabled it to project a youthful and fashionable brand image that has won people's hearts.

On the back of its continued efforts in product upgrades and its established mechanism for customer relationship management, the membership of the Group's customer clubs at its online and offline sales channels continued to expand in the first half of the year. With the help of "live commerce", a large number of young consumers who were aged from 20 to 35 became Daphne's customers, which led to a continued increase in repeat business and strengthened the customer loyalty.

E-Commerce

The COVID-19 epidemic triggered off exponential growth in the "stay-at-home" economy. To capitalise on the trend, the Group increased commitment to its online sales channel. For instance, it stepped up the strategic planning for its e-commerce business. In the first half of the year, the Group not only consolidated its advantage in traditional e-commerce platforms but also actively explored new approaches to sales and marketing. For example, it tapped into a surge in internet traffic to adapt itself to the gradual shift from offline to online consumption. Through its collaborations with such social platforms as "Tik Tok" ("抖音") and "Kuaishou" ("快手") for the sharing of short videos, the Group was able to suit the preferences of adolescents in social networking and increase its exposure in the social media, thus advertising its brand name on online platforms that register high volume of traffic. The Group also fully explored the potential of "live commerce" to bring a much more interactive shopping experience to consumers. Such move also made up for a decrease in offline sales which had been impacted by the epidemic.

Moreover, the Group has stepped up its effort to develop "online-only items" which are reserved for online sales in order to take advantage of the sales trend on the online marketplaces. The Group launched "Must-buy KOL Items" in the first half of the year according to the latest fashion trend. The products met with overwhelming responses from consumers. The Group's e-commerce business remained profitable thanks to the contribution from the sales of "online-only items".

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	Six months ended 30 June		
	2020	2019	Change
Turnover (HK$' million)	**212.1**	1,402.8	-85%
Gross profit (HK$' million)	**66.0**	651.3	-90%
Operating loss (HK$' million)	**(137.3)**	(373.5)	-63%
Loss attributable to shareholders (HK$' million)	**(141.3)**	(389.9)	-64%
Gross margin (%)	**31.1**	46.4	-15.3ppt
Operating margin (%)	**-64.7**	-26.6	-38.1ppt
Net margin (%)	**-66.6**	-27.8	-38.8ppt
Basic loss per share (HK cents)	**(8.6)**	(23.6)	-64%

Key Financial Indicators

	Six months ended 30 June		
	2020	2019	Change
Average inventory turnover (days) *(Note 1)*	**153**	195	-42
Average debtors turnover (days) *(Note 2)*	**53**	20	+33
Average creditors turnover (days) *(Note 3)*	**384**	221	+163
Capital expenditure (HK$' million)	**1.0**	20.9	-95%

	At 30 June 2020	At December 2019	Change
Cash and bank balances (HK$' million) *(Note 4)*	**93.5**	182.3	-49%
Equity attributable to shareholders (HK$' million)	**540.6**	692.7	-22%
Current ratio (times) *(Note 5)*	**1.2**	1.5	-20%
Net gearing ratio (%) *(Note 6)*	**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. *Cash and bank balances comprise cash and cash equivalents (including those transferred to assets classified as held-for-sale).*

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

6. *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 2020, the Group recorded turnover of HK$212.1 million, a decrease of 85% 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)	**2020**	2019	**2020**	2019	**2020**	2019
Revenue from external customers	***104.8***	*1,193.4*	***107.4***	*209.4*	**-**	-
Inter-segment revenue	***-***	*88.0*	***-***	*-*	-	*65.2*
Total segment revenue	**104.8**	1,281.4	**107.4**	209.4	**-**	65.2
Segment gross profit/(loss)	**31.8**	544.9	**34.2**	108.9	**-**	(7.5)
Segment gross margin	***30.4%***	*42.5%*	***31.9%***	*52.0%*	-	*-11.5%*
Segment operating loss	**(84.8)**	(358.2)	**(40.7)**	(4.2)	**-**	(15.5)
Segment operating margin	***-80.9%***	*-28.0%*	***-37.9%***	*-2.0%*	-	*-23.9%*

During the first half of 2020, total revenue of the Core Brands Business decreased by 92% to HK$104.8 million from HK$1,281.4 million for the corresponding period in 2019. It is mainly due to the large scale of closure of stores in the past year and the business in mainland China adversely impacted by the COVID-19 epidemic during the period. Gross margin of the Core Brands Business decreased from 42.5% in the first half of 2019 to 30.4% during the period under review as result of clearance of aged products and higher product cost.

The Group continued exiting its non-performing businesses such as mid-range and high-end brands business and retail business in Taiwan. Revenue of Other Brands Business also decreased by 49% year-on-year to HK$107.4 million (2019: HK$209.4 million) for the period under review. Gross margin declined from 52.0% in the first half of 2019 to 31.9% for the first half of 2020.

Other Income

Other income amounted to HK$15.8 million (2019: HK$12.3 million) during the period under review. The increase was mainly due to royalty income from licensees.

Operating Expenses

The Group's operating expenses (including other gains - net, selling & distribution and general & administrative expenses) dropped by HK$817.9 million or 79%, to HK$219.2 million during the period under review from HK$1,037.1 million for the corresponding period in 2019. 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$137.3 million, narrowed by HK$236.2 million or 63%, compared with the operating loss of HK$373.5 million in the corresponding period last year.

Income Tax Expense

For the period ended 30 June 2020, the Group's income tax expense was HK$0.9 million (2019: HK$7.3 million), mainly comprising the PRC withholding tax on royalties of HK$0.6 million (2019: HK$3.8 million).

Loss Attributable to Shareholders

For the period ended 30 June 2020, the Group's loss attributable to shareholders decreased by HK$248.6 million to HK$141.3 million (2019: HK$389.9 million). Basic loss per share was 8.6 HK cents (2019: 23.6 HK cents) during the period under review.

Inventories

As at 30 June 2020, the Group's inventories decreased by HK$78.3 million or 48%, to HK$83.7 million from HK$162.0 million as at 31 December 2019. Average inventory turnover was 153 days (2019: 195 days) during the period under review. Included in the inventories, the balance of provision for slow-moving and obsolete items was HK$95.4 million as at 30 June 2020 (At 31 December 2019: HK$170.2 million).

Trade Receivables

The amount of trade receivables as at 30 June 2020 decreased by HK$7.3 million or 11% to HK$57.6 million (At 31 December 2019: HK$64.9 million). Average debtors turnover increased by 33 days to 53 days (2019: 20 days).

Trade Payables

On the other hand, the Group's trade payables decreased by HK$22.8 million or 16%, to HK$115.9 million as at 30 June 2020 from HK$138.7 million as at 31 December 2019. Average creditors turnover increased by 163 days, from 221 days for the same period last year to 384 days during the period under review as a result of the extended credit period of certain major suppliers.

Liquidity and Financial Resources

As at 30 June 2020, the Group had equity attributable to shareholders totalling HK$540.6 million (At 31 December 2019: HK$692.7 million). Cash and bank balances amounted to HK$93.5 million (At 31 December 2019: HK$182.3 million), which were denominated mainly in Renminbi. During the first half of 2020, the net decrease in cash and bank balances of HK$88.8 million (2019: HK$210.2 million) is analysed as follows:

	Six months ended 30 June	
	2020	2019
	HK$' million	HK$' million
Net cash (used in)/generated from operating activities	**(91.9)**	20.6
Capital expenditure	**(1.0)**	(20.9)
Net interest received/(paid)	**0.3**	(1.5)
Proceeds from disposal of a joint venture/subsidiary	**0.4**	16.5
Proceeds from disposal of property, plant and equipment	**14.0**	65.3
Lease payments	**(8.7)**	(133.9)
Net bank loans repaid	**-**	(158.3)
Effect of exchange rate changes	**(1.9)**	2.0
	(88.8)	(210.2)

During the first half of 2020, the Group's interest income on bank balances and deposits was HK$0.3 million (2019: HK$1.4 million) while there was no finance costs on bank loans (2019: HK$2.9 million).

As at 30 June 2020, the Group's net gearing ratio was in net cash (At 31 December 2019: net cash) position. and the current ratio was 1.4 times (At 31 December 2019: 1.5 times).

Management continuously reviews the current liquidity position and expected financial resource needs, as changes to the operating environment may have a material impact on financial resources. Taking into the consideration of the plans and measures to improve the liquidity position, such as disposals of certain non-core properties, extension of repayment terms with certain major suppliers and other financial support provided by the Chairman of the Company, it believes that the Group has sufficient financial resources to meet its obligations as and when they fall due at least in the next twelve months.

Foreign Exchange Risk Management

The Group's operations principally locate in mainland China, with transactions and related working capital denominated in Renminbi. In general, it is the Group's policy for each operating entity to borrow in their local currencies, where necessary, to minimise currency risk. As such, the Group is not exposed to significant foreign exchange risk and the Group will monitor this risk on a regular basis.

Capital Commitment

As at 30 June 2020 and 31 December 2019, the Group did not have any significant capital commitment.

Contingent Liabilities

As at 30 June 2020 and 31 December 2019, the Group had no significant contingent liabilities.

Human Resources

As at 30 June 2020, the Group had a workforce of 303 (At 31 December 2019: 948) 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$80.2 million (2019: HK$305.1 million). The decrease of HK$224.9 million or 74% was mainly due to the reduction in headcounts and cost control measures.

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.

OUTLOOK

Although the nationwide COVID-19 epidemic has basically been brought under control, the situation has not yet stabilised as new cases of the disease have been reported recently in some regions. This has necessitated the extension of the time for regular epidemic prevention and control measures. This has cast uncertainty over the economic outlook in the second half of the year. Although China's consumer market is recovering gradually, it can still undergo volatility in the short and medium term. It will take both effort and time for the consumer market to return to the pre-epidemic level.

The COVID-19 epidemic not only has brought challenges but also engendered new ideas about how traditional retail industry can change their business model. The integration of online and offline channels has also become a new direction in the industry's development. Retailers can grasp this opportunity by rethinking their business plan and strategy for developing both online and offline markets and by exploring the possibilities in the era of new retail. Such moves can also turn crises into opportunities.

As a new growth driver of the Group business, its online business has been marked out for further development in aftermath of the epidemic. This will help to increase the Group's overall profitability.

- First, the Group's e-commerce department will collaborate with its product design team to develop more "online-only items". This, coupled with the support of the supply chain system that enables "quick responses for small orders", will be able to meet the ever-changing online consumers' demand.

- Second, the Group will further consolidate its position in women's footwear market. Through a more targeted pricing strategy and more diverse athleisure products, the Group will be able to connect with its target consumer groups thoroughly and eventually expand its share of the online market.

- The Group will implement a strategy of "omnichannel marketing". It will further expand its online sales channels, increase the repeat business online, gradually raise the sales efficiency and enhance its competitive strength in the online market.

Under the "asset-light" business model, the Group's offline distribution channels will become a crucial component in its brand communication. Collaboration of offline and online channels could create synergy to the highest degree. The Group will continue with the offline sales channel mix, with its main sales channel run under the "partnership system" and its new-image stores as a supplementary one. Steady progress has been made in the businesses at stores under "partnership system". Although the operation of the partnership stores in the first half year was affected by the epidemic, the Group's business partners are confident about the outlook of the market and Daphne's potential for development because of the strength of Daphne's brand and the good progress in its business transformation. In the future, the Group will expand its business through partnerships and work with its business partners to scale up Daphne's offline sales network. All these efforts will enable the Group to build up the business presence of the Daphne brand in both online and offline sales channels.

The supply chain system that enables "quick responses for small orders" had already yielded preliminary results in the first half of the year. To better meet the ever-changing demand, the Group will keep cooperating with quality vendors, enhance the responsiveness of the supply chain and strive to reach the optimum level of inventory turnover. The Group will continue its cooperation with external designers, unceasingly enhance the trendiness and comfort of its products and attract more young consumers with products of excellent quality. Adhering to the consumer-centric principle, the Group will seek to satisfy the market's demand precisely with the help of big data analysis, which will allow the Group to constantly track the ever-changing consumer preferences.

The Group has shown resilience by persevering with its business transformation strategy amid the epidemic. The efficacy of its business transformation has been gradually manifested in the second quarter when the epidemic has abated. Looking ahead, the Group will continue to cautiously push forward with its business transformation measures and explore ways to achieve sustainable development despite the difficult operating environment. The Group will maintain close relations with consumers, step up its brand building effort and raise the standard of its operation and management. Only then can the Group be well-positioned to take advantage of a full recovery in the industry with stronger capabilities and better products.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited. Following specific enquiry by the Company, all directors of the Company confirmed that they fully complied with the required standards as set out in the Model Code during the six months ended 30 June 2020.

CHANGES IN DIRECTORS' INFORMATION

There were no changes in directors' details which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules since the date of the Annual Report 2019 of the Company and up to the date of release of the interim results of the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied Corporate Governance Code (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 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 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.

REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Audit Committee, comprises three independent non-executive directors of the Company as at the date of this announcement, namely, Mr. Hon Ping Cho Terence, Mr. Huang Shun-Tsai and Mr. Kuo Jung-Cheng, has reviewed with management the Group's unaudited condensed consolidated interim financial statements and the interim results announcement, and confirmed that these comply with the applicable accounting standards and the Listing Rules.

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 & CEO

Hong Kong, 25 August 2020

As at the date of this announcement, the Board of Directors of the Company comprises two executive directors, namely Mr. Chang Chih-Kai and Mr. Chang Chih-Chiao; and three independent non-executive directors, namely Mr. Hon Ping Cho Terence , Mr. Huang Shun-Tsai and Mr. Kuo Jung-Cheng.