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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

HIGHLIGHTS OF 2012 ANNUAL RESULTS

- Turnover grew by 22.8% to HK$10,529.1 million
- Gross profit rose by 18.8% to HK$6,228.8 million
- Profit attributable to owners of the Company increased by 2.4% to HK$955.7 million
- Basic earnings per share increased by 1.9% to HK58.07 cents
- Proposed final dividend of HK9.0 cents per share
- Total number of points-of-sale increased by 716 to 6,881

* *for identification purpose only*

ANNUAL RESULTS

The board of directors (the "Board") of Daphne International Holdings Limited (the "Company") announces the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012, together with the comparative figures for 2011 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	2	10,529,100	8,576,762
Cost of sales		(4,300,268)	(3,332,985)
Gross profit		6,228,832	5,243,777
Other income	3	110,073	121,354
Other losses - net	4	(19,786)	(74,203)
Selling and distribution expenses		(4,410,251)	(3,366,335)
General and administrative expenses		(543,968)	(556,026)
Operating profit	5	1,364,900	1,368,567
Finance costs		(49,436)	(46,907)
Share of (loss)/profit of associates		(8,150)	421
Profit before income tax		1,307,314	1,322,081
Income tax expense	6	(332,551)	(377,350)
Profit for the year		974,763	944,731
Attributable to:			
Owners of the Company		955,673	933,063
Non-controlling interests		19,090	11,668
		974,763	944,731
Earnings per share	7		
Basic (HK cents)		58.07	56.96
Diluted (HK cents)		52.94	52.23
Dividends	8	296,650	278,826

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	HK$'000	HK$'000
Profit for the year	974,763	944,731
Currency translation differences	49,982	149,013
Total comprehensive income for the year	1,024,745	1,093,744
Attributable to:		
Owners of the Company	1,004,755	1,077,576
Non-controlling interests	19,990	16,168
	1,024,745	1,093,744

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Intangible assets		115,452	129,926
Land use rights		49,747	51,196
Fixed assets		1,183,584	899,662
Interests in associates		11,055	3,359
Available-for-sale financial asset		624	16,624
Deposits paid for acquisition of land use rights and fixed assets		38,841	63,947
Long-term rental deposits and prepayments		194,977	175,564
Deferred income tax assets		111,491	106,469
		1,705,771	1,446,747
Current assets			
Inventories		2,368,890	2,058,526
Trade receivables	9	346,696	274,303
Other receivables, deposits and prepayments		1,278,319	926,096
Cash and cash equivalents		1,494,759	1,795,744
		5,488,664	5,054,669
Current liabilities			
Trade payables	10	865,951	819,131
Other payables and accrued charges		477,577	563,497
Current income tax liabilities		151,167	250,612
Bank loan – unsecured		7,268	6,998
		1,501,963	1,640,238
Net current assets		3,986,701	3,414,431
Total assets less current liabilities		5,692,472	4,861,178

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2012

	2012 HK$'000	2011 HK$'000
Equity		
Share capital	164,824	164,096
Reserves	4,660,512	3,871,771
Equity attributable to owners of the Company	4,825,336	4,035,867
Non-controlling interests	211,260	195,759
Total equity	5,036,596	4,231,626
Non-current liabilities		
Convertible bonds	639,738	605,879
Deferred income tax liabilities	16,048	19,445
Other non-current liability	90	90
License fee payables	-	4,138
	655,876	629,552
Total equity and non-current liabilities	5,692,472	4,861,178

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of an available-for-sale financial asset, financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Standards and amendments effective and relevant to and adopted by the Group in 2012

HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transfers of Financial Assets

The adoption of these amendments has no material impact on the consolidated financial statements of the Group.

Standards, amendments and interpretations to existing standards that have been issued but are not yet effective nor have been adopted by the Group in 2012

HKAS 1 (Amendment)	Presentation of Financial Statements [1]
HKAS 19 (2011)	Employee Benefits [2]
HKAS 27 (2011)	Separate Financial Statements [2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [2]
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Liabilities [3]
HKFRS 1 (Amendment)	Government Loans [2]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Liabilities [2]
HKFRS 7 and HKFRS 9 (Amendments)	Financial Instruments: Disclosure – Mandatory Effective Date of HKFRS 9 and Transition Disclosures [4]
HKFRS 9	Financial Instruments [4]
HKFRS 10	Consolidated Financial Statements [2]
HKFRS 11	Joint Arrangements [2]
HKFRS 12	Disclosure of Interests in Other Entities [2]
HKFRS 13	Fair Value Measurement [2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance [2]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities [3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine [2]
Fourth Annual Improvements Project (2011)	Improvements to HKFRSs published in June 2012 [2]

[1] Effective for accounting periods beginning on or after 1 July 2012
[2] Effective for accounting periods beginning on or after 1 January 2013
[3] Effective for accounting periods beginning on or after 1 January 2014
[4] Effective for accounting periods beginning on or after 1 January 2015

HKFRS 10, Consolidated Financial Statements, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is in the process of assessing HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 12, Disclosures of Interests in Other Entities, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is in the process of assessing HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

The adoption of the above new/revised HKFRSs may affect the presentation and disclosure of the financial statements and management anticipates that there will be no significant impact on the results and the financial position of the Group.

2. Turnover and segment information

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

The segment information for the year ended 31 December 2012 is as follows:

	Core brands business HK$'000	Other brands business HK$'000	Manufacturing business HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Revenue from external customers	9,508,496	690,940	329,664	-	10,529,100
Inter-segment revenue	83,400	-	1,069,419	(1,152,819)	-
Total segment revenue	9,591,896	690,940	1,399,083	(1,152,819)	10,529,100
Segment results	1,475,728	(127,555)	98,121	5,080	1,451,374
Amortisation of intangible assets					(6,764)
Impairment of an intangible asset					(7,000)
Unallocated corporate income					61
Unallocated corporate expenses					(72,771)
Operating profit					1,364,900
Finance costs					(49,436)
Share of loss of associates					(8,150)
Profit before income tax					1,307,314
Income tax expense					(332,551)
Profit for the year					974,763
Amortisation of intangible assets	-	6,764	-	-	6,764
Impairment of an intangible asset	-	7,000	-	-	7,000
Amortisation of land use rights	602	-	1,085	-	1,687
Depreciation of fixed assets	220,058	14,332	17,819	-	252,209
Capital expenditure	448,302	49,532	23,175	-	521,009

The segment information for the year ended 31 December 2011 is as follows:

	Core brands business HK$'000	Other brands business HK$'000	Manufacturing business HK$'000	Inter-segment elimination HK$'000	Unallocated HK$'000	Group HK$'000
Revenue from external customers	7,597,051	529,552	450,159	-	-	8,576,762
Inter-segment revenue	74,014	-	1,003,111	(1,077,125)	-	-
Total segment revenue	7,671,065	529,552	1,453,270	(1,077,125)	-	8,576,762
Segment results	1,555,120	(64,576)	108,111	(20,636)	-	1,578,019
Amortisation of intangible assets						(6,643)
Unallocated corporate income						3,000
Unallocated corporate expenses						(205,809)
Operating profit						1,368,567
Finance costs						(46,907)
Share of profit of an associate						421
Profit before income tax						1,322,081
Income tax expense						(377,350)
Profit for the year						944,731
Amortisation of intangible assets	-	6,643	-	-	-	6,643
Amortisation of land use rights	591	-	1,020	-	-	1,611
Depreciation of fixed assets	146,597	14,127	16,878	-	-	177,602
Fair value loss on available-for-sale financial assets	-	-	-	-	61,872	61,872
Capital expenditure	317,464	36,664	39,531	-	-	393,659

Inter-segment revenue is charged in accordance with terms determined and agreed mutually by the relevant parties. Revenue from external customers of core brands business and other brands business is mainly derived from Mainland China, Taiwan and Hong Kong and revenue from external customers of manufacturing business is mainly derived from the United States of America. None of the customers accounted for 10% or more of the total turnover of the Group during both years ended 31 December 2012 and 31 December 2011.

Certain corporate overhead expenses, including management fee, rental and utilities were reallocated among individual segments based on estimated consumption.

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

3. Other income

	2012 HK$'000	2011 HK$'000
Government incentives	49,895	35,569
Interest income	43,047	63,143
Franchise and royalty income	6,248	7,588
Gross rental income	1,503	1,010
Handling income	295	919
Income derived from an available-for-sale financial asset	61	3,000
Vendor rebate	-	1,001
Others	9,024	9,124
	110,073	121,354

4. Other losses – net

	2012 HK$'000	2011 HK$'000
Fair value loss on available-for-sale financial assets	-	(61,872)
Impairment of an intangible asset	(7,000)	-
Loss on disposal of fixed assets	(17,398)	(13,558)
Loss on termination of a license right	(1,789)	-
Net exchange gain	6,401	1,227
	(19,786)	(74,203)

5. Operating profit

Operating profit is stated after charging the following:

	2012 HK$'000	2011 HK$'000
Amortisation of land use rights	1,687	1,611
Amortisation of license rights	2,906	2,873
Amortisation of trademarks	3,858	3,770
Auditors' remuneration	6,117	6,067
Cost of inventories sold including provision for slow-moving inventories of HK$56,835,000 (2011: HK$48,024,000)	3,773,128	2,765,217
Depreciation of fixed assets	252,209	177,602
Employee benefits expense including directors' emoluments	1,389,068	1,219,393
Net provision for impairment of trade receivables	1,672	423
Operating lease rentals (including concessionaire fees) in respect of land and buildings	2,263,358	1,686,332

6. Income tax expense

	2012 HK$'000	2011 HK$'000
Current tax	340,299	409,100
(Over)/under provision in prior years	(229)	1,215
Deferred tax	(7,519)	(32,965)
	332,551	377,350

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year. Income tax on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of income tax prevailing in the places in which the Group operates.

Provision for China corporate income tax was calculated based on the statutory tax rate of 25% (2011: 25%) on the assessable income of each of the Group's entities except that certain subsidiaries of the Company operating in Mainland China were entitled to a 50% reduction in China corporate income tax during the years ended 31 December 2012 and 31 December 2011 and income tax is calculated using the applicable preferential income tax rate granted to the subsidiaries.

7. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of HK$955,673,000 (2011: HK$933,063,000) and the weighted average of 1,645,685,226 (2011: 1,638,204,932) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the adjusted profit attributable to owners of the Company of HK$1,004,098,000 (2011: HK$978,514,000) and the adjusted weighted average of 1,896,601,345 (2011: 1,873,549,453) ordinary shares, after taking into consideration of conversion of convertible bonds and exercise of share options and warrants.

	2012 HK$'000	2011 HK$'000
Profit attributable to owners of the Company	955,673	933,063
Interest on convertible bonds	48,425	45,451
Adjusted profit attributable to owners of the Company	1,004,098	978,514

	2012 Number of shares	2011 Number of shares
Weighted average number of ordinary shares in issue	1,645,685,226	1,638,204,932
Effect of conversion of convertible bonds	178,510,572	178,510,572
Effect of exercise of share options	16,967,862	10,394,297
Effect of exercise of warrants	55,437,685	46,439,652
Weighted average number of ordinary shares adjusted for effect of dilution	1,896,601,345	1,873,549,453

For the year ended 31 December 2012, 3,300,000 (2011: 5,100,000) share options outstanding are anti-dilutive and are ignored in the calculation of diluted earnings per share since the exercise price of the share options was higher than the average market price during the year.

8. Dividends

	2012 HK$'000	2011 HK$'000
Interim dividend, paid, of HK9.0 cents (2011: HK8.0 cents) per ordinary share	148,263	131,031
Final dividend, proposed, of HK9.0 cents (2011: HK9.0 cents) per ordinary share	148,387	147,795
	296,650	278,826

At a meeting held on 20 March 2013, the Board proposed a final dividend of HK9.0 cents per share in respect of the year ended 31 December 2012 to be approved by the shareholders at the forthcoming annual general meeting. The proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained profits for the year ending 31 December 2013.

9. Trade receivables

	2012 HK$'000	2011 HK$'000
Trade receivables	349,129	276,217
Less: Provision for impairment of receivables	(2,433)	(1,914)
Trade receivables - net	346,696	274,303

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

	2012 HK$'000	2011 HK$'000
0 - 30 days	234,392	215,865
31 - 60 days	73,478	40,294
61 - 90 days	20,022	9,762
91 - 120 days	8,135	4,422
121 - 180 days	5,989	1,974
181 - 360 days	4,101	818
Over 360 days	579	1,168
	346,696	274,303

The Group generally allows an average credit period of 30 to 60 days to its trade customers other than major and long standing customers with whom specific extended terms will be agreed between the Group and the relevant counter parties.

10. Trade payables

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

	2012 HK$'000	2011 HK$'000
0 - 30 days	400,350	592,334
31 - 60 days	217,710	157,978
61 - 90 days	228,815	46,896
91 - 120 days	9,711	14,650
121 - 180 days	4,082	3,448
181 - 360 days	5,137	3,351
Over 360 days	146	474
	865,951	819,131

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

2012 was a challenging year for global economies. The Eurozone sovereign debt crisis and the United States' weaker-than-expected economic recovery cast a shadow on China's exports. In addition, China adopted a tight monetary policy to cool the property market. As a result, the country's economic growth fell from 9.2% in 2011 to 7.8% in 2012. The Chinese appetite for mass-market ladies' footwear remained strong at the beginning of the year but began to slip as the prospect of an economic slowdown loomed large especially in the second half, while performance of department stores in general remained soft throughout the year. Consumer sentiment in China was affected by the uncertainty about the country's economic outlook. The country's retail sales growth eased 2.8 percentage points to 14.3% in 2012, down from 17.1% in 2011 and 18.3% in 2010, reflecting the macroeconomic environment.

BUSINESS REVIEW

Group Performance

The Group's overall performance reflected the prevailing market conditions in 2012. For the year ended 31 December 2012, the Group's turnover increased by 22.8% to HK$10,529.1 million (2011: HK$8,576.8 million). Gross profit rose by 18.8% to HK$6,228.8 million (2011: HK$5,243.8 million). Operating profit decreased by 0.3% to HK$1,364.9 million (2011: HK$1,368.6 million). Profit attributable to owners of the Company increased by 2.4% to HK$955.7 million (2011: HK$933.1 million). Basic earnings per share were HK 58.1 cents (2011: HK 57.0 cents). The Board has proposed a final dividend of HK9.0 cents (2011: HK9.0 cents) per share, which together with the interim dividend of HK9.0 cents (2011: HK8.0 cents) per share, brings the annual dividend to HK18.0 cents (2011: HK17.0 cents) per share for 2012, up by 5.9% from last year. The dividend payout ratio was 31.0% (2011: 29.8%).

As at 31 December 2012, the Group's points-of-sale (POS) totaled 6,881, representing a net increase of 716 POS during the year. The sales network comprised 6,369 POS under its core brands ("Daphne" and "Shoebox") and 512 POS for other brands. Inventory turnover days were reduced from 202 days in the first half of 2012 to 188 days for the full year of 2012 (2011: 172 days).

The Group was ranked second in the award of the Best Mid-Cap Companies in China 2012 by a reputable financial magazine FinanceAsia in the region, which was an endorsement of the Group's efforts to strengthen corporate and operating management.

Core Brands Business

The Group's core brands business comprises the distribution of ladies' footwear for the mass market under its proprietary brands "Daphne" and "Shoebox" in Mainland China, through a network of both directly-managed shops and franchised stores. Despite the weakening trend of the retail market during the year, turnover rose by 25.0% to HK$9,591.9 million (2011: HK$7,671.1 million). Segment revenue from external customers accounted for 90% of the Group's total revenue in 2012 (2011: 89%). Same-store sales achieved high-single digit growth, on top of the high base for 2011, and was driven primarily by sales volume.

Increased promotional activities, together with a different product mix, resulted in a decrease in average selling price by approximately 10% when compared with that of the previous year. Gross profit of core brand business increased by 19.3% to HK$5,661.8 million (2011: HK$4,747.4 million), although gross profit margin decreased to 59.0% in 2012 from 61.9% in 2011.

During the year under review, the Group spearheaded its sales network expansion by opening more directly-managed stores in order to strengthen its presence in the market and underpin its future growth. As at 31 December 2012, 5,427 POS for the core brands were directly managed by the Group, representing a net increase of 880 directly-managed POS during the year. Together with 942 POS operated by franchisees, the Group overall has a total of 6,369 POS under the core brands, with a net addition of 767 POS during the year under review. The proportion of directly-managed stores in the total POS for core brands increased to 85% in 2012, compared with 81% in 2011. This reflected the Group's strategy of focusing on directly-managed stores in its sales network expansion.

Distribution of points-of-sale of core brands business by city tier as at 31 December

	Tier 1	Tier 2	Tier 3	Tiers 4 to 6	Total
2012	721	1,342	981	3,325	6,369
2011	614	1,100	863	3,025	5,602

The acceleration of the opening of more directly-managed stores amid the sluggish retail market made the effect of increasing operating costs, including rental and labour costs, more pronounced. Thus, the Group experienced a contraction of the operating profit margin for the core brands business from 20.3% in 2011 to 15.4% in 2012. To cope with rising rental and labour costs, the Group adopted cost control measures, in particular for the new stores in the second half of the year, and enhanced salespeople productivity, by providing more selling skills training and optimising salespeople scheduling. The Group believes that steady store network expansion will enhance its competitiveness and lay a solid foundation for its future business growth.

Other Brands Business

The other brands business, mainly driven by the Group's mid- to high-end portfolio including own brands of "AEE" and "Ameda", and international brands with exclusive distribution rights such as "Aerosoles" and "ALDO", targets the growing middle class in China to broaden the Group's customer base. With this diversification strategy, the Group has geared up for the potential trade-up by its "Daphne" customers. Revenue from other brands business increased by 30.5% to HK$690.9 million in 2012 from the HK$529.6 million in 2011, and accounted for approximately 7% of the Group's turnover, at much the same level as in 2011. This business segment is still undergoing an investment phase. During the year under review, the performance of other brands business was further affected by the general softness of department store channel and, in addition, the slowing economy in Mainland China. In response to such market situation, the Group consolidated its distribution network during the year with a net decrease of 51 POS for its other brands and reduced to 512 POS as at 31 December 2012.

Manufacturing Business

In order to allocate more production capacity for its own brands, the Group began to gradually phase out its original equipment manufacturing ("OEM") business for third parties at its own factories. This is in line with the expansion strategy of focusing on its own brands, including deploying the Group's OEM capacity for the supply and growth of core brands. As a result, revenue contribution from the OEM business to the Group's turnover decreased to approximately 3% (2011: 5%) in 2012. The Group also made plans and took measures to strengthen supply chain management and further increase its production capacity with an aim to enhance production cost efficiency and support future growth of the Group's core and other brands.

Efficiency Improvement Initiatives

Against the backdrop of a slowing retail market and rising operating costs in Mainland China, the Group adopted various measures to keep costs under control and improve efficiency. These include stepping up cost cutting and monitoring measures. On the other hand, training programs were introduced and store operation was strengthened to increase salespeople's productivity. Management system enhancement projects in areas ranging from frontline to the back office, including product planning and merchandising, customer relations management, and store operations, were implemented. Good progress was made in all these enhancement projects during the year. These initiatives will strengthen the Group's competitiveness with positive effects expected to be gradually reflected in the near future.

FINANCIAL REVIEW

Financial and Operational Highlights

	For the year ended 31 December	
	2012	2011
Turnover (HK$' million)	10,529.1	8,576.8
Gross profit (HK$' million)	6,228.8	5,243.8
Gross profit margin (%)	59.2	61.1
Operating profit (HK$' million)	1,364.9	1,368.6
Operating profit margin (%)	13.0	16.0
Profit attributable to owners of the Company (HK$' million)	955.7	933.1
Net profit margin (%)	9.1	10.9
Basic earnings per share (HK cents)	58.07	56.96
Dividend per share (HK cents)	18.0	17.0
Average inventory turnover (days) *(Note 1)*	188	172
Average debtors turnover (days) *(Note 2)*	11	10
Average creditors turnover (days) *(Note 3)*	75	68
Cash conversion cycle (days) *(Note 4)*	124	114
Capital expenditure (HK$ million) *(Note 5)*	521.0	393.7
Effective tax rate (%) *(Note 6)*	25.4	26.7

	As at 31 December	
	2012	2011
Cash and cash equivalents (HK$ million)	1,494.8	1,795.7
Bank loans (HK$ million)	7.3	7.0
Convertible bonds (HK$ million)	639.7	605.9
Equity attributable to owners of the Company (HK$ million)	4,825.3	4,035.9
Current ratio (times) *(Note 7)*	3.7	3.1
Net gearing ratio (%) *(Note 8)*	Net cash	Net cash

Notes:

1. *The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by cost of sales and multiplied by 365 days.*

2. *The calculation of average debtors turnover (days) is based on the average of opening and closing balances of trade receivables divided by turnover and multiplied by 365 days.*

3. *The calculation of average creditors turnover (days) is based on the average of opening and closing balances of trade payables divided by purchases and multiplied by 365 days.*

4. *The calculation of cash conversion cycle (days) is based on average inventory turnover (days) plus average debtors turnover (days) minus average creditors turnover (days).*

5. *Capital expenditure comprises acquisition of land use rights and fixed assets and cash expenditure on license rights.*

6. *Effective tax rate for the year ended 31 December 2011 is calculated based on income tax expense divided by profit before tax excluding impairment loss on available-for-sale financial assets and director's discretionary bonus totalling HK$91.9 million.*

7. *The calculation of current ratio (times) is based on the total current assets divided by total current liabilities as at 31 December.*

8. *The calculation of net gearing ratio (%) is based on net debt (being total of bank loan and convertible bonds, less cash and cash equivalents) divided by equity attributable to owners of the Company as at 31 December.*

Segmental Analysis

The business performance of individual segment for the year ended 31 December 2012 is summarised as follows:

	Core brands business		Other brands business		Manufacturing business	
	2012	2011	2012	2011	2012	2011
	HK$' million	HK$' million	HK$' million	HK$' million	HK$' million	HK$' million
Revenue from external customers	*9,508.5*	*7,597.1*	*690.9*	*529.6*	*329.7*	*450.2*
Inter-segment revenue	*83.4*	*74.0*	*-*	*-*	*1,069.4*	*1,003.1*
Total segment revenue	9,591.9	7,671.1	690.9	529.6	1,399.1	1,453.3
Segment gross profit	5,661.8	4,747.4	375.6	315.1	187.1	203.4
Segment gross margin	59.0%	61.9%	54.4%	59.5%	13.4%	14.0%
Segment operating profit/(loss)	1,475.7	1,555.1	(127.6)	(64.6)	98.1	108.1
Segment operating margin	15.4%	20.3%	(18.5%)	(12.2%)	7.0%	7.4%

Liquidity and Financial Resources

As at 31 December 2012, the Group had cash and cash equivalents totaling HK$1,494.8 million (2011: HK$1,795.7 million) denominated mainly in Renminbi, US dollar, Hong Kong dollar and New Taiwan dollar. The net decrease in cash and cash equivalents of HK$300.9 million (2011: HK$264.0 million) is analysed as follows:

	2012 HK$'million	2011 HK$'million
Net cash generated from operating activities	431.3	242.6
Capital expenditure	(521.0)	(393.7)
Proceeds from disposal of fixed assets	3.1	2.2
Proceeds from issue of shares upon exercise of share options	45.1	19.0
Net dividend paid	(300.8)	(234.2)
Net interest received	21.7	40.9
Net bank loan repaid	-	(4.0)
Net cash outflow from acquisition of other investments	-	(30.3)
Effect of exchange rate changes	19.7	93.5
	(300.9)	(264.0)

As at 31 December 2012, the Group had unutilised banking facilities amounting to HK$146.6 million (2011: HK$173.6 million) and current ratio (being current assets divided by current liabilities) was 3.7 (2011: 3.1). The Group has sufficient resources currently to support expansion and development of business in the future.

To maximise the return on idle liquid resources, the Group placed a number of principal-protected structured deposits with registered banks in Mainland China during the year. Total interest income earned for the year was HK$43.0 million (2011: HK$63.1 million).

As at 31 December 2012, the Group's net gearing, calculated on the basis of net debt (being total of bank loan and convertible bonds less cash and cash equivalents) over equity attributable to owners of the Company, was in a net cash (2011: net cash) position. The bank loan was at a floating rate during the year.

Foreign exchange risk management

The Group did not engage in any foreign exchange derivatives during the year (2011: nil). Management closely monitors the market situation and may consider tools to manage foreign exchange risk whenever necessary.

Pledge of Assets

As at 31 December 2012 and 31 December 2011, no assets were pledged as security for banking facilities of the Group.

Capital Expenditure

During the year, the Group incurred a capital expenditure of HK$521.0 million (2011: HK$393.7 million) mainly for distribution network expansion and renovation, purchase and construction of regional warehouse and offices, etc.

Contingent Liabilities

As at 31 December 2012 and 31 December 2011, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2012, the Group had over 27,000 (2011: 25,000) employees in Mainland China, Taiwan, Hong Kong and Korea. Employee and directors' expenditure for the year, including share-based payment expense of HK$36.2 million (2011: 46.1 million), amounted to HK$1,389.1 million (2011: HK$1,219.4 million). The Group values human resources and recognises the importance of retaining high calibre employees. Remuneration packages are generally structured by reference to market terms and the qualifications of individual employees. In addition, share options and discretionary bonuses are granted to eligible employees based on the performance of the Group and the individual employee. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchase discounts and training programmes to employees.

PROSPECTS

The outlook for 2013 is expected to remain challenging given prolonged uncertainties in the global economy. Notwithstanding the mitigated risks of a further slowdown, the market is wary of the fragility of the economic recovery in the United States and the Eurozone, which has been hindering China's economic growth during 2012. However, the new Chinese leadership has pledged to boost the economy by fostering domestic demand; urbanisation will continue and disposable income is expected to further increase, and therefore provide tailwind to the Group's business.

In view of these favourable push factors, the Group remains cautiously optimistic towards the retail market in China in the near and medium term. Leveraging its well-established and reputable brand name, the Group will continue to expand its presence in China for ongoing business growth.

In the beginning of 2013 near the end of winter season, the demand for mass market ladies' footwear is still affected by the slow recovery of consumer sentiment. More recently, we believe demand is bottoming out and have observed signs of improvement from the recent sales trend starting in spring season. In view of the high base effect of the first quarter of 2012, we anticipate the same store sales for the first quarter of 2013 likely be comparable to that of the same period last year. Given the improving seasonal trend, we remain confident that the consumer demand will gradually pick up in the subsequent quarters, especially when the government stimulus to domestic consumption in China begins to take effect later in the year.

The Group has reinforced and accentuated its comprehensive efficiency improvement initiatives since the second half of 2012, and will continue such endeavours in 2013 to improve cost control and enhance overall management efficiency. On the sales channel front, the Group will spearhead the steady expansion of its sales network with a focus on directly-managed stores for Core Brands.

At the sales operation level, the Group will continue to refine store operation and management to boost same store sales growth. These include enhancing the productivity of salespeople through further optimisation of rosters, increasing staff accountability, providing advanced service training and instilling a service culture to enhance the customer shopping experience.

With regard to supply chain management, the Group will continue to seek further improvement in replenishment ordering, inventory management, product quality and other aspects. Meanwhile, by making efforts to ensure a smooth set-up of the retail management system, the Group expects greater accuracy and efficiency will be achieved in product planning and allocation, inventory control and product replenishment. Such enhancements will undoubtedly give a boost to the sales performance in future.

In addition, the Group will continue to develop its mid- to high-end products into growth drivers so as to diversify its customer base in the long term. The Group will prudently review and concentrate its resources on better-performing brands to facilitate improvement in the performance of this business segment.

Cost control remains a key area of focus. The Group will continue to analyze and improve cost control in all aspects, including rental and labor costs, while enhancing staff productivity and investing in management systems to ensure long-term operating efficiencies.

With these combined efforts, the Group looks to improve its sales performance and profitability, increase its market share and footprint, and enhance its brand equity. The Group is well positioned to capitalise on the opportunities ahead to solidify its leading market position, ensure long-term growth and deliver superior shareholders' value.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK9.0 cents (2011: HK9.0 cents) per ordinary share for the year ended 31 December 2012. Subject to the approval by shareholders of the Company at the annual general meeting to be held on 13 May 2013, the payment of the final dividend will be paid on or before 30 May 2013 to shareholders whose names appear on the register of members of the Company on 21 May 2013.

CLOSURE OF REGISTER OF MEMBERS

For determining entitlement to attend and vote at the annual general meeting of the Company, the register of members will be closed from 9 May 2013 to 13 May 2013, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attendance and voting at the annual general meeting of the Company, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 8 May 2013.

For determining entitlement to the final dividend, the register of members will be closed from 20 May 2013 to 21 May 2013, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 16 May 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2012. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Former CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which came into effective on 1 January 2005 and was revised and renamed as Corporate Governance Code and Corporate Governance Report ("New CG Code") with effect from 1 April 2012.

During the year ended 31 December 2012, the Company was in compliance with all the code provisions set out in the Former CG Code and the New CG Code except for the deviations from code provisions A.2.1 and A.6.7 which are explained below.

Mr Chen Ying-Chieh is the Chairman of the Board and the Chief Executive Officer of the Company. This was in deviation from code provision A.2.1 of the Former CG Code and New CG Code which stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. As Mr Chen has been with the Group for over 20 years and he has extensive experience in the footwear distribution industry, the Board believes that it is in the best interest of the Group to have Mr Chen taking up both roles for continuous effective management and business development of the Group. The Board will periodically review the balance of power and authority between the Board and the management of the Company and considers segregating the roles when it thinks appropriate.

During the year, Mr Kim Jin-Goon, the non-executive director of the Company, Mr Huang Shun-Tsai and Mr Kuo Jung-Cheng, the independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 25 April 2012 due to their unavoidable business engagements. This was in deviation from code provision A.6.7 of the Former CG Code and New CG Code.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all directors of the Company confirmed that they had complied with the required standards as set out in the Model Code during the year ended 31 December 2012.

AUDIT COMMITTEE

The Audit Committee, comprises the three independent non-executive directors and one non-executive director of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's consolidated financial statements have been reviewed and approved by the Audit Committee, who is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

ANNUAL GERNAL MEETING

The annual general meeting of the Company will be held on 13 May 2013. A notice of the annual general meeting will be issued and disseminated to shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT AND REPORT

This results announcement is published on the websites of HKExnews (http://www.hkexnews.hk) and the Company (http://www.daphneholdings.com). The annual report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the same websites in due course.

By Order of the Board
Daphne International Holdings Limited
Chen Ying-Chieh
Chairman

Hong Kong, 20 March 2013

As at the date of this announcement, the Board comprises Mr. Chen Ying-Chieh, Mr. Chang Chih-Kai, Mr. Chang Chih-Chiao and Mr. Chen Tommy Yi-Hsun being the executive directors, Mr. Kim Jin-Goon being the non-executive director; Mr. Huang Shun-Tsai, Mr. Kuo Jung-Cheng and Mr. Lee Ted Tak Tai being the independent non-executive directors and Mr. Lau Wai Kei, Ricky being the alternate director to Mr. Kim Jin-Goon.