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 2011

HIGHLIGHTS OF 2011 ANNUAL RESULTS

- Turnover grew by 29% to HK$8,576.8 million
- Gross profit rose by 38% to HK$5,243.8 million
- Profit attributable to owners of the Company of HK$933.1 million
  - increased by 39%, excluding fair value loss on warrants of HK$77.3 million in 2010
  - increased by 57%, including fair value loss on warrants of HK$77.3 million in 2010
- Basic earnings per share of HK56.96 cents
  - increased by 39%, excluding fair value loss on warrants of HK$77.3 million in 2010
  - increased by 57%, including fair value loss on warrants of HK$77.3 million in 2010
- Proposed final dividend of HK9.0 cents per share

* *for identification purpose only*

ANNUAL RESULTS

The board of directors (the "Board") of Daphne International Holdings Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011, together with the comparative figures for 2010 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Year ended 31 December 2011 HK$'000	Year ended 31 December 2010 HK$'000
Turnover	2	8,576,762	6,623,840
Cost of sales		(3,332,985)	(2,822,999)
Gross profit		5,243,777	3,800,841
Other income	3	121,354	88,869
Other (losses)/gains - net	4	(74,203)	11,729
Selling and distribution expenses		(3,366,335)	(2,485,379)
General and administrative expenses		(556,026)	(444,390)
Fair value loss on derivative financial instrument - warrants		-	(77,328)
Finance costs		(46,907)	(44,799)
Share of profit of an associated company		421	618
Profit before income tax	5	1,322,081	850,161
Income tax expense	6	(377,350)	(238,550)
Profit for the year		944,731	611,611
Attributable to:			
Owners of the Company		933,063	595,510
Non-controlling interests		11,668	16,101
		944,731	611,611
Earnings per share	7		
Basic (HK cents)		56.96	36.36
Diluted (HK cents)		52.23	34.15
Dividends	8	278,826	196,548

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Profit for the year	944,731	611,611
Currency translation differences	149,013	86,901
Total comprehensive income for the year	1,093,744	698,512
Attributable to:		
Owners of the Company	1,077,576	679,843
Non-controlling interests	16,168	18,669
	1,093,744	698,512

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2011 HK$'000	2010 HK$'000
Non-current assets			
Intangible assets		129,926	129,889
Land use rights		51,196	50,336
Fixed assets		899,662	710,850
Interest in an associated company		3,359	3,338
Available-for-sale financial assets		16,624	63,183
Deposits paid for acquisition of fixed assets		63,947	-
Long-term rental deposits and prepayments		175,564	109,294
Deferred income tax assets		106,469	56,388
		1,446,747	1,123,278
Current assets			
Inventories		2,058,526	1,084,308
Trade receivables	9	274,303	210,430
Other receivables, deposits and prepayments		926,096	571,360
Bank deposit with maturity over three months		-	35,385
Cash and cash equivalents		1,795,744	2,024,289
		5,054,669	3,925,772
Current liabilities			
Trade payables	10	819,131	577,949
Other payables and accrued charges		563,497	371,957
Income tax payable		250,612	199,295
Bank loan – unsecured		6,998	11,281
		1,640,238	1,160,482
Net current assets		3,414,431	2,765,290
Total assets less current liabilities		4,861,178	3,888,568

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Equity		
Share capital	164,096	163,789
Reserves	3,871,771	2,960,543
Equity attributable to owners of the Company	4,035,867	3,124,332
Non-controlling interests	195,759	183,271
Total equity	4,231,626	3,307,603
Non-current liabilities		
Convertible bonds	605,879	556,622
License fee payables	4,138	3,460
Deferred income tax liabilities	19,445	5,171
Other non-current liabilities	90	15,712
	629,552	580,965
Total equity and non-current liabilities	4,861,178	3,888,568

1. Basis of preparation

The consolidated accounts 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 accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

The preparation of accounts 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 2011

HKAS 24 (Revised) "Related Party Disclosures" amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous years.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

Amendments to HKFRS 7 "Financial Instruments: Disclosures" (as part of the improvements to HKFRSs issued in 2010) requires disclosures in respect of the description of collateral held as security and of other credit enhancements and their financial effect of the amount that best represents the maximum exposure to credit risk. The disclosures about the Group's financial instruments are consistent with the amended disclosures requirements. These amendments do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements in the current and previous years.

Standards, amendments and interpretations that have been issued but are not yet effective nor have been adopted by the Group in 2011

HKAS 1 (Amendments)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income [3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets [2]
HKAS 19 (2011)	Employee Benefits [4]
HKAS 27 (2011)	Separate Financial Statements [4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [4]
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities [5]
HKFRS 1 (Amendments)	First-time Adoption of HKFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfer of Financial Assets [1]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities [4]
HKFRS 9 (Amendments)	Financial Instruments [6]
HKFRS 10	Consolidated Financial Statements [4]
HKFRS 11	Joint Arrangements [4]
HKFRS 12	Disclosure of Interests in Other Entities [4]
HKFRS 13	Fair Value Measurement [4]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine [4]

[1] Effective for accounting periods beginning on or after 1 July 2011
[2] Effective for accounting periods beginning on or after 1 January 2012
[3] Effective for accounting periods beginning on or after 1 July 2012
[4] Effective for accounting periods beginning on or after 1 January 2013
[5] Effective for accounting periods beginning on or after 1 January 2014
[6] Effective for accounting periods beginning on or after 1 January 2015

The adoption of the above new/revised HKFRSs may affect the presentation and disclosure of the accounts 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 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
2011						
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)
Finance costs						(46,907)
Share of profit of an associated company						421
Profit before income tax						1,322,081
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
2010						
Revenue from external customers	5,646,545	409,680	567,615	-	-	6,623,840
Inter-segment revenue	50,020	20,666	594,516	(665,202)	-	-
Total segment revenue	5,696,565	430,346	1,162,131	(665,202)	-	6,623,840
Segment results	1,006,193	(86)	51,564	5,576	-	1,063,247
Amortisation of intangible assets						(7,171)
Unallocated corporate income						3,095
Unallocated corporate expenses						(87,501)
Fair value loss on derivative financial instrument - warrants						(77,328)
Finance costs						(44,799)
Share of profit of an associated company						618
Profit before income tax						850,161
Amortisation of intangible assets	-	7,171	-	-	-	7,171
Amortisation of land use rights	753	-	640	-	-	1,393
Depreciation of fixed assets	106,359	11,063	16,234	-	-	133,656
Capital expenditure	232,266	16,445	32,609	-	-	281,320

During the year, to better reflect management's perspective on segment information, the directors have assessed and redefined operating business segments such that core brands business, other brands business and manufacturing business are reported. The comparative figures have been restated to conform with the current year's presentation.

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 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 2011 and 31 December 2010.

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 available-for-sale financial assets and deferred income tax assets, are located mainly in Mainland China.

3. Other income

	2011 HK$'000	2010 HK$'000
Interest income	63,143	37,151
Government incentives	35,569	30,488
Franchise and royalty income	7,588	6,283
Income derived from an available-for-sale financial asset	3,000	3,000
Vendor rebate	1,001	957
Handling income	919	662
Gross rental income	1,010	350
Others	9,124	9,978
	121,354	88,869

4. Other (losses)/gains – net

	2011 HK$'000	2010 HK$'000
Fair value loss on available-for-sale financial assets	(61,872)	-
Loss on disposal of fixed assets	(13,558)	(12,392)
Net exchange gain	1,227	14,628
Net gain on early termination of a license right	-	9,493
	(74,203)	11,729

5. Profit before income tax

Profit before income tax is stated after charging/(crediting) the following:

	2011 HK$'000	2010 HK$'000
Amortisation of land use rights	1,611	1,393
Amortisation of license rights	2,873	3,774
Amortisation of trademarks	3,770	3,397
Auditors' remuneration	6,067	5,769
Cost of inventories sold including provision for slow-moving inventories of HK$48,024,000 (2010: write-back of provision of HK$16,835,000)	2,765,217	2,410,482
Depreciation of fixed assets	177,602	133,656
Employee benefits expense including directors' emoluments	1,219,393	836,555
Operating lease rentals (including concessionaire fees) in respect of land and buildings	1,686,332	1,313,866
Net provision for/(write-back of) impairment of trade receivables	423	(156)

6. Income tax expense

	2011 HK$'000	2010 HK$'000
Current tax	409,100	248,030
Under-provision in prior years	1,215	1,654
Deferred tax	(32,965)	(11,134)
	377,350	238,550

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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 countries/places in which the Group operates.

Provision for China corporate income tax was calculated based on the statutory tax rate of 25% (2010: 25%) on the assessable income of each of the Group's entities except that certain subsidiaries of the Company operating in China are eligible for certain tax exemptions and concessions including tax holiday and reduced corporate income tax rate during the year. Accordingly, the China corporate income tax for such subsidiaries has been provided for after taking into account of these tax exemptions and concessions.

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$933,063,000 (2010: HK$595,510,000) and the weighted average of 1,638,204,932 (2010: 1,637,892,384) 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$978,514,000 (2010: HK$637,093,000) and the adjusted weighted average of 1,873,549,453 (2010: 1,865,789,759) ordinary shares after taking into consideration of conversion of convertible bonds and exercise of share options and warrants.

	2011 HK$'000	2010 HK$'000
Profit attributable to owners of the Company	933,063	595,510
Interest on convertible bonds	45,451	41,583
Adjusted profit attributable to owners of the Company	978,514	637,093
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	1,638,204,932	1,637,892,384
Effect of conversion of convertible bonds	178,510,572	178,510,572
Effect of exercise of share options	10,394,297	49,386,803
Effect of exercise of warrants	46,439,652	-
Weighted average number of ordinary shares adjusted for effect of dilution	1,873,549,453	1,865,789,759

For the year ended 31 December 2011, 5,100,000 share options outstanding are anti-dilutive and are ignored in the calculation of diluted earnings per share since the exercise prices of the share options were higher than the average market prices during the year.

For the year ended 31 December 2010, the warrants are anti-dilutive and are ignored in the calculation of diluted earnings per share.

8. Dividends

	2011 HK$'000	2010 HK$'000
Interim dividend, paid, of HK8.0 cents (2010: HK6.0 cents) per ordinary share	131,031	98,274
Final dividend, proposed, of HK9.0 cents (2010: HK6.0 cents) per ordinary share	147,795	98,274
	278,826	196,548

At a meeting held on 19 March 2012, the Board proposed a final dividend of HK9.0 cents per share in respect of the year ended 31 December 2011 to be approved by the shareholders at the forthcoming annual general meeting. The proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained profits for the year ending 31 December 2012.

9. Trade receivables

	2011 HK$'000	2010 HK$'000
Trade receivables	276,217	212,151
Less: Provision for impairment of receivables	(1,914)	(1,721)
Trade receivables - net	274,303	210,430

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

	2011 HK$'000	2010 HK$'000
0 - 30 days	215,865	193,902
31 - 60 days	40,294	11,066
61 - 90 days	9,762	2,331
91 - 120 days	4,422	1,677
121 - 180 days	1,974	430
181 - 360 days	818	895
Over 360 days	1,168	129
	274,303	210,430

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:

	2011 HK$'000	2010 HK$'000
0 - 30 days	592,334	315,781
31 - 60 days	157,978	199,075
61 - 90 days	46,896	28,489
91 - 120 days	14,650	15,416
121 - 180 days	3,448	6,238
181 - 360 days	3,351	5,212
Over 360 days	474	7,738
	819,131	577,949

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Number of points-of-sale as at 31 December

	2011	2010	Change
Core Brands Business	5,602	4,902	+700
Other Brands Business	563	297	+266
Total	6,165	5,199	+966

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
2011	614	1,100	863	3,025	5,602
2010	540	945	756	2,661	4,902

Core Brands Business

The economy in China remained strong in 2011, with GDP growth of over 9%. The stimulus policies of the Chinese government raised income levels and encouraged domestic consumption. Ongoing urbanisation further fuelled retail market expansion and boosted consumption amongst both the urban and sub-urban population. Amid a robust market environment in 2011, the Group's core brands, "Daphne" and "Shoebox", both achieved impressive performance in Mainland China. Turnover of core brands business increased by approximately 35% to HK$7,671.1 million from HK$5,696.6 million in 2010. Several factors played a role in driving the increase in turnover. The retail network continued to expand with a net increase of 700 points-of-sale. Enhanced product design and planning, as well as strengthened marketing efforts made our products more attractive and appealing. More efficient supply chain management, together with steady inventory supply, led to improved sales in the spring/summer season, and continued to facilitate strong sales growth in the second half of the year. As improvements in various aspects were made to drive better operational efficiency and boost sales, these concerted efforts were reflected in the strong same store sales growth. Turnover growth was driven by increase in both average selling price and volume, reflecting a growing customer base.

Gross profit margin reached 61.9%, with an increase of 2.3 percentage points, reflecting enhanced operational efficiency and more balanced sales growth. Operating margin also increased to 20.3% from 17.7% in 2010, despite the increase in rental pressure and rising labour costs during the year.

The "Brand Revamp" programme for "Daphne" launched in the fourth quarter of 2010, including the introduction of a new logo and new store design, and an uplift of the marketing program, continued to roll out in 2011. The programme has linked "Daphne" with a refreshing, friendly and joyful image. It was well received by the market and helped contribute to higher store traffic and sales during the year. During the year, "Shoebox" continued its fast pace of network expansion by adding stores at areas where "Daphne" has strong presence, as well in new areas. As at 31 December 2011, the Group had 4,547 directly-managed points-of-sale (2010: 3,918) and 1,055 (2010: 984) franchised outlets for its core brands business.

Other Brands Business

Other brands business mostly refers to the operation of mid- to high-end brands, including own-brands and licensed brands, in Mainland China, Taiwan and Hong Kong. The brand portfolio, mainly consisting of "AEE", "Ameda", "dulala", "ALDO", and "Aerosoles", represents the Group's initiative to diversify and broaden its reach to the growing middle-class consumers group, and continue to serve those "Daphne" customers who have grown to become more discerning and sophisticated. For the year ended 31 December 2011, turnover of other brands business was HK$529.6 million (2010: HK$430.3 million).

The Group completed the integration of the acquired business of Full Pearl, and enriched its brand portfolio during the year. Among the brands, "dulala", our own-label, was introduced in 2011, and the Group launched "Aerosoles" and "ALDO", two licensed brands, in Mainland China as well. Focus was put on building an extensive retail network to increase its market presence. The Group allocated resources to bolster the brand management capability since the fourth quarter of the year, with the aim of improving the operational efficiency and brand building, thus paving the way for enhanced performance in future. As at 31 December, 2011, the Group had 563 points-of-sale (2010: 297) for its other brands business.

Manufacturing Business

To provide greater production support to the expanding core brands business, during the year the manufacturing business continued to adjust its allocation of production capacity as to reduce the volume produced for OEM orders. In addition to shifting more capacity to produce core brands products from its OEM facility, the manufacturing business also sought to increase its overall production capacity to provide stronger support to the growing core brands business.

FINANCIAL REVIEW

Results Performance

For the year ended 31 December 2011, the Group's turnover increased by 29% to HK$8,576.8 million (2010: HK$6,623.8 million) while operating profit (being profit before fair value loss on warrants, finance costs, share of profit of an associated company and income tax expense) increased by 41% to HK$1,368.6 million (2010: HK$971.7 million). Profit attributable to shareholders was HK$933.1 million (2010: HK$595.5 million), including the fair value loss on warrants of HK$77.3 million recognised in 2010, increased by 57%. Basic earnings per share was HK56.96 cents (2010: HK36.36 cents). The Board recommended payment of a final dividend of HK9.0 cents (2010: HK6.0 cents) per share for the year ended 31 December 2011. Including interim dividend of HK8.0 cents (2010: HK6.0 cents) per share, total dividend per share for 2011 is HK17.0 cents (2010: HK12.0 cents), representing an increase of 42% compared to last year. Total dividend payout is 30% (2010: 29%, based on EPS excluding fair value loss on warrants).

Key Financial Indicators

	For the year ended 31 December	
	2011	2010
Average inventory turnover (days) *(Note 1)*	172	128
Average debtors turnover (days) *(Note 2)*	10	11
Average creditors turnover (days) *(Note 3)*	68	69
Cash conversion cycle (days) *(Note 4)*	114	70
Capital expenditure (HK$ million) *(Note 5)*	393.7	281.3
Effective tax rate (%) *(Note 6)*	26.7	25.7

	As at 31 December	
	2011	2010
Cash and bank balances (HK$ million) *(Note 7)*	1,795.7	2,059.7
Bank loans (HK$ million)	7.0	11.3
Convertible bonds (HK$ million)	605.9	556.6
Equity attributable to owners of the Company (HK$ million)	4,035.9	3,124.3
Current ratio (times) *(Note 8)*	3.1	3.4
Net gearing ratio (%) *(Note 9)*	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 is calculated based on income tax expense divided by profit before income tax excluding fair value loss on warrants of HK$77.3 million in 2010, impairment loss on investments of HK$61.9 million (2010: Nil) and director's discretionary bonus of HK$30.0 million (2010: Nil).*

7. *Cash and bank balances comprise cash and cash equivalent and bank deposit with maturity over three months.*

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

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

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

HK$'million	Core Brands Business		Other Brands Business		Manufacturing Business	
	2011	2010	2011	2010	2011	2010
Revenue from external customers	7,597.1	5,646.5	529.6	409.7	450.2	567.6
Inter-segment revenue	74.0	50.0	-	20.6	1,003.1	594.5
Total segment revenue	7,671.1	5,696.5	529.6	430.3	1,453.3	1,162.1
Segment gross profit	4,747.4	3,397.8	315.1	224.1	203.4	180.0
Segment operating profit/(loss)	1,555.1	1,006.2	(64.6)	(0.1)	108.1	51.6

Liquidity and Financial Resources

As at 31 December 2011 and 31 December 2010, the Group has a healthy net cash position. Cash and bank balances, comprised of cash and cash equivalents and bank deposits with maturity over three months, was HK$1,795.7 million (2010: HK$2,059.7 million). The net decrease of HK$264.0 million (2010: net increase of HK$433.9 million) is analysed as follows:

	2011 HK$'million	2010 HK$'million
Net cash generated from operating activities	242.6	892.3
Capital expenditure	(393.7)	(281.3)
Proceeds from disposal of fixed assets	2.2	4.1
Net dividend paid	(234.2)	(183.8)
Net bank loans repaid	(4.0)	(34.0)
Net cash flow from acquisition of subsidiaries and other investment	(30.3)	(32.3)
Net interest received	40.9	16.5
Proceeds from issue of shares upon exercise of share options	19.0	-
Effect of exchange rate changes	93.5	52.4
	(264.0)	433.9

As at 31 December 2011, the Group had unutilised banking facilities amounting to HK$173.6 million (2010: HK$214.9 million) and current ratio (being current assets divided by current liabilities) was 3.1 (2010: 3.4). 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-guaranteed structured deposits with registered banks in Mainland China. The interest income earned for the year was HK$63.1 million (2010: HK$37.1 million), being 1.7 times the amount of last year.

As at 31 December 2011, the Group's net gearing, calculated on the basis of net debt (being total bank loans and convertible bonds less total cash and bank balances) over shareholders' equity, was in a net cash (2010: net cash) position. All bank loans were at floating rates during the year.

Foreign exchange risk management

The Group did not engage in any foreign exchange derivatives during the year (2010: 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 2011 and 31 December 2010, 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$393.7 million (2010: HK$281.3 million) mainly for retail network expansion and renovation, purchase and construction of regional warehouse and offices, etc.

Contingent Liabilities

As at 31 December 2011 and 31 December 2010, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2011, the Group had over 25,000 (2010: 23,000) employees in Mainland China, Taiwan, Hong Kong and Korea. Employee and directors' expenditure for the year, including share-based payment expense of HK$46.1 million (2010: 58.6 million), amounted to HK$1,219.4 million (2010: HK$836.6 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

China will continue to see a relative high economic growth in 2012, as compared to developed markets, with its GDP expected to grow at 7.5%. As the Chinese government carries on its measures to drive growth led by domestic consumption, along with the wage increase, and accelerated urbanisation, we believe the retail market will continue to grow steadily.

Looking ahead, the Group remains committed to expanding its presence in Mainland China to capitalise the vast potential of this growing market. We aim to add 700 points-of-sale for our core brands, "Daphne" and "Shoebox", in 2012, and maintain strategic focus on establishing directly-managed points-of-sale over franchised outlets.

According to a national survey "China Brand Power Index" conducted by the China Brand Research Centre and commissioned by the Ministry of Industry and Information Technology of the Chinese government, "Daphne" ranked as the top brand in the ladies' shoes category for two consecutive years (2011 and 2012). This comprehensive survey involved 30 cities in Mainland China. Therefore the award showcases the strong brand equity and leading market status "Daphne" enjoys. The Group will continue to build on this strong platform to elevate the performance of "Daphne" and extend its strength to its brand portfolio.

The Group will seek continuous improvement in various functions to enhance operational efficiency and bolster sales. Efforts will include strengthening product development and planning, employing integrated marketing efforts, optimising the supply chain, developing greater specialisation of sales operation and channel management, and enhancing dedicated brand management.

As an initiative to diversify by leveraging the Group's solid fundamentals, the development of the mid- to high-end brand portfolio presents an opportunity to tap the growing middle class in China. The Group will make every endeavour to enhance the performance of this business segment expects to start bearing fruit as brand management strategies begin to effect.

Underpinning all of the above efforts is a highly experienced management team that has been made even stronger. As this team seeks to refine every facet of operation and leverage the Group's competitive advantages, we are confident that the Group will realise steady progress in capitalising the promising retail market in China, and continue to deliver value to shareholders.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK9.0 cents (2010: HK6.0 cents) per ordinary share for the year ended 31 December 2011. Subject to the approval by shareholders of the Company at the annual general meeting to be held on 25 April 2012, the payment of the final dividend will be paid on or before 4 May 2012 to shareholders whose names appear on the register of members of the Company on 25 April 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 April 2012 to 25 April 2012 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the final dividend and to attend and vote at the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on 20 April 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2011. 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 complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the year.

On 27 January 2011, Mr. Chen Ying-Chieh, the Chairman of the Company, was appointed as the Chief Executive Officer of the Company. This was in deviation from Code Provision A.2.1 of the Code. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. Going forward, the Group will periodically review the effectiveness of this arrangement and considers segregating the roles when it thinks appropriate.

On 27 January 2011, Mr. Chen Hsien Min was re-designated as a non-executive director of the Company who was not appointed for a specific term but is subject to retirement by rotation and is eligible for re-election. This was in deviation from Code Provision A.4.1 of the Code. The Board considers that sufficient measures have been taken to ensure the Company's corporate governance practices are no less exacting than those in the Code. On 31 December 2011, Mr Chen Hsien Min retired as a non-executive director of the Company.

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 2011.

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 accounts have been reviewed and approved by the Audit Committee, who is of the opinion that such accounts 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 25 April 2012. 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, 19 March 2012

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.