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 2019

HIGHLIGHTS OF 2019 ANNUAL RESULTS

- The Group's total turnover amounted to HK$2,126.4 million
- Gross margin decreased by 13.2 percentage points to 36.7%
- Loss attributable to shareholders increased by 8% to HK$1,070.1 million
- Inventories decreased by HK$830.3 million to HK$162.0 million
- Cash and cash equivalents amounted HK$182.1 million

* *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 (together the "Group") for the year ended 31 December 2019, together with the comparative figures for 2018.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	**2019** **HK$'000**	2018 HK$'000
Turnover	3	**2,126,362**	4,127,087
Cost of sales		**(1,345,224)**	(2,066,058)
Gross profit		**781,138**	2,061,029
Other income	4	**25,832**	42,599
Other losses – net	5	**(3,679)**	(22,223)
Selling and distribution expenses		**(1,512,410)**	(2,565,009)
General and administrative expenses		**(310,416)**	(302,973)
Operating loss	6	**(1,019,535)**	(786,577)
Finance costs	7	**(21,346)**	(5,660)
Share of losses of associates and joint ventures		**(1,291)**	(868)
Loss before income tax		**(1,042,172)**	(793,105)
Income tax expense	8	**(54,254)**	(217,088)
Loss for the year		**(1,096,426)**	(1,010,193)
Attributable to:			
Shareholders		**(1,070,127)**	(994,397)
Non-controlling interests		**(26,299)**	(15,796)
		(1,096,426)	(1,010,193)
Loss per share, basic and diluted *(HK cents)*	9	**(64.9)**	(60.3)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	HK$'000	HK$'000
Loss for the year	**(1,096,426)**	(1,010,193)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(506)**	(129)
Items that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**(18,236)**	(105,905)
Change in fair value of an equity investment at fair value through other comprehensive income	**-**	(70)
Total comprehensive loss for the year	**(1,115,168)**	(1,116,297)
Attributable to:		
Shareholders	**(1,087,179)**	(1,096,267)
Non-controlling interests	**(27,989)**	(20,030)
	(1,115,168)	(1,116,297)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Land use rights		**-**	39,803
Property, plant and equipment		**167,265**	463,650
Investment properties		**369,645**	173,092
Right-of-use assets		**68,622**	-
Interests in associates		**1,481**	1,868
Interests in joint ventures		**1,002**	1,949
Long-term rental deposits and prepayments		**-**	59,597
Deferred income tax assets		**-**	47,705
		608,015	787,664
Current assets			
Inventories		**162,013**	992,314
Trade receivables	11	**64,875**	160,100
Other receivables, deposits and prepayments		**142,689**	526,163
Pledged bank deposits		**-**	174,248
Cash and cash equivalents		**182,059**	186,521
		551,636	2,039,346
Assets classified as held-for-sale		**71,713**	142,360
		623,349	2,181,706
Current liabilities			
Trade payables	12	**138,700**	530,629
Other payables and accrued charges		**226,912**	312,859
Lease liabilities		**25,621**	-
Contract liabilities		**7,407**	9,717
Current income tax liabilities		**5,169**	7,558
Bank loans		**-**	192,309
		403,809	1,053,072
Liabilities directly associated with assets classified as held-for-sale		**8,045**	992
		411,854	1,054,064
Net current assets		**211,495**	1,127,642
Total assets less current liabilities		**819,510**	1,915,306

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

	2019	2018
	HK$'000	HK$'000
Equity attributable to shareholders		
Share capital	**164,914**	164,914
Reserves	**527,797**	1,614,911
	692,711	1,779,825
Non-controlling interests	**103,642**	131,631
Total equity	**796,353**	1,911,456
Non-current liabilities		
Lease liabilities	**20,469**	-
Deferred income tax liabilities	**2,688**	3,850
	23,157	3,850
Total equity and non-current liabilities	**819,510**	1,915,306

NOTES TO THE FINANCIAL INFORMATION

1 General information

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

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

The consolidated financial statements are presented in Hong Kong dollars (“HK$”) unless otherwise stated.

2 Principal accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) and disclosure requirements of Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention.

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

(i) Going concern basis

The Group recorded a loss of HK$1,096,426,000 (2018: HK$1,010,193,000) and a net cash generated from operating activities of HK$218,129,000 (2018: Net cash used in operating activities of HK$157,781,000) for the year ended 31 December 2019. The Group’s cash used in lease payments for the year ended 31 December 2019 of HK$270,991,000 is classified and included in cash used in financing activities upon the adoption of HKFRS 16 “Leases”. As at 31 December 2019, the Group had cash and cash equivalents of HK$182,059,000 (2018: HK$186,521,000).

Following the outbreak of Coronavirus Disease 2019 in early 2020 (the “COVID-19 outbreak”), a series of precautionary and control measures have been and continued to be implemented across mainland China, such as extension of the Chinese New Year holiday and certain restrictions and controls over travelling of people. Such precautionary and control measures have limited the normal operations of the Group in mainland China, especially the opening of its retail stores, and also severely affected the consumer sentiment. If the present situation in respect of the COVID-19 outbreak continued and the restrictions and control measures are prolonged, the Group’s operation performance and cash flow may be negatively affected.

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.

The management have, during the year and up to the date of the approval of these consolidated financial statements, taken the following measures and plans 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. Under the current unfavourable economic situation and challenging retail business environment, the Group continued to face decrease in sales volume and average selling price in its directly-managed stores during the year ended 31 December 2019. The Group has therefore adopted a strategy to mainly focus on the development of its e-commerce business and supplemented by a reduced scale of physical store network. During 2019, the Group has substantially scaled down its physical store network and restructured its back office to minimise its operating costs.

(b) In addition, the Group has entered into contractual arrangements with certain third parties (“operation partners”) to transfer the operating rights of all its remaining directly-managed stores in mainland China to reduce its operational leverage. Under such arrangement, the Group will supply its products for sale in the relevant stores on a consignment basis and the operation partners will collect an agreed percentage of the turnover of the relevant stores as concessionary fees. All the store operating costs, such as store staff salaries and rental expenses, will be borne by the operation partners.

(c) Management is closely monitoring the development of the COVID-19 outbreak and assessing its impact to the Group. Meanwhile, the Group has taken a number of measures to restore operations of its physical retail stores to normal and to minimise the adverse financial impact to the Group. These measures, among others, include negotiation with suppliers to adjust the terms of the purchase orders already placed, revisiting its merchandise purchasing plan and further control of administrative expenses.

(d) In December 2019 and January 2020, the Group entered into various agreements to dispose of certain properties with an aggregate carrying value of HK$23,167,000 at a total consideration of HK$28,415,000, out of which HK$6,853,000 has been collected subsequent to the year end date, the balance of the consideration of HK$21,562,000 is expected to be collected by the Group in April 2020. The Group also intends to further dispose certain of its non-core properties with a carrying value of approximately HK$47,688,000 in 2020 in an effort to enhance its liquidity position.

(e) On 27 March 2020, the Chairman of the Company has confirmed his intention to arrange a loan facility to the Group for a term of up to one year amounting to approximately HK$50,000,000 as and when needed.

(f) The Group continues to look for additional sources of financing to enhance its financial position.

The directors of the Company have reviewed the Group’s cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from 31 December 2019. Based on these cash flow projections, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2019. The Group’s ability to achieve the projected cash flows depends on management’s ability to achieve the following:

(a) successful implementation of a business plan for its Core Brands Business to improve operating results and generate cash inflow;

(b) successful implementation of measures to minimise the adverse impact of the COVID-19 outbreak on its operations and timely restoration of the Group's normal operation upon the uplift of the precautionary and control measures;

(c) successful disposal of non-core properties and collection of sales proceeds in the expected timeframe; and

(d) successful draw down of funds from financial support to be provided by the Chairman as mentioned above and raising of additional new sources of financing, as and when needed.

The directors of the Company, 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 31 December 2019. Accordingly, the directors considered it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis.

(ii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to Annual Improvements Project	Annual Improvements 2015 – 2017 Cycle
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

The Group changed its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the simplified transition approach and has not restated comparatives for the 2018 reporting period. This is disclosed in Note 2.2. Other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iii) New and amended standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Change in accounting policy

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted simplified transition approach and has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening consolidated balance sheet on 1 January 2019. The new accounting policies are disclosed below.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged from 2.7% to 5.6%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 "Determining whether an Arrangement contains a Lease".

(ii) Measurement of lease liabilities

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	716,747
Discounted using the lessee's incremental borrowing rate of the date of initial application	(25,240)
Less: short-term leases and low-value leases recognised on a straight-line basis as expense	(234,238)
Lease liabilities recognised as at 1 January 2019	457,269
Of which are:	
Current lease liabilities	312,899
Non-current lease liabilities	144,370
	457,269

(iii) Measurement of right-of-use assets

Land use rights previously presented as a separate item on balance sheet were grouped as part of right-of-use assets with effect from 1 January 2019. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Consolidated balance sheet (extract)	At 31 December 2018 As originally presented HK$'000	Effect of the adoption of HKFRS 16 HK$'000	At 1 January 2019 Restated HK$'000
Non-current assets			
Land use rights	39,803	(39,803)	-
Long-term rental deposits and repayments	59,597	(7,059)	52,538
Right-of-use assets	-	583,347	583,347
Current assets			
Other receivables, deposits and prepayments	526,163	(90,853)	435,310
Current liabilities			
Other payables and accrued charges	312,859	(13,864)	298,995
Lease liabilities	-	312,899	312,899
Non-current liabilities			
Lease liabilities	-	144,370	144,370

The net impact on the Group's retained profits on 1 January 2019 as a result of adoption of HKFRS 16 is not significant.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

3 Segment information

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

The CODM has been identified as the executive directors. The CODM assesses the performance of the business from a business unit perspective, i.e. Core Brands Business, Other Brands Business and Manufacturing Business and allocate resources accordingly.

The CODM assesses the performance of the operating segments based on a measure of segment results before finance costs, amortisation and impairment of intangible assets and unallocated corporate income and expenses. Certain corporate overhead expenses, including management fee, rental and utilities were reallocated among individual segments based on estimated consumption.

Revenue from external customers is arrived at after elimination of inter-segment revenue. Inter-segment revenue is charged in accordance with terms as 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 for each of the two years ended 31 December 2019 and 2018.

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

The following is an analysis of the Group's revenue and results by reportable segment 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
Year ended 31 December 2019					
Revenue from external customers	**1,737,608**	**388,754**	**-**	**-**	**2,126,362**
Inter-segment revenue	**145,260**	**-**	**88,442**	**(233,702)**	**-**
Total segment revenue	**1,882,868**	**388,754**	**88,442**	**(233,702)**	**2,126,362**
Segment results	**(951,591)**	**(48,713)**	**(35,527)**	**21,990**	**(1,013,841)**
Corporate income					**11,389**
Corporate expenses					**(17,083)**
Operating loss					**(1,019,535)**
Finance costs					**(21,346)**
Share of losses of associates and joint ventures					**(1,291)**
Loss before income tax					**(1,042,172)**
Other information for disclosure:					
Depreciation of investment properties	**5,406**	**-**	**-**	**2,366**	**7,772**
Depreciation of property, plant and equipment	**61,531**	**5,037**	**9,901**	**3,841**	**80,310**
Depreciation of right-of-use assets	**225,511**	**25,244**	**217**	**592**	**251,564**
Capital expenditure	**26,104**	**224**	**69**	**-**	**26,397**
Year ended 31 December 2018					
Revenue from external customers	3,544,599	582,488	-	-	4,127,087
Inter-segment revenue	254,167	-	215,757	(469,924)	-
Total segment revenue	3,798,766	582,488	215,757	(469,924)	4,127,087
Segment results	(788,192)	(26,740)	1,398	15,684	(797,850)
Amortisation of intangible assets					(303)
Impairment of intangible assets					(20,371)
Corporate income					49,675
Corporate expenses					(17,728)
Operating loss					(786,577)
Finance costs					(5,660)
Share of losses of associates and joint ventures					(868)
Loss before income tax					(793,105)
Other information for disclosure:					
Amortisation of intangible assets	-	303	-	-	303
Amortisation of land use rights	738	-	135	769	1,642
Depreciation of investment properties	3,285	-	-	1,959	5,244
Depreciation of property, plant and equipment	115,758	7,164	8,345	4,478	135,745
Impairment of intangible assets	15,079	5,292	-	-	20,371
Impairment of property, plant and equipment	10,640	-	-	-	10,640
Capital expenditure	97,245	1,614	16,464	-	115,323

The following is an analysis of the Group's assets and liabilities by reportable segment as reviewed by the CODM:

	Core Brands Business HK$'000	Other Brands Business HK$'000	Manu-facturing Business HK$'000	Group HK$'000
As at 31 December 2019				
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**
As at 31 December 2018				
Segment assets	2,306,533	159,133	118,085	2,583,751
Investment properties				173,092
Interests in associates				1,868
Interests in joint ventures				1,949
Deferred income tax assets				47,705
Assets classified as held-for-sale				142,360
Corporate assets				18,645
Total assets				2,969,370
Segment liabilities	718,223	117,392	45,771	881,386
Deferred income tax liabilities				3,850
Liabilities directly associated with assets classified as held-for-sale				992
Corporate liabilities				171,686
Total liabilities				1,057,914

4 Other income

	2019	2018
	HK$'000	HK$'000
Franchise and royalty income	**3,641**	243
Government subsidies	**3,036**	19,068
Gross rental income	**12,786**	11,794
Interest income	**1,848**	5,173
Others	**4,521**	6,321
	25,832	42,599

5 Other losses - net

	2019	2018
	HK$'000	HK$'000
Gain on disposal of land use rights	**-**	2,670
Gain on disposal of subsidiaries	**4,400**	34,290
Impairment of intangible assets	**-**	(20,371)
Impairment of property, plant and equipment	**-**	(10,640)
Loss on disposal of property, plant and equipment	**(11,594)**	(17,488)
Net exchange gain/(loss)	**3,515**	(10,684)
	(3,679)	(22,223)

6 Operating loss

Operating loss is stated after charging the following:

	2019	2018
	HK$'000	HK$'000
Amortisation of land use rights	**-**	1,642
Amortisation of license rights	**-**	303
Auditors' remuneration	**3,658**	5,021
Cost of inventories sold, including reversal of provision for slow-moving inventories of HK$23,024,000 (2018: HK$314,724,000)	**1,299,376**	1,972,268
Depreciation of investment properties	**7,772**	5,244
Depreciation of property, plant and equipment	**80,310**	135,745
Depreciation of right-of-use assets	**251,564**	-
Employee benefits expense	**582,911**	752,252
Expenses relating to short-term leases and variable lease payments	**350,763**	-
Net impairment loss on financial assets	**5,767**	4,982
Loss on termination of leases	**80,173**	-
Operating lease rentals (including concessionaire fees) in respect of land and buildings	**-**	1,227,314

7 Finance costs

	2019	2018
	HK$'000	HK$'000
Interest on bank loans	**3,416**	5,660
Interest on lease liabilities	**17,930**	-
	21,346	5,660

8 Income tax expense

	2019	2018
	HK$'000	HK$'000
Current income tax	**5,743**	7,932
Under/(over) provision in prior years	**201**	(222)
Deferred income tax	**48,310**	209,378
	54,254	217,088

The weighted average domestic tax rate is 25% (2018: 24%).

The applicable rate of Hong Kong profits tax is 16.5% (2018: 16.5%). No provision for Hong Kong profits tax has been made in the financial statements as the Group does not have any assessable profit arising in Hong Kong during the years ended 31 December 2019 and 31 December 2018.

Provision for China corporate income tax is calculated based on the statutory tax rate of 25% (2018: 25%) on the assessable income of each of the Group's entities. Income tax on overseas (other than Hong Kong and mainland China) profits has been calculated on the estimated assessable profits for the year at the applicable rates of income tax prevailing in the places where the Group operates.

Pursuant to the China corporate income tax laws, 10% withholding tax is levied on all foreign investors, except that only 5% is levied for foreign investors which are incorporated in Hong Kong, in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 31 December 2007. Withholding tax at a reduced rate of 7% (2018: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable, net with value-added tax.

9 Loss per share

Basic loss per share is calculated by dividing the loss attributable to shareholders of HK$1,070,127,000 (2018: HK$994,397,000) by the weighted average number of 1,649,142,384 (2018: 1,649,142,384) shares in issue during the year.

For each of the two years ended 31 December 2019 and 2018, basic and diluted loss per share are the same as there was no dilutive potential share.

10 Dividends

The board of directors does not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: Nil).

11 Trade receivables

	2019	2018
	HK$'000	HK$'000
Trade receivables	**79,976**	169,761
Loss allowance	**(15,101)**	(9,661)
Trade receivables - net	**64,875**	160,100

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

	2019 HK$'000	2018 HK$'000
0 - 30 days	**22,058**	92,858
31 - 60 days	**16,777**	39,538
61 - 90 days	**12,328**	10,933
91 - 180 days	**10,302**	11,128
181 - 360 days	**10,034**	5,643
Over 360 days	**8,477**	9,661
	79,976	169,761

The carrying values of trade receivables approximate their fair values. The Group generally allows an average credit period of 30 to 90 days to its trade customers other than major and long standing customers with whom specific extended terms have been agreed between the Group and the relevant counter parties.

12 Trade payables

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

	2019 HK$'000	2018 HK$'000
0 - 30 days	**19,579**	171,866
31 - 60 days	**32,133**	106,575
61 - 90 days	**24,294**	161,221
91 - 180 days	**19,324**	86,121
181 - 360 days	**37,597**	118
Over 360 days	**5,773**	4,728
	138,700	530,629

13 Events occurring after the reporting period

Following the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across mainland China, such as extension of the Chinese New Year holiday and certain restrictions and controls over travelling of people. Such precautionary and control measures have limited the normal operations of the Group in mainland China, especially the opening of its retail stores, and also severely affected the consumer sentiment. These are expected to have certain negative impact on the sales of the Group in the first quarter of 2020. If the present situation in respect of the COVID-19 outbreak continued and the restrictions and control measures are prolonged, the Group's operation performance and cash flow may be negatively affected. The effect cannot be estimated as of the date on which this set of financial statements were authorised for issue. The Group will continue to closely monitor the development of the COVID-19 outbreak, take proactive measures and perform further assessment of its financial impact.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2019, the global economy was faced with uncertainties. The biggest one is the Sino-United States trade disputes that had exerted mounting downward pressure on China's economy. China's gross domestic product grew by 6%, which was the lowest growth in the past 30 years. Growth in retail sales of consumer goods in the country decelerated to 8% in 2019 from that in 2018. The sluggish economy made consumers more cautious, thus dampening the domestic demand.

The women's shoes industry has been undergoing a restructuring. The entry of more overseas and online brands into the domestic market intensified the competition. The constantly rising rents and labour cost exerted immense pressure on conventional brick-and-mortar retailers, weighing on their profitability.

According to the latest "Chinese Consumer Confidence Index" published by the National School of Development at Peking University, it is expected that the online shopping will be a sector which is the most popular among consumers with the most fast growing in consumption expenditure in the coming year. On the contrary, the willingness to shop in offline stores will wane. Consumption upgrade, accelerating urbanisation and the popularity of the internet has made online shopping a more important consumption channel among the consumer group of the present generation. The prevailing online shopping further hit the brick-and-mortar retailers. The brick-and-mortar retailers should act urgently in business transformation.

The Group's Performance

In 2019, the Group's turnover decreased by 48% to HK$2,126.4 million (2018: HK$4,127.1 million). This was mainly attributable to the significant decrease in its number of stores to 425 as at 31 December 2019 from 2,820 as at 31 December 2018, and the unsatisfactory performance of the Core Brands Business. The Group's gross profit decreased to HK$781.1 million (2018: HK$2,061.0 million) as a result of the decrease in turnover and the increased proportion of aged inventory in sales mix. Gross margin decreased to 36.7% (2018: 49.9%).

The Group recorded an operating loss of HK$1,019.5 million in 2019 compared with the operating loss of HK$786.6 million in 2018. Loss attributable to shareholders of the Group was HK$1,070.1 million for the year of 2019 (2018: HK$994.4 million).

Basic loss per share was 64.9 HK cents (2018: 60.3 HK cents). The board of directors did not recommend payment of a final dividend (2018: Nil).

During the year, as part of the business transformation, the Group stepped up its efforts to liquidate aged inventory, significantly reducing its inventory level by 84% to HK$162.0 million as at 31 December 2019 from HK$992.3 million as at 31 December 2018. The average inventory turnover days significantly decreased by 41 days to 157 days (2018: 198 days). The Group's continued efforts in inventory management helps build a healthy inventory structure in the long run and facilitates its gradual shift towards an "asset-light" business model.

To cope with the increasingly difficult operating environment and rising cost pressures, the Group accelerated the restructuring of its sales channel to adopt the "asset-light" business model. During the year under review, the Group converted most of its directly-managed stores to "partnership system". In addition, as to the small number of new-image stores which are directly operated by the Group and located in shopping malls, the Group also has proactively oriented their layout to the shopping habits of young consumers and made such stores project a youthful and stylish brand image. This will not only help mitigate the negative operating leverage effect brought by high fixed cost, but also help the Group to explore a way to attain sustainable development during the painful period of the restructuring of its business. After a net closure of 2,395 points-of-sale ("POS") in 2019, the Group had a total number of 425 POS as at 31 December 2019, of which 360 POS were under its Core Brands Business and 65 POS were under its Other Brands Business.

Moreover, the Group carried out significant organisational restructuring that covers the frontline operations, regional logistics and the headquarters to match the streamlined sales network. This helped the Group to have a well-managed cost base for the long term development with an “asset-light” business model.

During the year under review, with the “Store Empowerment Tool” as a platform for customer loyalty program, the Group offered exclusive shopping guide service to its VIP customers, listened to client’s feedback in a timely manner, provided exclusive offerings and incentives, and shared the latest information about products and membership activities.

Core Brands Business

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

To speed up the business transformation, the Group took a more aggressive approach to the restructuring of its sales channel in 2019. During the year under review, the Group recorded a net closure of 2,288 POS (including 2,174 directly-managed stores and 114 franchised stores), representing 86% reduction in the number of POS of Core Brands Business compared to that as at 31 December 2018.

Due to the negative impact of macroeconomic downturn and intense market competition, Core Brand Business’ same-store sales declined by approximately 20% for the year of 2019.

As a result of a significant decrease in POS numbers and decline in same-store sales, turnover at the Core Brands Business decreased by 50% to HK$1,882.9 million (2018: HK$3,798.8 million). The segment revenue generated from sales to external customers of the Core Brands Business accounted for 82% (2018: 86%) of the Group’s total revenue for 2019.

The aggressive inventory clearance is essential to the adoption of an “asset-light” business model but it has also inevitably led to significant erosion of the gross margin. The gross margin at the Core Brands Business fell by 13.2 percentage points to 32.2% in 2019 from 45.4% in 2018. The average selling price (“ASP”) decreased to RMB135 (2018: RMB155).

Although most of the store network has been converted to “partnership system” for a better cost structure for a long run, the one-off provision brought by large-scale channel adjustment and organisational structure optimisation exerted immense downward pressure on the operating profit margin throughout the year. In 2019, Core Brands Business recorded an operating loss of HK$951.6 million (2018: HK$788.2 million). The operating profit margin was -50.5% (2018: -20.7%).

The Group continued to increase its investment in product research and development as one of the key initiatives in the business transformation. To adapt to the athleisure trend, the Group launched more athleisure products. The move was supplemented with a fast and flexible supply chain system to better meet the preference and demands of the current young consumers. During the year of 2019, as a customer-centric business, the Group pressed ahead with its customer relationship management (“CRM”) programme. Meanwhile, the Group worked with a big data company to enhance its capability to analyse the existing data about sales so as to capitalise on the trends in fashionable products and to develop production and sales plans that better satisfy the market demands. Furthermore, thanks to the enriched membership privileges programme, the Group further expanded its membership base and enhanced the customer loyalty during the year.

The Group continued to strengthen the refreshed brand image with brand marketing programmes. Emphasis was placed on social media marketing to better cater to the shopping behaviour of young consumers and strengthen the brand’s communication with them. In addition, the Group also cooperated with fashion bloggers and key opinion leaders (“KOL”) through product placement that can help its products gain more exposure and stimulate consumers’ shopping desire. In the second half of 2019, the Group invited S.H.E, a popular Taiwanese girl group, again to shoot advertisements, perfectly demonstrating the stylish, confident and bold image of the Daphne brand. It resonated with consumers and created extensive buzz on social media.

Other Brands Business

The Group's Other Brands Business mainly consists of its e-commerce business and the retail operations of mid- to high-end brands (including the Group's own brands and brands under exclusive distributorships).

In 2019, the Group decided to gradually withdraw from its retail business of mid- to high-end brands at brick-and-mortar stores (including those in mainland China and Taiwan) and to focus on e-commerce business in the challenging business environment. Turnover at the Other Brands Business decreased by 33% to HK$388.8 million (2018: HK$582.5 million). The number of the POS decreased by 62% to 65 POS (2018: 172 POS) as at 31 December 2019. The Other Brands Business accounted for approximately 18% (2018: 14%) of the Group's total revenue in 2019.

The Group continued with its aggressive clearance of aged inventory and further increased the proportion of e-commerce business in the Group's total revenue. The gross margin at Other Brands Business dropped to 45.1% in 2019 from 54.4% in 2018 due to continued downward pressure on it. Other Brands Business recorded an operating loss of HK$48.7 million (2018: HK$26.7 million).

In 2019, the Group reorganised its resources to step up its efforts to develop the e-commerce business. The Group customised a flexible supply chain management system according to the requirements of operating an e-commerce business. Adopting a model that enables quick responses to orders for small quantities of goods, the Group was able to respond promptly to the rapidly changing consumption habits and grasp those opportunities in the ever-changing online market.

During the year under review, in addition to the regular seasonal product launches, the Group also introduced "Must-buy KOL Items" occasionally to cater to online consumer preferences. These products had met with overwhelming responses from online consumers. They continued to increase its contribution to the Group's total revenue and remained profitable.

Moreover, the Group continued to strengthen its cooperation with the emerging e-commerce platforms and social platforms to attract more young consumers. In addition to maintaining close relationships with key online platforms, the Group also continued to strengthen with its strategic partnerships with selected online distributors to expand its market online.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	For the year ended 31 December		
	2019	2018	Change
Turnover (HK$' million)	**2,126.4**	4,127.1	-48%
Gross profit (HK$' million)	**781.1**	2,061.0	-62%
Operating loss (HK$' million)	**(1,019.5)**	(786.6)	+30%
Loss attributable to shareholders (HK$' million)	**(1,070.1)**	(994.4)	+8%
Gross margin (%)	**36.7**	49.9	-13.2ppt
Operating margin (%)	**-47.9**	-19.1	-28.8ppt
Net margin (%)	**-50.3**	-24.1	-26.2ppt
Basic loss per share (HK cents)	**(64.9)**	(60.3)	+8%

Key Financial Indicators

	For the year ended 31 December		
	2019	2018	Change
Average inventory turnover (days) *(Note 1)*	**157**	198	-41
Average debtors turnover (days) *(Note 2)*	**19**	15	+4
Average creditors turnover (days) *(Note 3)*	**259**	115	+144
Capital expenditure (HK$' million)	**26.4**	115.3	-77%

	As at 31 December		
	2019	2018	Change
Cash and bank balances (HK$' million) *(Note 4)*	**182.3**	363.0	-50%
Bank loans (HK$' million)	**-**	192.3	-100%
Equity attributable to shareholders (HK$' million)	**692.7**	1,779.8	-61%
Current ratio (times) *(Note 5)*	**1.5**	2.1	-28%
Net gearing ratio (%) *(Note 6)*	**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 the cost of sales and multiplied by number of days in the year.*

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 number of days in the year.*

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 number of days in the year.*

4. *Cash and bank balances comprise cash and cash equivalents (including those transferred to assets classified as held-for-sale) and pledged bank deposits.*

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

6. *The calculation of net gearing ratio (%) is based on net debt (being bank loans less cash and bank balances) divided by equity attributable to shareholders as at year end.*

Analysis of Results by Business Segment

For the year ended 31 December 2019, the turnover of the Group was HK$2,126.4 million (2018: HK$4,127.1 million), a decrease of 48% compared to last year. The business performance of individual segments is summarised as follows:

	Core Brands Business		Other Brands Business		Manufacturing Business	
(HK$' million)	**2019**	2018	**2019**	2018	**2019**	2018
Revenue from external customers	***1,737.6***	*3,544.6*	***388.8***	*582.5*	***-***	*-*
Inter-segment revenue	***145.3***	*254.2*	***-***	*-*	***88.4***	*215.8*
Total segment revenue	**1,882.9**	3,798.8	**388.8**	582.5	**88.4**	215.8
Segment gross profit	**606.7**	1,725.3	**175.1**	317.1	**(22.7)**	12.4
Segment gross margin	***32.2%***	*45.4%*	***45.1%***	*54.4%*	***-25.7%***	*5.8%*
Segment operating (loss)/profit	**(951.6)**	(788.2)	**(48.7)**	(26.7)	**(35.5)**	1.4
Segment operating margin	***-50.5%***	*-20.7%*	***-12.5%***	*-4.6%*	***-40.2%***	*0.6%*

During the year ended 31 December 2019, total segment revenue of the Core Brands Business decreased by 50% to HK$1,882.9 million from HK$3,798.8 million in last year. It is mainly due to the closure of stores and decline in the same-store sales. Its gross margin dropped from 45.4% to 32.2% as a result of product mix and more clearance of old stocks. The segment recorded an operating loss of HK$951.6 million compared to that of HK$788.2 million in last year.

On the other hand, the total segment revenue of Other Brands Business decreased by 33% to HK$388.8 million (2018: HK$582.5 million) which is also attributable to the closure of stores during the year. The segment recorded an operating loss of HK$48.7 million compared to HK$26.7 million last year.

Other Income

Other income decreased by HK$16.8 million from HK$42.6 million in last year to HK$25.8 million for the year ended 31 December 2019. The decrease in other income is mainly due to the reduction in government incentives and interest income this year.

Operating Expenses

Overall, the Group's operating expenses (including other losses - net, selling & distribution and general & administrative expenses) decreased by HK$1,063.7 million or 37% to HK$1,826.5 million from HK$2,890.2 million in last year. The drop in operating expenses was generally in line with sales decrease. The operating expenses included one-off restructuring costs of approximately HK$139.3 million and HK$80.2 million in relation to staff redundancy cost and loss on termination of leases respectively, due to downscaling of its physical store network and restructuring of its back office during the year.

Operating Loss

As a result of the above, the Group incurred an operating loss of HK$1,019.5 million in 2019, increased by HK$232.9 million as compared to HK$786.6 million in last year. If excluding the above-mentioned one-off restructuring costs totaling HK$219.5 million, the operating loss would be approximately HK$800.0 million.

Income Tax Expense

The Group's income tax expense for the year was HK$54.3 million (2018: HK$217.1 million). This is largely attributable to derecognition of deferred income tax assets for certain timing differences and tax losses.

Loss Attributable to Shareholders

For the year ended 31 December 2019, the Group's loss attributable to shareholders also increased by 8% to HK$1,070.1 million compared to that of HK$994.4 million in last year. Basic loss per share was 64.9 HK cents (2018: 60.3 HK cents).

Inventories

As at 31 December 2019, the Group's inventories largely decreased by HK$830.3 million from HK$992.3 million to HK$162.0 million. Average inventory turnover during the year was 157 days, decreased by 41 days. Included in the inventories, the balance of provision for slow-moving and obsolete items was HK$170.2 million as at 31 December 2019 (2018: HK$197.3 million).

Trade Receivables

The amount of trade receivables as at 31 December 2019 decreased by HK$95.2 million, or 59%, to HK$64.9 million compared to that of HK$160.1 million in 2018. Loss allowance balance for trade receivables amounted to HK$15.1 million (2018: HK$9.7 million). Average debtors turnover increased to 19 days (2018: 15 days).

Trade Payables

As at 31 December 2019, the Group's trade payables decreased by HK$391.9 million, or 74%, to HK$138.7 million (2018: HK$530.6 million) and the average creditors turnover increased by 144 days to 259 days (2018: 115 days) mainly due to the extended credit period of certain major suppliers.

Liquidity and Financial Resources

As at 31 December 2019, the Group had cash and bank balances, comprising cash and cash equivalents and pledged deposits (including those transferred to disposal group classified as held-for-sale) amounting to HK$182.3 million (2018: HK$363.0 million), which were denominated mainly in Renminbi. As at 31 December 2019, there were no short-term bank loans (2018: HK$192.3 million).

The net decrease in cash and bank balances of HK$180.7 million (2018: HK$123.3 million) during the year is analysed as follows:

	For the year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Net cash generated from/(used in) operating activities	**218.2**	(157.8)
Capital expenditure	**(26.4)**	(115.3)
Proceeds from disposal of fixed assets	**70.8**	29.5
Proceeds from disposal of subsidiaries and financial asset	**19.8**	74.5
Net bank interest paid	**(1.6)**	(0.5)
Net bank loans (repaid)/raised	**(191.2)**	35.8
Lease payments	**(271.0)**	-
Effect of foreign exchange rate changes	**0.7**	10.5
	(180.7)	(123.3)

As at 31 December 2019, the Group's net gearing ratio was in net cash (2018: net cash) position. Current ratio was 1.5 times (2018: 2.1 times) as at 31 December 2019. Management closely monitors the Group's financial performance and liquidity position. Taking into consideration of the plans and measures to improve the liquidity position, such as disposals of certain non-core properties and raising of additional resources of funding as and when need, it believes that the Group has sufficient financial resources to meet its obligation as and when they fall due over the next twelve months.

Foreign Exchange Risk Management

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and the Group may use forward foreign exchange contracts when major fluctuation in the relevant foreign currency is anticipated. During the year ended 31 December 2019, the Group did not enter into any foreign exchange forward contract to hedge the foreign exchange risk exposure on bank loans denominated in USD or HKD. As at 31 December 2019, the Group's exposure to foreign exchange risk was not significant.

Pledge of Assets

As at 31 December 2019, the Group had no pledged bank deposits (2018: HK$174.2 million) and no investment properties pledged (2018: HK$121.3 million).

Capital Expenditure

During the year, the Group incurred capital expenditure of HK$26.4 million (2018: HK$115.3 million) mainly for retail network renovation.

Contingent Liabilities

As at 31 December 2019 and 2018, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2019, the Group had a workforce of about 948 (2018: 8,700) people predominantly in mainland China, Taiwan and Hong Kong. Employee benefits expense for the year ended 31 December 2019 was HK$582.9 million (2018: HK$752.3 million). Due to the large scale restructuring and transformation of the business model, it also incurred a redundancy cost amounting to HK$139.3 million (2018: HK$15.4 million) for the year. The overall decrease of HK$169.3 million or 23% in employee benefits expense was mainly due to the reduction in headcount of factories, stores and back office.

The Group values its human resources and recognises the importance of retaining high calibre employees. Remuneration packages are generally structured with reference to market conditions and terms as well as individual qualifications. In addition, share options, share appreciation rights and discretionary bonuses are granted to eligible employees based on the performance of the Group and of the individual employee. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchase discounts and training programmes to employees.

OUTLOOK

Although China and the United States reached trade agreements in phase one of their negotiation, the outlook of the global economy remains unclear due to the uncertainties about the execution of such agreements and about the following talks. In the Internet Era, e-commerce has been developing faster than anyone could have imagined and has changed people's lifestyle and consumption habits. Young consumers are the most loyal supporter of e-commerce, and their daily life has already become closely connected with online shopping. All fashion and retail brands must face the competition and challenge from e-commerce. In addition, the outbreak of Coronavirus Disease in early 2020 severely affected the consumer sentiment around the Lunar New Year and exacerbated the problem of sluggish sales in the brick-and-mortar retail industry. Due to these negative factors, the consumption market in China will be under tremendous pressure in short and medium term.

In face of the drastically changing market, the Group has begun its transformation into a brand-driven company with an "asset-light" business model. The Group believes that it has attained an optimal scale of operation and established a preliminary framework of the "asset-light" business model following the large-scale restructuring of its sales network in 2019. With the completion of the clearance of aged inventory, the percentage of new products will increase in the product mix in 2020. It is expected that the gross margin will be restored to a healthy level. The Group is still facing an enormous challenge posed by the epidemic, but it is confident that the effect of the business transformation will be gradually shown in the second half of 2020.

In terms of distribution channel, the Group already finished a large scale restructuring of its sales network in 2019 and it will continue to optimise the offline sales channel mix in 2020 with its main sales channel run under the "partnership system" and its new-image stores as a supplementary one. For the directly-managed new-image stores, the Group will closely monitor the store sales performance, constantly optimise the in-store marketing activities mechanism, and enhance the training of the frontline sales representatives to provide the customers with a pleasant shopping experience. At the stores operated under the "partnership system", the Group will deepen the cooperation with its business partners. Apart from enhancing the partnership mechanism of the "partnership system", the Group will provide support to its business partners in such areas as brand marketing, formulation of product sales strategies and the operation and management of stores in order to boost the stores' sales performance and to consolidate and expand Daphne's market share.

The Group will increase its investment in its e-commerce business because it is where it will be able to make a breakthrough. Through the close cooperation between the product design team and the supply chain department, the Group will continue to optimise the flexible supply chain management system to speed up its response to the market and launch more "Must-buy KOL Items" to contribute to the sales momentum. Moreover, the Group will make use of popular online marketing methods to enable consumers to get to know its products more easily and to shop more conveniently, thus suiting their consumption habits.

The Group firmly believes that its strong brand will be able to help it achieve a breakthrough amid the persistently sluggish business environment of the women's shoes industry. Therefore, it will enhance the trendiness and comfort of its products by continuing with product research and development and by stepping up its cooperation with external design teams. This will enable the Group to meet young consumers' demand for aesthetic shoes. The Group will also introduce more diverse athleisure products into the market to capitalise on the growing athleisure trend. It will continue to cooperate with big data company to enhance its capability to analyse data about consumers and sales so as to track the ever-changing consumer preferences and market trends. This will allow the Group to promptly provide products that exactly meet market's wants and needs.

Maintaining close relationships with consumers is essential to brand building. Through cooperation with brand consultancy, the Group will try to enhance its ability to gauge consumer preferences and thus adjust its branding and marketing strategies accordingly with the aim of suiting younger consumers' consumption habits. The Group will also continue to step up its marketing efforts in social media to project a youthful and fashionable image of itself. It will thus be able to maintain close links with consumers and, at the same time, enable its products to gain a lot of exposure in the media. The Group will enhance its customer relationship management by listening carefully to consumers' wishes and feedback. This can increase both customer loyalty and repeat business.

Looking ahead, the Group will remain determined to press ahead with its transformation into a brand-driven company with an "asset-light" business model. It will review the results of the strategy and adjust it promptly if necessary. Meanwhile, the Group will continue with its customer-centric approach in such areas as the maintenance of close links with consumers, improvement of the quality of products and enhancement of its ability to operate business. All this can help the Group attain steady growth in sales in the medium and long term and turn a profit again with the aim of getting back on track.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

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 Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules") for dealing in securities of the Company by the directors. Having made specific enquiry with all directors, all directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2019.

The Company also requires relevant officers and employees of the Company are also bound by the Model Code, which prohibits them to deal in securities of the Company at any time when he possesses inside information in relation to those securities. No incident of non-compliance of the Model Code by the relevant officers and employees was noted by the Company during the year.

CHANGES IN DIRECTORS' INFORMATION

The change in directors' details since the date of the Annual Report 2018 of the Company and up to the date of release of the annual results of the Company which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, is that (i) with effect from 30 June 2019, Mr. Lee Ted Tak Tai has resigned as independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company; (ii) with effect from 25 September 2019, Mr. Hon Ping Cho Terence was appointed as the independent non-executive director, the chairman of the Audit Committee and the member of the Remuneration Committee and the Nomination Committee of the Company; and (iii) Mr. Chen Tommy Yi-Hsun resigned as the executive director of the Company on 17 January 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the period except for the deviations from code provision A.2.1 and A.6.7 which are explained below.

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separated and should not be performed by the same individual. Mr. Chang Chih-Kai, who acted as the Chairman and the CEO of the Company since 17 May 2017. This was in deviation from code provision A.2.1.

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

During the year, Mr. Huang Shun-Tsai, the independent non-executive director of the Company, was unable to attend the annual general meeting held on 23 May 2019 due to unavoidable business engagements. This was in deviations from code provision A.6.7.

NON-COMPLIANCE WITH REQUIREMENTS UNDER THE LISTING RULES

According to Rule 3.10(1) of the Listing Rules, the Company is required to have at least three independent non-executive directors. According to Rule 3.10(2) of the Listing Rules, at least one of the independent non-executive directors of the Company must have appropriate professional qualifications or accounting or related financial management expertise (the "Qualification"). According to Rule 3.21 of the Listing Rules, the Audit Committee of the Company must comprise a minimum of three members, and at least one of whom is an independent non-executive director who has the Qualification.

As disclosed in the announcement of the Company dated 1 July 2019, following the resignation of Mr. Lee Ted Tak Tai as an independent non-executive director of the Company on 30 June 2019:

(1) the Company only has two independent non-executive directors, thus the number of independent non-executive directors falls below the minimum number required under Rule 3.10(1) of the Listing Rules;
(2) there is no independent non-executive director of the Company who has the Qualification as required under Rule 3.10(2) of the Listing Rules;
(3) the Audit Committee comprises no independent non-executive director with the Qualification as required under Rule 3.21 of the Listing Rules; and
(4) the Audit Committee only has two members, thus the number of members falls below the minimum number required under Rule 3.21 of the Listing Rules.

On 25 September 2019, the Company has appointed Mr. Hon Ping Cho Terence as an independent non-executive director to fill up the vacancy of independent non-executive director with appropriate Qualification to meet the requirements set out in Rules 3.10 and 3.21 of the Listing Rules. Details can be referred to the announcement of the Company dated 25 September 2019.

REVIEW OF FINANCIAL STATEMENTS AND RESULTS ANNOUNCEMENT

The Group's audited consolidated financial statements for the year ended 31 December 2019 including the accounting principles and practices adopted have been reviewed by the Audit Committee of the Company.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary results announcement have been agreed by the Group's independent auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on the preliminary results announcement.

FINAL DIVIDEND

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company will be held on 26 May 2020. A notice of the forthcoming annual general meeting will be issued and disseminated to shareholders in due course. The register of members will be closed from 21 May 2020 to 26 May 2020, both days inclusive. In order to qualify to attend and vote at the forthcoming annual general meeting, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 20 May 2020.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the HKEXnews (www.hkexnews.hk) and the Company (www.daphneholdings.com). The annual 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
Daphne International Holdings Limited
Chang Chih-Kai
Chairman & CEO

Hong Kong, 27 March 2020

As at the date of this announcement, the Board 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.