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 2020

HIGHLIGHTS OF 2020 ANNUAL RESULTS

- The Group's total revenue amounted to HK$363.9 million, dropped by 83%
- Gross margin remained at approximately 36.6%
- Loss attributable to shareholders narrowed by 77% to HK$242.0 million
- Inventories decreased by 74% to HK$41.6 million
- Cash and cash equivalents amounted to HK$124.6 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 2020, together with the comparative figures for 2019.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	**2020** **HK$'000**	2019 HK$'000
Revenue	3	**363,921**	2,126,362
Cost of sales		**(230,689)**	(1,345,224)
Gross profit		**133,232**	781,138
Other income	4	**40,977**	25,832
Other losses – net	5	**(11,164)**	(3,679)
Selling and distribution expenses		**(195,839)**	(1,506,643)
General and administrative expenses		**(166,921)**	(310,416)
Impairment loss on financial assets		**(37,426)**	(5,767)
Operating loss	6	**(237,141)**	(1,019,535)
Finance costs	7	**(2,324)**	(21,346)
Share of losses of associates and joint ventures		**(304)**	(1,291)
Loss before income tax		**(239,769)**	(1,042,172)
Income tax expense	8	**(1,956)**	(54,254)
Loss for the year		**(241,725)**	(1,096,426)
Attributable to:			
Shareholders		**(241,987)**	(1,070,127)
Non-controlling interests		**262**	(26,299)
		(241,725)	(1,096,426)
Loss per share, basic and diluted *(HK cents)*	9	**(14.4)**	(64.9)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	HK$'000	HK$'000
Loss for the year	**(241,725)**	(1,096,426)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**-**	(506)
Items that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**46,442**	(18,236)
	46,442	(18,742)
Total comprehensive loss for the year	**(195,283)**	(1,115,168)
Attributable to:		
Shareholders	**(200,938)**	(1,087,179)
Non-controlling interests	**5,655**	(27,989)
	(195,283)	(1,115,168)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note	2020	2019
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment		**19,976**	167,265
Investment properties		**537,039**	369,645
Right-of-use assets		**9,086**	68,622
Interests in associates		**1,036**	1,481
Interests in joint ventures		**-**	1,002
		567,137	608,015
Current assets			
Inventories		**41,569**	162,013
Trade receivables	11	**24,251**	64,875
Other receivables, deposits and prepayments		**69,077**	142,689
Cash and cash equivalents		**124,567**	182,059
		259,464	551,636
Assets classified as held-for-sale		**32,077**	71,713
		291,541	623,349
Current liabilities			
Trade payables	12	**69,201**	138,700
Other payables and accrued charges		**97,287**	226,912
Lease liabilities		**2,988**	25,621
Contract liabilities		**16,786**	7,407
Current income tax liabilities		**5,778**	5,169
		192,040	403,809
Liabilities directly associated with assets classified as held-for-sale		**-**	8,045
		192,040	411,854
Net current assets		**99,501**	211,495
Total assets less current liabilities		**666,638**	819,510

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020

	2020	2019
	HK$'000	HK$'000
Equity attributable to shareholders		
Share capital	**181,406**	164,914
Reserves	**346,824**	527,797
	528,230	692,711
Non-controlling interests	**109,297**	103,642
Total equity	**637,527**	796,353
Non-current liabilities		
Convertible notes	**24,000**	-
Interest payable	**571**	-
Lease liabilities	-	20,469
Deferred income tax liabilities	**4,540**	2,688
	29,111	23,157
Total equity and non-current liabilities	**666,638**	819,510

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 distribution, retailing and licensing 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 these 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 of the Group 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 consolidated 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

During the year ended 31 December 2020, the Group recorded a loss of HK$241,725,000, a net cash used in operating activities of HK$122,650,000 and a net decrease in cash and cash equivalents of HK$64,148,000. During the year, the Group raised HK$58,598,000 from the issuance of new shares and convertible notes. As at 31 December 2020, the Group had cash and cash equivalents of HK$124,567,000.

The Group's retail operation was affected by the COVID-19 pandemic in 2020. Although most of the Group's stores across the country gradually reopened since April 2020, the retail market remained gloomy amid weak consumer sentiments. In addition, the Group continued with the strategic transformation of its business by switching over to the asset-light business model. The Group is withdrawing from the business of retailing at physical stores and has started to adopt a strategy to mainly focus on the development of its licensing business in late 2020.

In view of the above 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) In December 2020 and January 2021, the Group entered into agreements to dispose of a subsidiary and a property classified under assets held-for-sale, respectively, with carrying value of HK$27,807,000 at an aggregate consideration of HK$156,230,000, out of which HK$72,246,000 has been collected subsequent to the year end date. The balance of the consideration of HK$83,984,000 is scheduled under the sale and purchase agreements to be collected by the Group upon completion of administrative procedures with relevant authorities in the first half of 2021. The Group also intends to further dispose certain of its non-core properties with a carrying value of approximately HK$29,115,000 in 2021 in an effort to enhance its liquidity position.

(b) The Group continued its efforts to implement various measures to improve the operating results and cash flows. The Group will focus more on its licensing business to improve its operational leverage and continue to restructure its operation to reduce operating cost.

(c) 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 2020. The directors consider that the Group, after taking into account the collection of the sales proceeds from the disposal of the subsidiary and the property in the expected timeframe, the possible improvement in its operating performance and the financial resources available to 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 2020. 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 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

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

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

Certain new and amended standards and interpretations have been published that are not mandatory for the 31 December 2020 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

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to HKFRS 16	Covid-19 Related Rent Concessions[1]
Amendments to Annual Improvement Project	Annual Improvements to HKFRSs 2018-2020[2]
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

[1] Effective for the Group for annual periods beginning on or after 1 January 2021
[2] Effective for the Group for annual periods beginning on or after 1 January 2022
[3] Effective for the Group for annual periods beginning on or after 1 January 2023
[4] Effective date to be determined

3 Revenue and segment information

The Group is principally engaged in distribution, retailing and licensing of footwear products and accessories in Mainland China.

CODM has been identified as the executive directors of the Company.

In previous years, the directors assessed the performance of the business from a business unit perspective and presented the segment information by three operating segments, i.e. Core Brands Business, Other Brands Business and Manufacturing Business.

During the year ended 31 December 2020, along with the business transformation, the Group has changed the structure of its internal organisation which caused the change of the composition of its reportable segments from three operating segments to one operating segment. Information reported to the executive directors, for the purposes of resources allocation and assessment of performance, focused specifically on the revenue analysis by category and the profit or loss of the Group as a whole. Hence, the directors considered that the Group has only one reportable segment. Comparative financial information for the year ended 31 December 2019 has been restated following this change in presentation of segment information.

The Group's brands business and e-commerce business represent the distribution and retailing of footwear products through offline and online channels, respectively, in Mainland China.

Most of the Group's revenues are derived from external customers located in Mainland China and all of the non-current assets of the Group are located in Mainland China.

	2020 **HK$'000**	2019 HK$'000
Sales of goods		
- brands business	**210,437**	1,911,031
- e-commerce	**148,326**	215,331
Licensing fee income	**5,158**	-
	363,921	2,126,362

4 Other income

	2020	2019
	HK$'000	HK$'000
Gross rental income	**32,694**	12,786
Government subsidies	**2,903**	3,036
Interest income	**499**	1,848
Franchise and royalty income	**-**	3,641
Others	**4,881**	4,521
	40,977	25,832

5 Other losses - net

	2020	2019
	HK$'000	HK$'000
Gain/(loss) on disposal of property, plant and equipment	**6,330**	(11,594)
Impairment loss of an investment property	**(16,376)**	-
(Loss)/gain on disposal of a subsidiary	**(1,330)**	4,400
Loss on disposal of a joint venture	**(336)**	-
Net exchange gain	**548**	3,515
	(11,164)	(3,679)

6 Operating loss

Operating loss is stated after charging/(crediting) the following:

	2020	2019
	HK$'000	HK$'000
Auditors' remuneration	**2,193**	3,658
Concessionary fee	**53,609**	-
Cost of inventories sold, including reversal of provision for slow-moving inventories of HK$98,131,000 (2019: HK$23,024,000)	**228,099**	1,299,376
Depreciation of investment properties	**14,297**	7,772
Depreciation of property, plant and equipment	**14,825**	80,310
Depreciation of right-of-use assets	**18,777**	251,564
Employee benefits expense	**126,023**	582,911
Expenses relating to short-term leases and variable lease payments	**10,695**	350,763
Impairment loss on financial assets	**37,426**	5,767
Impairment loss on value-added tax recoverable	**11,323**	-
(Gain)/loss on termination of leases	**(60)**	80,173

7 Finance costs

	2020	2019
	HK$'000	HK$'000
Interest on bank loans	**-**	3,416
Interest on convertible notes		
- amortisation interest	**375**	-
- coupon interest	**537**	-
Interest on lease liabilities	**1,412**	17,930
	2,324	21,346

8 Income tax expense

	2020	2019
	HK$'000	HK$'000
Current income tax	**1,604**	5,743
Under provision in prior years	**11**	201
Deferred income tax	**341**	48,310
	1,956	54,254

The weighted average domestic tax rate is 22% (2019: 25%).

The applicable rate of Hong Kong profits tax is 16.5% (2019: 16.5%). No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group does not have any assessable profit arising in Hong Kong during the years ended 31 December 2020 and 2019.

Provision for China corporate income tax is calculated based on the statutory tax rate of 25% (2019: 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% (2019: 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$241,987,000 (2019: HK$1,070,127,000) by the weighted average number of 1,684,738,627 (2019: 1,649,142,384) shares in issue during the year.

In calculating the diluted loss per share for the year ended 31 December 2020, the potential issue of shares arising from the conversion of the Company's convertible notes would decrease the loss per share and is not taken into account as it has an anti-dilutive effect. Share options of the Company are not dilutive as the exercise price of the options exceeds the average market price of the Company's ordinary shares during the year ended 31 December 2020 and 2019. Therefore, for each of the two years ended 31 December 2020 and 2019, basic and diluted loss per share are the same.

10 Dividends

The board of directors does not recommend the payment of a dividend in respect of the year ended 31 December 2020 (2019: Nil).

11 Trade receivables

	2020	2019
	HK$'000	HK$'000
Trade receivables	**49,435**	79,976
Loss allowance	**(25,184)**	(15,101)
Trade receivables - net	**24,251**	64,875

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

	2020	2019
	HK$'000	HK$'000
0 - 30 days	**12,124**	22,058
31 - 60 days	**5,368**	16,777
61 - 90 days	**3,551**	12,328
91 - 180 days	**814**	10,302
181 - 360 days	**1,372**	10,034
Over 360 days	**26,206**	8,477
	49,435	79,976

The carrying values of trade receivables approximate their fair values. For the year ended 31 December 2020, 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:

	2020	2019
	HK$'000	HK$'000
0 - 30 days	**4,730**	19,579
31 - 60 days	**6,233**	32,133
61 - 90 days	**11,388**	24,294
91 - 180 days	**16,875**	19,324
181 - 360 days	**23,080**	37,597
Over 360 days	**6,895**	5,773
	69,201	138,700

13 Events occurring after the reporting period

On 1 January 2021, a wholly-owned subsidiary of the Company in Mainland China entered into an agreement with Putian City Licheng District People's Government (the "Government") in relation to the resumption of certain land and properties situated in Mainland China. The land and properties held by the wholly-owned subsidiary of the Company were surrendered for a compensation of approximately RMB110.2 million (equivalent to approximately HK$132.7 million). The net proceeds (after deducting compensation payable to existing tenants in the amount of approximately RMB22.0 million (equivalent to approximately HK$26.5 million) and other related expenses) was approximately RMB66.2 million (equivalent to approximately HK$79.7 million). Up to the date of this announcement, a sum of RMB60.0 million (equivalent to approximately HK$72.2 million) has been collected from the Government.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The outbreak of the coronavirus pandemic in early 2020 has not only dealt a heavy blow to the economy and daily lives in China, but also greatly dampened consumer confidence. Notwithstanding that the pandemic in the second half of 2020 was more volatile in some regions, the overall economy of China recovered steadily and recorded an annual growth rate of 2.3%. On the back of the gradual stabilisation of the pandemic, the overall retail market slowly picked up and growth turned positive in the third quarter. The growth of total retail sales of consumer goods in the fourth quarter accelerated by 3.7 percentage points compared with the third quarter. Despite that the retail market continues to pick up, consumer sentiment of apparel, footwear and headwear and knitwear and textile products remains weak, retail sales in China still dropped 6.6% year-on-year, and the footwear industry is still facing huge challenges.

As a result of the pandemic, the demand for at-home consumption has increased notably, the "stay-at-home" economy has benefitted online retail business and have led the industry to flourish. In 2020, online retail sales of physical goods in China further increased and accounted for 24.9% of the total sales of consumer goods. At the same time, to satisfy at-home consumption demands, online sales models and channels have become more diverse and innovative and social selling has seen increasingly influential.

The Group's Performance

The year of 2020 was a key transformation period for the Group. Under the implementation of the asset-light business model, Daphne will focus on brand management and entrustment, and further strengthen its role as a brand owner. As a bridge between franchisees and licensees and the supply chain, Daphne will leverage on its solid brand strength, as well as its experience and knowledge in the women's footwear industry to provide franchisees and licensees with high-quality product designs and supply chain resources, while franchisees and licensees will place orders for production directly from the supply chain system. During the year, although the Group's sales and financial performance were affected by the economic downturn and the uncertain market sentiment, the asset-light business model enabled the Group to demonstrate strong resilience during the pandemic by reducing operating and administrative costs, and easing inventory pressure, which successfully narrowed the Group's losses in a challenging operating environment.

With the Group's business transformation and transition to an asset-light business model, the Group continued to adjust the network of its sales channel in 2020, closed 183 points-of-sales ("POS"), and further scaled down its network of stores from 425 stores at the beginning of the year to 242 stores at the end of the year. During this period of business transformation, the Group's revenue for the year ended 31 December 2020 decreased by HK$1,762.5 million to HK$363.9 million, compared to HK$2,126.4 million last year, mainly due to the Group's shrinkage of the network of stores and the on-going implementation of the business transformation to new asset-light business model.

In the first half of the year, the Group continued to focus on adjusting the scale of its store network, and simultaneously, attracted franchisees and licensees to operate offline and online with the Daphne brand. After a half-year preparation, the Group has been rolling out of licensing business in late 2020 and Daphne has ushered in a role change with the new business model. Leveraging its past experience, market knowledge and supply chain resources, the Group has shifted its focus from production management to product research and development and design, promotion, and supply chain quality control. The role of initiating order placement and production has been passed to franchisees and licensees, allowing them to decide on the models, quantity of orders and launch date according to their respective market segments. On one hand, it greatly eases the Group's pressure on inventory management, allowing the Group to focus on product design and research and development. On the other hand, it provides greater flexibility and autonomy to franchisees and licensees, allowing them to implement the best marketing strategies in their familiar markets.

As part of the Group's effort in developing a better understanding on the demands of various market segments and product feedback, the Group plans to organise more procurement conferences. Besides introducing the latest products to franchisees and licensees at the conference, the Group will also seize the opportunity to communicate with its franchisees and licensees and listen to the feedback from customers. Communications with franchisees and licensees enable the Group to launch more products that are tailored to meet market needs. In addition to the flagship product series like "Ascent", a national culture themed series launched by the Group to capitalise on the growing popularity of national culture in Mainland China, the Group also launched products with regional characteristics to ride the market trend, in order to meet the needs and preferences of different consumer groups.

Daphne's long-established strong brand value, industry knowledge, scale of network and supply chain resources are the greatest advantages of the Group. As a nationally renowned and well-established women's footwear brand with a large-scale network of stores, Daphne has developed a deep connection and engagement with its customers; with years of expertise in the women's footwear market, Daphne has acquired design and development capabilities to create comfortable and high-quality shoes. Moreover, in response to market demand in recent years, the Group's supply chain adopted "quick responses for small orders" as its mode of operation to cater to today's rapidly-changing consumption habits and market trends, seizing business opportunities in the fast-paced market. These capabilities enabled operators to occupy a more favourable position in China's huge and highly competitive women's footwear industry.

The new business model is backed by the concept of "letting each party to bring their talents and strengths into play" to achieve a win-win situation. It does not only give full play to the Group's advantages that are scarce in the market, but also provides franchisees and licensees with business opportunities in the sense that all parties can mutually benefit and grow together. Daphne's brand value, design capabilities and high-quality supply chain resources enable it to secure a solid position in the market and effectively bridging franchisees, licensees and supply chain system, allowing it to put more effort in managing and operating brands and designing and developing products. With the new business model, franchisees and licensees are in charge of operation and sales as well as the hefty operating costs, such as store rents, renovation, manpower etc. It also greatly reduces back office support and administrative costs and helps the Group to eliminate inventory risks. At the same time, the marketing strategies implemented by franchisees and licensees in each market segment will help gradually increase the market share of our brands and further enhance the brand value of Daphne. In addition, this collaboration not only provides advantages for franchisees and licensees to enter into the huge and fiercely competitive women's footwear market in China, but also provides them with premium and reliable supply chain resources, so that they can place orders with the supply chain according to their needs, offering them higher operational flexibility and autonomy. Daphne believes that this model will be able to give each party full play to their respective strengths and continue to consolidate the Group's leading position in the industry.

Brands Business

The Group's brands business represents the distribution and retailing of footwear products, such as women's dress shoes, casual shoes, and athleisure shoes through offline channels in Mainland China.

In 2020, the Group continued to adjust its network of sales channels to gradually achieve an asset-light structure. During the year under review, the Group's brands business recorded 183 net closures of POS (including the net decrease of 110 directly-managed/partnership stores and 73 franchised stores).

Product comfort, materials and consumer experience has always been the Group's strengths in categories of women's dress shoes and casual shoes. On top of that, as part of the Group's effort to attract more young consumers and maintain the vitality of the brand, the Group incorporated trendy elements to the design of women's dress shoes and casual shoes in recent years and adopted the production model of "quick responses for small orders" to cater for ever-changing and diversified preferences and needs of young consumers. Launched in June 2020, the trendy domestic heritage product series of "Ascent" is the Group's first national culture themed series. Designers incorporated Chinese elements, such as patterns, calligraphy, and embroidery to modern shoes, allowing the aesthetics of retro elements and modern trends to collide and exude its own distinctive charm of a trendy national culture themed brand. The product series of "Ascent" met with enthusiastic responses from young consumers upon its successive launch.

In response to the rising popularity of the athleisure trend in recent years, many international fashion brands have successively launched athleisure products. The Group also capitalised the trend and tapped the potential of the market. The athleisure product series mainly targets young consumers who value quick response greatly. Trendy culture and elements have been incorporated to the shoe design to meet the mainstream needs of the market. At the same time, the athleisure product series was heavily promoted online in response to consumer preferences and behaviours.

E-Commerce Business

The pandemic fuelled the "stay-at-home" economy to boom and accelerated the shift from offline to online consumption. The potential of online business opportunities is immense. The Group has always valued e-commerce market greatly and is optimistic about its future development. With the new brand owner business model, the Group will focus on brand promotion and designing styles that are well-received online to enhance the Group's brand value in the online market. The "stay-at-home" economy spawned a large number of social platforms to conduct e-commerce sales. Capitalising on the consumer traffic of these social platforms, in addition to collaborating with large e-commerce platforms, the Group also collaborated with top social platforms such as "Kuaishou", "Tik Tok" and "Xiaohongshu" etc. to reach out to more consumers and increase its exposure in social media, thus advertising its brand name on online platforms that register high volume of traffic. The Group also fully explored the potential of "live commerce" to bring a much more interactive shopping experience to consumers. Moreover, the Group will continue to explore other new approaches to online sales and bolster Daphne's influence online. Facing the ever-changing consumer market, the Group will conduct market analysis through big data to improve the Group's marketing strategy and product design to enhance marketing efficiency.

The Group is also actively exploring the operation and promotion strategies to integrate the online and offline business, encouraging consumers to take photos in physical retail stores, then upload and check-in online to share their consumer experience, in the hope of integrating online and offline channels and creating interactive sales, stimulating online discussions and exposure with offline traffic to attract consumers to spend.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	For the year ended 31 December		
	2020	2019	Change
Revenue (HK$' million)	**363.9**	2,126.4	-83%
Gross profit (HK$' million)	**133.2**	781.1	-83%
Operating loss (HK$' million)	**(237.1)**	(1,019.5)	-77%
Loss attributable to shareholders (HK$' million)	**(242.0)**	(1,070.1)	-77%
Gross margin (%)	**36.6**	36.7	-0.1ppt
Operating margin (%)	**-65.2**	-47.9	-17.3ppt
Net margin (%)	**-66.5**	-50.3	-16.2ppt
Basic loss per share (HK cents)	**(14.4)**	(64.9)	-78%

Key Financial Indicators

	For the year ended 31 December		
	2020	2019	Change
Average inventory turnover (days) *(Note 1)*	**161**	157	+4
Average debtors turnover (days) *(Note 2)*	**45**	19	+26
Average creditors turnover (days) *(Note 3)*	**323**	259	+64
Capital expenditure (HK$' million)	**3.6**	26.4	-86%

	As at 31 December		
	2020	2019	Change
Cash and cash equivalents (HK$' million) *(Note 4)*	**124.6**	182.3	-32%
Convertible notes (HK$' million)	**24.0**	-	+100%
Equity attributable to shareholders (HK$' million)	**528.2**	692.7	-24%
Current ratio (times) *(Note 5)*	**1.5**	1.5	-
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 cash equivalents include those transferred to assets classified as held-for-sale.*

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

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

Revenue and Gross Profit

The Group's revenue mainly comprises sales of goods from directly-managed/partnership stores and franchisees as well as e-commerce business in Mainland China. During the year under review, the Group had been gradually phasing out its retail operation while shifting its focus to licensing business. For the year ended 31 December 2020, the Group's revenue amounted to HK$363.9 million (2019: HK$2,126.4 million), a decrease of 83% compared to last year.

	2020	2019	Change
	HK$ million	HK$ million	%
Sales of goods			
- brands business	**210.4**	1,911.1	-89%
- e-commerce	**148.3**	215.3	-31%
Licensing fee income	**5.2**	-	+100%
Total revenue	**363.9**	2,126.4	-83%
Cost of sales	**(230.7)**	(1,345.2)	-83%
Gross profit	**133.2**	781.1	-83%
Gross margin	***36.6%***	*36.7%*	*-0.1ppt*

The decline in the sales of goods was mainly due to the further closure of stores and on-going implementation of business transformation as well as the adverse impact of the pandemic throughout the year. During the year under review, the overall gross margin was 36.6%, and remained similar to that in last year although the gross margin of sales of goods dropped due to the clearance of old aged stocks.

Other Income

Other income increased by HK$15.2 million from HK$25.8 million in last year to HK$41.0 million for the year under review. The increase in other income is mainly due to the increase in rental income from investment properties this year.

Operating Expenses

Overall, the Group's operating expenses (including other losses - net, selling & distribution, general & administrative expenses and impairment loss on financial assets) decreased by HK$1,415.1 million or 77% to HK$411.4 million from HK$1,826.5 million in last year. The drop in operating expenses was generally in line with sales decrease and continuing scaling down of the operation.

Operating Loss

As a result of the above, the Group incurred an operating loss of HK$237.1 million in 2020, narrowed by HK$782.4 million as compared to HK$1,019.5 million in last year.

Income Tax Expense

The Group's income tax expense for the year was HK$2.0 million (2019: HK$54.3 million) primarily comprising of the PRC withholding tax on royalties and dividends.

Loss Attributable to Shareholders

For the year ended 31 December 2020, the Group's loss attributable to shareholders was also down by 77% to HK$242.0 million compared to that of HK$1,070.1 million in last year. Basic loss per share was 14.4 HK cents (2019: 64.9 HK cents).

Inventories

As at 31 December 2020, the Group's inventories largely decreased by HK$120.4 million or 74% from HK$162.0 million to HK$41.6 million. Average inventory turnover during the year was 161 days, increased by 4 days. Included in the inventories, the balance of provision for slow-moving and obsolete items was HK$83.1 million as at 31 December 2020 (2019: HK$170.2 million).

Trade Receivables

The amount of trade receivables as at 31 December 2020 decreased by HK$40.6 million or 63% to HK$24.3 million compared to that of HK$64.9 million in 2019. Loss allowance balance for trade receivables amounted to HK$25.2 million (2019: HK$15.1 million). Average debtors turnover increased to 45 days (2019: 19 days).

Trade Payables

As at 31 December 2020, the Group's trade payables decreased by HK$69.5 million or 50%, to HK$69.2 million (2019: HK$138.7 million) and the average creditors turnover increased by 64 days to 323 days (2019: 259 days) mainly due to the extended repayments of certain major suppliers.

Liquidity and Financial Resources

As at 31 December 2020, the Group had cash and cash equivalents amounting to HK$124.6 million (2019: HK$182.3 million, including those transferred to disposal group), which were denominated mainly in Hong Kong Dollar and Renminbi.

The change in balances of cash and cash equivalents amounting to HK$57.7 million (2019: HK$180.7 million) during the year is analysed as follows:

	For the year ended 31 December	
	2020	2019
	HK$'million	HK$'million
Net cash (used in)/generated from operating activities	**(122.6)**	218.2
Capital expenditure	**(3.6)**	(26.4)
Proceeds from disposal of fixed assets	**16.7**	70.8
Proceeds from disposal of subsidiaries and other investments	**0.4**	19.8
Net bank interest received/(paid)	**0.5**	(1.6)
Net bank loans repaid	**-**	(191.2)
Proceeds from issue of new shares and convertible notes	**58.6**	-
Lease payments	**(14.1)**	(271.0)
Effect of foreign exchange rate changes	**6.4**	0.7
	(57.7)	(180.7)

As at 31 December 2020, the Group's net gearing ratio was in net cash (2019: net cash) position. Current ratio as at 31 December 2020 was the same as last year at 1.5 times. Management will closely monitor the Group's financial performance and liquidity position. Taking into consideration of the measures and plans to improve the liquidity position, such as disposals of certain non-core properties and looking for additional resources of financing as and when need, it believes that the Group has sufficient working capital in the next twelve months.

Use of Net Proceeds

On 14 October 2020, the Company completed the allotment of 164,914,238 new shares of the Company at a price of HK$0.1817 per share and issuance of convertible notes in the aggregate principal amount of RMB25.3 million with the initial conversion price of HK$0.221 per share and raised net proceeds of approximately HK$57.3 million after deducting direct transaction costs. As at 31 December 2020, the use of net proceeds was as follows:

	Planned amount to be utilised HK$ million	Actual amount utilised during the year HK$ million	Unutilised amount as at 31 December 2020 HK$ million
Settlement of trade payables to suppliers, and payment of purchase price of merchandises	**34.6**	**26.9**	**7.7**
Improvement of existing e-commerce business platform	**11.5**	**9.7**	**1.8**
Enhance liquidity position of the Group and for other general corporate purposes	**11.2**	**11.2**	**-**
Total	**57.3**	**47.8**	**9.5**

The remaining unutilised amount should be fully utilised by October 2021 and the directors do not intend to change the planned use of the net proceeds.

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 2020, the Group did not enter into any foreign exchange forward contract to hedge the foreign exchange risk exposure. As at 31 December 2020, the Group's exposure to foreign exchange risk was not significant.

Pledge of Assets

As at 31 December 2020, the Group had no pledged assets (2019: Nil).

Capital Expenditure

During the year, the Group incurred capital expenditure of HK$3.6 million (2019: HK$26.4 million) mainly for certain old stores renovation.

Disposal of Material Subsidiaries

On 16 December 2020, the Company disposed 100% equity interest of its indirectly held subsidiary at a consideration of RMB19.5 million (equivalent to approximately HK$23.5 million). This constitutes a disclosable transaction of the Company under the Listing Rules. For more details, please refer to the Company's announcement dated 16 December 2020.

Contingent Liabilities

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

Human Resources

As at 31 December 2020, the Group had a workforce of 150 (2019: 948) people predominantly in Mainland China and Hong Kong. Employee benefits expense for the year ended 31 December 2020 was HK$126.0 million (2019: HK$582.9 million). The overall decrease of HK$456.9 million or 78% in employee benefits expense was mainly due to the further reduction in headcount of back office as a result of the restructuring of the business.

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

The global COVID-19 pandemic remains volatile, and there is an increasing consensus that the novel coronavirus may not be eradicated. The new normal of the pandemic will also dampen consumer sentiment and slow down the recovery of consumption and the economy. Looking ahead to 2021, the Group believes that the overall market sentiment will remain relatively cautious and various industries will continue to adopt a prudent attitude towards major investments. In the past year, the Group was cautious in response to huge market shocks, but the Group firmly believes that change is necessary and will continue to move forward. The Group will continue to take the road of transformation, hoping to make significant progress in the brands business model, online channels development, in-depth collaboration with franchisees and licensees. Daphne will leverage on the advantages of its asset-light business model to cope with the uncertain economic environment and rapidly changing market and start fresh.

With the asset-light business model, the Group will further consolidate its role as a brand owner and invest more in market research and analysis to support the product research and development team to design products that better meet market demands, step up its efforts to develop more athleisure products and achieve parallel development in women's dress shoes and athleisure shoes, and continue to optimise the overall brand network and the overall structure of the Group. The Group's focus on enhancing brand value can attract more franchisees and licensees into Daphne's brand network, thereby establishing a strong and ideal network. As a means to protect the brand image and reputation, the Group will pay close attention to the market, prudently control the scale of the brand network, and strictly select reputable franchisees and licensees. As the business model is still nascent, the Group will continue to review and adjust the model to support the Group's future sustainable development strategies.

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 Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited 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 2020.

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 2019 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 17 January 2020, Mr. Chen Tommy Yi-Hsun has resigned as the executive director of the Company; (ii) with effect from 21 October 2020, Mr. Chang Chih-Kai has resigned as the Chief Executive Officer ("CEO") due to internal adjustment of work commitment but will continue to be the Chairman of the Board, while Mr. Chang Chih-Chiao, an executive director, has been appointed as the CEO of the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year except that Mr. Chang Chih-Kai acted as both the Chairman and CEO of the Company during the period from 17 May 2017 to 21 October 2020. This was in deviation from code provision A.2.1.

REVIEW OF FINANCIAL STATEMENTS AND RESULTS ANNOUNCEMENT

The Group's audited consolidated financial statements for the year ended 31 December 2020 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 2020 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 2020 (2019: Nil).

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company will be held on 26 May 2021. 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 2021 to 26 May 2021, 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 Thursday, 20 May 2021.

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

Hong Kong, 25 March 2021

As at the date of this announcement, the Board of the Company comprises three Executive Directors, namely Mr. Chang Chih-Chiao, Mr. Chang Chih-Kai and Mr. Wang Jungang; and three Independent Non-executive Directors, namely Mr. Hon Ping Cho Terence, Mr. Huang Shun-Tsai and Mr. Kuo Jung-Cheng.