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 2021

HIGHLIGHTS OF 2021 ANNUAL RESULTS

- Total revenue dropped by 71% to HK$105.7 million
- Gross margin improved by 15.8 percentage points to 52.4%
- Profit attributable to shareholders amounted to HK$52.7 million compared to a loss of HK$242.0 million last year
- Basic earnings per share was 2.9 HK cents
- Cash and cash equivalents amounted to HK$227.5 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 2021, together with the comparative figures for 2020.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	**2021**	2020
		HK$'000	HK$'000
Revenue	3	**105,717**	363,921
Cost of sales		**(50,305)**	(230,689)
Gross profit		**55,412**	133,232
Other income	4	**51,020**	40,977
Other gains/(losses) – net	5	**117,105**	(11,164)
Selling and distribution expenses		**(22,862)**	(195,839)
General and administrative expenses		**(115,259)**	(166,921)
Impairment loss on financial assets		**(825)**	(37,426)
Operating profit/(loss)	6	**84,591**	(237,141)
Finance costs	7	**(4,740)**	(2,324)
Share of losses of associates and a joint venture		**(26)**	(304)
Profit/(loss) before income tax		**79,825**	(239,769)
Income tax expense	8	**(26,249)**	(1,956)
Profit/(loss) for the year		**53,576**	(241,725)
Attributable to:			
Shareholders		**52,723**	(241,987)
Non-controlling interests		**853**	262
		53,576	(241,725)
Earnings/(loss) per share, basic and diluted *(HK cents)*	9	**2.9**	(14.4)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	HK$'000	HK$'000
Profit/(loss) for the year	**53,576**	(241,725)
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**10,418**	46,442
Total comprehensive income/(loss) for the year	**63,994**	(195,283)
Attributable to:		
Shareholders	**61,612**	(200,938)
Non-controlling interests	**2,382**	5,655
	63,994	(195,283)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2021

	Note	**2021**	2020
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment		**18,740**	19,976
Investment properties		**541,188**	537,039
Right-of-use assets		**13,523**	9,086
Interests in associates		**1,200**	1,036
Interest in a joint venture		**-**	-
		574,651	567,137
Current assets			
Inventories		**-**	41,569
Trade receivables	11	**7,653**	24,251
Other receivables, deposits and prepayments		**26,928**	69,077
Cash and cash equivalents		**227,489**	124,567
		262,070	259,464
Assets classified as held-for-sale		**-**	32,077
		262,070	291,541
Current liabilities			
Trade payables	12	**4,107**	69,201
Other payables and accrued charges		**46,917**	97,287
Lease liabilities		**3,107**	2,988
Contract liabilities		**12,739**	16,786
Current income tax liabilities		**29,693**	5,778
		96,563	192,040
Net current assets		**165,507**	99,501
Total assets less current liabilities		**740,158**	666,638

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2021

	2021	2020
	HK$'000	HK$'000
Equity attributable to shareholders		
Share capital	**181,406**	181,406
Reserves	**408,646**	346,824
	590,052	528,230
Non-controlling interests	**111,679**	109,297
Total equity	**701,731**	637,527
Non-current liabilities		
Convertible notes	**29,377**	24,571
Lease liabilities	**4,301**	-
Deferred income tax liabilities	**4,749**	4,540
	38,427	29,111
Total equity and non-current liabilities	**740,158**	666,638

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 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.

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2021 but are extracted from those financial statements.

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) New and amended standards adopted by the Group

The Group has applied the following new and amended standards for the first time for their annual reporting period commencing 1 January 2021:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendments to HKFRS 16	Covid-19 Related Rent Concessions

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

(ii) New and amended standards not yet adopted

Certain new and amended standards have been published that are not mandatory for the 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations 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 Annual Improvements Project	Annual Improvements to HKFRSs 2018 – 2020[1]
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope Amendments[1]
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities Arising from a Single Transaction[2]
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
HKFRS 17	Insurance Contracts and the related Amendments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] *Effective for annual periods beginning on or after 1 January 2022*
[2] *Effective for annual periods beginning on or after 1 January 2023*
[3] *Effective date is to be determined*

3 Revenue and segment information

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

Chief operating decision-maker has been identified as the executive directors of the Company. 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.

The Group's revenue is derived from external customers located in Mainland China and most of the non-current assets of the Group are located in Mainland China.

	2021	2020
	HK$'000	HK$'000
Licensing fee income	**58,217**	5,158
Sales of goods	**47,500**	358,763
	105,717	363,921

The five largest customers accounted for approximately 67% of the revenue of the Group for the year ended 31 December 2021. Revenue individually generated from the following customers contributed more than 10% of the revenue of the Group:

	2021	2020
	HK$'000	HK$'000
Customer A	**34,699**	N/A
Customer B	**17,573**	N/A

4 Other income

	2021	2020
	HK$'000	HK$'000
Gross rental income	**44,281**	32,694
Government subsidies *(Note)*	**1,358**	2,903
Interest income	**921**	499
Others	**4,460**	4,881
	51,020	40,977

Note: For the year ended 31 December 2021, government subsidies mainly represented financial aids received by the subsidiaries from the domestic government authorities in Mainland China.

5 Other gains/(losses) – net

	2021	2020
	HK$'000	HK$'000
Gain on disposal of an asset classified as held-for-sale *(Note)*	**131,657**	-
Impairment loss of certain investment properties	**(12,214)**	(16,376)
(Loss)/gain on disposal of property, plant and equipment	**(1,505)**	6,330
Loss on disposal of a subsidiary	**-**	(1,330)
Loss on disposal of a joint venture	**-**	(336)
Net exchange (loss)/gain	**(833)**	548
	117,105	(11,164)

Note: During the year, a wholly-owned subsidiary of the Company entered into a land resumption agreement with Putian City Licheng District People's Government, pursuant to which the Group disposed of an investment property which was an asset classified as held-for-sale with a carrying value of HK$2,965,000 at a consideration of HK$134,622,000. Accordingly, the Group recognised a gain on disposal amounting to HK$131,657,000 in "other gains/(losses) – net". The related compensation to existing tenants and other transaction costs amounting to HK$26,871,000 and HK$764,000, respectively, were recognised in "general and administrative expenses".

6 Operating profit/(loss)

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

	2021 **HK$'000**	2020 HK$'000
Auditors' remuneration		
- Audit services	**2,127**	2,193
- Non-audit services	**1,118**	391
Compensation to existing tenants in relation to disposal of an asset classified as held-for-sale	**26,871**	-
Concessionary fee	**697**	53,609
Cost of inventories sold, net of provision	**49,723**	228,099
Depreciation of investment properties	**21,136**	14,297
Depreciation of property, plant and equipment	**3,052**	14,825
Depreciation of right-of-use assets	**2,815**	18,777
Employee benefits expense	**38,541**	126,023
Expenses relating to short-term leases and variable lease payments	**1,916**	10,695
Impairment loss on financial assets	**825**	37,426
Loss/(gain) on termination of leases	**591**	(60)
Written off/impairment loss on value-added tax recoverable	**6,041**	11,323

7 Finance costs

	2021 **HK$'000**	2020 HK$'000
Interest on convertible notes	**4,398**	912
Interest on lease liabilities	**342**	1,412
	4,740	2,324

8 Income tax expense

	2021 **HK$'000**	2020 HK$'000
Current income tax	**26,272**	1,604
(Over)/under provision in prior years	**(158)**	11
Deferred income tax	**135**	341
	26,249	1,956

The weighted average domestic tax rate is 25% (2020: 22%).

The applicable rate of Hong Kong profits tax is 16.5% (2020: 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 2021 and 2020.

Provision for China corporate income tax is calculated based on the statutory tax rate of 25% (2020: 25%) on the assessable income of each of the Group's entities incorporated in China.

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 tax residents 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% (2020: 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 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit attributable to shareholders of HK$52,723,000 (2020: loss of HK$241,987,000) by the weighted average number of 1,814,056,622 (2020: 1,684,738,627) shares in issue during the year.

The computation of diluted earnings/(loss) per share for the years ended 31 December 2021 and 2020 does not assume the conversion of convertible notes since it would have an anti-dilutive impact. In addition, share options of the Company were not dilutive as the exercise price of the options exceeded the average market price of the Company's ordinary shares during the years ended 31 December 2021 and 2020 and were excluded in the calculation of diluted earnings/(loss) per share.

10 Dividends

The board of directors does not recommend the payment of a dividend in respect of the year ended 31 December 2021 (2020: Nil).

11 Trade receivables

	2021 **HK$'000**	2020 HK$'000
Trade receivables	**26,470**	49,435
Loss allowance	**(18,817)**	(25,184)
Trade receivables - net	**7,653**	24,251

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

	2021 **HK$'000**	2020 HK$'000
0 - 30 days	**7,415**	12,124
31 - 60 days	**238**	5,368
61 - 90 days	**-**	3,551
91 - 180 days	**1,558**	814
181 - 360 days	**1,711**	1,372
Over 360 days	**15,548**	26,206
	26,470	49,435

The carrying values of trade receivables approximate their fair values. For the year ended 31 December 2021, the Group generally allows a credit period of 0 to 30 days to its trade customers.

12 Trade payables

The carrying amount of trade payables is considered to be the same as its fair value, due to its short term in nature. The ageing analysis of trade payables based on invoice date is as follows:

	2021	2020
	HK$'000	HK$'000
0 - 30 days	**1,087**	4,730
31 - 60 days	**368**	6,233
61 - 90 days	**-**	11,388
91 - 180 days	**12**	16,875
181 - 360 days	**-**	23,080
Over 360 days	**2,640**	6,895
	4,107	69,201

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2021, sporadic coronavirus outbreaks and the emergence of new variants continued to fuel the pandemic resurgence across the globe, which have brought immense challenges to China and the global economy. Despite the lingering pandemic, the coronavirus epidemic prevention and control in China have been consolidated thanks to the increase in vaccination rate in China, which led to a sustained steady recovery of the national economy. In 2021, China's economy saw significant improvements, with a year-on-year growth of 8.1%. The gross domestic product in the first and second quarters of 2021 has roughly recovered to pre-pandemic levels, recording year-on-year growth of 18.3% and 7.9%, respectively. Leveraged on the steady recovery of the national economy, China's retail sales of consumer goods saw a strong rebound with a 23.0% year-on-year jump in the first half of the year. In 2021, China's total sales of consumer goods rose 12.5% year-on-year with a 3.9% average annual growth for the past two years, reflecting China's resilient consumer sentiment in a year full of challenges.

The coronavirus pandemic has not only dealt a heavy blow to the retail sector, but also transformed consumer behaviour from in-store shopping to online consumption, bringing uncertainties to offline retail while bolstering the "stay-at-home" economy. During the year, China's online retail sales sustained a robust expansion with a year-on-year growth of 14.1%, while online retail sales of physical goods achieved a year-on-year growth of 12.0%, accounting for 24.5% of the total sales of consumer goods. It is evident that e-commerce will continue to gain momentum in the future.

The Group's Performance

The year of 2021 was a year of major transformation for the Group. After the large-scale business transformation, the Group's distribution channel has been transformed into its franchising and licensing network and the Group has started afresh with the implementation of new asset-light business model. The Group has shifted its focus on brand licensing management and supply chain management, and further strengthened its role as a brand owner.

Leveraging on its strong brand value as well as extensive experience in the women's footwear industry, the Group, as a bridge between franchisees and licensees and the supply chain, authorises online and offline franchisees and licensees to operate with the "Daphne" brand and provides them with reliable supply-chain resources, while franchisees and licensees place orders directly in the supply chain system.

In an effort to further strengthen and enhance the management of the supply chain and franchising and licensing network, the Group is exploring in-depth cooperative opportunities with a domestic no-code or low-code corporate digital intelligence collaborative data platform to streamline the workflow system so as to realise quality refinement, cost reduction and efficiency enhancement in operations and production, and ultimately guiding the Group to achieve higher profits. The new system is expected to be launched in early 2022, mainly to improve the supply chain management with better communication with manufacturers and franchisees and licensees. On the one hand, the Group, authorised manufacturers and franchisees and licensees will be well-connected in a systematic way from placing orders to manufacturing to delivering orders to franchisees and licensees. On the other hand, the data generated from the new system will allow the Group to better understand consumer preferences and identify market trends, which will be conducive to the Group's product research and development to better meet the ever-changing consumer demand.

As the Group shifted to an asset-light business model, the completion of the disposal of inventories related to the directly-managed and partnership stores during the year has greatly eased the Group's pressure from operating and administrative costs and inventory risk exposure. In addition, the pandemic has expedited digital transformation and rapidly reshaped consumer behaviour, thereby transforming the industry's future. Online consumption has been normalised and it has continued to fuel e-commerce growth globally. In view of the changes in consumer behaviour, the Group has adjusted its operating model accordingly, resulting in a substantial increase in online licensing network during the year. In 2021, the Group's licensing fee income increased by 10 folds as compared to last year to HK$58.2 million largely due to the initial success of the business transformation and the rapid expansion of its online licensing network.

Thanks to the new asset-light business model, refined human resources structure, well-adjusted operating costs, the Group's operations successfully turned profitable in the second half of the year. Taking the one-off gain on disposal of an investment property in relation to the land resumption by the Putian City Licheng District People's Government in China into account, the Group's profit attributable to shareholders was HK$52.7 million for the full year of 2021. Overall, the Group has made good progress as an asset-light brand owner and is well-prepared to devote more resources to further improve its brand licensing business, supply chain management, and franchisees and licensees management.

In 2021, basic earnings per share was 2.9 HK cents, compared with the basic loss of 14.4 HK cents per share in 2020. The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

Brand Licensing Business

Since the business transformation, the Group has been focusing on brand management and the licensing business of footwear products, including women's dress shoes and casual shoes to franchisees and licensees in Mainland China.

In 2021, the Group has completed its transformation from a women footwear retailer into an asset-light brand owner with its retailing network transformed into the franchising and licensing network. During the year under review, the Group's online licensing network has grown a lot quicker than its offline network due to the on-going pandemic. As of 31 December 2021, there were approximately 190 physical shops and 250 online shops operated by our franchisees under the licensing arrangement of the Group. During the year, the Group's total revenue was approximately HK$105.7 million (2020: HK$363.9 million), comprising HK$58.2 million (2020: HK$5.2 million) from licensing fee income and HK$47.5 million (2020: HK$358.7 million) from sales of goods. In 2022, the Group will continue to take a prudent approach in opening physical shops by franchisees, especially in cities that the Group has not established its presence, tapping into new markets.

Aside from attaching high importance to product comfort, quality materials and consumer experience, the Group noticed that the "leisurisation" of outfits has been trending across the globe. In response to the growing demand for casual wear, the Group has stepped up its effort in developing stylish casual shoes and lower-heeled shoes to cater the demands of the mass market. Apart from targeting independent white-collar women as the main consumer group, the Group believes that with the increasing spending power of the younger generation, young consumers will play a huge role in contributing to the Group's future sustainable growth. Capitalising on the rising spending power of young consumers, the Group has continued to incorporate more youthful and trendy designs in its products to appeal to a younger demographic to maintain its brand vitality, as well as to meet the diversified and fast-changing preferences and demands of young consumers.

During the year, the Group debuted with the "Sugar Cube Collection" for fall and winter. Themed around "Removing Stereotype Impression", the Sugar Cube series emphasises that women should not be restrained in the social stereotype. Women do not only have to dress in a certain way, women can also dress sweet and cool at the same time. The Sugar Cube Collection integrated elements, such as baroque pearls, metal hearts, bay leaf design to add a sweet nuance and elements, such as functional metal buckles, square toe design, oversized sole, metal chains to exude a cooler vibe, thereby creating a more stylish and youthful look. Since its debut, the Sugar Cube Collection has become a hit on the market during the year and well received by young customers with positive feedbacks. Over 70% of the "Sugar Cube Collection" products were purchased by post-90s young customers. The Group will launch the "Bubblegum Collection" in spring 2022 to tap into the potential of young consumers so as to further strengthen its brand positioning. In the next season, the Group will organise a marketing event around the theme of "like a child again" to spread the positive message that women should keep their childhood innocence, follow their hearts and not be afraid to unleash their full potential. In addition to launching more youthful collections with trendy designs to expand its market share, the Group will explore collaborative opportunities with other brands and creative designers to cater for the taste of the segmentised market as a means to broaden its customer base and build a stronger brand.

Amid the slowing economic activity, the coronavirus pandemic has been an unprecedented catalyst to digital transformation and the thriving "stay-at-home" economy. Benefitting from this opportunity, the Group has rapidly expanded its online licensing network during the year and will continue to carefully adjust its franchising and licensing network according to the pandemic situation and market condition in the future.

Moreover, the Group has invested more resources in its social media marketing and promotion. During the year, the Group collaborated with various social platforms to establish a deeper engagement with its consumers and boosting brand awareness on social media platforms that register the high volume of traffic, thereby stimulating online discussions of the brand and ultimately driving sales for the Group. In the future, the Group will actively yet selectively explore innovative sales and marketing approaches on various popular social media platforms to engage its customers and increase its market penetration.

FINANCIAL REVIEW

Financial Highlights

	For the year ended 31 December		
	2021	2020	Change
Revenue (HK$' million)	**105.7**	363.9	-71%
Gross profit (HK$' million)	**55.4**	133.2	-58%
Operating profit/(loss) (HK$' million)	**84.6**	(237.1)	N/A
Profit/(loss) attributable to shareholders (HK$' million)	**52.7**	(242.0)	N/A
Gross margin (%)	**52.4**	36.6	+15.8ppt
Operating margin (%)	**80.0**	-65.2	+145.2ppt
Net margin (%)	**49.9**	-66.5	+116.4ppt
Basic earnings/(loss) per share (HK cents)	**2.9**	(14.4)	N/A

	As at 31 December		
	2021	2020	Change
Cash and cash equivalents (HK$' million)	**227.5**	124.6	+83%
Convertible notes (HK$' million)	**29.4**	24.6	+20%
Equity attributable to shareholders (HK$' million)	**590.1**	528.2	+12%
Current ratio (times) *(Note 1)*	**2.7**	1.5	+80%
Net gearing ratio (%) *(Note 2)*	**Net cash**	Net cash	**-**

Notes:

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

2. *The calculation of net gearing ratio (%) is based on net debt (being total of lease liabilities and convertible notes less cash and cash equivalents) 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 licensing fee income in Mainland China. During the year ended 31 December 2021, the Group's total revenue amounted to HK$105.7 million (2020: HK$363.9 million), a decrease of 71% compared to last year.

	2021	2020	Change
	HK$ million	HK$ million	
Licensing fee income	**58.2**	5.2	+1,029%
Sales of goods	**47.5**	358.7	-87%
Total revenue	**105.7**	363.9	-71%
Cost of sales	**(50.3)**	(230.7)	-78%
Gross profit	**55.4**	133.2	-58%
Gross margin	***52.4%***	*36.6%*	*+15.8ppt*

Due to the continuing phasing out of the retail operation and clearance of all aged stocks, revenue from sales of goods decreased by 87% to HK$47.5 million from HK$358.7 million compared to last year. On the other hand, our licensing fee income increased by over 10 times, from HK$5.2 million to HK$58.2 million during the year. The Group's overall gross margin also improved by 15.8 percentage points to 52.4% compared to that of last year.

Other Income

Other income mainly comprises rental income, government subsidies and interest income. The amount increased by HK$10.0 million from HK$41.0 million in last year to HK$51.0 million for the year under review. The increase was mainly due to the increase in gross rental income from investment properties this year.

Operating Expenses

The Group's operating expenses (including other gains/(losses) - net, selling & distribution expenses, general & administrative expenses and impairment loss on financial assets but excluding the gain on disposal of an asset classified as held-for-sale of HK$131.7 million and other related costs of HK$27.6 million) was approximately HK$125.9 million during the year, compared with the operating expenses of HK$411.4 million in last year. The decrease in operating expenses was mainly attributable to the continuing scaling down of the operation.

Operating Profit/(Loss)

As a result of the above-mentioned reasons, the Group recorded an operating profit of HK84.6 million for the year, compared with the operating loss of HK$237.1 million in 2020.

Finance Costs

Finance costs represent interests on convertible notes and lease liabilities, amounting to HK$4.4 million (2020: HK$0.9 million) and HK$0.3 million (2020: HK$1.4 million) respectively during the year.

Income Tax Expense

For the year under review, the Group's income tax expense was HK$26.2 million (2020: HK$2.0 million), which mainly arised from the taxable income on the disposal of an asset classified as held-for-sale.

Profit/(Loss) Attributable to Shareholders

For the year ended 31 December 2021, the Group's profit attributable to shareholders was HK$52.7 million compared to a loss of HK$242.0 million last year. Basic earnings per share was 2.9 HK cents (2020: Basic loss per share of 14.4 HK cents) for the year under review.

Liquidity and Financial Resources

As at 31 December 2021, the Group had equity attributable to shareholders totalling HK$590.1 million (2020: HK$528.2 million). Cash and cash equivalents amounted to HK$227.5 million (2020: HK$124.6 million), which were denominated mainly in Hong Kong Dollar and Renminbi. During the year, the change in balances of cash and cash equivalents is analysed as follows:

	For the year ended 31 December	
	2021	2020
	HK$'million	HK$'million
Net cash used in operating activities	**(28.8)**	(122.6)
Capital expenditure	**(3.5)**	(3.6)
Proceeds from disposal of property, plant and equipment and an asset classified as held-for-sale	**135.9**	16.7
Proceeds from disposal of a joint venture	**-**	0.4
Proceeds from issue of new shares and convertible notes	**-**	58.6
Net bank interest received	**0.9**	0.5
Lease payments	**(3.6)**	(14.1)
Effect of foreign exchange rate changes	**2.0**	6.4
	102.9	(57.7)

As at 31 December 2021, the Group's net gearing ratio was in net cash (2020: net cash) position. Current ratio as at 31 December 2021 improved significantly to 2.7 times (2020: 1.5 times). Management will continuously monitor the Group's financial performance and liquidity position and it believes that the Group has sufficient working capital and financial resources for its operation in future.

Use of Net Proceeds

In 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.

In December 2020, the Company disposed 100% equity interest of its indirectly held subsidiary at a consideration of approximately HK$23.2 million which was received in April 2021.

In 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 land resumption by the Government. The proceeds of approximately HK$134.6 million were fully settled by the Government. The net proceeds (after deducting compensation to existing tenants and other related expenses and taxes) were approximately HK$80.8 million.

The total net proceeds from the above-mentioned transactions amounted to approximately HK$161.3 million. As at 31 December 2021, the use of net proceeds was as follows:

(in HK$' million)	Planned amount to be utilised	Accumulated net proceeds utilised as at 1 January 2021	**Actual amount utilised during the year**	**Accumulated net proceeds utilised as at 31 December 2021**	**Unutilised amount as at 31 December 2021**
Settlement of trade payables to suppliers, and payment of purchase price of merchandises	94.7	26.9	**67.8**	**94.7**	**-**
Improvement of existing e-commerce business platform	11.5	9.7	**1.8**	**11.5**	**-**
Brand advertising and promotion expenses	8.0	-	**8.0**	**8.0**	**-**
Enhance liquidity position and for other general corporate purposes	47.1	11.2	**35.9**	**47.1**	**-**
Total	161.3	47.8	**113.5**	**161.3**	**-**

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 2021, the Group did not enter into any foreign exchange forward contract to hedge the foreign exchange risk exposure. As at 31 December 2021, the Group's exposure to foreign exchange risk was not significant.

Pledge of Assets

As at 31 December 2021, the Group had no pledged assets (2020: Nil).

Capital Expenditure and Commitments

During the year, the Group incurred capital expenditure of HK$3.5 million (2020: HK$3.6 million) mainly for office renovation. As at 31 December 2021, the Group had no material capital commitments.

Contingent Liabilities

As at 31 December 2021 and 2020, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2021, the Group had a total of 75 (2020: 150) employees predominantly in Mainland China and Hong Kong. Employee benefits expense for the year ended 31 December 2021 was HK$38.5 million (2020: HK$126.0 million). The overall decrease of 69% in employee benefits expense was mainly due to the reduction in headcounts and cost control measures as a result of business transformation.

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 may be 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

As sporadic coronavirus outbreaks are still scattering all over the world, unpredictable disruptions may rattle consumer sentiment and hammer the retail sector. Even though China sustained the continuous and steady recovery of the national economy in 2021, the complicated and uncertain external environment and global sporadic flare-ups may pose some obstacles in the road to a full recovery of consumption and the overall economy. Looking ahead to 2022, the Group is cautiously optimistic about the overall market sentiment and will continue to prudently operate as an asset-light brand owner.

In view of the ever-changing consumer behaviour and preference, the Group will uphold its consumer-centric strategy and embrace changes by developing more distinctive women's dress shoes and casual shoes with trendy designs that better represent its target consumers in order to keep up with the market trends and better satisfy the segmentised market demands and consolidate its role as a brand owner.

Capitalising on the fast-growing e-commerce market, the Group will selectively expand its online licensing network. Although the Group's online licensing network has been growing much quicker than the offline licensing network in the past year, the Group believes that brick-and-mortar presence will still play a significant role in promoting the "Daphne" brand. Therefore, the Group aims to expand its offline franchising and licensing network in order to strike a better balance between its online and offline network. However, the Group will take the actual pandemic situation and operating environment into consideration and prudently adjust the scale of the network accordingly and strictly select reputable franchisees and licensees.

Thanks to the asset-light business model, the Group has made a solid turnaround during the year and will continue to push forward strategic planning in strengthening and enhancing the management of the supply chain and the franchising and licensing network to further improve efficiency, product quality and the Group's profitability, thereby securing a more favourable market position. Despite the on-going pandemic, the Group believes that the national economy will gradually progress towards a full recovery and the efficacy of its business transformation will continue to be manifested in 2022. The Group will continue to make adjustments to the model to enhance operations and drive the sustainable development of the Group, endeavouring to create greater value for its shareholders.

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 (the "Stock Exchange") 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 2021.

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 2020 of the Company and up to the date of release of this annual results announcement which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, is that (i) Mr. Hon Ping Cho Terence, an independent non-executive director of the Company, has resigned as an independent non-executive director of Jimu Group Limited, a company listed on the Stock Exchange (Stock code: 8187), with effect from 25 May 2021; (ii) Mr. Kuo Jung Cheng, an independent non-executive director of the Company, passed away on 7 July 2021; and (iii) Mr. Tan Philip has been appointed as the independent non-executive director of the Company, the Chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee with effect from 2 August 2021.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year except during the period from 7 July 2021 (date of passing away of Mr. Kuo Jung-Cheng, an independent non-executive director) to 2 August 2021 (date of appointment of Mr. Tan Philip, an independent non-executive director), the Company had only two independent non-executive directors and does not meet the requirements under Rule 3.10(1) having at least three independent non-executive directors and Rule 3.21 comprising a minimum of three members of the Audit Committee.

REVIEW OF FINANCIAL STATEMENTS AND RESULTS ANNOUNCEMENT

The Group's audited consolidated financial statements for the year ended 31 December 2021 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 income statement, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2021 as set out in this annual 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 annual results announcement.

FINAL DIVIDEND

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company will be held on 25 May 2022. 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 20 May 2022 to 25 May 2022, 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, 19 May 2022.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUALREPORT

This annual results announcement is published on the websites of the HKEXnews (www.hkexnews.hk) and the Company (www.daphneholdings.com). The annual report of 2021 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, 24 March 2022

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