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 2022

HIGHLIGHTS OF 2022 ANNUAL RESULTS

- Total revenue increased by 89% to HK$199.8 million
- Profit attributable to shareholders dropped by 18% to HK$43.1 million
- Basic earnings per share was 2.4 HK cents
- Cash and cash equivalents amounted to HK$312.8 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 2022, together with the comparative figures for 2021.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	**2022**	2021
		HK$'000	HK$'000
Revenue	3	**199,766**	105,717
Cost of sales		**(85,541)**	(50,305)
Gross profit		**114,225**	55,412
Other income	4	**55,037**	51,020
Other (losses)/gains – net	5	**(16,139)**	117,105
Selling and distribution expenses		**(30,909)**	(22,862)
General and administrative expenses		**(73,820)**	(115,259)
Reversal of impairment loss/(impairment loss) on financial assets		**848**	(825)
Operating profit	6	**49,242**	84,591
Finance costs	7	**(5,313)**	(4,740)
Share of profit/(loss) of associates and a joint venture		**70**	(26)
Profit before income tax		**43,999**	79,825
Income tax expense	8	**(383)**	(26,249)
Profit for the year		**43,616**	53,576
Attributable to:			
Shareholders of the Company		**43,107**	52,723
Non-controlling interests		**509**	853
		43,616	53,576
Earnings per share, basic and diluted *(HK cents)*	9	**2.4**	2.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
	HK$'000	HK$'000
Profit for the year	**43,616**	53,576
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**(58,846)**	10,418
Total comprehensive (loss)/income for the year	**(15,230)**	63,994
Attributable to:		
Shareholders of the Company	**(8,268)**	61,612
Non-controlling interests	**(6,962)**	2,382
	(15,230)	63,994

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2022

	Note	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment		**2,257**	18,740
Investment properties		**477,185**	541,188
Right-of-use assets		**7,709**	13,523
Interests in associates		**1,164**	1,200
Interest in a joint venture		**-**	-
		488,315	574,651
Current assets			
Trade receivables	11	**12,736**	7,653
Deposits, prepayments and other receivables		**22,174**	26,928
Financial asset at fair value through profit or loss		**34,323**	-
Cash and cash equivalents		**312,776**	227,489
		382,009	262,070
Current liabilities			
Trade payables	12	**35,041**	4,107
Accrued charges and other payables		**36,897**	46,917
Contract liabilities		**37,106**	12,739
Convertible notes		**31,661**	-
Lease liabilities		**3,806**	3,107
Current income tax liabilities		**26,402**	29,693
		170,913	96,563
Non-current liabilities			
Convertible notes		**-**	29,377
Lease liabilities		**4,292**	4,301
Deferred income tax liabilities		**4,341**	4,749
		8,633	38,427
Net current assets		**211,096**	165,507
Net assets		**690,778**	701,731
Equity attributable to shareholders			
Share capital		**181,406**	181,406
Reserves		**404,655**	408,646
		586,061	590,052
Non-controlling interests		**104,717**	111,679
Total equity		**690,778**	701,731

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Daphne International Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the licensing and distribution of footwear products 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, PO 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) 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 2022:

Amendments to Annual Improvements Project	Annual Improvements to HKFRSs 2018 - 2020
Amendments to HKFRS 3, HKAS16 and HKAS37	Narrow-scope Amendments
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 2021
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations

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 and interpretations not yet adopted

Certain new and amended standards have been published that are not mandatory for the 31 December 2022 reporting periods and have not been early adopted by the Group. These standards, amendments and 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 HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities Arising from a Single Transaction[1]
HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Revised Hong Kong Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[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 2023*
[2] *Effective for annual periods beginning on or after 1 January 2024*
[3] *Effective date is to be determined*

3 Revenue and segment information

The Group is principally engaged in licensing and distribution 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.

	2022	2021
	HK$'000	HK$'000
Licensing fee income	**94,062**	58,217
Sales of goods	**105,704**	47,500
	199,766	105,717

The five largest customers accounted for approximately 70% (2021: 67%) of the revenue of the Group for the year ended 31 December 2022. Revenue individually generated from the following customers contributed more than 10% of the total revenue of the Group:

	2022	2021
	HK$'000	HK$'000
Customer A	**55,284**	17,573
Customer B	**28,109**	N/A*
Customer C	**27,743**	34,699

* *The revenue from customer B is a new customer for the year ended 31 December 2022.*

4 Other income

	2022	2021
	HK$'000	HK$'000
Government subsidies *(Note)*	**355**	1,358
Gross rental income	**44,039**	44,281
Interest income	**5,306**	921
Others	**5,337**	4,460
	55,037	51,020

Note: For the year ended 31 December 2022, government subsidies mainly represented financial aids provided to the subsidiaries of the Company by the local government in Mainland China. There were no unfulfilled conditions or other contingencies attaching to these subsidies.

5 Other (losses)/gains – net

	2022	2021
	HK$'000	HK$'000
Fair value gain on financial asset at FVPL	**797**	-
Gain on disposal of an asset classified as held-for-sale	**-**	131,657
Impairment loss of certain investment properties	**(18,573)**	(12,214)
Loss on disposal of property, plant and equipment	**(11)**	(1,505)
Net exchange gain/(loss)	**1,648**	(833)
	(16,139)	117,105

6 Operating profit

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

	2022 **HK$'000**	2021 HK$'000
Auditors' remuneration		
- Audit services	**2,097**	2,127
- Non-audit services	**-**	1,118
Compensation to existing tenants in relation to disposal of an asset classified as held-for-sale	**-**	26,871
Concessionary fee	**-**	697
Cost of inventories sold, net of provision	**85,541**	49,723
Depreciation of investment properties	**19,314**	21,136
Depreciation of property, plant and equipment	**3,192**	3,052
Depreciation of right-of-use assets	**3,040**	2,815
Employee benefits expense	**45,029**	38,541
Expenses relating to short-term leases	**840**	1,916
Loss on termination of leases	**-**	591
(Reversal of impairment loss)/impairment loss on financial assets	**(848)**	825
Written off on value-added tax recoverable	**-**	6,041

7 Finance costs

	2022 **HK$'000**	2021 HK$'000
Interest on convertible notes	**4,991**	4,398
Interest on lease liabilities	**322**	342
	5,313	4,740

8 Income tax expense

	2022 **HK$'000**	2021 HK$'000
Current income tax	**383**	26,272
Over provision in prior years	**-**	(158)
Deferred income tax	**-**	135
	383	26,249

The applicable rate of Hong Kong profits tax is 16.5% (2021: 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 2022 and 2021.

Provision for China corporate income tax is calculated based on the statutory tax rate of 25% (2021: 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. Withholding tax on royalties at a reduced rate of 7% (2021: 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 per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of HK$43,107,000 (2021: HK$52,723,000) by the weighted average number of 1,814,056,622 (2021: 1,814,056,622) shares in issue for the year ended 31 December 2022.

The Company had convertible notes and share options that are convertible into or are exercisable to subscribe for ordinary shares of the Company. The computation of diluted earnings per share for the years ended 31 December 2022 and 2021 does not assume the conversion of convertible notes since it would have an anti-dilutive impact. In addition, share options were not dilutive as the exercise price of the options exceeded the average market price of the Company's ordinary shares for the years ended 31 December 2022 and 2021 and were excluded in the calculation of diluted earnings per share.

10 Dividends

The board of directors does not recommend the payment of a dividend in respect of the year ended 31 December 2022 (2021: Nil).

11 Trade receivables

	2022	2021
	HK$'000	HK$'000
Trade receivables	**25,530**	26,470
Less: loss allowance	**(12,794)**	(18,817)
Trade receivables - net	**12,736**	7,653

The ageing analysis of trade receivables, net of loss allowance, based on invoice date is as follows:

	2022	2021
	HK$'000	HK$'000
0 - 30 days	**11,146**	7,415
31 - 60 days	**82**	238
Over 60 days	**1,508**	-
	12,736	7,653

The carrying amount of trade receivables, net of loss allowance, is denominated in RMB and approximates its fair value. The Group generally allows a credit period of 30 to 60 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:

	2022	2021
	HK$'000	HK$'000
0 - 30 days	**32,565**	1,087
31 - 60 days	**-**	368
Over 60 days	**2,476**	2,652
	35,041	4,107

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2022, the increasingly sophisticated international landscape and geopolitics, coupled with the repeated COVID-19 epidemic brought immense macroeconomic challenges and further increased downward pressure on China’s economy. Due to the frequent resurgence of COVID-19 outbreaks in China, the series of epidemic prevention and control measures dealt a heavy blow to the macroeconomy and the domestic consumer sentiment remained weak, resulting in a notable drag on China’s gross domestic product (GDP) growth. In 2022, China’s GDP growth slowed to a multi-decade low of 3.0% year-on-year, which continued to put a strain on the retail sector. However, since China began to relax the epidemic control measures at the end of November 2022, China has gradually shown signs of economic recovery and consumer sentiment has gradually picked up as well. The fundamentals of China's sound long-term economic growth have not changed, and China’s consumer market is poised to recover soon.

In the wake of the slowdown in economic activities, e-commerce has become an important retail channel. In 2022, China’s online retail sales continued to surge by 4% year-on-year to approximately RMB13.8 trillion. E-commerce is thriving like never before and is expected to witness a tremendous growth in the next few years. It is evident that digital marketing will be the future market trend with a promising bright future, and therefore, the Group put its business focuses on online operations and has been strengthening its presence on high-traffic platforms such as “Douyin”, “Tmall”, and “Xiaohongshu” that are favoured by the younger generations. Among which, interest e-commerce platforms, which are e-commerce platforms that stimulate users’ potential interest through personalised recommendation technology, are rapidly grabbing market share from traditional e-commerce platforms. Moreover, interest e-commerce platforms precisely promote goods to consumers based on consumers’ interests, which help the Group and its online franchisees reach more target customers more easily, thereby achieving higher sales.

The Group’s Performance

Fuelled by the dominantly young and digital-savvy population, the e-commerce market is burgeoning and poised for robust growth. The Group successfully seized the opportunity to carry out a business transformation and has attracted many young female consumers. In 2022, the Group was still in the process of business transformation. During the year under review, the Group continued to optimise brand licensing business, supply chain management, and franchisees management, consolidating its role of an asset-light brand operator. In response to the changes in market situation and customer needs, with the management as the core, the Group made timely and appropriate strategic adjustments to refine the franchising playbook in order to achieve improvement on the supply chain system, and better brand benefits.

The three-year epidemic has fundamentally changed people’s living habits and consumption patterns. Consumers are now shopping less at physical stores. Instead, they prefer to frequent online ones. With the e-commerce boom and accelerated digital transformation, customer expectations for online shopping are rising fast. During the year under review, the Group expanded its online licensing network and stepped up its online marketing efforts, resulting in a significant rise in revenue from its online licensing business and its licensing fee income increased by 62% year-on-year to approximately HK$94.1 million (2021: HK$58.2 million). For the year ended 31 December 2022, the Group’s total revenue amounted to HK$199.8 million (2021: HK$105.7 million).

Despite the intimidating challenges posed by the epidemic and economic downturn, the Group’s business transformation continued to bear fruit and the Group truly turned into profitable on operation level in 2022. During the year under review, the Group’s brand licensing business continued to gain momentum and achieved stable operating profit. For the year ended 31 December 2022, the Group recorded an operating profit of approximately HK$49.2 million, compared to an adjusted operating loss of approximately HK$19.5 million in 2021 if the one-off gain on the disposal of an asset classified as held-for-sale and other related costs amounting to approximately HK$104.1 million were excluded. The operating results have proved that the Group has made good progress as a brand owner. The Group expects its business to maintain sound development as the economy gets back on track.

For the year ended 31 December 2022, basic earnings per share was 2.4 HK cents (2021: 2.9 HK cents) and the board of directors does not recommend the payment of a final dividend (2021: Nil).

Brand Licensing Business

As the brand owner of the "Daphne" brand, the Group focuses on brand management and licensing of footwear products, including women's dress shoes and casual shoes, to franchisees in Mainland China.

Capitalising on the epidemic-induced e-commerce opportunities, the Group continued to ramp up its online presence and expand the online licensing network through our franchisees during the year under review. Compared to the previous year, the number of online shops operated by the Group's franchisees has increased significantly which helped the Group's efforts to increase its market share. On the contrary, the epidemic has severely dampened offline sales. During the year under review, the Group kept a close eye on the market and macroeconomic situation and actively rationalised its physical store network operated by franchisees with the closure of underperforming and inefficient offline stores and the opening of new stores. As of 31 December 2022, there were approximately 149 (2021: 196) physical shops and 585 (2021: 254) online shops respectively, all operated by franchisees under the licensing arrangement of the Group. Although the pace of offline network expansion was hindered by the epidemic, the Group believes that there is still room for future development in offline channels as the economy begins to pick up. In addition, brick-and-mortar stores can help a brand reach different demographics and enhance brand awareness. With the development of both online and offline channels, the Group can enjoy the merits of each and can perhaps integrate the two channels to provide customers with a more seamless shopping experience as well as generate synergies to improve brand awareness and increase exposure. Therefore, the Group will push forward the offline expansion strategy through our franchisees in a prudent manner to capture market opportunities in the post-pandemic era.

With a good understanding of the needs and preferences of consumers, the Group is poised to strengthen and diversify its product mix by enhancing product design, thereby building a strong brand image to attract young consumers with high spending power. During the year under review, with the collaboration of fashionable designers, the Group launched a new original collection that is of high quality and reasonably priced. The new original collection also has unique, youthful and trendy features to target young consumers aged 18 to 28 who prefer brands that offer originality and high quality yet affordable products. The Group actively devotes resources in product design to develop products that are popular among young consumers.

As self-expression is gaining more steam among young consumers, following the positive market response received from the debut of the "Sugar Cube Collection", the Group launched the "Bubblegum Collection" in the summer of 2022, which received an overwhelming response from young consumers that was far beyond the Group's expectations. Considering the positive response from the "Bubblegum Collection", the Group will strengthen its efforts in highlighting originality in its product design and development. Moreover, the Group will build stronger design and marketing teams to keep abreast of domestic and international trends and launch more stylish footwear products, thereby satisfying the growing demands of young consumers and increasing the market share of the "Daphne" brand in the segmentised market.

The Group has been devoting itself to developing superb quality footwear. During the year under review, the Group continued to implement the "quick response for small orders" approach, catering to the rapidly changing preferences and needs of consumers in the fast-changing and diversified footwear industry. With the growing online licensing network and increasing sales, the Group actively improved quality control and assurance and streamlined each stage along the supply chain system to ensure product quality and delivery efficiency. During the year under review, the Group established a dedicated team to better manage the supply chain system. With the support of new team, franchisees can preview the style and quality of the sample to reduce order lead time. Furthermore, it also significantly improved the efficiency of the supply chain and successfully drove more revenue to the Group.

As part of the Group's ongoing efforts to improve its brand image and brand value, in the second half of 2022, the Group carried out marketing campaigns for the soft launch of the new original collection on major social media platforms such as "Xiaohongshu" and "Douyin", increasing exposure, reaching out to a larger audience, and driving conversations of the brand. The collection was well-received by consumers and achieved satisfactory sales performance in e-commerce channels. Riding on the growing trend of the popularity of interest e-commerce platforms, the Group will step up its marketing efforts on high-traffic social media platforms to boost its brand awareness, build its customer loyalty on one hand, and through actively implement innovative sales and marketing strategy as well as engage with its consumers on the other hand, in order to further expand its customer base and promote sustainable development of the Group.

FINANCIAL REVIEW

Financial Highlights

	For the year ended 31 December		
	2022	2021	Change
Revenue (HK$' million)	**199.8**	105.7	+89%
Other income (HK$' million)	**55.0**	51.0	+8%
Operating profit (HK$' million)	**49.2**	84.6	-42%
Profit attributable to shareholders (HK$' million)	**43.1**	52.7	-18%
Operating margin (%)	**24.6**	80.0	-55.4ppt
Net margin (%)	**21.6**	49.9	-28.3ppt
Basic earnings per share (HK cents)	**2.4**	2.9	-17%

	As at 31 December		
	2022	2021	Change
Cash and cash equivalents (HK$' million)	**312.8**	227.5	+37%
Investment in wealth management product (HK$' million)	**34.3**	-	+100%
Convertible notes (HK$' million)	**31.7**	29.4	+8%
Equity attributable to shareholders (HK$' million)	**586.1**	590.1	-1%
Current ratio (times) *(Note 1)*	**2.2**	2.7	-19%
Net gearing ratio (%) *(Note 2)*	**Net cash**	Net cash	N/A

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 licensing fee income and sales of goods in Mainland China. For the year ended 31 December 2022, the Group's total revenue amounted to HK$199.8 million (2021: HK$105.7 million), an increase of 89% compared to 2021.

	For the year ended 31 December		
	2022	2021	Change
	HK$' million	HK$' million	
Licensing fee income	**94.1**	58.2	+62%
Sales of goods	**105.7**	47.5	+123%
Cost of sales	**(85.6)**	(50.3)	+70%
Gross profit/(loss) from sales of goods	**20.1**	(2.8)	N/A
Total revenue	**199.8**	105.7	+89%
Total gross profit	**114.2**	55.4	+106%

Both of licensing fee income and sales of goods recorded a significant increase as a result of further development and expansion of online channels by our franchisees after the business transformation in prior years.

Revenue from licensing fee income increased by 62%, from HK$58.2 million to HK$94.1 million during the year under review, mainly attributable the increase in number of online shops operated by our franchisees.

On the other hand, the Group also focused on the distribution of footwear products for better quality control and supply chain management to both online and offline franchisees, revenue generated from sales of goods increased significantly by 123% to HK$105.7 million compared to HK$47.5 million which was mainly for clearance of inventories in 2021. Gross margin of sales of goods also turned to positive for the year under review. The Group's overall gross margin improved by 4.8 percentage points to 57.2% (2021: 52.4%).

Other Income

For the year ended 31 December 2022, the Group's other income, comprising mainly gross rental income from investment properties and bank interest income, increased by HK$4.0 million from HK$51.0 million in 2021 to HK$55.0 million. The increase was mainly due to the increase in bank interest income due to increased bank balances and interest rates during the year under review.

Operating Expenses

The Group's operating expenses (including other (losses)/gains - net, selling & distribution expenses, general & administrative expenses and reversal of impairment loss/(impairment loss) on financial assets) were approximately HK$120.0 million during the year under review, compared with the adjusted operating expenses of HK$125.9 million in 2021 if 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 were excluded.

Operating Profit

As a result of the above-mentioned reasons, the Group recorded an operating profit of HK$49.2 million for the year ended 31 December 2022, a decrease of HK$35.4 million or 42% compared with the operating profit of HK$84.6 million in 2021. The Group achieved a stable operating profit this year instead of an adjusted operating loss in 2021 if the one-off gain on disposal of an asset classified as held-for-sale and other related costs were excluded.

Finance Costs

Finance costs represent interests on convertible notes and lease liabilities, amounting to HK$5.0 million (2021: HK$4.4 million) and HK$0.3 million (2021: HK$0.3 million) respectively during the year under review.

Income Tax Expense

For the year ended 31 December 2022, the Group's income tax expense reduced by HK$25.8 million to HK$0.4 million (2021: HK$26.2 million), mainly attributable to the utilisation of tax losses during the year under review and the income tax provided on the disposal of an asset classified as held-for-sale in 2021.

Profit Attributable to Shareholders

For the year ended 31 December 2022, the Group's profit attributable to shareholders was HK$43.1 million compared to a profit of HK$52.7 million in 2021. Basic earnings per share was 2.4 HK cents (2021: 2.9 HK cents) for the year ended 31 December 2022.

Liquidity and Financial Resources

As at 31 December 2022, the Group had equity attributable to shareholders totalling HK$586.1 million (2021: HK$590.1 million). Cash and cash equivalents amounted to HK$312.8 million (2021: HK$227.5 million), which were denominated mainly in Renminbi and Hong Kong Dollar. During the year under review, the change of cash and cash equivalents is analysed as follows:

	For the year ended 31 December	
	2022	2021
	HK$'million	HK$'million
Net cash generated from/(used in) operating activities	**137.8**	(28.8)
Capital expenditure	**(1.1)**	(3.5)
Proceeds from disposal of property, plant and equipment and an asset classified as held-for-sale	**0.1**	135.9
Investment in wealth management product	**(33.5)**	-
Bank interest received	**5.3**	0.9
Lease payments	**(3.6)**	(3.6)
Effect of foreign exchange rate changes	**(19.7)**	2.0
	85.3	102.9

For the year ended 31 December 2022, the Group's interest income on bank balances and deposits was HK$5.3 million (2021: HK$0.9 million).

During the year under review, the Group purchased a wealth management product offered and managed by Hua Xia Wealth Management Co., Ltd. in Mainland China with contractual terms of 399 days from 8 March 2022 to 11 April 2023. The wealth management product is non-principal guaranteed with variable return totalling HK$33.5 million (equivalent to RMB30.0 million) and the expected annualised rate of return is around 4.45%. For details of this wealth management product, please also refer to the announcements of the Company dated on 19 March 2022 and 22 March 2022.

As at 31 December 2022, the Group's investment in wealth management product was classified as financial asset at fair value through profit or loss in the consolidated balance sheet and amounted to approximately HK$34.3 million (2021: Nil). For the year ended 31 December 2022, the unrealised gain on fair value change from the wealth management product amounted to approximately HK$0.8 million (2021: Nil).

The purchase of the wealth management product was carried out by the Group for treasury management purpose in order to maximise the utilisation of surplus cash. The Group considers that the purchase of the wealth management products will provide the Group with better returns than the returns on deposits generally offered by commercial banks, and would not affect the working capital or the normal business operation of the Group. As such, the directors are of the view that the purchases of the wealth management products are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole.

As at 31 December 2022, the Group's net gearing ratio was in net cash (2021: net cash) position. Current ratio as at 31 December 2022 dropped to 2.2 times (2021: 2.7 times) as the convertible notes of HK$31.7 million will be matured in October 2023 and reclassified to current liabilities. 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 the foreseeable future.

Foreign Exchange Risk Management

The Group mainly operates in Mainland China with transactions primarily settled in Renminbi. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in currencies other than the functional currency of the Group's entities to which they operate. The Group is mainly exposed to foreign exchange risk from various currencies, primarily with respect to Hong Kong dollars.

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. The Group did not hedge its foreign exchange exposure during the year under review. Any significant exchange rate fluctuations of foreign currencies against Renminbi may have had financial impact on the Group.

Pledge of Assets

As at 31 December 2022, the Group had no pledged assets (2021: Nil).

Capital Expenditure and Commitments

During the year under review, the Group incurred capital expenditure of HK$1.1 million (2021: HK$3.5 million) primarily for leasehold improvements and office equipment. As at 31 December 2022, the Group had no material capital commitments.

Contingent Liabilities

As at 31 December 2022 and 2021, the Group had no material contingent liabilities.

Human Resources

As at 31 December 2022, the Group had a total of 90 (2021: 75) employees predominantly in Mainland China and Hong Kong. Employee benefits expense for the year ended 31 December 2022 was HK$45.0 million (2021: HK$38.5 million), including share-based payment expense of HK$4.3 million (2021: HK$0.1 million). The overall increase of 17% in employee benefits expense was mainly due to the increase in share-based payment expenses and increased headcounts.

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 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 various retirement plans, medical insurance schemes, staff purchase discounts and training programmes to the employees in Mainland China and Hong Kong.

OUTLOOK

Even though the epidemic has gradually become normalised and China has scrapped many epidemic control measures, the world still encounter many challenges and uncertainties in 2023 against the backdrop of the increasingly complex international landscape and slowing global economic growth. The macro environment remains volatile and unpredictable and the foundation of China's economic recovery is not yet stabilised.

As China enters a new phase of post-epidemic, production and daily life are returning to normal, offline consumption scenarios will gradually resume, while online consumption will continue to increase. The overall consumer market is expected to recover gradually, and the Group remains confident in the long-term development of China's consumer market. Therefore, the Group will continue to devote more resources to expand its online licensing network and build more online business on various e-commerce platforms to increase market share. Meanwhile, the Group will take prudent approach to recruit more franchisees on offline channels to explore opportunities in new markets. Moreover, the Group plans to increase online and offline interactions and integrate online and offline marketing activities, creating synergies to improve brand awareness, sales, and market penetration.

With an in-depth understanding of consumer preference, the Group's new collections with original designs received enthusiastic response during the year under review. The Group plans to provide more high quality yet affordable footwear products with original designs to attract more young and high-spending consumers of the new generation.

Despite the initial success of the business transformation in 2022, the Group is still in the process of business transformation. Looking ahead, the Group will maintain a cautious view on the market and make timely and appropriate adjustments to the business model to enhance operations. The Group will also strengthen its efforts to improve the supply chain management system and licensing business, further streamline organisational structure, monitor store efficiency and improve quality control and assurance, striving to better meet consumer demands with high quality products and efficiency and create greater value for its shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2022.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

The Group did not have any material acquisition or disposal of subsidiaries, associates or joint ventures for the year ended 31 December 2022.

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") on 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 2022.

The Company also requires officers and employees of the Group who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities, be also bound by the Model Code, which prohibits them to deal in securities of the Company at any time when he/she 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 for the year ended 31 December 2022.

CHANGES IN DIRECTORS' INFORMATION

The change in directors' details since the date of the Annual Report 2021 of the Company and up to the date 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 Mr. Tan Philip, an independent non-executive director of the Company, has been re-designated as an executive director of Pacific Millennium Packaging Group Corporation (Stock Code: 1820), a company listed on The Stock Exchange of Hong Kong Limited, with effect from 1 November 2022 after having served as a non-executive director of the said company between December 2019 and October 2022.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules. Throughout the year ended 31 December 2022, the Company has complied with all the applicable code provisions set out in the CG Code.

The Board will continue to enhance its corporate governance practices appropriate to the operation and growth of its business and to review such practices from time to time to ensure that the Company complies with statutory and professional standards and align with the latest development.

REVIEW OF FINANCIAL STATEMENTS AND RESULTS ANNOUNCEMENT

The Group's audited consolidated financial statements for the year ended 31 December 2022 including the accounting principles and practices adopted have been reviewed by the Audit Committee of the Company. Based on such review, the Audit Committee was of the opinion that the Group's annual consolidated financial statements were prepared in accordance with applicable accounting standards. The Audit Committee does not have any disagreement with the accounting treatment adopted by 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 2022 as set out in this annual results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2022. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on this annual results announcement.

FINAL DIVIDEND

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the directors throughout the year ended 31 December 2022 and up to the date of this announcement, the Company has maintained sufficient public float of more than 25% of the Company's total issued share capital as required by the Listing Rules.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company will be held on 24 May 2023. 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 19 May 2023 to 24 May 2023, 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 branch share registrar in Hong Kong, Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 18 May 2023.

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 2022 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, 28 March 2023

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.