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 2010

HIGHLIGHTS OF 2010 ANNUAL RESULTS

- Turnover grew by 14% to HK$6,623.8 million
- Gross profit rose by 19% to HK$3,800.8 million
- Profit attributable to equity holders of the Company
  - increased by 13% to HK$672.8 million excluding fair value loss on warrants of HK$77.3 million
  - increased by 51% to HK$595.5 million including fair value loss on warrants of HK$77.3 million
- Basic earnings per share
  - increased by 13% to HK41.08 cents excluding fair value loss on warrants of HK$77.3 million
  - increased by 51% to HK36.36 cents including fair value loss on warrants of HK$77.3 million
- Proposed final dividend of HK6.0 cents per share

* *for identification purpose only*

ANNUAL RESULTS

The board of directors (the "Board") of Daphne International Holdings Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative figures for 2009 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Year ended 31 December 2010 HK$'000	2009 HK$'000
Turnover	2	6,623,840	5,831,994
Cost of sales		(2,822,999)	(2,624,916)
Gross profit		3,800,841	3,207,078
Other income	3	88,869	52,073
Other gains/(losses) - net	4	11,729	(24,622)
Selling and distribution expenses		(2,485,379)	(2,065,555)
General and administrative expenses		(444,390)	(305,891)
Fair value loss on derivative financial instrument - warrants		(77,328)	(203,466)
Finance costs		(44,799)	(26,704)
Share of profit of an associated company		618	630
Profit before income tax	5	850,161	633,543
Income tax expense	6	(238,550)	(232,884)
Profit for the year		611,611	400,659
Attributable to:			
Equity holders of the Company		595,510	393,838
Non-controlling interests		16,101	6,821
		611,611	400,659
Earnings per share	7		
Basic (HK cents)		36.36	24.05
Diluted (HK cents)		34.15	23.93
Dividends	8	196,548	131,032

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Profit for the year	611,611	400,659
Currency translation differences	86,901	30,511
Realisation of translation reserve upon disposal of a subsidiary	-	(4,424)
Realisation of reserves upon dissolution of a subsidiary	-	(315)
Other comprehensive income for the year	86,901	25,772
Total comprehensive income for the year	698,512	426,431
Attributable to:		
Equity holders of the Company	679,843	420,425
Non-controlling interests	18,669	6,006
	698,512	426,431

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2010 HK$'000	2009 HK$'000
Non-current assets			
Intangible assets		129,889	26,875
Land use rights		50,336	43,498
Fixed assets		710,850	560,594
Interest in an associated company		3,338	3,262
Available-for-sale financial assets		63,183	33,624
Long-term rental deposits and prepayments		109,294	92,420
Deferred income tax assets		56,388	41,466
		1,123,278	801,739
Current assets			
Inventories		1,084,308	889,319
Trade receivables	9	210,430	181,253
Other receivables, deposits and prepayments		571,360	442,731
Pledged bank deposit		-	2,915
Bank deposit with maturity over three months		35,385	78,000
Cash and cash equivalents		2,024,289	1,544,851
		3,925,772	3,139,069
Current liabilities			
Trade payables	10	577,949	385,317
Other payables and accrued charges		371,957	271,602
Income tax payable		199,295	206,764
Bank loan		11,281	14,567
Derivative financial instrument - warrants		-	284,261
		1,160,482	1,162,511
Net current assets		2,765,290	1,976,558
Total assets less current liabilities		3,888,568	2,778,297

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Equity		
Share capital	163,789	163,789
Reserves	2,960,543	2,039,109
Equity attributable to equity holders of the Company	3,124,332	2,202,898
Non-controlling interests	183,271	39,027
Total equity	3,307,603	2,241,925
Non-current liabilities		
Convertible bonds	556,622	515,625
License fees payables	3,460	17,850
Deferred income tax liabilities	5,171	2,897
Other non-current liabilities	15,712	-
	580,965	536,372
Total equity and non-current liabilities	3,888,568	2,778,297

1. Basis of preparation

The consolidated accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Standards and amendments effective and relevant to and adopted by the Group in 2010

HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
Improvements to HKFRSs 2009	Amendments to a number of HKFRS issued in May 2009

HKFRS 3 (Revised) "Business Combinations" introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it result in a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisition, loss of control and transactions with non-controlling interests after 1 January 2010.

Other than as noted above, the adoption of the new HKFRS had no material impact on the preparation and presentation of the results and financial position of the Group for the current or previous accounting periods.

Standards, amendments and interpretations that have been issued but are not yet effective nor have been adopted by the Group in 2010

HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets [5]
HKAS 24 (Revised)	Related Party Disclosures [1]
HKAS 32 (Amendment)	Financial Instruments: Presentation – Classification of Rights Issues [2]
HKFRS 1 (Amendment)	First-time Adoption of HKFRSs – Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters [3]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfer of Financial Assets [4]
HKFRS 9	Financial Instruments [6]
HK(IFRIC) - Int 14	Prepayments of a Minimum Funding Requirement [1]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments [3]

1 Effective for accounting periods beginning on or after 1 January 2011
2 Effective for accounting periods beginning on or after 1 February 2010
3 Effective for accounting periods beginning on or after 1 July 2010
4 Effective for accounting periods beginning on or after 1 July 2011
5 Effective for accounting periods beginning on or after 1 January 2012
6 Effective for accounting periods beginning on or after 1 January 2013

Apart from the adoption of HKFRS 9 which may have an effect on the classification and the treatment of fair value changes of existing available-for-sale financial assets, the management anticipates that the adoption of these new/revised HKFRS will have no significant impact on the results and the financial position of the Group.

2. Turnover and segment information

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

The segment information for the year ended 31 December is as follows:

	Brand business			Manufacturing business	Inter-segment elimination	Group
	Daphne HK$'000	Shoebox HK$'000	Others HK$'000	HK$'000	HK$'000	HK$'000
2010						
Revenue from external customers	4,350,142	1,296,403	409,680	567,615	-	6,623,840
Inter-segment revenue	50,020	-	20,666	594,516	(665,202)	-
Turnover	4,400,162	1,296,403	430,346	1,162,131	(665,202)	6,623,840
Segment results	830,646	175,547	(7,257)	51,564	5,576	1,056,076
Unallocated corporate income						3,095
Unallocated corporate expenses						(87,501)
Fair value loss on derivative financial instrument - warrants						(77,328)
Finance costs						(44,799)
Share of profit of an associated company						618
Profit before income tax						850,161
Depreciation and amortisation	77,059	30,053	18,234	16,874	-	142,220
Capital expenditure	181,558	50,708	16,445	32,609	-	281,320
2009						
Revenue from external customers	4,059,034	954,671	277,580	540,709	-	5,831,994
Inter-segment revenue	3,937	-	1,003	573,292	(578,232)	-
Turnover	4,062,971	954,671	278,583	1,114,001	(578,232)	5,831,994
Segment results	780,159	102,272	(66,581)	56,514	8,144	880,508
Unallocated corporate income						4,552
Unallocated corporate expenses						(21,977)
Fair value loss on derivative financial instrument - warrants						(203,466)
Finance costs						(26,704)
Share of profit of an associated company						630
Profit before income tax						633,543
Depreciation and amortisation	85,228	20,927	10,922	17,997	-	135,074
Impairment on goodwill	-	-	10,606	-	-	10,606
Capital expenditure	88,137	24,253	7,905	22,427	-	142,722

Inter-segment revenue is charged in accordance with terms determined and agreed mutually by the relevant parties. Revenue from external customers of brand business is mainly derived from Mainland China, Taiwan and Hong Kong and revenue from external customers of manufacturing business is mainly derived from United States of America. None of the customers accounted for 10% or more of the total turnover of the Group during both years ended 31 December 2010 and 31 December 2009.

Certain corporate overhead expenses, including management fee, rental and utilities were reallocated among individual segments based on estimated consumption.

The Group's non-current assets, excluding available-for-sale financial assets and deferred income tax assets, are located mainly in Mainland China.

3. Other income

	2010 HK$'000	2009 HK$'000
Government incentives	30,488	29,623
Interest income	37,151	6,609
Franchise and royalty income	6,283	4,150
Income derived from an available-for-sale financial asset	3,000	3,000
Vendor rebate	957	989
Handling income	662	1,516
Gross rental income	350	465
Others	9,978	5,721
	88,869	52,073

4. Other gains/(losses) – net

	2010 HK$'000	2009 HK$'000
Gain on disposal of a subsidiary	-	1,197
Gain on dissolution of a subsidiary	-	315
Impairment loss on goodwill	-	(10,606)
Loss on disposal of fixed assets	(12,392)	(18,876)
Net exchange gain	14,628	3,348
Net gain on early termination of a license right	9,493	-
	11,729	(24,622)

5. Profit before income tax

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

	2010 HK$'000	2009 HK$'000
Amortisation of land use rights	1,393	1,816
Amortisation of license rights	3,774	1,966
Amortisation of trademarks	3,397	-
Auditors' remuneration	5,769	3,941
Cost of inventories sold including write-back of provision for slow-moving inventories of HK$16,835,000 (2009: provision of HK$38,989,000)	2,410,482	2,318,998
Depreciation of fixed assets	133,656	131,292
Employee benefits expense including directors' emoluments	836,555	607,393
Operating lease rentals (including concessionaire fees) in respect of land and buildings	1,313,866	1,151,107
Write-back of provision for impairment of trade receivables	(156)	(152)

6. Income tax expense

	2010 HK$'000	2009 HK$'000
Current tax	248,030	237,338
Under-provision in prior years	1,654	3,665
Deferred tax	(11,134)	(8,119)
	238,550	232,884

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year. No provision for Hong Kong profits tax has been made in the accounts for the year ended 31 December 2009 as the Group does not have any assessable profit arising in Hong Kong. Income tax on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of income tax prevailing in the countries/places in which the Group operates.

Provision for China corporate income tax was calculated based on the statutory tax rate of 25% (2009: 25%) on the assessable income of each of the Group's entities except that certain subsidiaries of the Company operating in China are eligible for certain tax exemptions and concessions including tax holiday and reduced corporate income tax rate during the year. Accordingly, the China corporate income tax for such subsidiaries has been provided for after taking into account of these tax exemptions and concessions.

7. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$595,510,000 (2009: HK$393,838,000) and 1,637,892,384 (2009: 1,637,892,384) ordinary shares in issue throughout the year.

The calculation of diluted earnings per share is based on the adjusted profit attributable to equity holders of the Company of HK$637,093,000 (2009: HK$415,681,000) and the adjusted weighted average number of ordinary shares of 1,865,789,759 (2009: 1,737,173,606) after taking into consideration of conversion of the convertible bonds and exercise of share options.

	2010 HK$'000	2009 HK$'000
Profit attributable to equity holders of the Company	595,510	393,838
Interest on the liability component of the convertible bonds	41,583	21,843
Adjusted profit attributable to equity holders of the Company	637,093	415,681
	Number of shares	Number of shares
Number of ordinary shares in issue throughout the year	1,637,892,384	1,637,892,384
Effect of conversion of convertible bonds	178,510,572	99,281,222
Effect of exercise of share options	49,386,803	-
Weighted average number of ordinary shares adjusted for effect of dilution	1,865,789,759	1,737,173,606

The warrants are anti-dilutive and are ignored in the calculation of diluted earnings per share for years ended 31 December 2010 and 31 December 2009.

8. Dividends

	2010 HK$'000	2009 HK$'000
Interim dividend, paid, of HK6.0 cents (2009: HK3.0 cents) per ordinary share	98,274	49,137
Final dividend, proposed, of HK6.0 cents (2009: HK5.0 cents) per ordinary share	98,274	81,895
	196,548	131,032

At a meeting held on 30 March 2011, the Board proposed a final dividend of HK6.0 cents per share in respect of the year ended 31 December 2010. The proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained profits for the year ending 31 December 2011.

9. Trade receivables

	2010 HK$'000	2009 HK$'000
Trade receivables	212,151	183,310
Less: Provision for impairment of receivables	(1,721)	(2,057)
Trade receivables - net	210,430	181,253

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

	2010 HK$'000	2009 HK$'000
0 - 30 days	193,902	160,280
31 - 60 days	11,066	11,001
61 - 90 days	2,331	6,361
91 - 120 days	1,677	1,628
121 - 180 days	430	1,165
181 - 360 days	895	400
Over 360 days	129	418
	210,430	181,253

The Group generally allows an average credit period of 30 to 60 days to its trade customers other than major and long standing customers with whom specific extended terms will be agreed between the Group and the relevant counter parties.

10. Trade payables

The ageing analysis of trade payables including balances due to related parties by invoice date is as follows:

	2010 HK$'000	2009 HK$'000
0 - 30 days	315,781	185,629
31 - 60 days	199,075	159,957
61 - 90 days	28,489	24,059
91 - 120 days	15,416	3,789
121 - 180 days	6,238	1,846
181 - 360 days	5,212	3,893
Over 360 days	7,738	6,144
	577,949	385,317

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Brand Business

	Number of points-of-sale as at 31 December		
	2010	2009	Change
Daphne (Mainland China)	3,789	3,307	+482
Shoebox	1,113	813	+300
Others	297	105	+192
Total	5,199	4,225	+974

	Turnover for the year ended 31 December (HK$'million)		
	2010	2009	Change
Daphne (Mainland China)	4,400.2	4,063.0	+8%
Shoebox	1,296.4	954.7	+36%
Others	430.3	278.6	+54%
Total	6,126.9	5,296.3	+16%

"Daphne"

Spurred by retail market growth in Mainland China, the Group's core own brand "Daphne" continued to play the market leader and contributed 66% (2009: 70%) of Group's turnover for the year ended 31 December 2010.

The renowned "Daphne" brand enjoyed strengthened market presence in Mainland China with more points-of-sale established in 2010, in particular, during the second half of the year when stock-out problem caused by temporary factory labor shortage was resolved. As at the end of 2010, "Daphne" had 1,986 (2009: 1,848) directly-managed stores, 819 (2009: 716) directly-managed counters and 984 (2009: 743) franchised outlets.

Distribution of points-of-sale of "Daphne" in Mainland China as at 31 December

	City Tier						
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Total
2010	398	704	530	677	587	893	3,789
2009	356	616	442	613	531	749	3,307

In 2010, "Daphne" business delivered growth in both turnover and gross profit margin. Despite the keen market competitions, high inflation and increasing material costs, "Daphne" successfully managed the cost pressure by increasing the products' average selling price ("ASP"). The higher ASP could also differentiate "Daphne" brand from other brands (e.g. "Shoebox") operated by the Group. Moreover, the Group launched a "Brand Rejuvenation" campaign for "Daphne" in the second half of the year as to maintain its competitive strength. To elevate the market position of the brand, the Group introduced an enhanced product portfolio with better quality, which has earned the appreciation of customers.

However, as a result of rising expenses, operating profit margin of "Daphne" was under pressure. During the year, the Group recorded higher rental and personnel expenses.

"Shoebox"

"Shoebox" business performance exceeded management's expectation in 2010. Same store sales maintained double-digit growth. Turnover gross profit and operating profit all recorded satisfactory growth, being 36% and 44% and 72%, respectively, compared to last year. Moreover, with ASP climbing up, its gross margin rose by approximately 3.2 percentage points. Such solid performances can be attributed to greater recognition of the brand in the mass market, which is "Shoebox"'s target segment. Strong economic growth bolstering household income and consumption sentiment are also significant factors contributing to growth of the business.

As at 31 December 2010, "Shoebox" had 1,113 (2009: 813) directly-managed stores located in different city tiers of Mainland China as follows:

	City Tier						
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Total
2010	142	241	226	221	206	77	1,113
2009	110	171	149	173	160	50	813

Together with "Daphne", "Shoebox" penetrated new business zones, in addition to entering locations where "Daphne" already has strong presence.

Other brands

Other brands consist of self-owned brands and licensed brands operated in Mainland China, Taiwan and Hong Kong, contributed to approximately 6% (2009: 5%) of the Group's turnover for the year.

Upon the acquisition of Full Pearl in January 2010, the Group's brand portfolio was enriched to have different brands targeting various segments of customers.

In the second half of the year, the newly acquired Full Pearl's business was re-organised to better integrate with the existing business of the Group to achieve maximum synergies and operational efficiency. The integration has been undergoing since the last quarter of 2010 and it is expected to generate operational benefits in the long-term.

Following the decision to withdraw from the sportswear business in 2009, the Group fully terminated the business in the first half of 2010.

Manufacturing Business

The Group's manufacturing business maintained stable development for the year under review. The Group is prudent in managing its manufacturing business amid strong competition, it continuously aims to maintain stable operating margin by managing its cost structure and operation efficiently.

FINANCIAL REVIEW

Results Performance

For the year ended 31 December 2010, the Group's turnover increased by 14% to HK$6,623.8 million (2009: HK$5,832.0 million) while operating profit (being profit before fair value loss on warrants, finance costs, share of profit of an associated company and income tax expense) increased by 13% to HK$971.7 million (2009: HK$863.1 million). Recognising the fair value loss on warrants of HK$77.3 million (2009: HK$203.5 million) in 2010, profit attributable to shareholders was HK$595.5 million (2009: HK$393.8 million), increased by 51%. Basic earnings per share was HK36.36 cents (2009: HK24.05 cents). The Board recommended payment of a final dividend of HK6.0 cents (2009: HK5.0 cents) per share for the year ended 31 December 2010. Including interim dividend of HK6.0 cents (2009: HK3.0 cents) per share, total dividend per share for 2010 is HK12.0 cents (2009: HK8.0 cents), representing an increase of 50% compared to last year. Total dividend payout is 29% (2009: 22%), based on EPS excluding fair value loss on warrants.

Key Financial Indicators

	For the year ended 31 December	
	2010	2009
Average inventory turnover (days) *(Note 1)*	128	156
Average debtors turnover (days) *(Note 2)*	11	11
Average creditors turnover (days) *(Note 3)*	69	77
Cash conversion cycle (days) *(Note 4)*	70	90
Capital expenditure (HK$ million) *(Note 5)*	281.3	142.7
Effective tax rate (%) *(Note 6)*	25.7	27.8

	As at 31 December	
	2010	2009
Cash and bank balances (HK$ million) *(Note 7)*	2,059.7	1,625.8
Bank loans (HK$ million)	11.3	14.6
Convertible bonds (HK$ million)	556.6	515.6
Equity attributable to holders of the Company (HK$ million)	3,124.3	2,202.9
Current ratio (times) *(Note 8)*	3.38	2.70
Net gearing ratio (%) *(Note 9)*	Net cash	Net cash

Notes:

1. *The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by cost of sales and multiplied by 365 days.*

2. *The calculation of average debtors turnover (days) is based on the average of opening and closing balances of trade receivables divided by turnover and multiplied by 365 days.*

3. *The calculation of average creditors turnover (days) is based on the average of opening and closing balances of trade payables divided by purchases and multiplied by 365 days.*

4. *The calculation of cash conversion cycle (days) is based on average inventory turnover (days) plus average debtors turnover (days) minus average creditors turnover (days).*

5. *Capital expenditure comprises acquisition of land use rights and fixed assets and cash expenditure on license rights.*

6. *Effective tax rate is calculated based on income tax expense divided by profit excluding fair value loss on warrants before income tax.*

7. *Cash and bank balances comprise cash and cash equivalents, bank deposit with maturity over three months and pledged bank deposit.*

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

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

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

	Brand Business						Manufacturing Business	
	Daphne		Shoebox		Others			
HK$'million	2010	2009	2010	2009	2010	2009	2010	2009
Segment revenue	4,400.2	4,063.0	1,296.4	954.7	430.4	278.6	1,162.1	1,114.0
Segment gross profit	2,646.5	2,410.5	751.2	521.9	224.1	92.3	180.0	174.3
Segment results	830.6	780.2	175.5	102.3	(7.3)	(66.6)	51.6	56.5

Liquidity and Financial Resources

As at 31 December 2010 and 31 December 2009, the Group has a healthy net cash position. Cash and bank balances, comprised of cash and cash equivalents and bank deposits with maturity over three months, was HK$2,059.7 million (2009: HK$1,625.8 million).

The net increase of HK$433.9 million (2009: HK$1,477.8 million) is analysed as follows:

	2010 HK$'million	2009 HK$'million
Net cash generated from operating activities	892.3	1,350.0
Capital expenditure	(281.3)	(142.7)
Proceeds from disposal of fixed assets	4.1	5.1
Net dividend paid	(183.8)	(101.5)
Net bank loans repaid	(34.0)	(256.3)
Net cash flow from (acquisition)/disposal of subsidiaries and other investment	(32.3)	3.5
Net proceeds from issue of convertible bonds and warrants	-	609.7
Net interest received/(paid)	16.5	(7.2)
Others	-	0.1
Effect of exchange rate changes	52.4	17.1
	433.9	1,477.8

As at 31 December 2010, the Group had unutilised banking facilities amounting to HK$214.9 million (2009: HK$188.4 million) and current ratio (being current assets divided by current liabilities) was 3.38 (2009: 2.70). The Group has sufficient resources currently to support expansion and development of business in the future.

To maximise the return on idle liquid resources, during the year ended 31 December 2010, the Group placed a number of principal-guaranteed structured deposits with registered banks in Mainland China. The interest income earned for the year was HK$37.1 million, significantly higher than that of last year of HK$6.6 million.

As at 31 December 2010, the Group's net gearing, calculated on the basis of net debt (being total bank loans and convertible bonds less total cash and bank balances) over shareholders' equity, was in a net cash (2009: net cash) position. All bank loans were at floating rates during the year.

Foreign exchange risk management
The Group did not engage in any foreign exchange derivatives during the year (2009: nil). Management closely monitors the market situation and may consider tools to manage foreign exchange risk whenever necessary.

Pledge of Assets
As at 31 December 2010, the Group's short-term bank loan of HK$11.3 million was all unsecured. As at 31 December 2009, the Group's short-term bank loan of HK$14.6 million was secured by an available-for-sale financial asset with nil carrying value and a deposit of HK$2.9 million was pledged for banking facilities.

Capital Expenditure
During the year, the Group incurred a capital expenditure of HK$281.3 million (2009: HK$142.7 million) mainly for retail network expansion and renovation, purchase and construction of regional warehouses and offices, etc.

Acquisition of subsidiaries
In January 2010, the Group acquired 59.96% equity interest in Full Pearl at a consideration of HK$195.0 million, including cash paid of HK$180.0 million and a payable bearing interest of 5% per annum of HK$15.0 million. License rights and trademarks of HK$108.3 million and goodwill of HK$0.9 million were recognised upon completion of the transaction.

Contingent Liabilities
As at 31 December 2010, the Group had no significant contingent liabilities.

Human Resources
As at 31 December 2010, the Group had over 23,000 (2009: 21,000) employees in Mainland China, Taiwan, Hong Kong and Korea. Employee and directors' expenditure for the year, including share-based payment expense of HK$58.6 million (2009: nil), amounted to HK$836.6 million (2009: HK$607.4 million). The Group values human resources and recognises the importance of retaining high calibre employees. Remuneration packages are generally structured by reference to market terms and the qualifications of individual employees. In addition, share options and discretionary bonuses are granted to eligible employees based on the performance of the Group and the individual employee. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchase discounts and training programmes to employees.

PROSPECTS

The Mainland China economy is expected to experience GDP growth of approximately 9% in 2011. On top of that, salaries are on the rise continuously, which means the middle-class population is growing. These developments will benefit businesses targeting the low- to mid-end market segment. The gradual movement of industrial activities from the east coast to central and western parts of the country will also provide fresh opportunities for businesses with operations in the latter regions.

The Group will continue to exploit the rising purchasing power of consumers in Mainland China. It will pursue a multi-brand strategy and introduce products across the price spectrum to match the spending preferences of consumers. To better serve the mass market, the Group will strengthen and expand the existing markets of its core brand business. For "Daphne", the Group will continue the brand rejuvenation program to refresh consumers' perception. Having been in the market for two decades, "Daphne"'s illustrious history will be a strong platform for it to raise brand status to new heights. While capitalising on the revitalisation campaign, more products of a greater price range will be introduced to attract higher customer traffic and help the Group maintain stable same store sales growth in coming years. Furthermore, the Group will continue to open sales points in lower tier cities, which will bring more customers to the rejuvenated "Daphne" brand. For the "Shoebox" label, the Group will develop strategies to reinforce the brand's family-oriented philosophy. It will for the first time use marketing activities designed to attract national attention and build brand awareness.

Regarding the mid- to high-end ladies footwear segment served by multi brands brought in by Full Pearl, the Group will seek to increase consumer recognition of the brands in first- and second-tier cities. In addition to footwear segment, the Group will also develop new business opportunities to satisfy the growing demand of the mid-to-high income segment in Mainland China.

Network expansion will also be a focus of the Group to consolidate existing businesses. The Group plans to open approximately 800 points-of-sale, including 600 directly-managed and 200 franchised outlets, for its core owned brand business in 2011.

To support expansion of business geographically, the Group will secure new suppliers to diversify and stabilise supply of products. Efforts to optimise the supply chain will also involve enhancing core processes including procurement, manufacturing, inventory control, warehousing and logistics, and adoption of information technologies.

Facing opportunities ahead, the Group is prepared and ready to greet and tackle related competitive and operational challenges. We are confident that we can report satisfactory performance in coming years.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK6.0 cents (2009: HK5.0 cents) per ordinary share for the year ended 31 December 2010. Subject to the approval by shareholders of the Company at the annual general meeting to be held on 12 May 2011, the payment of the final dividend will be paid on or before 25 May 2011 to shareholders whose names appear on the register of members of the Company on 12 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 May 2011 to 12 May 2011 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the final dividend and to attend and vote at the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on 6 May 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2010. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the year.

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

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all directors of the Company confirmed that they had complied with the required standards as set out in the Model Code during the year ended 31 December 2010.

AUDIT COMMITTEE

The Audit Committee, comprises the three independent non-executive directors and one non-executive director of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's consolidated accounts have been reviewed and approved by the Audit Committee, who is of the opinion that such accounts comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

ANNUAL GERNAL MEETING

The annual general meeting of the Company will be held on 12 May 2011. A notice of the annual general meeting will be issued and disseminated to shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT AND REPORT

This results announcement is published on the websites of HKExnews (http://www.hkexnews.hk) and the Company (http://www.daphneholdings.com). The annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

By Order of the Board
Daphne International Holdings Limited
Chen Ying-Chieh
Chairman

Hong Kong, 30 March 2011

As at the date of this announcement, the Board comprises Mr. Chen Ying-Chieh, Mr. Chang Chih-Kai and Mr. Chang Chih-Chiao being the executive directors, Mr. Chen Hsien Min and Ms. Ma Xuezheng being the non-executive directors; Mr. Hsiao Hsi-Ming, Mr. Huang Shun-Tsai and Mr. Kuo Jung-Cheng being the independent non-executive directors and Mr. Kim Jin-Goon being the alternate director to Ms. Ma Xuezheng.