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 2018

HIGHLIGHTS OF 2018 ANNUAL RESULTS

- The Group's total turnover amounted to HK$4,127.1 million
- Gross margin decreased by 2.9 percentage points to 49.9%
- Operating loss increased by HK$97.8 million to HK$786.6 million
- Inventories decreased by HK$254.6 million to HK$992.3 million
- The Group had net cash of HK$170.7 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 2018, together with the comparative figures for 2017.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018**	2017
		HK$'000	HK$'000
Turnover	4	**4,127,087**	5,210,995
Cost of sales		**(2,066,058)**	(2,457,959)
Gross profit		**2,061,029**	2,753,036
Other income	5	**42,599**	43,221
Other losses – net	6	**(22,223)**	(13,327)
Selling and distribution expenses		**(2,565,009)**	(3,159,322)
General and administrative expenses		**(302,973)**	(312,431)
Operating loss	7	**(786,577)**	(688,823)
Finance costs	8	**(5,660)**	(6,042)
Share of losses of associates and joint ventures		**(868)**	(3,108)
Loss before income tax		**(793,105)**	(697,973)
Income tax expense	9	**(217,088)**	(44,056)
Loss for the year		**(1,010,193)**	(742,029)
Attributable to:			
Shareholders		**(994,397)**	(734,204)
Non-controlling interests		**(15,796)**	(7,825)
		(1,010,193)	(742,029)
Loss per share, basic and diluted *(HK cents)*	10	**(60.3)**	(44.5)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
Loss for the year	**(1,010,193)**	(742,029)
Other comprehensive (loss)/ income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(129)**	1,445
Change in fair value of an available-for-sale financial asset	**-**	3,375
Items that will not be reclassified subsequently to profit or loss:		
Currency translation differences	**(105,905)**	234,112
Change in fair value of an equity investment at fair value through other comprehensive income	**(70)**	-
Total comprehensive loss for the year	**(1,116,297)**	(503,097)
Attributable to:		
Shareholders	**(1,096,267)**	(502,487)
Non-controlling interests	**(20,030)**	(610)
	(1,116,297)	(503,097)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	**2018**	2017
		HK$'000	HK$'000
Non-current assets			
Land use rights		**39,803**	47,769
Property, plant and equipment		**463,650**	859,290
Investment properties		**173,092**	67,481
Interests in associates		**1,868**	1,803
Interests in joint ventures		**1,949**	2,487
Available-for-sale financial asset		**-**	3,698
Intangible assets		**-**	20,741
Long-term rental deposits and prepayments		**59,597**	85,590
Deferred income tax assets		**47,705**	270,136
		787,664	1,358,995
Current assets			
Inventories		**992,314**	1,246,878
Trade receivables	12	**160,100**	181,310
Other receivables, deposits and prepayments		**526,163**	827,337
Pledged bank deposits		**174,248**	181,403
Bank deposit with maturity over three months		**-**	4,785
Cash and cash equivalents		**186,521**	299,830
		2,039,346	2,741,543
Assets classified as held-for-sale		**142,360**	53,322
		2,181,706	2,794,865
Current liabilities			
Trade payables	13	**530,629**	581,157
Other payables and accrued charges		**312,859**	362,601
Contract liabilities		**9,717**	-
Current income tax liabilities		**7,558**	4,511
Bank loans		**192,309**	156,274
		1,053,072	1,104,543
Liabilities directly associated with assets classified as held-for-sale		**992**	247
		1,054,064	1,104,790
Net current assets		**1,127,642**	1,690,075
Total assets less current liabilities		**1,915,306**	3,049,070

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

	2018	2017
	HK$'000	HK$'000
Equity attributable to shareholders		
Share capital	**164,914**	164,914
Reserves	**1,614,911**	2,709,993
	1,779,825	2,874,907
Non-controlling interests	**131,631**	160,754
Total equity	**1,911,456**	3,035,661
Non-current liabilities		
Deferred income tax liabilities	**3,850**	13,409
	3,850	13,409
Total equity and non-current liabilities	**1,915,306**	3,049,070

NOTES TO THE FINANCIAL INFORMATION

1 General information

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

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

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

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with 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, as modified by the revaluation of financial assets at fair value through other comprehensive income (including derivative financial instruments), which are carried at fair value.

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

(i) Going concern basis

The Group reported a loss for the year of HK$1,010,193,000 (2017: HK$742,029,000) and a net cash outflow from operations of HK$157,781,000 (2017: HK$304,791,000) for the year ended 31 December 2018. As at 31 December 2018, the Group had cash and cash equivalents of HK$186,521,000 (2017: HK$299,830,000) and bank loans of HK$192,309,000 (2017: HK$156,274,000) (out of which HK$158,154,000 (2017: HK$156,274,000) was secured by pledged bank deposits of HK$174,248,000 (2017: HK$181,403,000)).

The Group's net cash outflow from operations was mainly attributable to the challenging business environment in which the Group's brand business is facing. The Group's revenue dropped while having operating costs continued at a high level and there were high pressure to realise the inventories at lower margin. Despite the difficult business environment, the Group had continued to make payment to suppliers of merchandise and landlords for leasing of retail premises according to predetermined schedule as well as making scheduled repayment of bank loans.

In view of the above, management of the Company have given careful consideration of the future liquidity requirements and operating performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The management have taken into account the following plans and measures in preparing the cash flow projections to ensure the Group will have sufficient working capital in the foreseeable future:

(i) In March 2019, the Group agreed in writing with certain major suppliers to extend the repayment period on certain purchases of merchandises amounting to HK$172,189,000. Based on the agreements with the suppliers, the relevant amount of trade payables will be due for repayment in April 2020; and these balances are unsecured and interest-free.

(ii) Subsequent to year end date and up to the date of this report, the Group disposed of certain properties with carrying value of HK$37,700,000 at a total consideration of HK$54,830,000, out of which HK$43,445,000 has been collected, the balance of the consideration of HK$11,385,000 is expected to be collected by the Group in April 2019. The Group also intends to further dispose certain of its non-core properties with a carrying value of approximately HK$102,424,000 in 2019 in an effort to enhance its liquidity position.

(iii) As at 31 December 2018, the Group had unutilised banking facility of HK$45,540,000 which is secured by an investment property of the Group with a carrying value of HK$121,264,000. Based on the latest discussion with the bank, management are confident that the existing banking facility will be renewed upon its expiry in August 2019.

(iv) The Group continued its efforts to implement measures to improve operating results and strengthen its working capital position by accelerating the closure of certain under-performing stores, streamlining of its operations and organisation structure, continuing with its efforts in realising aged inventory and implementing measures to further control capital and operating expenditures.

(v) On 25 March 2019, the Group obtained a committed facility from a bank of approximately HK$28,361,000 for a term of one year, which is secured by personal guarantee and collaterals provided by the Chairman of the Company. In addition, the Chairman has also confirmed his intention to arrange or provide another loan facility to the Group for a term up to one year amounting to approximately HK$50,000,000 on or before 25 August 2019.

As a result of these plans and measures, management are confident that the Group will have sufficient working capital to fund its operations, financing and capital expenditure requirements and remain as a going concern at least in the next twelve months from 31 December 2018.

Notwithstanding the above, whether management are able to achieve its plans and measures as described above, which incorporate assumptions about future events and conditions, are subject to inherent uncertainties. In particular, whether the Group will be able to continue as a going concern would depend upon (i) continuous availability of the extended credit and support from the suppliers, (ii) successful disposal of non-core properties and collection of sales proceeds in the expected timeframe, (iii) successful renewal of the existing banking facility, (iv) successful implementation of the abovementioned measures on improvement of operating results and cash flows of the Group including but not limited to store and inventory rationalisation; and restructuring of operation and organisation; and (iv) draw down of the financial support from the Chairman as mentioned above, as and when necessary.

The directors of the Company have, after due consideration of the basis of management's plans and measures as well as the reasonable possible downside changes to the cash flow assumptions, are confident that the Group will have sufficient working capital to meet its financial obligations as and when they fall due at least in the next twelve months from 31 December 2018. Accordingly, the directors of the Company considered it appropriate to prepare the consolidated financial statements of the Group on a going concern basis.

(ii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

Amendments to HKFRS 1 and HKAS 28	Annual improvements 2014–2016 cycle
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts
HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
Amendments to HKFRS 15	Clarifications to HKFRS 15
Amendments to HKAS 40	Transfers of investment property
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration

Detailed impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in Note 3 below. The adoption of the other amended standards has no material impact on the results and financial of the Group.

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

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2018 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle [1]
Amendments to HKFRS 9	Prepayment features with negative compensation [1]
Amendments to HKAS 19	Plan amendment, curtailment or settlement [1]
Amendments to HKAS 28	Long-term interests in associates and joint ventures [1]
HKFRS 16	Leases [1]
HKFRS 17	Insurance contracts [3]
HK(IFRIC)-Int 23	Uncertainty over income tax treatments [1]
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting [2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture [4]

[1] *Effective for accounting periods beginning on or after 1 January 2019*
[2] *Effective for accounting periods beginning on or after 1 January 2020*
[3] *Effective for accounting periods beginning on or after 1 January 2021*
[4] *Effective date to be determined*

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HKFRS 16 "Leases"

Nature of change

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. In the consolidated income statement, rental expenses are not recognised while amortisation arising from the right-of-use assets and interest expense on the lease liabilities are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$716,747,000. Based on management's initial assessment, the initial adoption of HKFRS 16 will result in an increase in the right-of-use assets and the lease liabilities, which is expected to result in a significant increase in both assets and liabilities in the consolidated balance sheet. The adoption will also front-load the expense recognition in the consolidated income statement over the period of the leases, as a result of the combination of the interest expenses arising from the lease liabilities and the amortisation of the right-of-use assets as compared to the rental expenses under existing standard.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Change in accounting policies

This note explains the impact of the adoption of HKFRS 9 and HKFRS 15 on the Group's financial statements.

The Group elected to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassifications and the adjustments are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening consolidated balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated balance sheet (extract)	31 December 2017 as originally presented HK$'000	Effects of the adoption of HKFRS 9 HK$'000	Effects of the adoption of HKFRS 15 HK$'000	1 January 2018 as restated HK$'000
Non-current assets				
Available-for-sale financial assets	3,698	(3,698)	-	-
Financial assets at fair value through other comprehensive income	-	3,698	-	3,698
Current liabilities				
Other payables and accrued charges	362,601	-	(6,044)	356,557
Contract liabilities	-	-	6,044	6,044

(i) HKFRS 9 "Financial Instruments" – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

(a) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate HKFRS 9 categories. The main effects resulting from this classification are as follows:

Equity investments previously classified as available-for-sale financial assets

The Group elected to present in other comprehensive income ("OCI") changes in the fair value of its equity investments previously classified as available-for-sale financial assets. As a result, assets with a fair value of HK$3,698,000 were reclassified from available-for-sale financial asset to financial asset at fair value through other comprehensive income ("FVOCI") on 1 January 2018.

The Group subsequently measures all equity investments at fair values. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in consolidated income statement as other income when the Group's right to receive payments is established.

Other than that, there were no changes to the classification and measurement of financial instruments.

(b) Impairment of financial asset

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade receivables; and
- Other financial assets carried at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While other receivables, pledged bank deposits, short-term bank deposits and cash and cash equivalents are also subject to the impairment requirement of HKFRS 9, the identified impairment losses were immaterial.

Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its geographical location and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected credit loss rates are determined based on historical credit losses experienced from the past 3 years and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. Management has closely monitored the credit qualities and the collectability of the trade receivables. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

Other financial assets carried at amortised cost

For other financial assets carried at amortised cost, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the impairment will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortized cost and considers that the expected credit loss is immaterial.

(ii) HKFRS 15 “Revenue from Contracts with Customers” – Impact of adoption

HKFRS 15 replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. Under the new standard, revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The impacts of the adoption of HKFRS 15 are as follows:

Presentation of contract liabilities

“Receipt in advance from customers” and “deferred revenue” which were previously included in other payables and accrued charges, amounting to HK$5,798,000 and HK$246,000 respectively as at 1 January 2018, are now included under contract liabilities to reflect the terminology of HKFRS 15.

Timing of revenue recognition

The adoption of HKFRS 15 does not have a significant impact when the Group recognises revenue from sales of goods.

4 Segment information

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

The chief operating decision-maker ("CODM") has been identified as the executive directors. The CODM assesses the performance of the business from a business unit perspective, i.e. core brands business, other brands business and manufacturing business and allocate resources accordingly.

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

Revenue from external customers is arrived at after elimination of inter-segment revenue. Inter-segment revenue is charged in accordance with terms as determined and agreed mutually by relevant parties. Revenue from external customers of core brands business and other brands business is mainly derived from mainland China and Taiwan. None of the customers accounted for 10% or more of the total turnover of the Group for each of the two years ended 31 December 2018 and 2017.

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

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

	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Inter-segment elimination HK$'000	Group HK$'000
Year ended 31 December 2018					
Revenue from external customers	**3,544,599**	**582,488**	**-**	**-**	**4,127,087**
Inter-segment revenue	**254,167**	**-**	**215,757**	**(469,924)**	**-**
Total segment revenue	**3,798,766**	**582,488**	**215,757**	**(469,924)**	**4,127,087**
Segment results	**(797,720)**	**(26,740)**	**1,398**	**15,684**	**(807,378)**
Amortisation of intangible assets					**(303)**
Impairment of intangible assets					**(20,371)**
Corporate income					**49,675**
Corporate expenses					**(8,200)**
Operating loss					**(786,577)**
Finance costs					**(5,660)**
Share of losses of associates and joint ventures					**(868)**
Loss before income tax					**(793,105)**
Other information for disclosure:					
Amortisation of intangible assets	**-**	**303**	**-**	**-**	**303**
Amortisation of land use rights	**738**	**-**	**904**	**-**	**1,642**
Depreciation of property, plant and equipment	**115,758**	**7,164**	**12,823**	**-**	**135,745**
Depreciation of investment properties	**3,285**	**-**	**1,959**	**-**	**5,244**
Impairment of intangible assets	**15,079**	**5,292**	**-**	**-**	**20,371**
Impairment of property, plant and equipment	**10,640**	**-**	**-**	**-**	**10,640**
Capital expenditure	**97,245**	**1,614**	**16,464**	**-**	**115,323**
Year ended 31 December 2017					
Revenue from external customers	4,477,461	733,534	-	-	5,210,995
Inter-segment revenue	225,768	-	199,208	(424,976)	-
Total segment revenue	4,703,229	733,534	199,208	(424,976)	5,210,995
Segment results	(667,630)	(7,137)	(146)	566	(674,347)
Amortisation of intangible assets					(295)
Corporate income					8,034
Corporate expenses					(22,215)
Operating loss					(688,823)
Finance costs					(6,042)
Share of losses of associates and joint ventures					(3,108)
Loss before income tax					(697,973)
Other information for disclosure:					
Amortisation of intangible assets	-	295	-	-	295
Amortisation of land use rights	1,097	-	1,101	-	2,198
Depreciation of property, plant and equipment	155,885	7,707	12,508	-	176,100
Depreciation of investment properties	1,015	-	2,439	-	3,454
Capital expenditure	114,258	4,691	4,606	-	123,555

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

	Core brands business HK$'000	Other brands business HK$'000	Manu-facturing business HK$'000	Group HK$'000
As at 31 December 2018				
Segment assets	**2,306,533**	**159,133**	**118,085**	**2,583,751**
Goodwill	-	-	-	-
Other intangible assets	-	-	-	-
	2,306,533	**159,133**	**118,085**	**2,583,751**
Investment properties				**173,092**
Interests in associates				**1,868**
Interests in joint ventures				**1,949**
Deferred income tax assets				**47,705**
Assets classified as held-for-sale				**142,360**
Corporate assets				**18,645**
Total assets				**2,969,370**
Segment liabilities	**718,223**	**117,392**	**45,771**	**881,386**
Deferred income tax liabilities				**3,850**
Liabilities directly associated with assets classified as held-for-sale				**992**
Corporate liabilities				**171,687**
Total liabilities				**1,057,915**
As at 31 December 2017				
Segment assets	3,390,977	157,634	105,377	3,653,988
Goodwill	15,079	-	-	15,079
Other intangible assets	-	5,662	-	5,662
	3,406,056	163,296	105,377	3,674,729
Investment properties				67,481
Interests in associates				1,803
Interests in joint ventures				2,487
Available-for-sale financial asset				3,698
Deferred income tax assets				270,136
Assets classified as held-for-sale				53,322
Corporate assets				80,204
Total assets				4,153,860
Segment liabilities	800,344	86,988	46,719	934,051
Deferred income tax liabilities				13,409
Liabilities directly associated with assets classified as held-for-sale				247
Corporate liabilities				170,492
Total liabilities				1,118,199

5 Other income

	2018 HK$'000	2017 HK$'000
Franchise and royalty income	**243**	1,932
Government subsidies	**19,068**	2,390
Gross rental income	**11,794**	8,574
Interest income	**5,173**	22,378
Others	**6,321**	7,947
	42,599	43,221

6 Other losses - net

	2018 HK$'000	2017 HK$'000
Fair value loss on derivative financial instruments	**-**	(14,699)
Gain on disposal of land use rights	**2,670**	-
Gain on disposal of subsidiaries	**34,290**	797
Impairment of intangible assets	**(20,371)**	-
Impairment of property, plant and equipment	**(10,640)**	-
Loss on disposal of property, plant and equipment	**(17,488)**	(15,164)
Net exchange (loss)/gain	**(10,684)**	15,739
	(22,223)	(13,327)

7 Operating loss

Operating loss is stated after charging the following:

	2018 HK$'000	2017 HK$'000
Amortisation of land use rights	**1,642**	2,198
Amortisation of license rights	**303**	295
Auditors' remuneration	**5,021**	4,155
Cost of inventories sold, including reversal of provision for slow-moving inventories of HK$314,724,000 (2017: provision of HK$25,802,000)	**1,972,268**	2,358,490
Depreciation of property, plant and equipment	**135,745**	176,100
Depreciation of investment properties	**5,244**	3,454
Employee benefits expense (including directors' emoluments and share-based payment expense)	**752,252**	833,176
Net impairment loss on financial assets *(Note)*	**4,982**	-
Net provision for impairment of trade receivables	**-**	3,286
Operating lease rentals (including concessionaire fees) in respect of land and buildings	**1,227,314**	1,594,524

Note: With effective from 1 January 2018, the loss allowance on trade and other receivables is separately disclosed as "net impairment loss on financial assets".

8 Finance costs

	2018 HK$'000	2017 HK$'000
Interest on bank loans	**5,660**	6,042

9 Income tax expense

	2018	2017
	HK$'000	HK$'000
Current income tax	**7,932**	11,106
Over provision in prior years	**(222)**	(22,246)
Deferred income tax	**209,378**	55,196
	217,088	44,056

The weighted average domestic tax rate is 24% (2017: 25%).

The applicable rate of Hong Kong profits tax is 16.5% (2017: 16.5%). No provision for Hong Kong profits tax has been made in the financial statements as the Group does not have any assessable profit arising in Hong Kong during the years ended 31 December 2018 and 31 December 2017.

Provision for China corporate income tax is calculated based on the statutory tax rate of 25% (2017: 25%) on the assessable income of each of the Group's entities. Income tax on overseas (other than Hong Kong and mainland China) profits has been calculated on the estimated assessable profits for the year at the applicable rates of income tax prevailing in the places where the Group operates.

Pursuant to the China corporate income tax laws, 10% withholding tax is levied on all foreign investors, except that only 5% is levied for foreign investors which are incorporated in Hong Kong, in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 31 December 2007. Withholding tax at a reduced rate of 7% (2017: 7%) by treaty is applied to the Group's entities incorporated in Hong Kong for royalties received or receivable net with value-added tax.

10 Loss per share

Basic loss per share is calculated by dividing the loss attributable to shareholders of HK$994,397,000 (2017: HK$734,204,000) by the weighted average number of 1,649,142,384 (2017: 1,649,142,384) shares in issue during the year.

For each of the two years ended 31 December 2018 and 2017, basic and diluted loss per share are the same as there was no dilutive potential share.

11 Dividends

The board of directors does not recommend the payment of a dividend in respect of the year ended 31 December 2018 (2017: Nil).

12 Trade receivables

	2018	2017
	HK$'000	HK$'000
Trade receivables	**169,761**	186,541
Loss allowance	**(9,661)**	(5,231)
Trade receivables - net	**160,100**	181,310

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

	2018 HK$'000	2017 HK$'000
0 - 30 days	**92,858**	109,753
31 - 60 days	**39,538**	47,884
61 - 90 days	**10,933**	14,449
91 - 180 days	**11,128**	6,243
181 - 360 days	**5,643**	2,934
Over 360 days	**-**	47
	160,100	181,310

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

13 Trade payables

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

	2018 HK$'000	2017 HK$'000
0 - 30 days	**171,866**	272,888
31 - 60 days	**106,575**	91,435
61 - 90 days	**161,221**	207,666
91 - 180 days	**86,121**	5,745
181 - 360 days	**118**	513
Over 360 days	**4,728**	3,054
	530,629	581,301
Less: Transfer to disposal group classified as held-for-sale	**-**	(144)
	530,629	581,157

14 Capital commitments for purchase of land use rights and property, plant and equipment

	2018 HK$'000	2017 HK$'000
Contracted but not provided for	**634**	2,621

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's Performance

In 2018, the Group continued with its strategies for business transformation with the aim of restoring itself to profitability. However, economic headwinds and resultant blow to consumer sentiment hindered the Group's business transformation plan from yielding its full effect on the financial results of the Group for 2018.

The Group's turnover decreased by 20.8% to HK$4,127.1 million (2017: HK$5,211.0 million). This was mainly attributable to the decrease in turnover at its Core Brands Business which, in turn, resulted from 26.2% decrease in its number of stores to 2,648 as at 31 December 2018 from 3,589 as at 31 December 2017, and the decline in same-store sales. The Group's gross profit decreased to HK$2,061.0 million (2017: HK$ 2,753.0 million) as a result of the increased proportion of aged inventory in sales mix. Gross margin decreased to 49.9% (2017: 52.8%).

The Group continued to succeed in reducing operating expenses despite the inflationary environment, by 17.1% in 2018. The Group decreased operating cost by closing some underperforming stores and by streamlining its operations.

Operating loss was HK$786.6 million in 2018 compared with the operating loss of HK$688.8 million for the previous year. Loss attributable to shareholders of the Company was HK$994.4 million for the year of 2018 (2017: HK$734.2 million).

Basic loss per share was 60.3 HK cents (2017: 44.5 HK cents). The board of directors did not recommend payment of a final dividend (2017: Nil).

Notwithstanding the operating loss for the year, the Group maintained a net cash position of HK$170.7 million (2017: HK$330.0 million), including those transferred to assets held-for-sale, as at 31 December 2018, which was enough to support its downsized operations.

In face of the deteriorating operating environment, the Group accelerated the pace of closing down loss-making stores to improve its overall operational efficiency. On the other hand, it tried to increase its market penetration through the sales channel of the trendier shopping malls to adapt itself to the fast-changing consumption patterns and consumer preferences. After a net closure of 1,016 points-of-sale ("POS") during the year under review, the Group had a total number of 2,820 POS as at 31 December 2018, of which 2,648 POS were under its Core Brands Business and 172 POS were under its Other Brands Business.

Core Brands Business

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

To cope with the difficult operating environment faced by brick-and-mortar retailers, the Group continued with the adjustment to its channel mix by closing down underperforming stores. As a result, the Group ended the year with a net closure of 941 POS (including 899 directly-managed stores and 42 franchised stores), representing a 26.2% reduction in the number of the POS under its Core Brands Business compared with that as at 31 December 2017. As at 31 December 2018, the Group had a total of 2,648 POS under its Core Brands Business, comprising 2,404 directly-managed stores and 244 franchised stores.

Number of POS of Core Brands Business:

	At 31 December 2018		At 31 December 2017		Change	
Directly-managed stores	**2,404**	***91%***	3,303	*92%*	-899	*-27.2%*
Franchised stores	**244**	***9%***	286	*8%*	-42	*-14.7%*
Total	**2,648**	***100%***	3,589	*100%*	-941	*-26.2%*

Number of POS of Core Brands Business by city tier:

	At 31 December 2018		At 31 December 2017		Change	
Tier 1	**254**	***10%***	364	*10%*	-110	*-30.2%*
Tier 2	**606**	***23%***	877	*25%*	-271	*-30.9%*
Tier 3	**520**	***20%***	680	*19%*	-160	*-23.5%*
Tier 4-6	**1,268**	***47%***	1,668	*46%*	-400	*-24.0%*
Total	**2,648**	***100%***	3,589	*100%*	-941	*-26.2%*

The Group continued with a determined effort to upgrade its products with focus on trendiness, comfort and quality. The move started to yield a positive effect on sales, as evidenced by the narrowed year-on-year decline in same-store sales for the second half of 2018. Overall, Core Brands Business recorded a year-on-year decline of 7.6% in the same-store sales for the year of 2018.

Nevertheless, owing to the shrinking sales network and decline in same-store sales, turnover of the Core Brands Business decreased by 19.2% to HK$3,798.8 million (2017: HK$4,703.2 million). The segment revenue generated from sales to external customers of the Core Brands Business accounted for 86% (2017: 86%) of the Group’s total revenue for 2018.

The Group continued to liquidate aged inventory at substantial discounts throughout the year. This, coupled with the rising raw material cost, inevitably exerted downward pressure on the gross margin of the Core Brands Business. Consequently, Core Brands Business’ gross margin fell by 4.0 percentage points to 45.2% (2017: 49.2%) in 2018. The average selling price (“ASP”) saw a slight decrease to RMB155 (2017: RMB159).

Although the operating expenses of the Core Brands Business were reduced by 15.8% year-on-year, such savings were not sufficient to offset the negative impact of the decline in sales and the substantial erosion of gross margin. Thus, the operating loss of the Core Brands Business increased by 19.5% to HK$797.7 million (2017: HK$667.6 million).

With respect to brand marketing, the Group continued its collaboration with the U.S. fashion brand “Opening Ceremony” in a crossover project which was aimed at resonating with young consumers. In the first quarter of 2018, spring and summer collections under the crossover project were successfully launched. In the third quarter of the year, the Group joined hands with Disney and Bibi Zhou, a popular Chinese female singer, to launch crossover collections under the theme of “The Most Beautiful Aspiration”. The crossover collections are in a variety of chic styles that incorporated classic intellectual property images of Disney and fashion inspiration from Bibi Zhou. A series of integrated marketing campaigns were conducted for the product launch, encompassing events at a pop-up store with a celebrity’s presence, social media marketing through key opinion leaders’ (“KOL”) endorsements and live streaming activities.

The Group made progress in its customer relations management (“CRM”) programme during the year. As a customer-centric company, the Group worked with a professional big data company to conduct in-depth analysis of the customer data to keep abreast of the fast-changing consumer preferences and consumption patterns. This helped it enhance product planning and fine-tune its sales strategy. In addition, the Group’s customer membership base continued to expand thanks its continued effort to engage with consumers through online platforms and social media.

Other Brands Business

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

In 2018, turnover of the Other Brands Business decreased by approximately 20.6% to HK$582.5 million (2017: HK$733.5 million). This is mainly attributable to the challenging retail market and the 30.4% net reduction in the number of 75 POS during the year under review. The Other Brands Business accounted for approximately 14% (2017: 14%) of the Group's total revenue in 2018.

Due to aggressive clearance of aged inventory and higher contribution from e-commerce business, the gross margin of Other Brands Business decreased by 3.8 percentage points to 54.4% (2017: 58.2%) compared with that for the previous year. This, together with the negative operating leverage, resulted in an operating loss of HK$26.7 million (2017: HK$7.1 million) for Other Brands Business.

During the year, the e-commerce business continued to increase its contribution to the Group's turnover and remained profitable. Moreover, its operating profit margin improved despite a slowdown in the online retail market. It was because the Group adopted a policy to stabilise the prices of its products and scaled down its promotional activities. To adapt to the rapidly changing consumer behaviour and consumption patterns, the Group put up more products exclusively for online sales, and deepened its e-commerce business collaboration with emerging social media and e-commerce platforms. The Group also stepped up the integration of its online and offline businesses as part of its "New Retail" strategy. It adopted new information technology solutions to provide customer with an experience of the seamless integration of online and offline shopping in the "New Retail" era.

FINANCIAL REVIEW

Financial and Operational Highlights

Financial Performance

	For the year ended 31 December		
	2018	2017	Change
Turnover (HK$' million)	**4,127.1**	5,211.0	-20.8%
Gross profit (HK$' million)	**2,061.0**	2,753.0	-25.1%
Operating loss (HK$' million)	**(786.6)**	(688.8)	+14.2%
Loss attributable to shareholders (HK$' million)	**(994.4)**	(734.2)	+35.4%
Gross margin (%)	**49.9**	52.8	-2.9ppt
Operating margin (%)	**-19.1**	-13.2	-5.9ppt
Net margin (%)	**-24.1**	-14.1	-10.0ppt
Basic loss per share (HK cents)	**(60.3)**	(44.5)	+35.5%

Key Financial Indicators

	For the year ended 31 December		
	2018	2017	Change
Average inventory turnover (days) *(Note 1)*	**198**	198	-
Average debtors turnover (days) *(Note 2)*	**15**	14	+1
Average creditors turnover (days) *(Note 3)*	**115**	121	-6
Cash conversion cycle (days) *(Note 4)*	**98**	91	+7
Capital expenditure (HK$' million)	**115.3**	123.6	-6.7%

	As at 31 December		
	2018	2017	Change
Cash and bank balances (HK$' million) *(Note 5)*	**363.0**	486.3	-25.4%
Bank loans (HK$' million)	**192.3**	156.3	+23.1%
Equity attributable to shareholders (HK$' million)	**1,779.8**	2,874.9	-38.1%
Current ratio (times) *(Note 6)*	**2.1**	2.5	-16.0%
Net gearing ratio (%) *(Note 7)*	**Net cash**	Net cash	N/A

Notes:

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

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

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

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

5. *Cash and bank balances comprise cash and cash equivalents (including those transferred to assets classified as held-for-sale), bank deposit with maturity over three months and pledged bank deposits.*

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

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

Analysis of Results by Business Segment

For the year ended 31 December 2018, the turnover of the Group was HK$4,127.1 million (2017: HK$5,211.0 million), a decrease of 20.8% compared to last year. The business performance of individual segments is summarised as follows:

(HK$' million)	Core Brands Business		Other Brands Business		Manufacturing Business	
	2018	2017	**2018**	2017	**2018**	2017
Revenue from external customers	***3,544.6***	*4,477.4*	***582.5***	*733.5*	**-**	**-**
Inter-segment revenue	***254.2***	*225.8*	**-**	**-**	***215.8***	*199.2*
Total segment revenue	**3,798.8**	4,703.2	**582.5**	733.5	**215.8**	199.2
Segment gross profit	**1,715.8**	2,314.9	**317.1**	426.8	**12.4**	11.6
Segment gross margin	***45.2%***	*49.2%*	***54.4%***	*58.2%*	***5.8%***	*5.8%*
Segment operating (loss)/profit	**(797.7)**	(667.6)	**(26.7)**	(7.1)	**1.4**	(0.1)
Segment operating margin	***-21.0%***	*-14.2%*	***-4.6%***	*-1.0%*	***0.6%***	*-0.1%*

During the year ended 31 December 2018, total segment revenue of the Core Brands Business decreased by 19.2% to HK$3,798.8 million from HK$4,703.2 million in last year. It is mainly due to the closure of stores and decline in the same-store sales. Its gross margin dropped from 49.2% to 45.2% as a result of product mix and more clearance of old stocks. The segment recorded an operating loss of HK$797.7 million compared to that of HK$667.6 million in last year.

On the other hand, the total segment revenue of Other Brands Business decreased by 20.6% to HK$582.5 million (2017: HK$733.5 million) which is also attributable to the closure of stores during the year. The segment recorded an operating loss of HK$26.7 million compared to HK$7.1 million last year.

Other Income

Other income decreased by HK$0.6 million from HK$43.2 million in last year to HK$42.6 million for the year ended 31 December 2018. The decrease in other income is mainly due to the reduction in interest income this year.

Operating Expenses

Overall, the Group's operating expenses (including other losses - net, selling & distribution and general & administrative expenses) decreased by HK$594.9 million or 17.1% to HK$2,890.2 million from HK$3,485.1 million in last year. The drop in operating expenses was generally in line with sales decrease and led mainly by rental cost, depreciation charges and employee benefits expense.

Operating Loss

As a result of the above, the Group incurred an operating loss of HK$786.6 million in 2018, increased by HK$97.8 million or 14.2% as compared to HK$688.8 million in last year.

Income Tax Expense

The Group's income tax expense for the year was HK$217.1 million (2017: HK$44.1 million). This is largely attributable to derecognition of deferred income tax assets for certain timing differences and tax losses.

Loss Attributable to Shareholders

For the year ended 31 December 2018, the Group's loss attributable to shareholders also increased by 35.4% to HK$994.4 million compared to that of HK$734.2 million in last year. Basic loss per share was 60.3 HK cents (2017: 44.5 HK cents).

Inventories

As at 31 December 2018, the Group's inventories decreased by HK$254.6 million from HK$1,246.9 million to HK$992.3 million. Average inventory turnover during the year was 198 days, at the same level as last year. Included in the inventories, the balance of provision for slow-moving and obsolete items was HK$197.3 million as at 31 December 2018 (2017: HK$537.9 million).

Trade Receivables

The amount of trade receivables as at 31 December 2018 decreased by HK$21.2 million, or 11.7%, to HK$160.1 million compared to that of HK$181.3 million in 2017. Average debtors turnover remained stable at 15 days (2017: 14 days).

Trade Payables

As at 31 December 2018, the Group's trade payables decreased by HK$50.7 million, or 8.7%, to HK$530.6 million (2017: HK$581.3 million including those transferred to liabilities directly associated with assets classified as held-for-sale) and the average creditors turnover decreased by 6 days to 115 days (2017: 121 days).

Liquidity and Financial Resources

As at 31 December 2018, the Group had cash and bank balances, comprising cash and cash equivalents (including those transferred to assets classified as held-for-sale), bank deposit with maturity over three months and pledged bank deposits, amounting to HK$363.0 million (2017: HK$486.3 million), which were denominated mainly in Renminbi.

As at 31 December 2018, the Group's secured short-term bank loans were HK$192.3 million (2017: HK$156.3 million) and therefore the Group's net cash amounted to HK$170.7 million (2017: HK$330.0 million). These bank loans were denominated in USD and HKD and at floating rates during the year. The Group did not hedge its exposure to interest rate risks via interest rate swap.

The net decrease in cash and bank balances of HK$123.3 million (2017: HK$503.2 million) during the year is analysed as follows:

	For the year ended 31 December	
	2018	2017
	HK$'million	HK$'million
Net cash used in operating activities	**(157.8)**	(304.8)
Capital expenditure	**(115.3)**	(123.6)
Proceeds from disposal of fixed assets	**29.5**	3.8
Proceeds from disposal of subsidiaries and financial asset	**74.5**	22.5
Net bank interest (paid)/received	**(0.5)**	12.4
Net bank loans raised/(repaid)	**35.8**	(140.4)
Effect of foreign exchange rate changes	**10.5**	26.9
	(123.3)	(503.2)

For the year ended 31 December 2018, the Group's interest expenses on bank loans amounted to HK$5.7 million compared to last year's HK$6.0 million. The Group's interest income was HK$5.2 million (2017: HK$22.4 million).

As at 31 December 2018, the Group utilised banking facilities amounting to HK$195.4 million (2017: HK$163.0 million) and had unutilised banking facility of HK$45.5 million (2017: Nil). The Group's net gearing ratio was in a net cash (2017: net cash) position. Current ratio was 2.1 times as at 31 December 2018 (2017: 2.5 times). Management closely monitors the Group's financial performance and liquidity position. Taking into consideration of the plans and measures to improve the liquidity position, such as extension of repayment terms with certain suppliers, disposals of certain properties and banking facilities available to the Group, it believes that the Group has sufficient financial resources to meet its obligation as and when they fall due over the next twelve months.

Foreign Exchange Risk Management

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and the Group may use forward foreign exchange contracts when major fluctuation in the relevant foreign currency is anticipated. During the year ended 31 December 2018, the Group did not enter into any foreign exchange forward contract to hedge the foreign exchange risk exposure on bank loans denominated in USD or HKD. As at 31 December 2018, there were no outstanding forward foreign exchange contracts.

Pledge of Assets

As at 31 December 2018, the Group's pledged bank deposits amounting to HK$174.2 million (2017: HK$181.4 million) and investment properties with net book value of HK$121.3 million (2017: Nil) were pledged for utilising certain banking facilities.

Capital Expenditure

During the year, the Group incurred capital expenditure of HK$115.3 million (2017: HK$123.6 million) mainly for retail network expansion and renovation.

Contingent Liabilities

As at 31 December 2018 and 2017, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2018, the Group had a workforce of about 8,700 (2017: 13,000) people predominantly in mainland China, Taiwan and Hong Kong. Employee benefits expense, including directors' emoluments, retirement benefit costs and share-based payment expense, for the year was HK$752.3 million (2017: HK$833.2 million). The decrease of HK$80.9 million or 9.7% was mainly due to the reduction in headcount of factories, stores and back office. The Group values its human resources and recognises the importance of retaining high calibre employees. Remuneration packages are generally structured with reference to market conditions and terms as well as individual qualifications. In addition, share options, share appreciation rights and discretionary bonuses are granted to eligible employees based on the performance of the Group and of the individual employee. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchase discounts and training programmes to employees.

AWARDS

The Group continued to improve branding, products and corporate governance, and has won a number of accolades in recognition for such efforts in 2018.

Daphne ranked top for the eighth consecutive year in the "China Brand Power Index 2018" (in the "Women's Shoes" category). This award reflected the strong awareness of and the customer loyalty to Daphne's brand in China. This independent annual survey was conducted by "Chnbrand", an institution funded by the Ministry of Industry and Information Technology of China and recognised as one of the most authoritative brand rating organisations in the country. This survey ranks companies by industry and category based on the findings from the interviews with more than 2.6 million consumers in 40 cities across China about brand awareness and customer loyalty.

In Chnbrand’s “China Net Promoter Score 2018”, Daphne won the second position in the “Women’s Shoes” category in recognition of its good brand reputation among consumers. In the annual survey, over 2 million consumers across 35 cities in China were interviewed about their willingness to recommend branded products that they had used to their friends. The net promoter score examined word-of-mouth reputation and customer loyalty of over 6,500 consumer brands.

Daphne retained its third place in Chnbrand’s “China Customer Satisfaction Index 2018” (”Women’s Shoes” category). The survey polled consumers about their level of satisfaction with a product through face-to-face interviews. Its sample size was over 2.8 million people across 42 cities.

In addition, the Group received a Certificate of Excellence from the Hong Kong Investor Relations Association in “The Fourth Session of Investor Relations Awards” in recognition of its efforts to ensure good corporate governance and to maintain good investor relations.

OUTLOOK

Uncertainty of the global economy and China’s economic slowdown hindered the progress of the Group’s business transformation in 2018, making it even more challenging for the Group to keep up with the intensifying market competition and the demand of the increasingly sophisticated consumers.

However, significant improvements made by the Group with remedial measures in 2017 and 2018 have laid the groundwork for future organic development. Such achievements included aggressive clearance of aged inventory that has optimised the inventory mix and restored the inventory to a healthy level; and the downsizing of the sales network through closure of loss-making stores. In addition, the continued efforts to adjust its brand marketing strategy also resulted in increased proportion of young people in its customer base and gradual growth in both footfall and sales at its stores.

Looking ahead, the Group is ready to proceed to the next stage of its business transformation in which it will innovate a business model to eliminate the bottlenecks in its business operation.

Pressing ahead with Product Upgrade

Product upgrade is one of the key initiatives in the business transformation so the Group will increase investment in product research and development with emphasis on trendiness and comfort. The Group will continue to enrich its portfolio of diverse products with more trendy and athleisure shoes to better serve customers’ needs. In addition to launching new products more frequently, the Group will also broaden the product range to seize more business opportunities.

Another key initiative of the business transformation is to build up an efficient supply chain system to meet the requirements of product development and sales at stores. The Group will search for new manufacturers that are capable to carry out quick response manufacturing. Production volume will be determined according to market feedback which can help to reduce the risk of inaccurate predictions and thus to minimise the obsolete inventory. The Group will continue to optimise its logistics and distribution system by adopting an information technology system to realise the automation of inventory replenishment and the integration of regional warehouses to shorten the delivery lead time.

Improving Efficiency of Sales Channels

To expand its market share, the Group will adopt a three-pronged approach to enhancing the efficiency of its sales channel.

Firstly, as the Group’s retail network consists mostly of self-operated stores, the business model adopted is inevitably “asset heavy”. To mitigate the business risks associated with such business model, the Group will introduce a “partnership system” into its retail network.

Secondly, the Group will closely monitor the performance of its stores so that it can take remedial measures promptly if they underperform.

Thirdly, the e-commerce operation team will work closely with the product design and supply chain departments so that they can launch products that meet the specific demands of customers who shop online. In additional to key online platforms, it will also commit more resources to its cooperation with social media and e-commerce partners with a view to adapting itself better to the fast-changing consumer behavior and consumption patterns. The Group also plans to form strategic partnerships with selected online distributors to maintain and expand the Daphne brand's share of the online retail market for shoes.

Staying in Touch with Customers

The Group is aware that the relationship between its business and customers is no longer merely characterised by the provision of products. The key to growing a business is connecting with its customers.

To effectively track the changing consumer preferences and market trends for more accurate predictions, the Group will continue to cooperate with a big data company. This will enhance the Group's capability to apply the big data analytics so as to identify opportunities effectively on the market and then launch products that can meet with enthusiastic market responses.

This year, the Group will collaborate with a brand consultancy company in fine-tuning its brand marketing strategy. It will place emphasis on how to strike a chord with young consumers when conducting marketing campaigns on social media and how to keep in close touch with them. The Group will also continue with product placement that can help strengthen its refreshed brand image and help its products gain more exposure in the media. Meanwhile, it will continue to improve its customer relationship management ("CRM") by introducing upgraded membership activities and benefits to boost customer loyalty and the repeat sales. Leveraging the advanced CRM tools, the Group will be able to provide customers with an experience of the seamless integration of online and offline shopping in the "New Retail" era.

Enhancing Management Efficiency

The Group will further streamline its organisational structure and optimise the internal processes to become a leaner and more efficient organisation. New incentive and appraisal schemes will be introduced to motivate the staff to do its best at work. Meanwhile, the Group aims to build a competitive cost structure through stringent cost control. More attention will be paid to cash flow management to improve its financial condition.

The all-around transformation of our business is not a quick fix so it takes time to yield noticeable results. Nevertheless, the management has been taking an all-out effort to ensure effective execution of the business transformation initiatives. It has a strong conviction that such initiatives will strengthen the Group's core advantages and enable it to resume growth and achieve a turnaround.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2018. 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") on The Stock Exchange of Hong Kong Limited. Following specific enquiry by the Company, all directors have confirmed that they fully complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

CHANGES IN DIRECTORS' INFORMATION

The change in directors' details since the date of the Annual Report 2017 of the Company and up to the date of release of the annual results of the Company which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, is that with effect from 18 September 2018, Mr. Chen Ying-Chieh has resigned as Non-executive Director and a member of the Remuneration Committee and the Nomination Committee of the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

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

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

During the year, the Company held an annual general meeting (the "AGM") on 24 May 2018. Due to unavoidable business engagements, Mr. Chen Ying-Chieh, the non-executive director (who resigned as non-executive director with effect from 18 September 2018) and Mr. Huang Shun-Tsai, the independent non-executive director were unable to attend the AGM. This was in deviations from code provision A.6.7 of the CG code.

REVIEW OF FINANCIAL STATEMENTS AND RESULTS ANNOUNCEMENT

The Group's audited consolidated financial statements for the year ended 31 December 2018 including the accounting principles and practices adopted have been reviewed by the Audit Committee of the Company.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary results announcement have been agreed by the Group's independent auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on the preliminary results announcement.

FINAL DIVIDEND

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company will be held on 23 May 2019. 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 2019 to 23 May 2019, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17 May 2019.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

By Order of the Board
Daphne International Holdings Limited
Chang Chih-Kai
Chairman & CEO

Hong Kong, 26 March 2019

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. Chen Tommy Yi-Hsun; and three Independent Non-executive Directors, namely Mr. Huang Shun-Tsai, Mr. Kuo Jung-Cheng, and Mr. Lee Ted Tak Tai.