



**2018**

## **ANNUAL RESULTS ANNOUNCEMENT**

DAPHNE INTERNATIONAL HOLDINGS LIMITED  
達芙妮國際控股有限公司



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# Progress of Business Transformation

- Continued to downsize business by closing down loss-making stores in face of the deteriorating operational environment
- Fully committed to implementing transformation strategies to restore profitability:
  - On-going product upgrade received positive feedback from customers, evidenced by the narrowed same-store sales decline
  - Continued to adjust store image to reinforce the new brand image among consumers
  - Collaborated with Bibi Zhou to launch crossover collections, aiming at resonating with young consumers
  - Conducted in-depth customer data analytics to enhance product planning and fine-tune sales strategy



# 2018 Performance Highlights

- YoY same-store sales performance of Core Brands Business narrowed to -7.6%, compared to -12.4% for previous year
- Group turnover decreased by 20.8% YoY despite a reduction of 26.2% in total POS
- Gross margin fell by 2.9ppt YoY to 49.9% due to aggressive liquidation of aged inventory
- Reduction in inventory level by 20.4% to HK\$992.3 million from HK\$1,246.9 million at 2017 year end
- Operating expenses reduced by 17.1%
- Recorded an operating loss of HK\$786.6 million as a result of increased operating deleverage
- E-commerce continued to remain profitable
- Financial position remained solid with a net cash of HK\$170.7 million





# **Financial Review**



# Group Financial Highlights

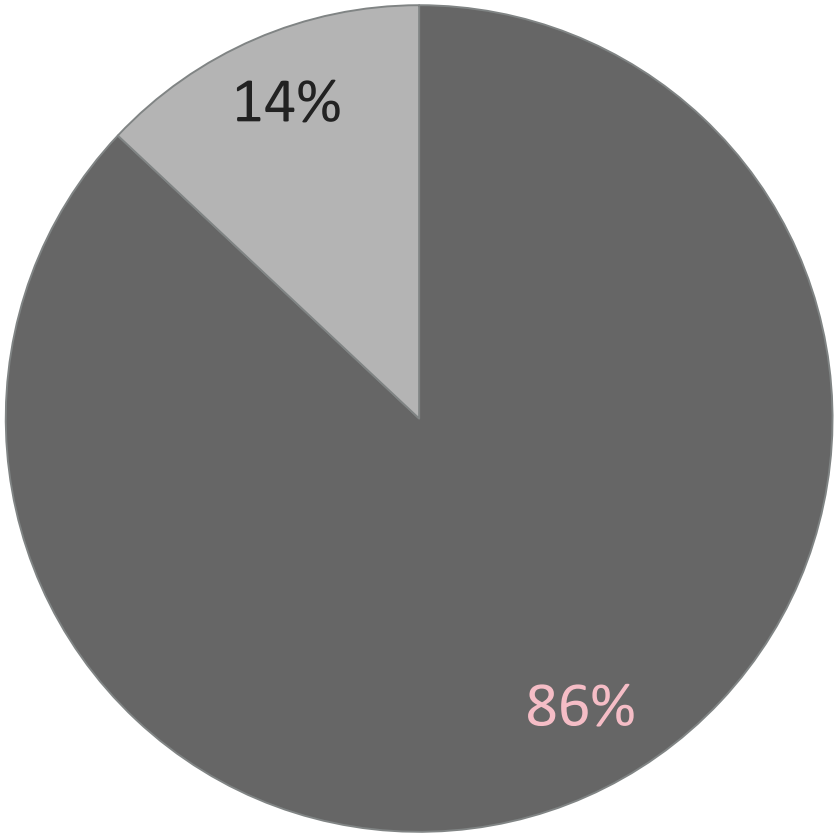
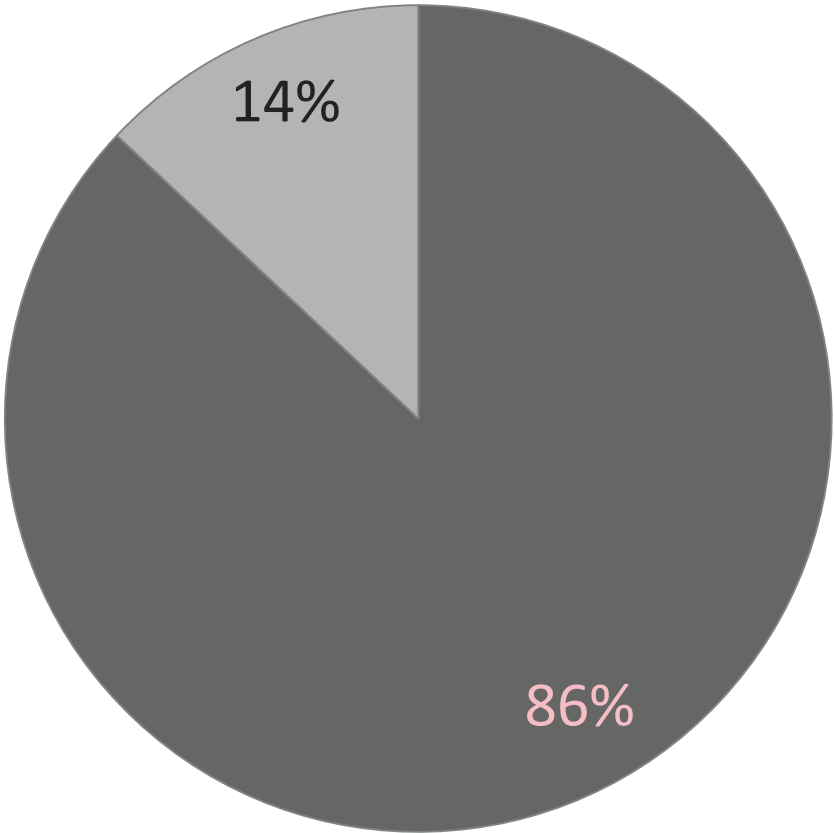
<i>(HK\$ million)</i>	2018	2017	Change
Turnover	4,127.1	5,211.0	-20.8%
Gross profit	2,061.0	2,753.0	-25.1%
Operating loss	(786.6)	(688.8)	+14.2%
Loss attributable to shareholders	(994.4)	(734.2)	+35.4%
Basic loss per share (HK cents)	(60.3)	(44.5)	+35.5%
Gross margin	49.9%	52.8%	-2.9ppt
Operating margin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

*(For the year ended 31 December)*

# Group Turnover Breakdown

2018: HK\$4,127.1 million

2017: HK\$5,211.0 million



- Core Brands Business
- Other Brands Business

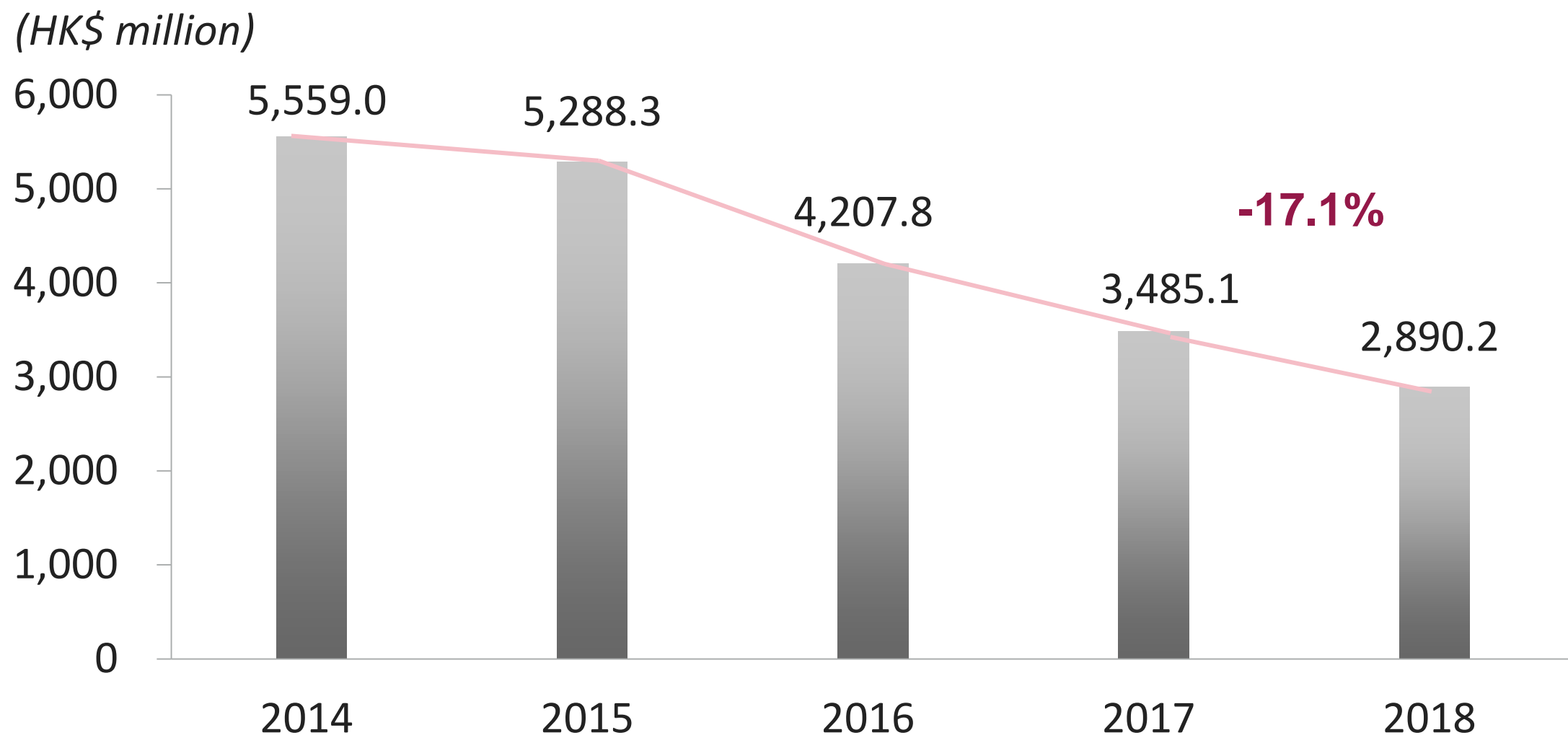
# Group Gross Margin

- Group's gross margin decreased by 2.9ppt YoY, mainly due to:
  - Higher proportion of aged inventory in sales mix
  - Inflationary raw material cost
  - The stable pricing policy on new products failed to offset the negative effect brought by stock clearance



# Group Operating Expense

- Decreased by HK\$594.9 million (-17.1% YoY)

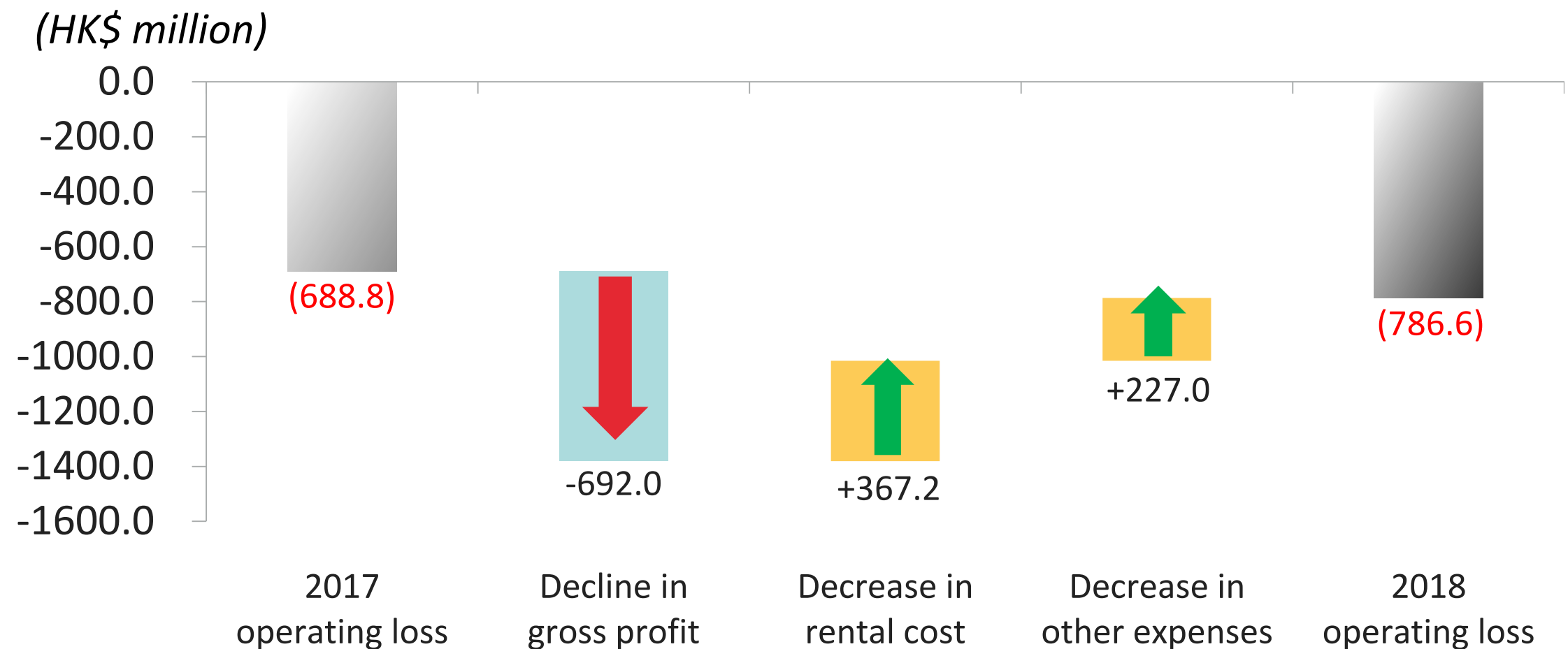


(For the year ended 31 December)

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# Group Operating Profit Analysis

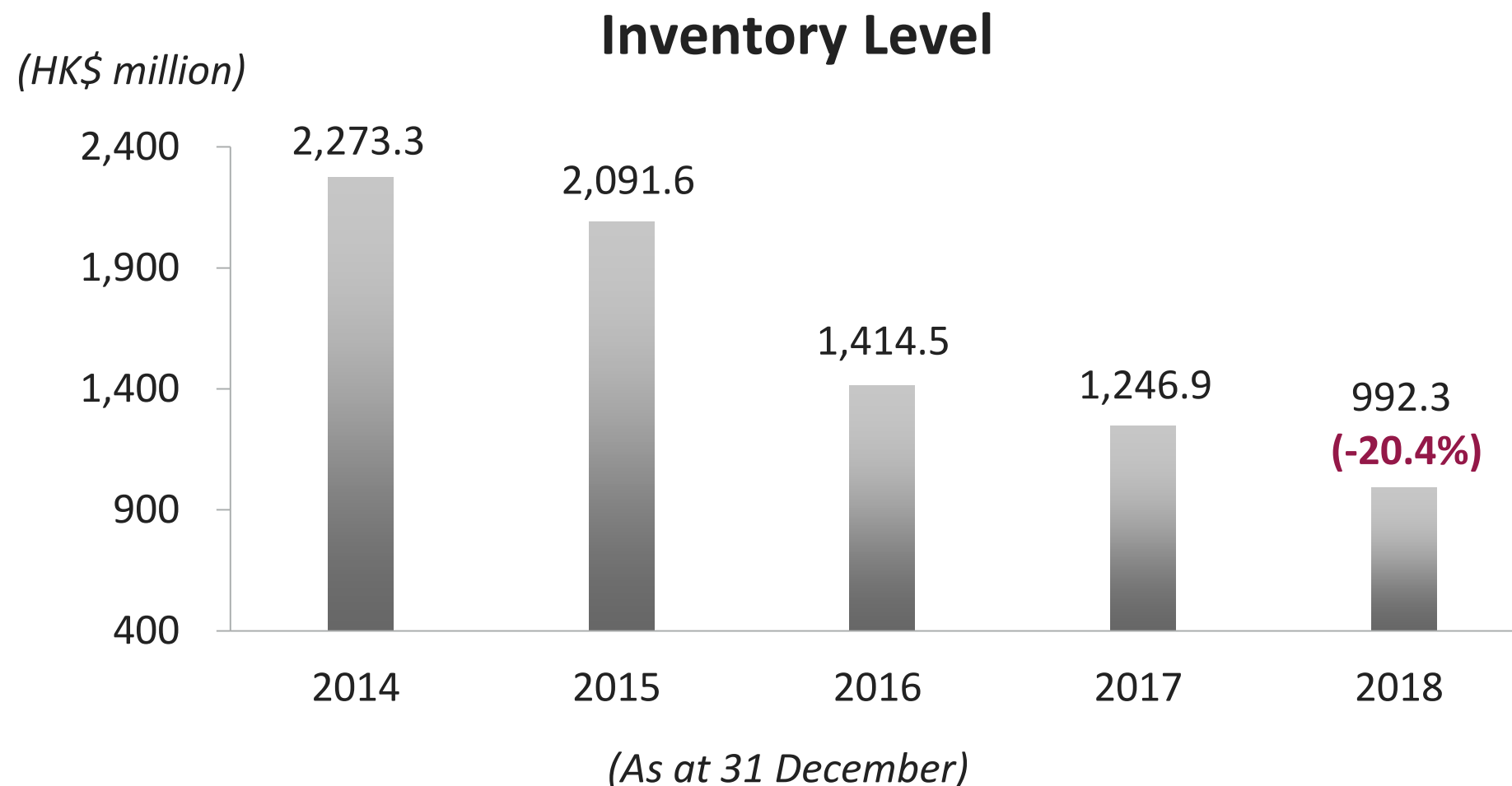
- Group gross margin decreased by 2.9ppt YoY
- Group operating margin dropped by 5.9ppt YoY





# Inventory Level and Turnover Days

- Group average inventory turnover was 198 days (2017: 198 days), and inventory level continued to decrease to HK\$992.3 million, a reduction of HK\$254.6 million, as compared to that of 31 December 2017
- After reviewing inventory level, the Group made provision for inventories of HK\$314.7 million (2017: made provision of HK\$25.8 million)



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# Working Capital and Capital Expenditure

- Capital expenditure decreased due to less new store openings in 2018

	2018		2017	Change
Average Inventory Turnover (days)	198		198	-
Average Debtors Turnover (days)	15		14	+1
Average Creditors Turnover (days)	115		121	-6
Cash Conversion Cycle (days)	98		91	+7
Capital Expenditure (HK\$ million)	115.3		123.6	-6.7%



# Other Key Financial Indicators

- The Group maintained its net cash position

	As at 31 Dec 2018		As at 31 Dec 2017	Change
<b>Cash and bank balances</b> (HK\$ million)	363.0		486.3	-25.4%
<b>Bank loans</b> (HK\$ million)	192.3		156.3	+23.1%
<b>Equity attributable to shareholders</b> (HK\$ million)	1,779.8		2,874.9	-38.1%
<b>Current ratio</b> (times)	2.1		2.5	-16.0%
<b>Net gearing ratio (%)</b>	Net cash		Net cash	-



# Operational Highlights

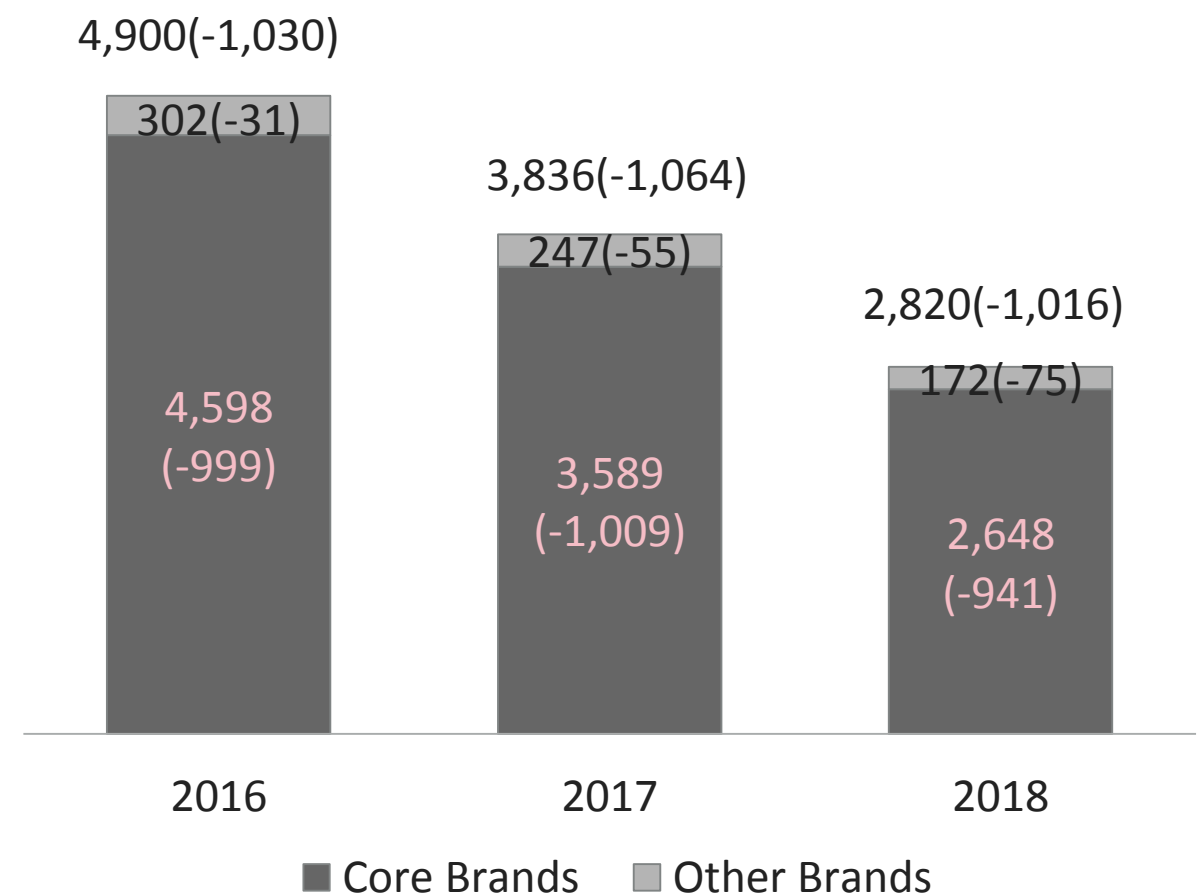


# Group Sales Network

- Core Brands had a net reduction of 941 POS, bringing the total to 2,648
- Other Brands had a net closure of 75 POS
- Mainly attributable to :
  - continued with its channel mix adjustments



## Number of Points-of Sales (POS) of the Group



# Core Brands Sales Network

- Net reduction of 941 POS (including 899 directly-managed stores and 42 franchised stores)

## Number of POS

	As at 31 Dec 2018	As at 31 Dec 2017	Change	% Change
Directly-managed POS	2,404 (91%)	3,303 (92%)	-899	-27.2%
Franchised POS	244 (9%)	286 (8%)	-42	-14.7%
Core Brands Total	2,648	3,589	-941	-26.2%

## Quarterly change in POS

	1Q 18	2Q 18	3Q 18	4Q 18	FY 18
Directly-managed POS	-107	-287	-235	-270	-899
Franchised POS	-15	-7	-8	-12	-42
Core Brands Total	-122	-294	-243	-282	-941

# Core Brands Sales Network (cont'd)

- Maintained greater representation in lower tier cities

	As at 31 Dec 2018		As at 31 Dec 2017		Change	% Change
	No.	%	No.	%		
<b>Tier 1 Cities</b>	254	10%	364	10%	-110	-30.2%
<b>Tier 2 Cities</b>	606	23%	877	25%	-271	-30.9%
<b>Tier 3 Cities</b>	520	20%	680	19%	-160	-23.5%
<b>Tier 4-6 Cities</b>	1,268	47%	1,668	46%	-400	-24.0%
<b>Total</b>	2,648	100%	3,589	100%	-941	-26.2%



# Core Brands Business - Performance

<i>(HK\$ million)</i>	2018	2017	Change
<b>Turnover</b>	3,798.8	4,703.2	-19.2%
<b>Gross profit</b>	1,715.8	2,314.9	-25.9%
<b>Gross margin</b>	45.2%	49.2%	-4.0ppt
<b>Operating loss</b>	(797.7)	(667.6)	+19.5%
<b>Operating margin</b>	-21.0%	-14.2%	-6.8ppt

- **Turnover of Core Brands Business decreased by 19.2%**

- YoY reduction of POS under Core Brands
- YoY SSSG -7.6%

- **Gross margin decreased by 4.0ppt**

- Increased weighting of aged stocks in sales mix to liquidate old inventory

- **Operating margin decreased by 6.8ppt**

- Decline in sales
- Substantial decrease in gross profit
- Negative operating leverage
- Inflationary pressure of operating cost

- **Average selling price was RMB155 (2017: RMB159)**

# Other Brands Business - Performance

<i>(HK\$ million)</i>	2018	2017	Change
<b>Turnover</b>	582.5	733.5	-20.6%
<b>Gross profit</b>	317.1	426.8	-25.7%
<b>Gross margin</b>	54.4%	58.2%	-3.8ppt
<b>Operating (loss)</b>	(26.7)	(7.1)	+276.1%
<b>Operating margin</b>	-4.6%	-1.0%	-3.6ppt

- **Turnover of Other Brands Business decreased by 20.6%**

- A YoY net reduction of 30.4% POS

- **Overall gross margin of Other Brands Business decreased by 3.8ppt**

- Accelerated aged stock clearance
- Higher proportion of e-commerce sales

- **E-commerce increased its contribution to the Group's turnover and remained profitable**

- **Other Brands Business recorded an operating loss of HK\$26.7 million**





# **2019 Outlook**



# ***2017-2018 : Business Transformation Phase I***

## **Adopted remedial measures to lay the groundwork for organic development**

### **Inventory adjustment**

- Substantial reduction in inventory level to optimise inventory mix and restore inventory to a healthy level

### **Channel adjustment**

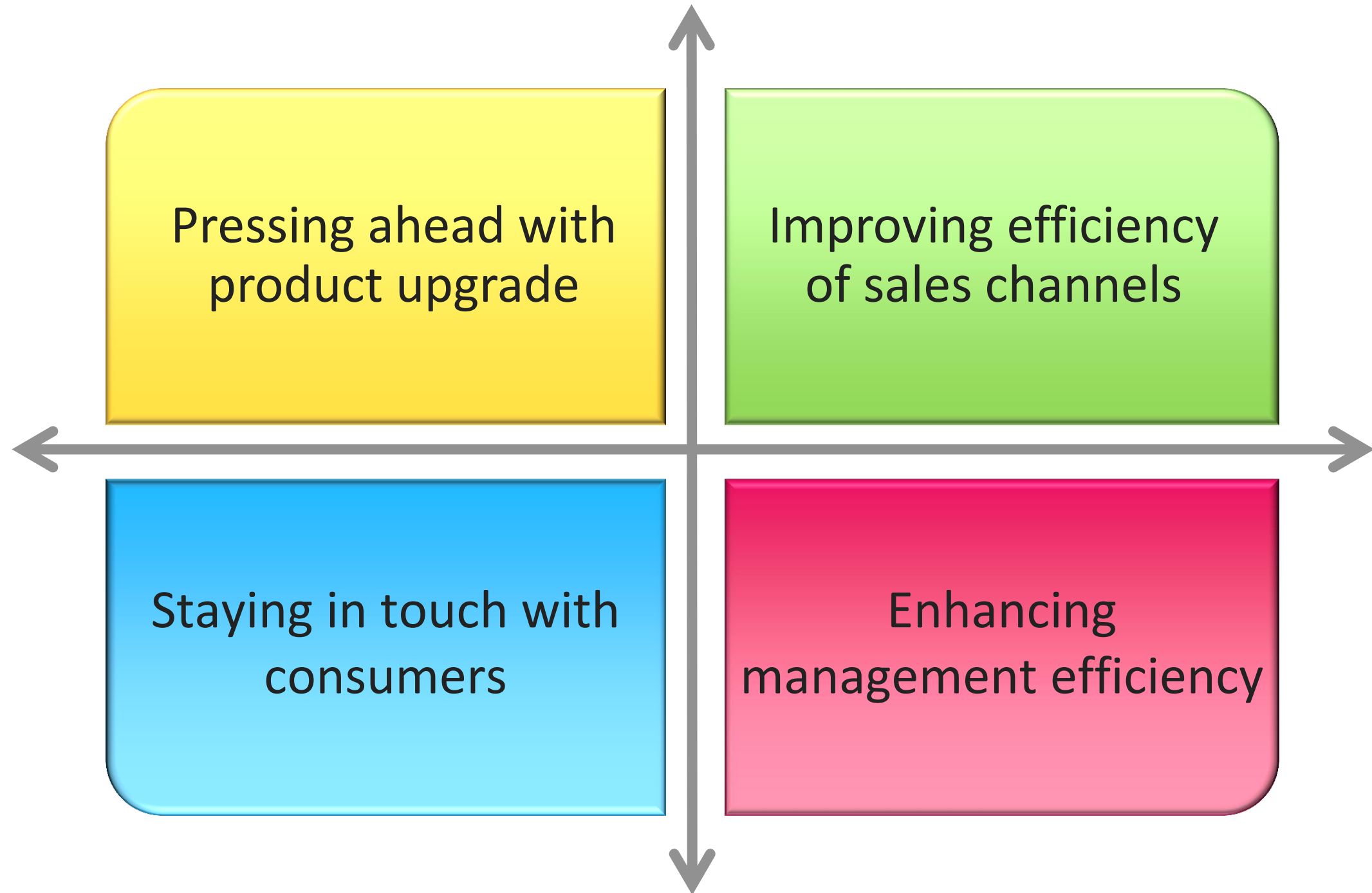
- Downsizing of sales network through closure of loss-making stores to rectify the excessive expansion in the past

### **Brand image upgrade**

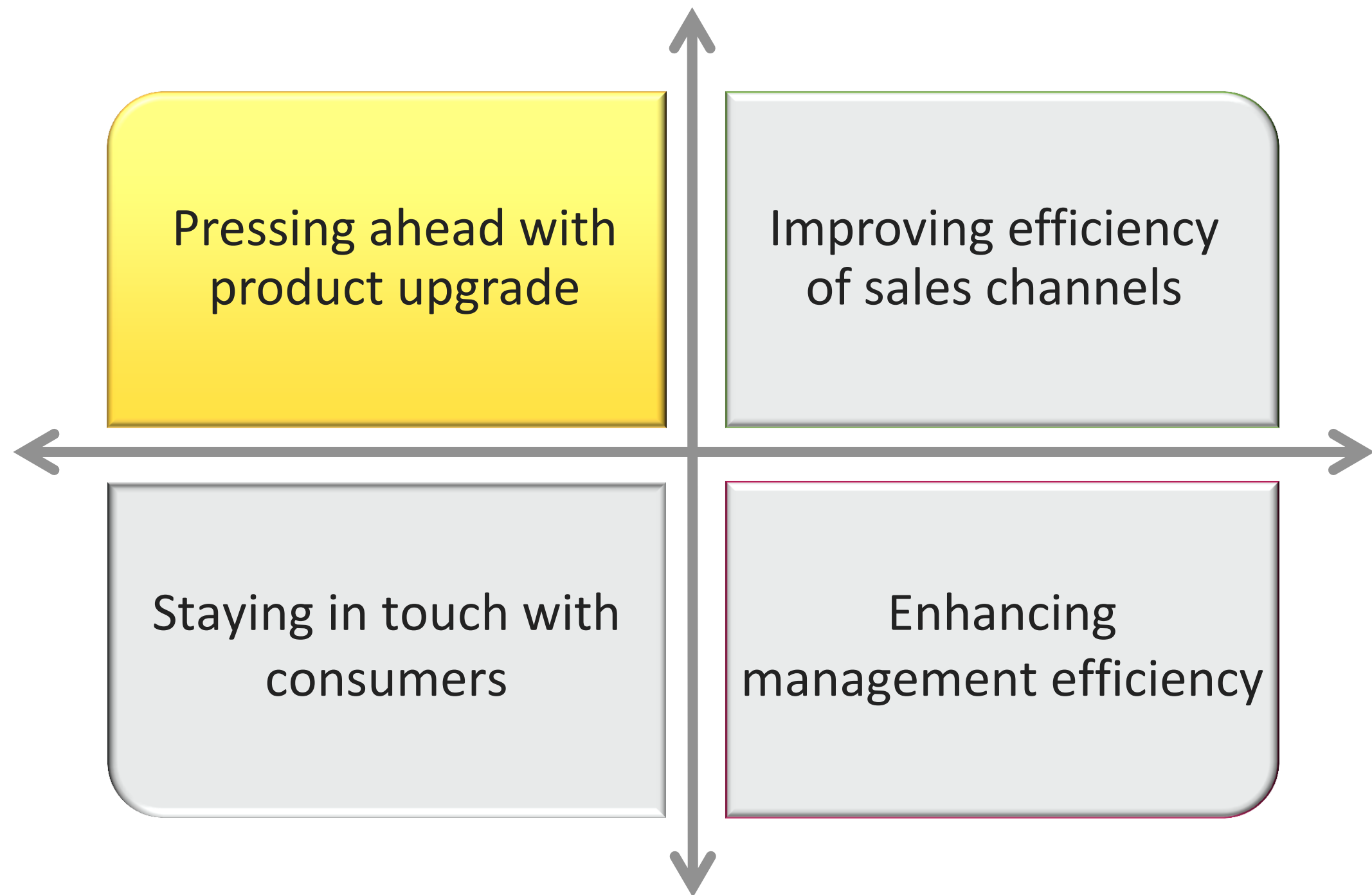
- Continue to adjust its brand marketing strategy in an effort to increase proportion of young people in its customer base; gradual growth in traffic and sales at its stores

# ***2019 Outlook: Business Transformation Phase II***

## **Business Model Innovation**



# Business Model Innovation







# Product upgrade

Driven by market demand while enhancing product development capabilities

- Increase investment in product research and development with emphasis on trendiness and comfort
- Continue to enrich its portfolio of diverse products with more trendy and athleisure shoes to better serve customers' need
- Launch new products more frequently
- Broaden the product range to seize more business opportunities





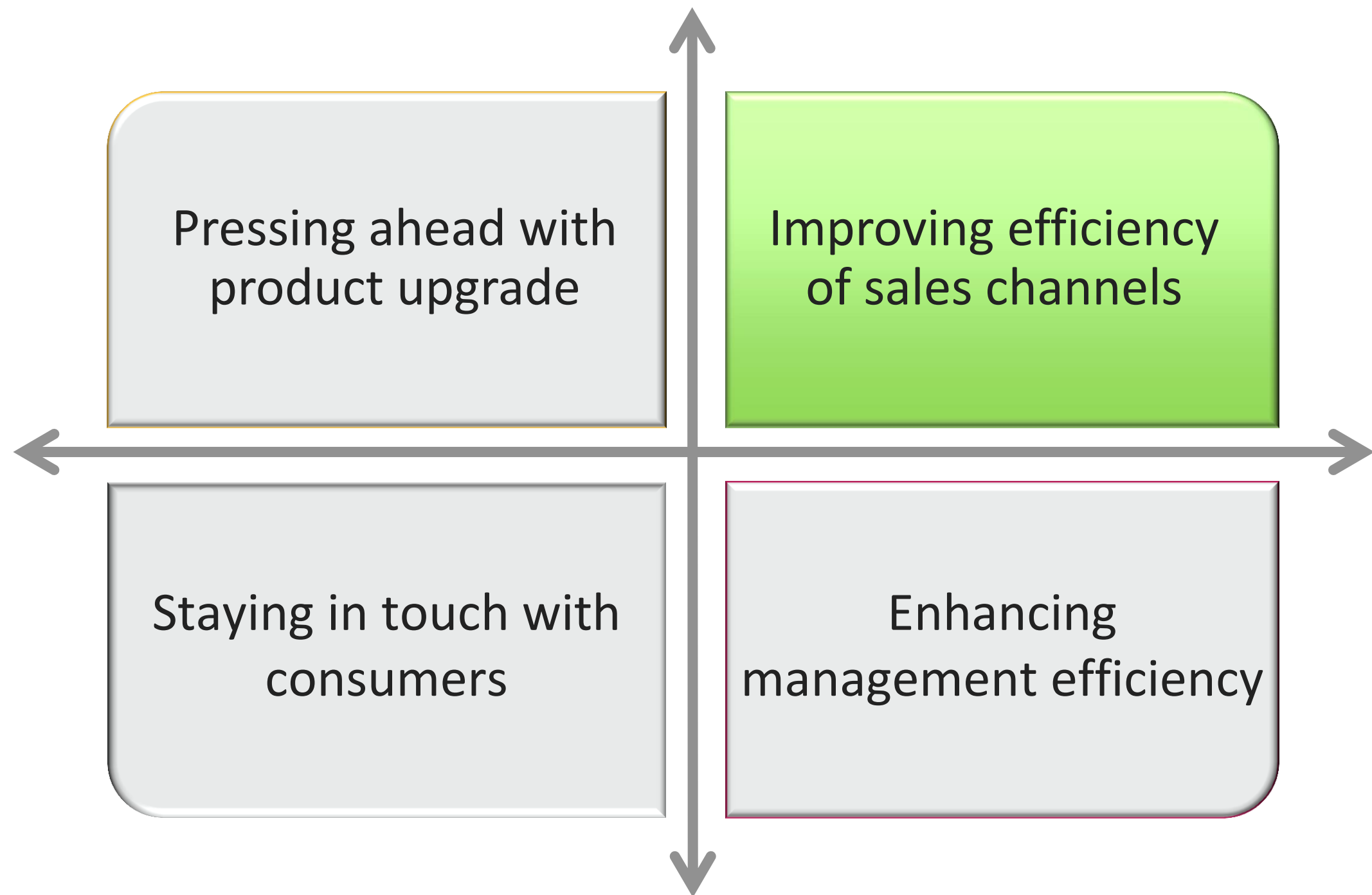
# Supply chain acceleration

**Build up an efficient supply chain system to meet the demand of product development and sales at store**

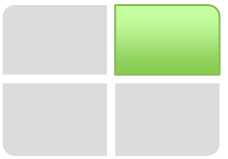


- Identify new manufacturers that are capable to carry out quick response manufacturing
- Determine production volume according to market feedback to minimise obsolete inventory
- Shorten production lead time
- Optimise logistics and distribution system
  - ✓ Integration of regional warehouses
  - ✓ Adopt information technology system to realise the automation of inventory replenishment

# Business Model Innovation



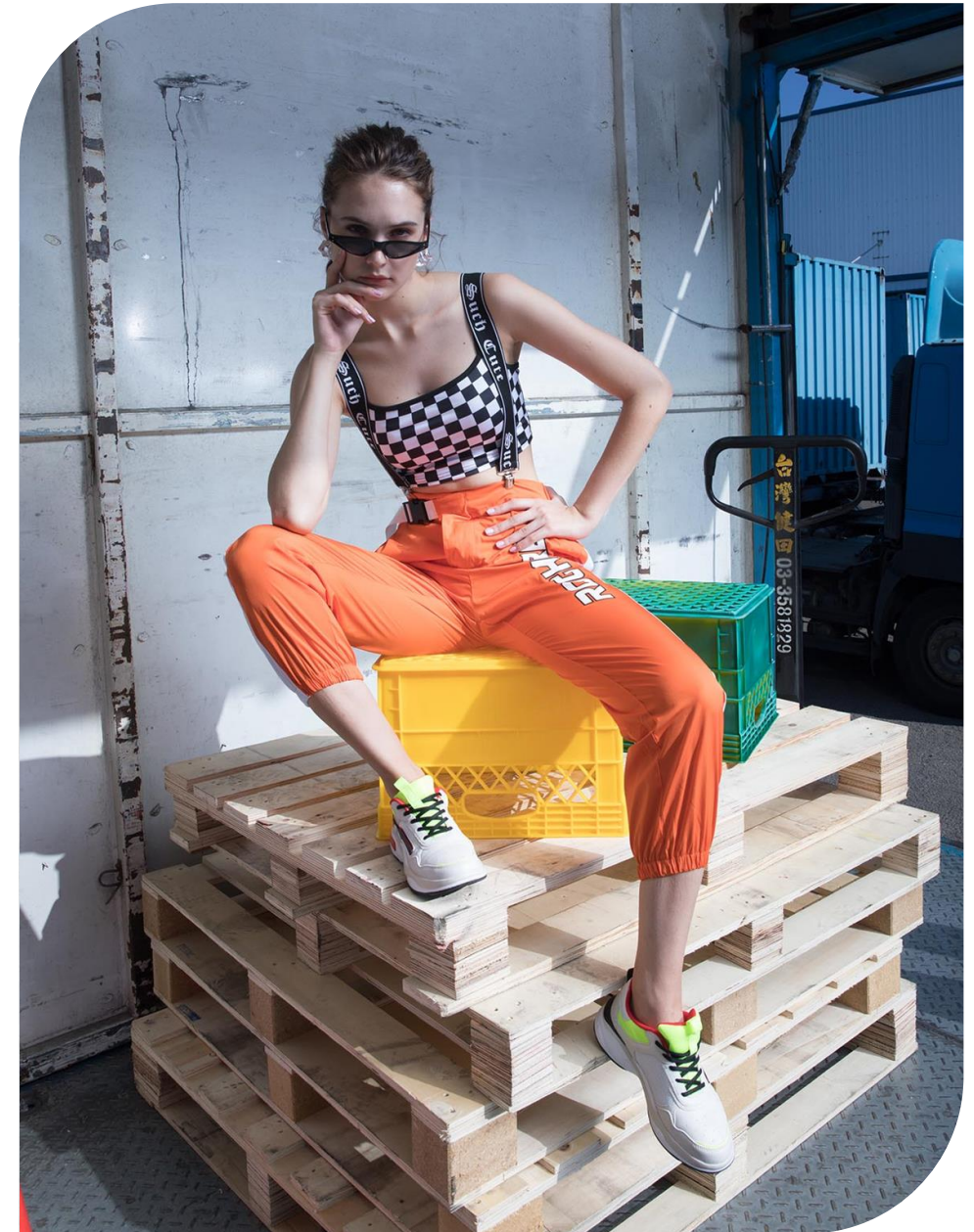
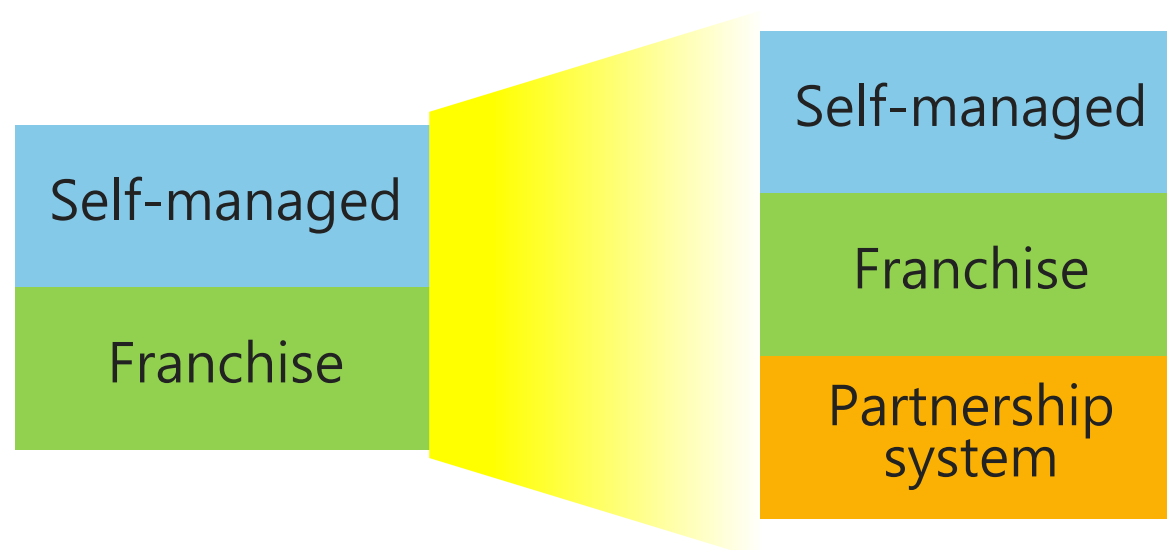


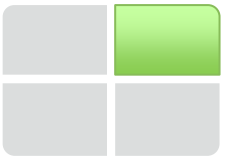


# Offline channel optimisation

- Introduce a “partnership system” to mitigate the business risk associated with the existing “asset heavy” business model
- Closely monitor store performance and promptly remedy under-performing stores

## *New operational model*





# Unleash the potential of online business

- Work closely with product design and supply chain departments to launch products that meet the specific demands of online customers
- Commit more resources to its cooperation with social media and e-commerce platforms to better adapt to the fast-changing consumer behaviour and consumption patterns
- Form strategic partnerships with select online distributors to maintain and expand the Daphne brand's online market share

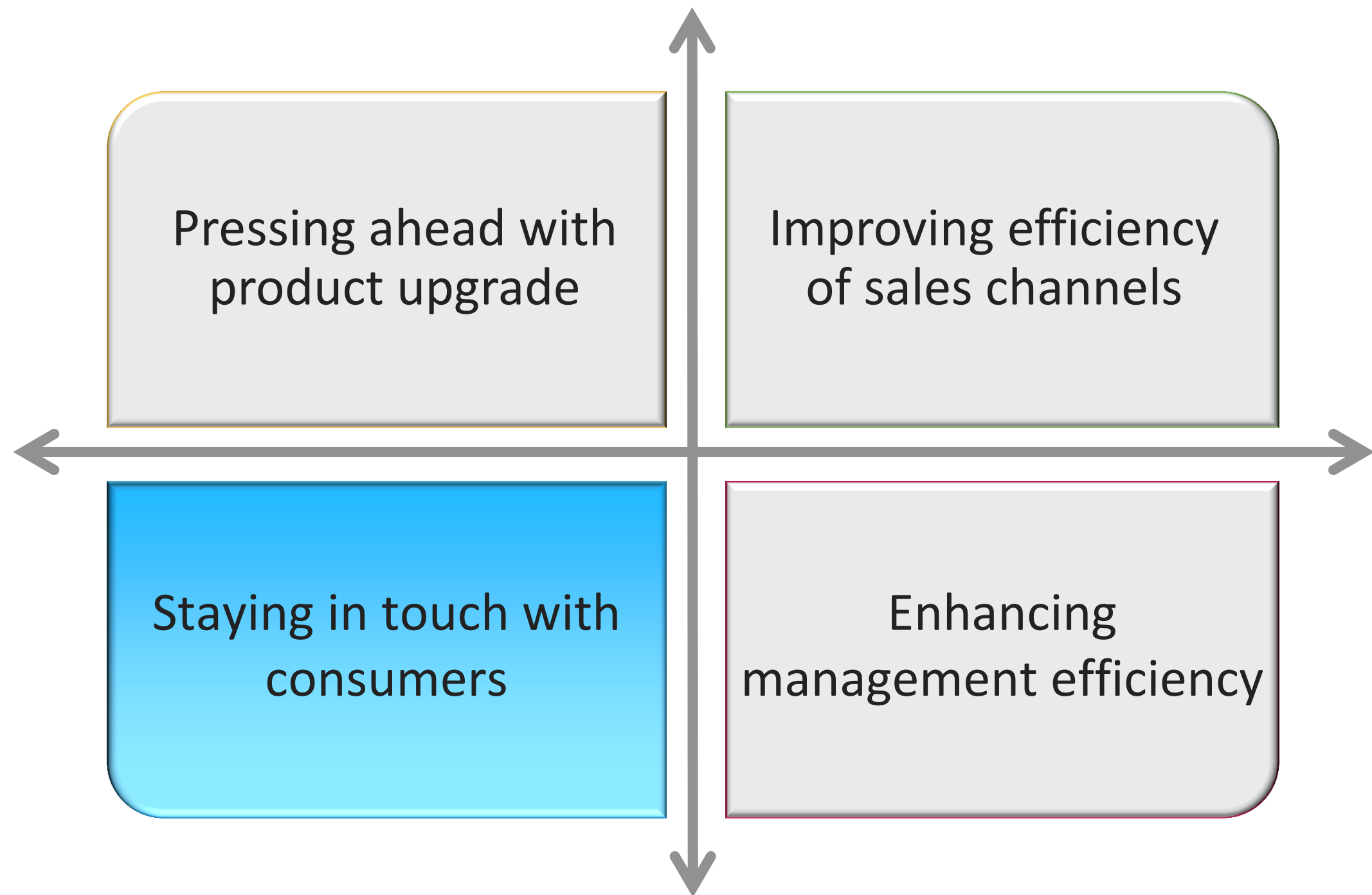


Live streaming



WeChat mall

# Business Model Innovation







# Staying in touch with consumers

## Enhance the capability to apply the big data analytics

- Continue to cooperate with a big data company to
  - ✓ Identify opportunities effectively on the market
  - ✓ Launch products to meet with enthusiastic market responses



## Strengthen its refreshed brand image

- Collaborate with a brand consultancy company in fine-tuning its brand marketing strategy
- Focus on social media marketing to keep in close touch with young consumers
- Increase exposure through product placement



# Improve customer relationship management (“CRM”)

- Continue to expand membership base and strengthen its connection with members
- Introduce upgraded membership activities and benefits to boost customer loyalty and repeat sales
- Leveraging CRM tools to provide customers with an experience of the seamless integration of online and offline shopping in the “New Retail” era



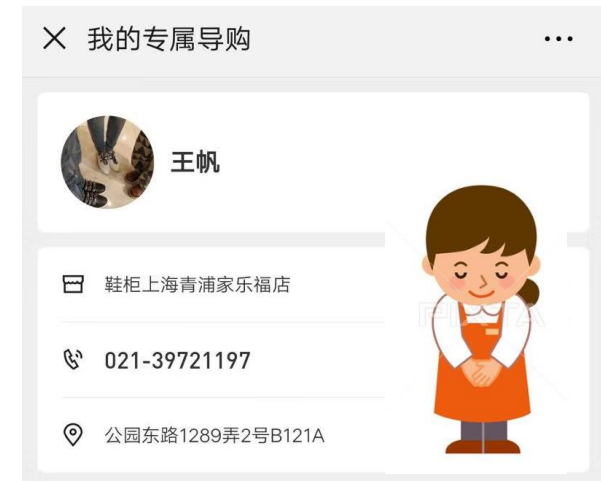
1 SALES  
ONE 活动促销



3 INTEGRAL  
THREE 积分

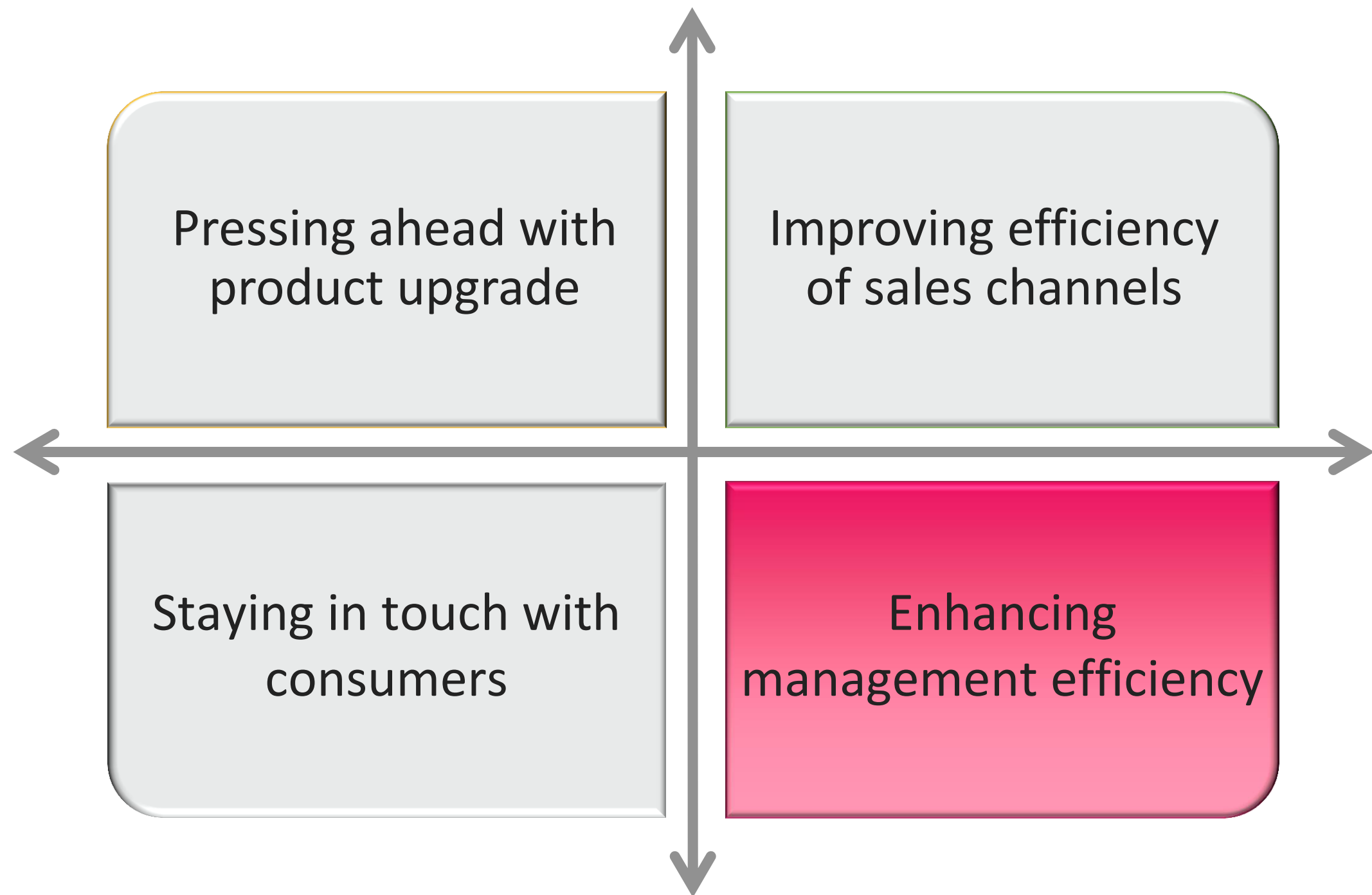


Membership benefit  
upgrade



Exclusive O2O shop  
assistant service

# Business Model Innovation







# ***Enhance management efficiency***

- Further streamline organisational structure and optimise internal process to become a leaner and more efficient organisation
- Introduce new incentive and appraisal schemes to motivate the staff to be best in class
- Build a competitive cost structure through stringent cost control
- Strengthen cash flow management



# Core Strategic System

## Objective

Revive the growth path and achieve turnaround ASAP

### #1 Product upgrade

- Enhance product development
- Accelerate supply chain

### #2 Improve sales channel efficiency

- Introduce a “partnership system”
- Close down loss-making stores
- Unleash e-commerce potential

### #3 Stay in touch with consumers

- Consumer data analytics
- Brand marketing activities
- CRM upgrade

### #4 Enhance management efficiency

- Streamline organisational structure
- Optimise internal process
- Introduce new incentive and appraisal schemes
- Cost restructuring
- Cash flow management

# Key Plans

**Short term**

**Mid- to long-term**

#1 Strengthening product development

#2 Supply chain acceleration

#3 Roll-out of “partnership system”

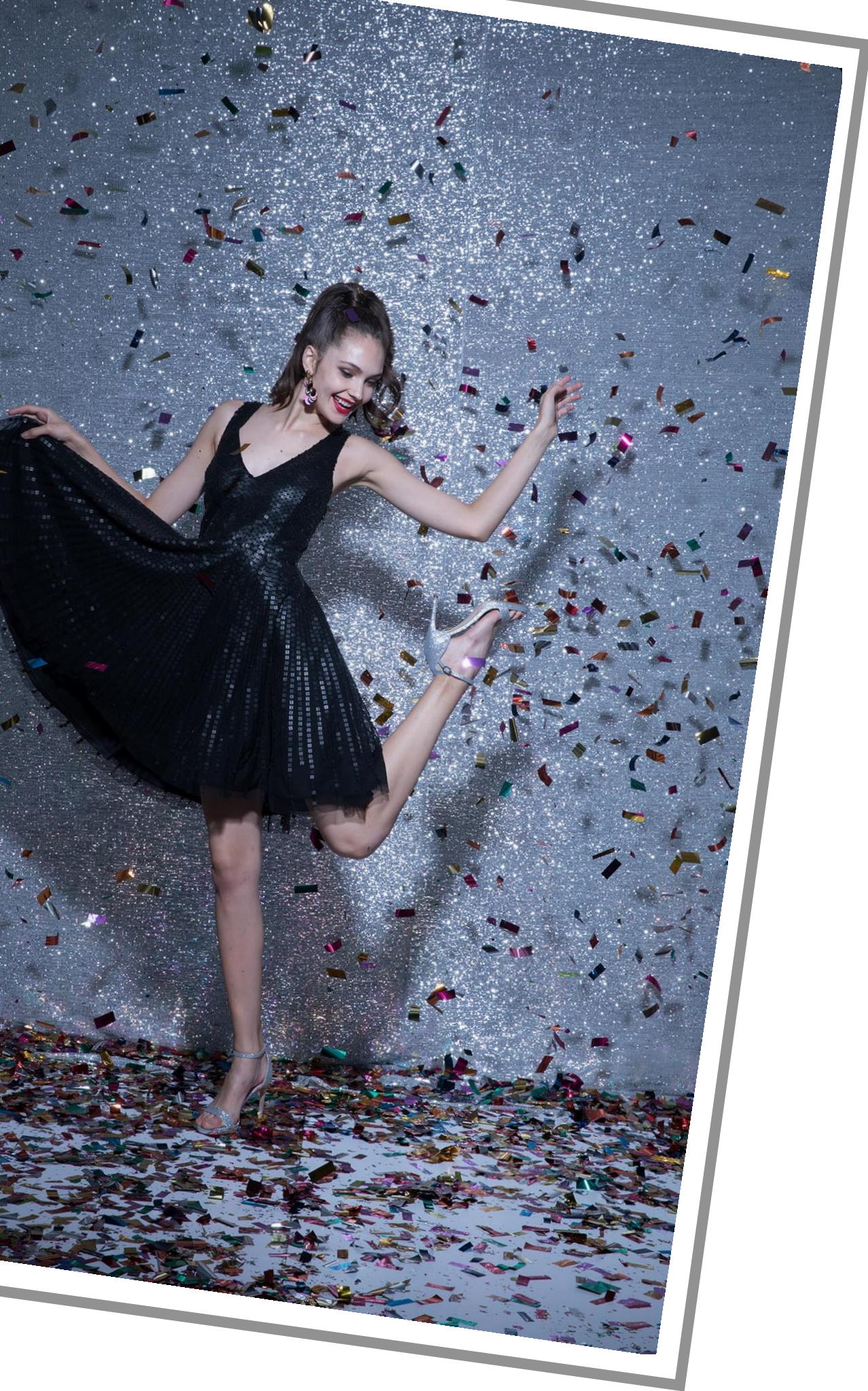
#4 Sales channel optimisation

#5 Staying in touch with consumers

#6 Organisational restructure

#7 Cost structure rationalisation





# Vision

To be the most popular  
mass-fashion lady's footwear brand  
with leading market share  
and consumer reputation,  
whilst creating superior  
shareholder's return



# Thank You

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