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INTERIM RESULTS PRESENTATION

AUG 2018

DAPHNE INTERNATIONAL HOLDINGS LIMITED

達芙妮國際控股有限公司

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1H 2018 Business Highlights

- Affected by the intense market competition and decreasing foot traffic in physical stores, there was no solid sign of recovery in mass women's footwear market
- The Group continued its efforts to implement transformation initiatives

- **Brand revamp** Opened new image stores and continued with store renovation to strengthen the new brand image
- **Product upgrade** Continued with product upgrade to meet the ever-changing demand of customer
- **Channel adjustment** Continued to adjust channel mix to further optimise store network
- **Brand marketing** Launched its spring and summer collections under the crossover project with Opening Ceremony through online marketing
- **Customer relations management ("CRM")** Stepped up CRM activities to enhance customer loyalty
- **E-commerce** Proactively collaborated with online platforms to explore new sales channels

1H 2018 Performance Highlights

- Group sales decreased by 17.3% YoY, slightly less than the reduction of total POS (-25.9% YoY)
- Gross margin decreased by 7.9ppt to 47.8%
- Operating expenses reduced by 9.1%
- Continued inventory optimisation: Inventory level reduced by 23.0% to HK\$960.3 million and average inventory turnover improved to 169 days
- Negative operating leverage under inflationary environment
- E-commerce remained profitable
- Recorded an operating loss of HK\$489.7 million
- Stable financial position with a net cash surplus



Financial Review

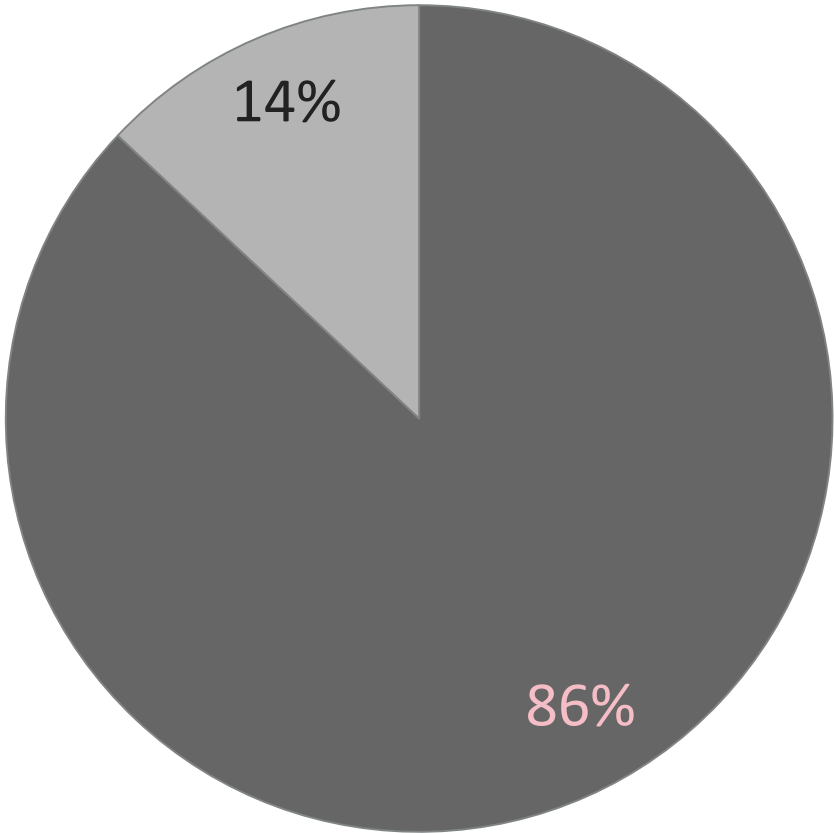
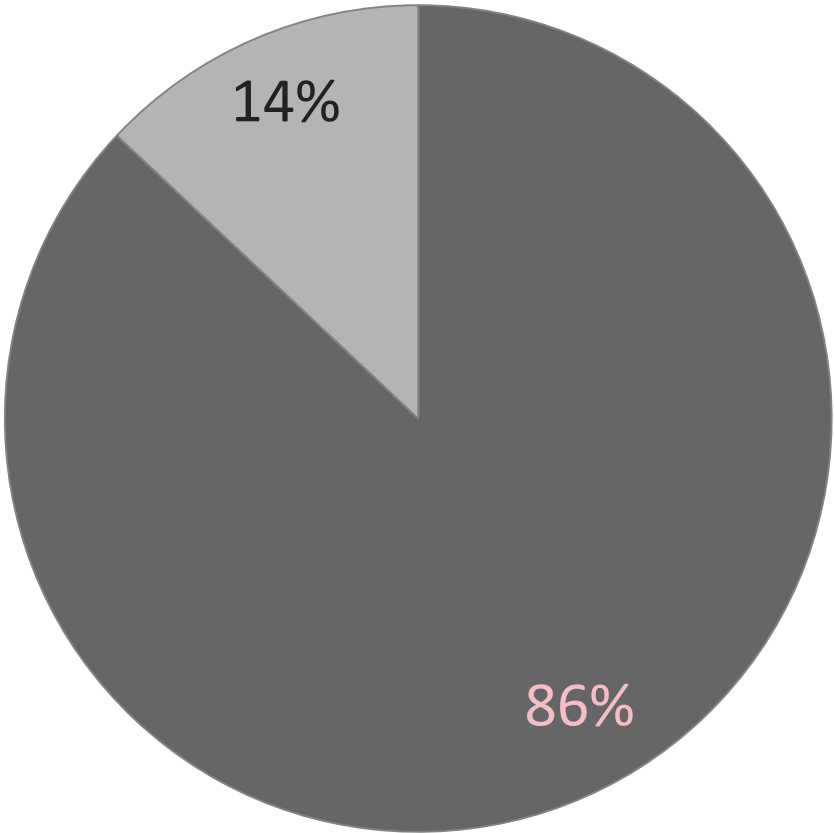
Group Financial Highlights

<i>(HK\$ million)</i>	1H 2018	1H 2017	Change
Turnover	2,259.0	2,732.7	-17.3%
Gross profit	1,080.2	1,522.0	-29.0%
Operating loss	(489.7)	(205.2)	+138.6%
Loss attributable to shareholders	(492.6)	(209.5)	+135.2%
Basic loss per share <i>(HK cents)</i>	(29.9)	(12.7)	+135.4%
Interim dividend per share <i>(HK cents)</i>	Nil	Nil	-
Gross margin	47.8%	55.7%	-7.9ppt
Operating margin	-21.7%	-7.5%	-14.2ppt
Net margin	-21.8%	-7.7%	-14.1ppt

Group Turnover Breakdown

1H 2018: HK\$2,259.0 million

1H 2017: HK\$2,732.7 million



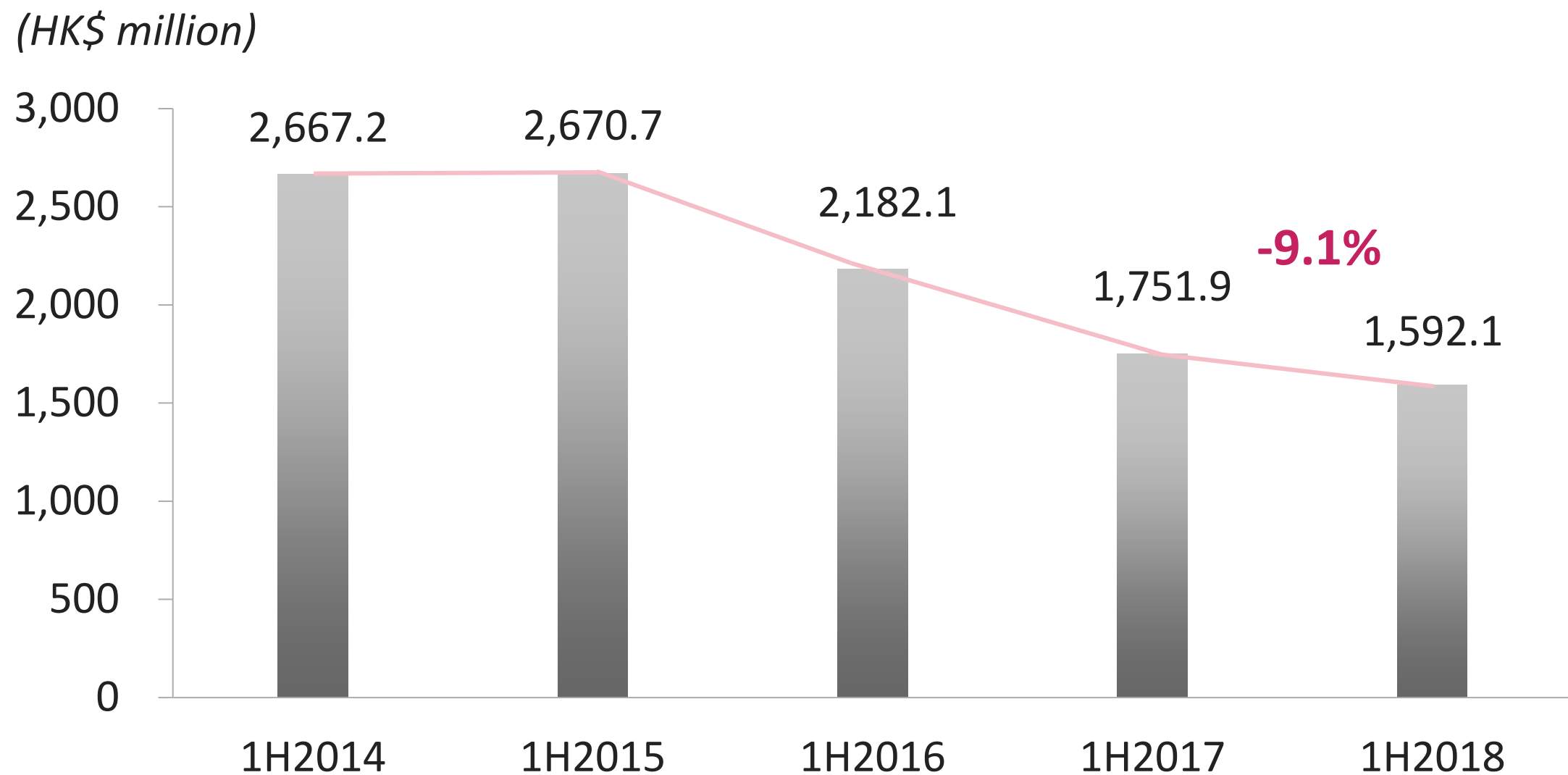
■ Core Brands Business
■ Other Brands Business

Group Gross Margin

- Group gross margin decreased by 7.9ppt YoY, mainly due to:
 - Increased weighting of aged stocks in the sales mix, as a result of the enhanced efforts in clearance of old products
 - The stable pricing policy on new products failed to offset the negative effect brought by stock clearance
 - Slight increase in material cost

Group Operating Expense

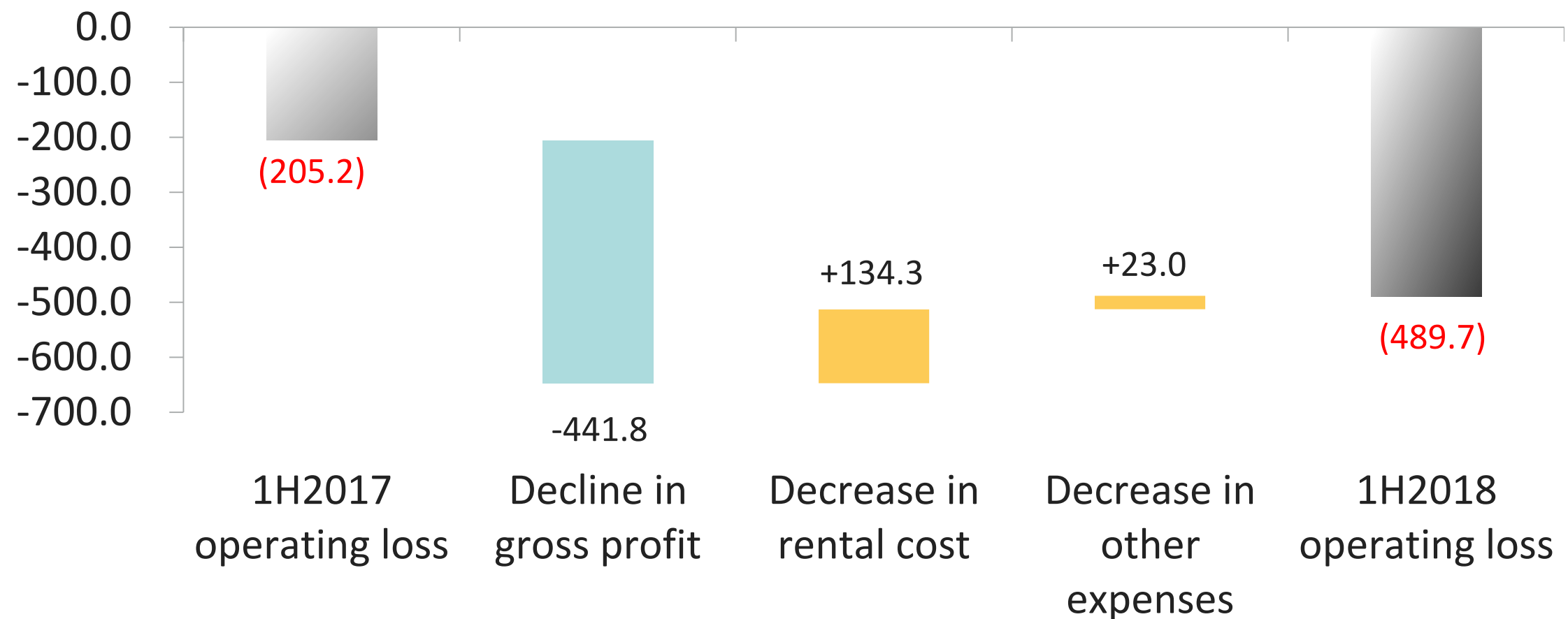
- Decreased by HK\$159.8 million (-9.1% YoY)



Group Operating Profit Analysis

- Group gross margin decreased by 7.9ppt YoY
- Group operating margin dropped by 14.2ppt YoY

(HK\$ million)



Inventory Level and Turnover

- Group average inventory turnover was 169 days (1H 2017: 200 days)
- Group inventory level continued to decrease to HK\$960.3 million, a reduction of HK\$286.6 million, as compared to that of 31 December 2017
- After reviewing inventory level, the Group made provision for inventories of HK\$2.4 million (1H 2017: write-back of HK\$37.1 million)



Working Capital and Capital Expenditure

- Capital expenditure increased by 51.9% YoY

	1H 2018	1H 2017	Change
Average Inventory Turnover (days)	169	200	-31
Average Debtors Turnover (days)	15	15	-
Average Creditors Turnover (days)	113	138	-25
Cash Conversion Cycle (days)	71	77	-6
Capital Expenditure (HK\$ million)	68.8	45.3	+51.9%

Other Key Financial Indicators

- The Group maintained its net cash position

	As at 30 Jun 2018	As at 31 Dec 2017	Change
Cash and bank balances (HK\$ million)	374.9	486.3	-22.9%
Bank loans (HK\$ million)	156.9	156.3	+0.4%
Equity attributable to shareholders (HK\$ million)	2,365.5	2,874.9	-17.7%
Current ratio (times)	2.2	2.5	-0.3
Net gearing ratio (%)	Net cash	Net cash	-



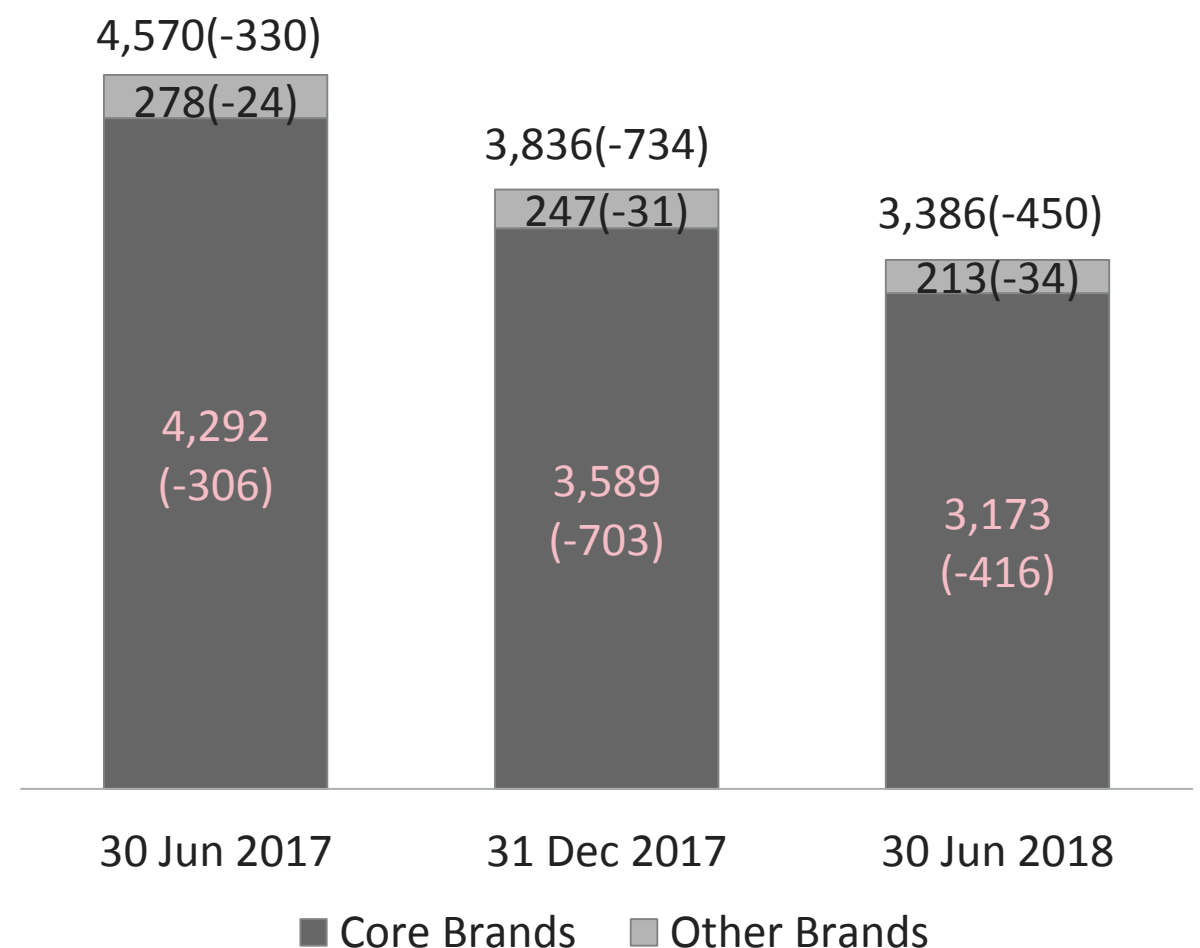
Operational Highlights

Group Sales Network



- Core Brands had a net reduction of 416 POS, bringing the total to 3,173
- Other Brands had a net closure of 34 POS
- Mainly attributable to:
 - Continued with its channel mix adjustment and store network rationalisation

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



Core Brands Sales Network

- Net reduction of 416 POS (including 394 directly-managed stores and 22 franchised store)

Number of POS

	As at 30 Jun 2018	As at 31 Dec 2017	Change	% Change	As at 30 Jun 2017	Change	% Change
Directly-managed POS	2,909 (92%)	3,303 (92%)	-394	-11.9%	3,987 (93%)	-1,078	-27.0%
Franchised POS	264 (8%)	286 (8%)	-22	-7.7%	305 (7%)	-41	-13.5%
Core Brands Total	3,173	3,589	-416	-11.6%	4,292	-1,119	-26.1%

Quarterly change in POS

	1Q 2018	2Q 2018	1H 2018
Directly-managed POS	-107	-287	-394
Franchised POS	-15	-7	-22
Core Brands Total	-122	-294	-416

Core Brands Sales Network (cont'd)

- Maintained greater representation in lower tier cities

	As at 30 Jun 2018		As at 31 Dec 2017		Change	% Change
	No.	%	No.	%		
Tier 1 Cities	330	10%	364	10%	-34	-9.3%
Tier 2 Cities	750	24%	877	25%	-127	-14.5%
Tier 3 Cities	605	19%	680	19%	-75	-11.0%
Tier 4-6 Cities	1,488	47%	1,668	46%	-180	-10.8%
Total	3,173	100%	3,589	100%	-416	-11.6%

Core Brands Business - Performance

(HK\$ million)	1H 2018	1H 2017	Change
Turnover	2,080.5	2,465.1	-15.6%
Gross profit	894.1	1,294.9	-31.0%
Gross margin	43.0%	52.5%	-9.5ppt
Operating loss	(481.9)	(191.1)	+152.2%
Operating margin	-23.2%	-7.8%	-15.4ppt

- **Turnover of Core Brands Business decreased by 15.6%**
 - YoY reduction of 26.1% POS under Core Brands
 - YoY SSSG -9.1%
- **Gross margin decreased by 9.5ppt**
 - Increased weighting of aged stocks to liquidate old inventory
- **Operating margin decreased by 15.4ppt**
 - Decrease in sales
 - Significant decrease in gross profit
 - Negative operating leverage
 - Inflationary pressure of operating cost
- **Average selling price was RMB156 (1H 2017: RMB161)**



Other Brands Business - Performance

<i>(HK\$ million)</i>	1H 2018	1H 2017	Change
Turnover	313.0	380.9	-17.8%
Gross profit	173.6	222.0	-21.8%
Gross margin	55.5%	58.3%	-2.8ppt
Operating (loss)/profit	(5.7)	4.1	N/A
Operating margin	-1.8%	1.1%	-2.9ppt

- **Turnover of Other Brands Business decreased by 17.8%**

- A YoY net reduction of 23.4% POS

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

- **Overall gross margin of Other Brands Business decreased by 2.8ppt**

- Increased weighting of aged product in sales mix
- Higher proportion of e-commerce sales

- **Other Brands Business recorded an operating loss of HK\$5.7 million**

Outlook



Customer Centric Strategy



Brand Marketing

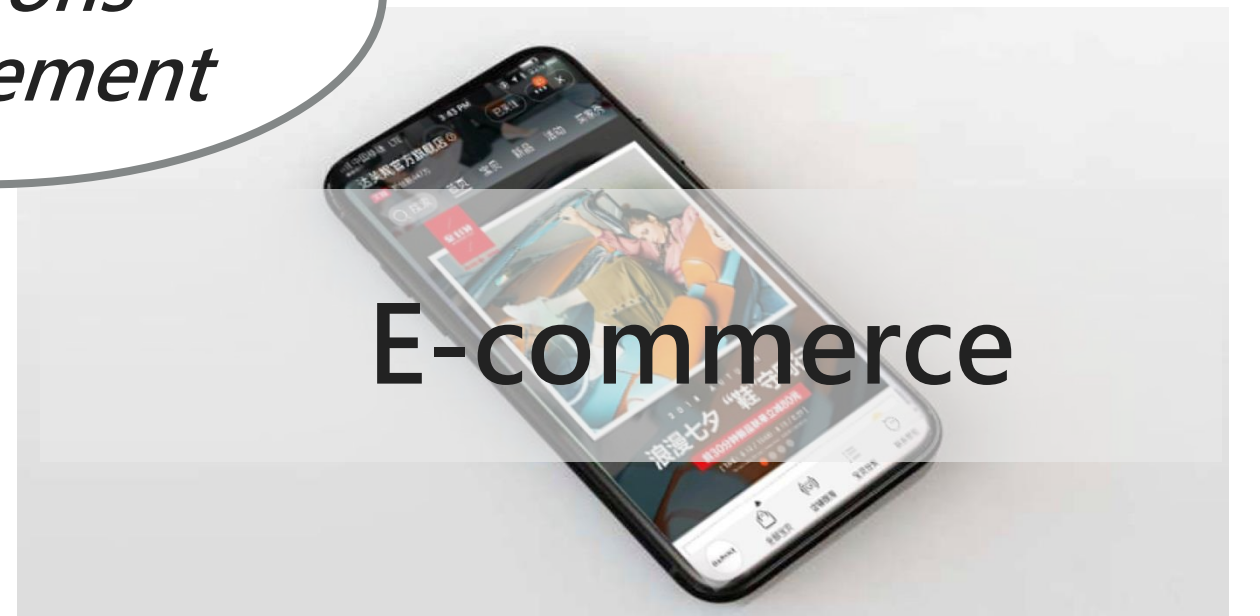


Product Upgrade

*Customer
Relations
Management*



Retail Channel &
Service



E-commerce

Brand Marketing

Progress made in 1H 2018

- Successfully launched its spring and summer collections under the crossover with Opening Ceremony through cooperation with KOL in online marketing
- The crossover project in 2H2018 is under planning
- Continued to communicate with consumers through online platforms

Next step

- Launch crossover collection
- Develop integrated marketing campaign to promote through online and offline channels
- Optimise marketing strategy to achieve better marketing efficiency and sales performance

Product Upgrade

Progress made in 1H 2018

- Continued to cooperate with well-known IP to provide customers with diverse product offerings
- Increased the weighting of athleisure product to enrich its product portfolio continuously
- Elevated comfortability and functionality of products
- Products of spring and summer collections were well received by customers

Next step

- Enhance the proportion of trendy products and those made of new materials for 2018 autumn and winter seasons
- Increase the investment in product development to make its products more comfortable
- Continue to enhance supply chain to support product upgrade
- Allocate more resources on other product categories to capture more business opportunities

Sales Channel Development

Progress made in 1H 2018

- Continued with store network optimisation
- More stores were renovated in 1H 2018 to strengthen new brand image by increasing its presence to reach more customers nationwide
- Stepped up its pace to enter shopping mall channel with selective opening of new stores

Next step

- Plan to open more new image stores in prime cities in 2H2018
- Continue store renovation to tap more consumers
- Continue to speed up the opening of new stores in shopping mall channel, according to market and operating condition
- Take time for the benefit of new stores to be reflected after incubation period

E-commerce Business

Progress made in 1H 2018

- Remained profitable and increased its contribution to the Group's turnover
- Some of its stores under Core Brands were connected to "Tmall's Smart Store" system
- Partnered with emerging social media and e-commerce platforms to explore new sales channels

Next step

- Further increase e-commerce's contribution to the Group's turnover
- To have more stores connect to "Tmall's Smart Store" system
- Develop online exclusive products to better meet the fashion needs of young online consumers
- Continue to enhance online shopping experience by:
 - Cooperating with key online shopping platforms to shorten delivery time
 - Enhancing the image of online stores to strengthen new brand equity

Customer Relations Management (CRM)

Progress made in 1H 2018

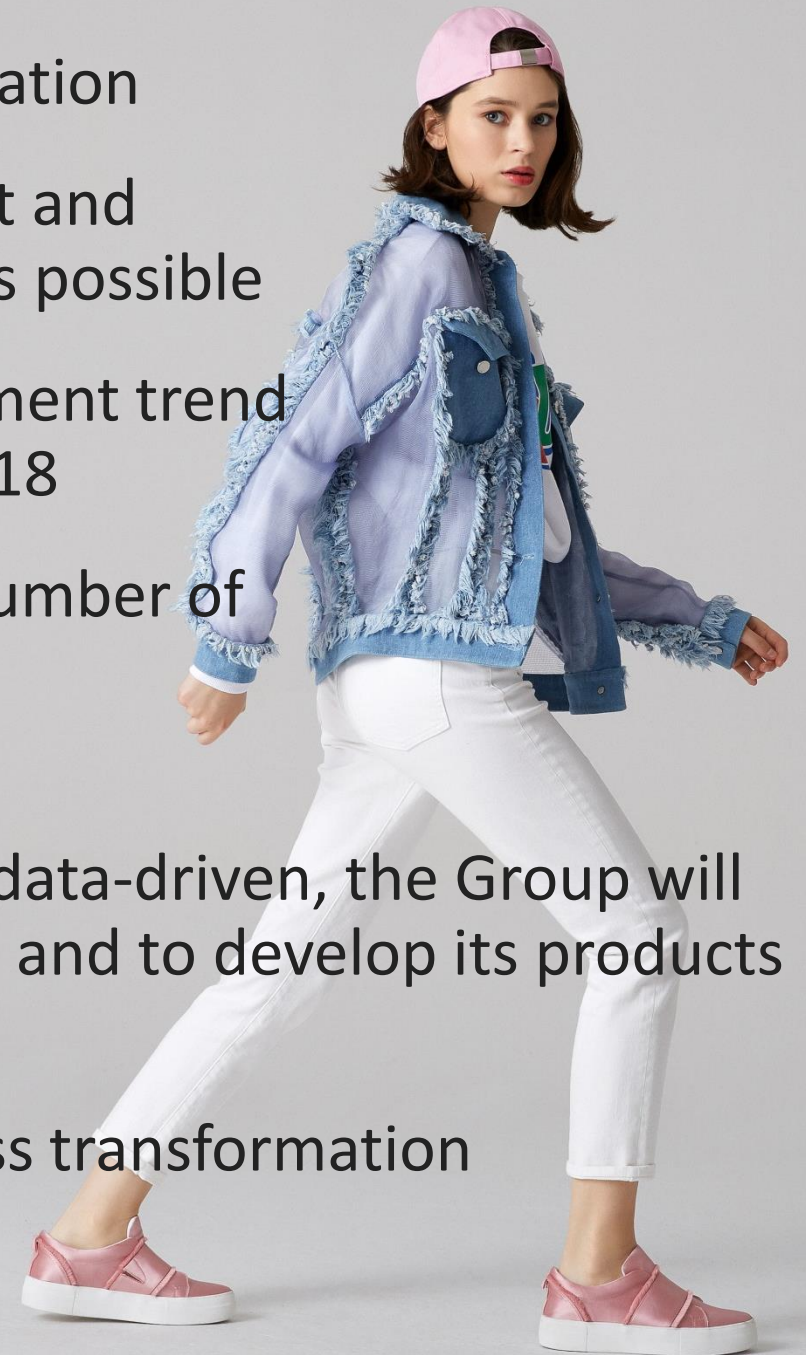
- Continued to engage members through online platforms and social media
- Continued to expand membership base
- Stepped up CRM activities:
 - Strengthened customer loyalty and boosted repeat business through appealing membership programme and privileges

Next step

- Conduct an in-depth analysis of the data of its members to achieve:
 - Better forecast of market trends and customer preferences
 - Product planning with more precision to stay abreast of the trend in consumer demand
 - Customised marketing strategy with cross-channel approach to improve marketing efficiency and boost customer loyalty

Looking Back, Moving Forward

- There remain uncertainties during business transformation
- The Group will pay continuous attention to the market and make timely adjustments to resume growth as soon as possible
- The sales of Core Brands Business saw slight improvement trend with the successful launch of summer collection in 2018
- The sales channel adjustment that leads to a higher number of new image stores will also gradually yield results
- Embrace the “New Retail” movement
 - As a customer-centric company whose decision is data-driven, the Group will enhance its capability to analyse customer profiles and to develop its products to meet diverse needs and desires
- The Group is confident to achieve a successful business transformation





Target

Revive the growth path and achieve turnaround ASAP

Vision

To become the most popular mass-fashion brand with leading market share and customer reputation, whilst creating superior shareholder's return

Thank You



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