

2012 Annual Results Presentation

21 March 2013

DAPHNE INTERNATIONAL HOLDINGS LIMITED

達芙妮國際控股有限公司

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Highlights of 2012 Annual Results

- **Group turnover increased by 22.8% to HK\$10,529.1 million**
- **Turnover of Core Brands business recorded a growth of 25.0%, reaching HK\$9,591.9 million**
 - Core Brands' same store sales achieved a YoY growth of 9%
- **Group's gross profit increased by 18.8% to HK\$6,228.8 million**
 - Group's gross profit margin declined by 1.9 ppt to 59.2%
- **Group's operating profit decreased by 0.3% to HK\$1,364.9 million**
 - Proportion of directly-managed points-of-sales under Core Brands rose to 85% from 81% in the previous year
- **Profit attributable to shareholders increased by 2.4% to HK\$955.7 million**
- **Basic earnings per share is 58.1 HK cents, up by 1.9% year-on-year**
- **Annual dividend declared was 18 HK cents per share**
 - 5.9% higher than last year, representing a dividend payout ratio of 31.0%
- **Group's total number of points-of-sales amounted to 6,881**
 - Core Brands' points-of-sales increased by 767 to 6,369
- **The Group was ranked second for the award of the Best Mid-Cap Companies in China 2012 by FinanceAsia, a leading regional financial publication**



Financial Review

DAPHNE GROUP



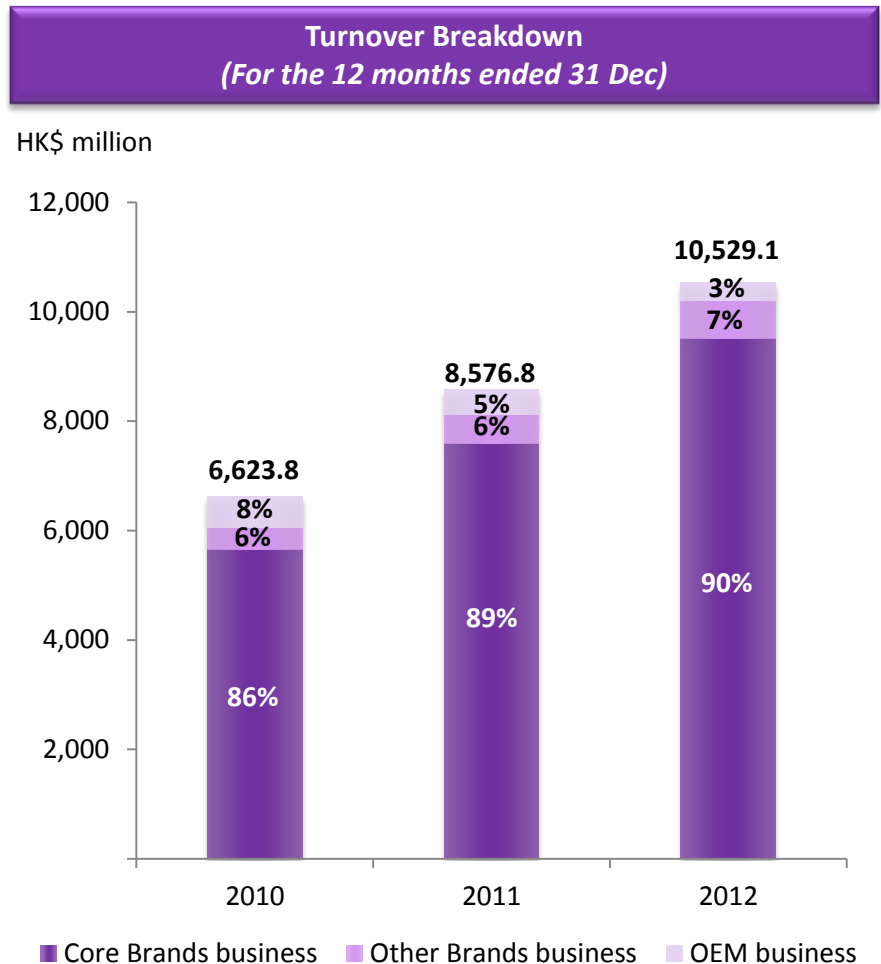
Group Financial Highlights

(HK\$ million)	For the 12 months ended 31 Dec		
	2012	2011	Change
Turnover	10,529.1	8,576.8	+22.8%
Gross profit	6,228.8	5,243.8	+18.8%
Operating profit	1,364.9	1,368.6	-0.3%
Profit attributable to shareholders	955.7	933.1	+2.4%
Basic EPS (HK cents)	58.1	57.0	+1.9%
Dividend per share (HK cents)	18.0	17.0	+5.9%
- Interim (HK cents)	9.0	8.0	+12.5%
- Final (HK cents)	9.0	9.0	-
Gross profit margin	59.2%	61.1%	-1.9 ppt
Operating profit margin	13.0%	16.0%	-3.0 ppt
Net profit margin	9.1%	10.9%	-1.8 ppt

Group Turnover

- Core Brands segment continued to be the Group's focus, with its proportion in Group turnover rising to 90%, up by 1 ppt year-on-year
- Other Brands segment increased its proportion in Group turnover to 7%
- OEM segment reduced its proportion to 3%
 - OEM turnover decreased by 26.8% to HK\$329.7 million (2011: HK\$450.2 million)

Note: Core Brands segment refers mainly to the operations under the brands "Daphne" and "Shoebox" in Mainland China



Inventory Turnover Days & Working Capital

- **Inventory turnover days was 188 days**

- Made great efforts in managing inventory in 2H 2012, resulting in a decrease of 14 inventory turnover days as compared to interim period
- Inventory level of Core Brands maintained at reasonable and healthy level
- Step up measures to monitor and enhance inventory level

- **Higher CAPEX due to:**

- Proactive strategy to increase directly-managed stores and supporting facilities
- More investments in IT & management systems including retail management system and CRM system

	For the 12 months ended 31 Dec		Change
	2012	2011	
Average Inventory Turnover (days)	188	172	+16
Average Debtors Turnover (days)	11	10	+1
Average Creditors Turnover (days)	75	68	+7
Cash Conversion Cycle (days)	124	114	+10
CAPEX (HK\$ million)	521.0	393.7	32.3%
Effective Tax Rate (%)	25.4	26.7*	-1.3ppt

**Excluded fair value loss on available-for-sale financial assets and a discretionary bonus of a retired director totaling HK\$ 91.9 million*

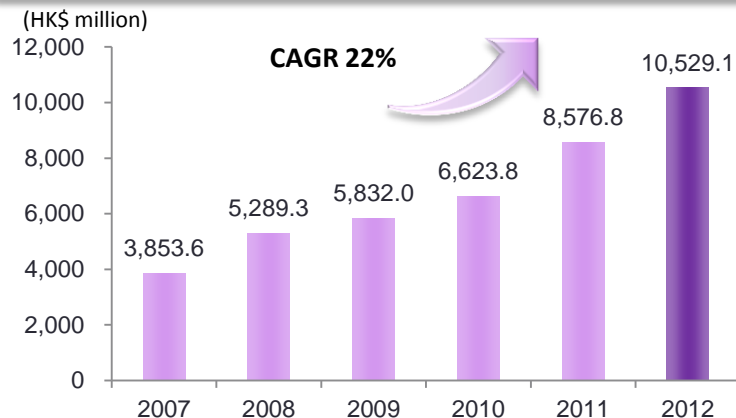
Other Key Financial Indicators

- Increased CAPEX and inventory led to lower cash and bank balances
- No convertible bonds were converted during 2012
- Current ratio remained healthy, reflecting sound financial structure

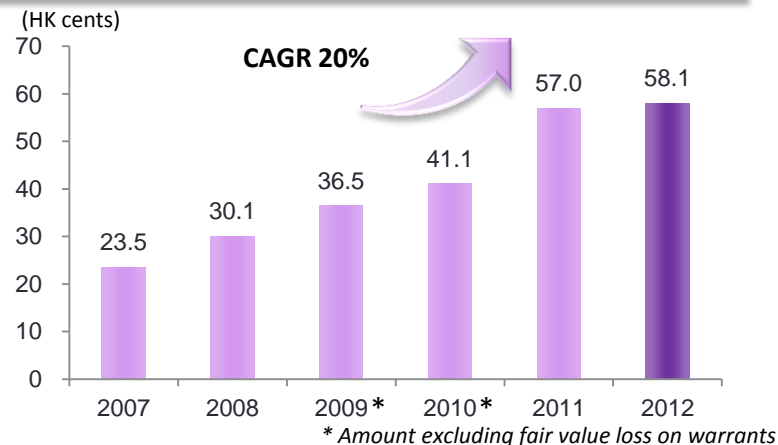
(HK\$ million)	As at 31 Dec		Change
	2012	2011	
Cash and bank balances	1,494.8	1,795.7	-16.8%
Shareholders' equity	4,825.3	4,035.9	+19.6%
Bank loan	7.3	7.0	+4.3%
Convertible bonds	639.7	605.9	+5.6%
Net gearing ratio	Net cash	Net cash	—
Current ratio (times)	3.7	3.1	+0.6

Solid Growth

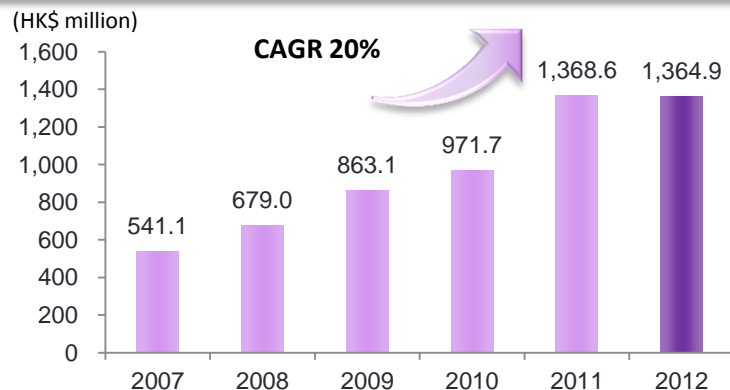
Turnover (For the 12 months ended 31 Dec)



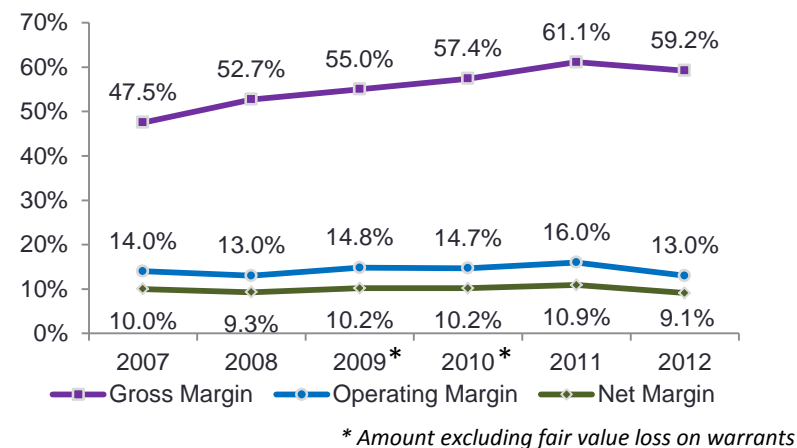
Basic EPS (For the 12 months ended 31 Dec)



Operating Profit (For the 12 months ended 31 Dec)



Margins (For the 12 months ended 31 Dec)



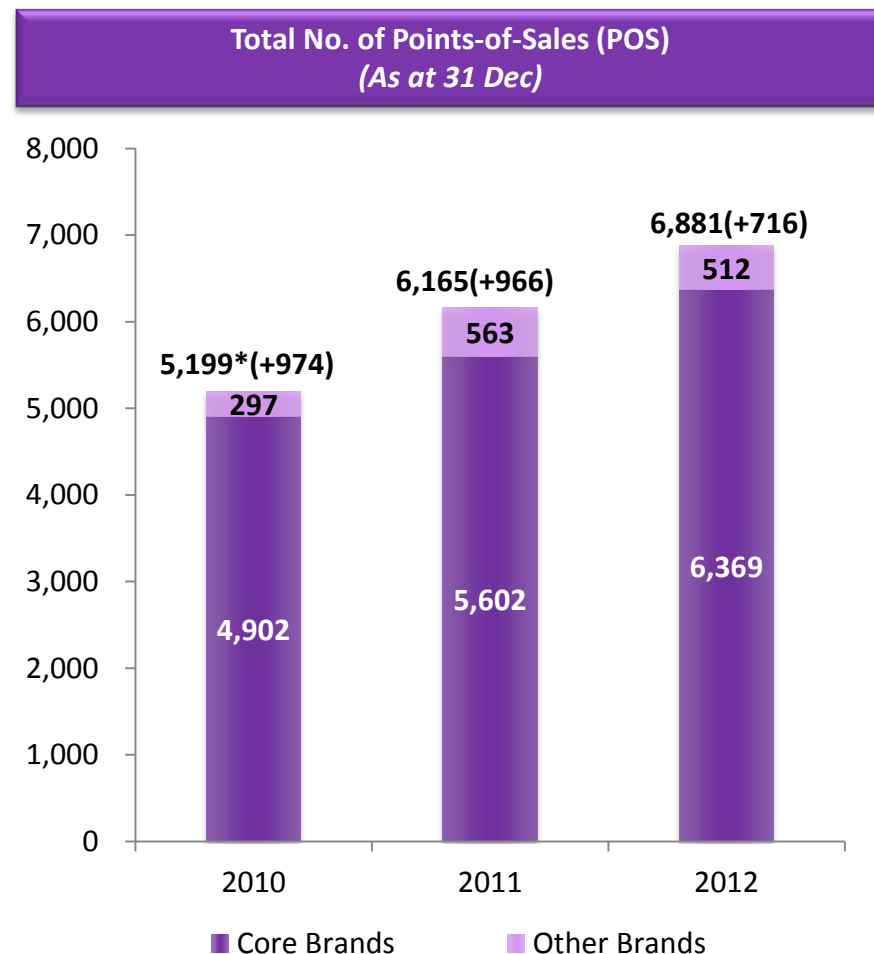
Business Review

DAPHNE GROUP



Group Sales Network

- Continued network expansion to maintain leading market position
- Added 716 POS to the Group's sales network
- Core Brands total POS = 6,369
 - Net increase = 767 POS
- Consolidated underperforming stores, with a net decrease of 51 POS under Other Brands



**including 171 stores through the acquisition of Full Pearl Group*

Core Brands Sales Network – by Store Category

- Expansion with focus on directly-managed stores, of which proportion increased to 85%
- A net increase of 767 POS (added 880 directly-managed stores, and decreased 113 franchised stores)

	As at 31 Dec 2012	As at 31 Dec 2011	Change	% Change
- Directly-managed POS	5,427 (85%)	4,547 (81%)	+880	+19.4%
- Franchised POS	942 (15%)	1,055 (19%)	-113	-10.7%
Core Brands POS	6,369	5,602	+767	+13.7%

Core Brands Sales Network – by City Tier

- The Group maintained greater representation in lower tier cities

	As at 31 Dec 2012		As at 31 Dec 2011		Change	% Change
	No.	%	No.	%		
Tier 1 cities	721	11%	614	11%	+107	17.4%
Tier 2 cities	1,342	21%	1,100	19%	+242	22.0%
Tier 3 cities	981	15%	863	15%	+118	13.7%
Tier 4-6 cities	3,325	53%	3,025	55%	+300	9.9%
Total	6,369	100%	5,602	100%	+767	13.7%

Core Brands Business – Performance

- Despite economic growth slowdown, turnover of Core Brands business maintained steady growth, increasing by 25.0% YoY
- Operating margin was mainly affected by the following :
 - Proactive promotion efforts in response to slowing macro economy, leading to 2.9 ppt decline in gross margin
 - Increased rental and labour costs
 - Accelerated store openings led to higher cost pressure in near term but will ease off going forward
 - Operating cost increased along with the higher proportion of directly-managed POS
 - Overall retail market growth decelerated rapidly in 2H 2012



(HK\$ million)	For the 12 months ended 31 Dec		Change
	2012	2011	
Turnover	9,591.9	7,671.1	25.0%
Gross profit	5,661.8	4,747.4	19.3%
Gross margin	59.0%	61.9%	-2.9 ppt
Operating profit	1,475.7	1,555.1	-5.1%
Operating margin	15.4%	20.3%	-4.9 ppt

Core Brands Business – SSSG

- Achieved 9% SSS growth despite market slowdown
- 2H same store sales growth was affected by high base in the prior year
- Sales growth was volume-driven, indicating expansion in customer base and market share
- Proactive promotion efforts and change in product sales mix resulted in ASP decline by approx. 10% to RMB 185



Same Store Sales Growth	1Q	2Q	3Q	4Q	FY
2012	+22%	+14%	+5%	+2%	+9%
2011	+1%	+32%	+23%	+26%	+21%

Other Brands Business

- Turnover growth was mainly driven by mid- to high-end brands business
- Performance affected by the softness in department store channel
- Consolidated sales network and closed underperforming POS
- Mid- to high-end brands business, as one of the Group's future growth engines, is still in the investment phase requiring continued efforts and commitment

(HK\$ million)	For the 12 months ended 31 Dec		Change
	2012	2011	
Turnover	690.9	529.6	+30.5%
Gross profit	375.6	315.1	+19.2%
Gross margin	54.4%	59.5%	-5.1 ppt
Operating (loss)	(127.6)	(64.6)	-97.5%
Operating margin	(18.5%)	(12.2%)	-6.3 ppt

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AEROSOLE

ALDO
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Outlook & Strategies

DAPHNE GROUP



2013 Outlook

- Continued urbanisation drives consumption growth
- Increasing disposable income
- Government continues to foster domestic consumption and boost market growth
- Footwear consumption per capita in China is still low



- Increasing labour and rental costs in China
- Consumption sentiment is still weak and takes time to improve

- Leading position in mass market
- Extensive nationwide sales network
- Directly-managed sales network offers direct interface with customers
- Unparalleled brand equity, with deep penetration from tier 1 to tier 6 cities

- Committed to enhancing operating efficiency
- Benefits of new management systems to be reflected
- Experienced management team
- Healthy and solid financial structure

Strategic Initiatives for 2013

1. Strengthen sales operation management and enhance sales productivity

2. Continue expansion in sales network and increase market share

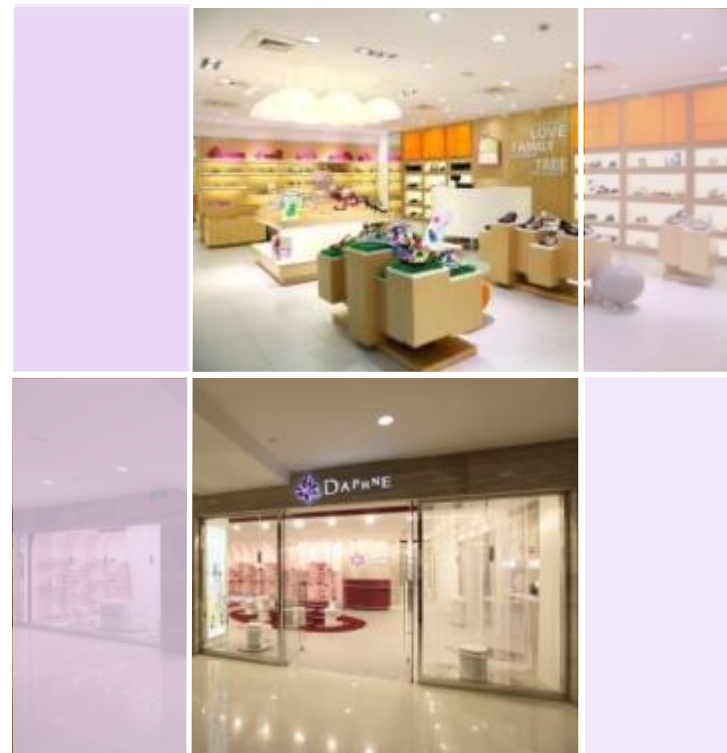
3. Enhance supply chain management to increase competitiveness

4. Improve brand recognition and value, especially for mid- to high-end brands

5. Tighten up cost control and monitoring to bolster operating efficiency

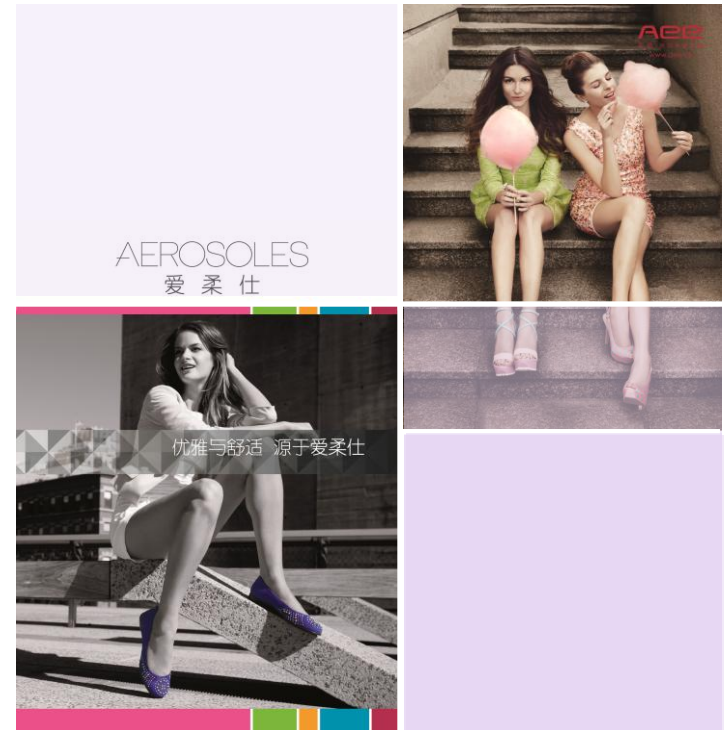
Strengthen Sales Operation Management

- **Enhance store operation management**
 - Further optimise salespeople scheduling
 - Adopt more comprehensive KPIs in management and monitoring
- **Invest in salespeople development to increase sales productivity**
 - Reinforce “Train the Trainers” programs
 - Introduce advanced training courses and upgrade various training programs
- **Foster service culture to enhance customer experience**
- **Introduce “Sales Talent Scheme” to enhance management capability and efficiency**
 - Introduce leadership training programs and invest in people development for store operation management to enhance execution capability
 - Increase accountability
- **Improve interaction and synergies between E-commerce and CRM**



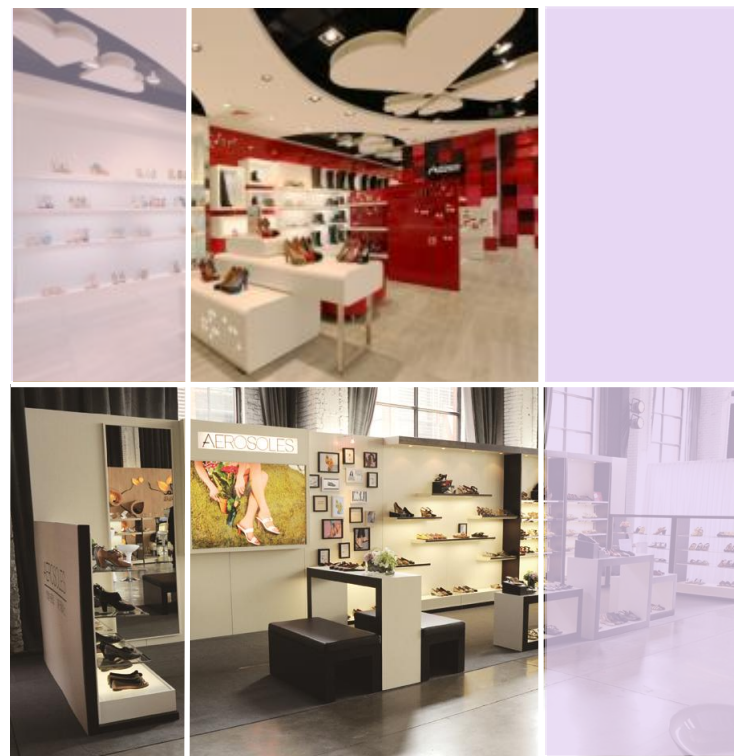
E-commerce

- To integrate e-commerce, brick-and-mortar stores and CRM to increase revenue and enhance the shopping experience
- Adopt a prudent and gradual approach in its expansion while closely monitoring the changing market environment
- Enrich and enhance the online product offering and presentation
- Integrate brick-and-mortar stores with the Internet to make shopping more convenient
- Consolidate VIP membership programs
 - Build an integrated customer database
- Offer support to facilitate more targeted marketing and promotion
 - Utilise and integrate with the CRM systems of brick-and- mortar stores to provide more effective customer relationship management and promotions towards targeted customers



Expand Sales Network

- **Continue to expand Core Brands' sales network to strengthen its market-leader position and increase market share**
 - Maintain a steady growth of Core Brands' POS
 - Look for expansion into new cities
 - Increase penetration in existing cities
 - Focus on directly-managed stores
- **Improve store opening process**
 - Standardise and streamline the store opening process
 - Strengthen the management system for store opening to enhance efficiency
- **Tighten control of rental cost**
 - Strive to improve rental-to-sales ratio and keep rental cost of new stores within an acceptable range of ratio



Strengthen Supply Chain Management

- **Ensure a smooth setup of the new retail management system**
 - To implement agile supply chain management and support meticulous/more refined retail management
 - To enable the integration of category and product planning, and its financial planning, to improve accuracy of sales forecast
 - To achieve efficient product allocation and replenishment, and increase manpower productivity to support sales growth
 - To enhance timeliness and accuracy of product-related financial planning and analysis
- **Further reduce lead time of product replenishment**
- **Enhance inventory management to keep inventory turnover days under control**
- **Enhance product quality and comfort**
- **Further consolidate raw materials procurement, and develop more competitive production base to lower production cost**



Mid- to High-end Brands Development

- **Remain as a long-term growth driver**

- Cater to the growing middle-class
- Broaden customer base
- Enable Daphne customers to trade up

- **2013 action plan:**

- Establish more precise brand development strategies and goals
- Develop stronger brand identity and differentiation for each brand
- Put emphasis on better-performing brands
- Make adjustment to sales network to enhance operating efficiency and improve its economy of scale



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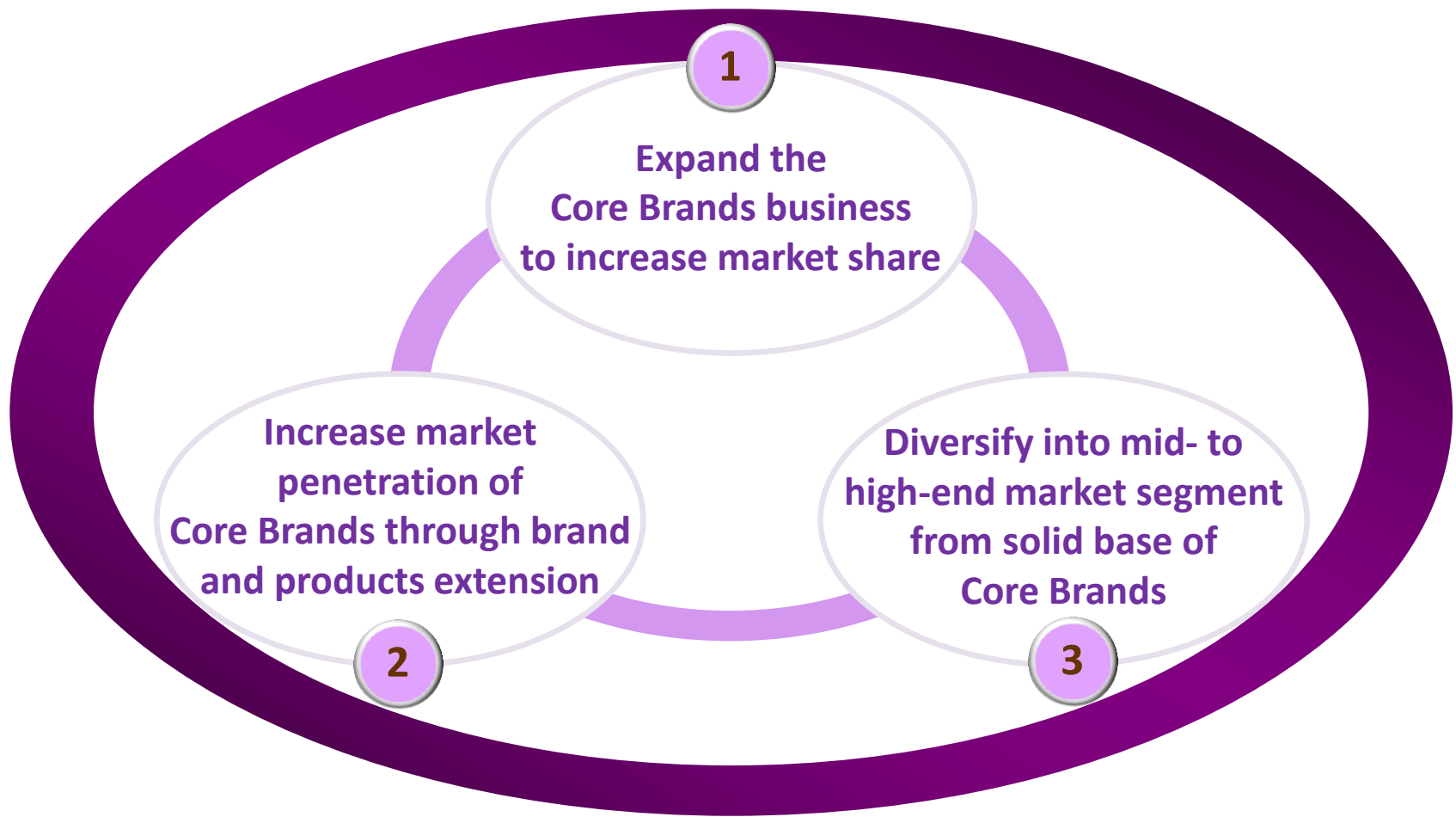
Ameda
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Cost Control Management

- **Implement cost control and monitoring measures at all levels in the Group**
- **Improve cost control, monitoring and variance analysis to build a cost-conscious culture**
- **Tighten control on rental costs**
- **Increase labour productivity**
- **Optimise organisation and human resources structure**
- **Invest in management systems to enhance long-term operational efficiency and effectiveness**

Strategic Goals



Diversification Strategy



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Thank you

.....Q & A Session

DAPHNE INTERNATIONAL HOLDINGS LIMITED

達芙妮國際控股有限公司

Investor Relations Contact



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Appendix

DAPHNE GROUP



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

Growth Drivers

1

Continuous improvement in operational efficiency

- More focused sales operation
- More agile and efficient supply chain management
- Further enhancement in product design and development
- Increasing the depth and breadth of marketing
- Strengthening brand management

2

Strong professional management team

3

More balanced business growth

Growing Market Potential of China

Continued urbanisation

712 M

Urban population

52.57%

China urbanisation rate

- Continued urbanisation drives consumer market growth
- Central government puts urbanisation as one of the six major economic tasks in 2013

Increasing disposable income

↑ 9.6%

Urban residents' disposable income per capita

- Income per capita on the rise

Growing domestic consumption

↑ 14.3%

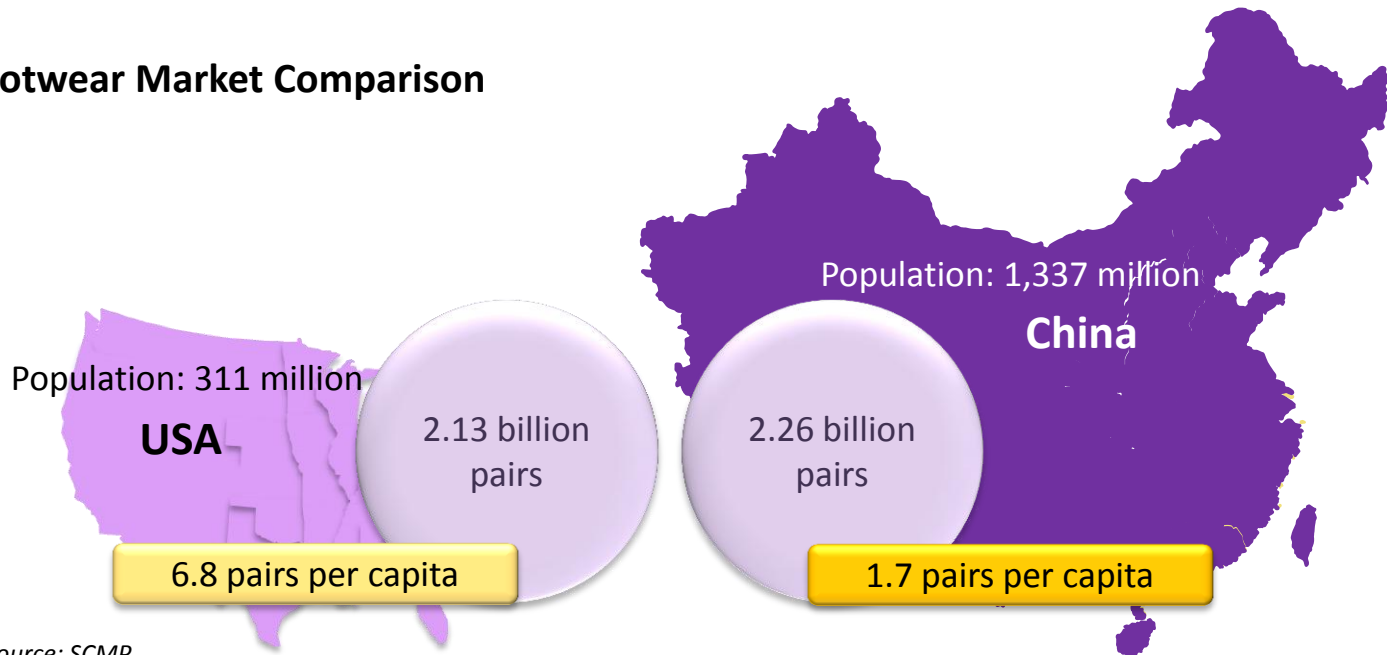
China retail sales

- Retail sales keep growing
- Government policies to promote domestic consumption

Data source: National Bureau of Statistics, China, 2012 data

China Footwear Market Potential

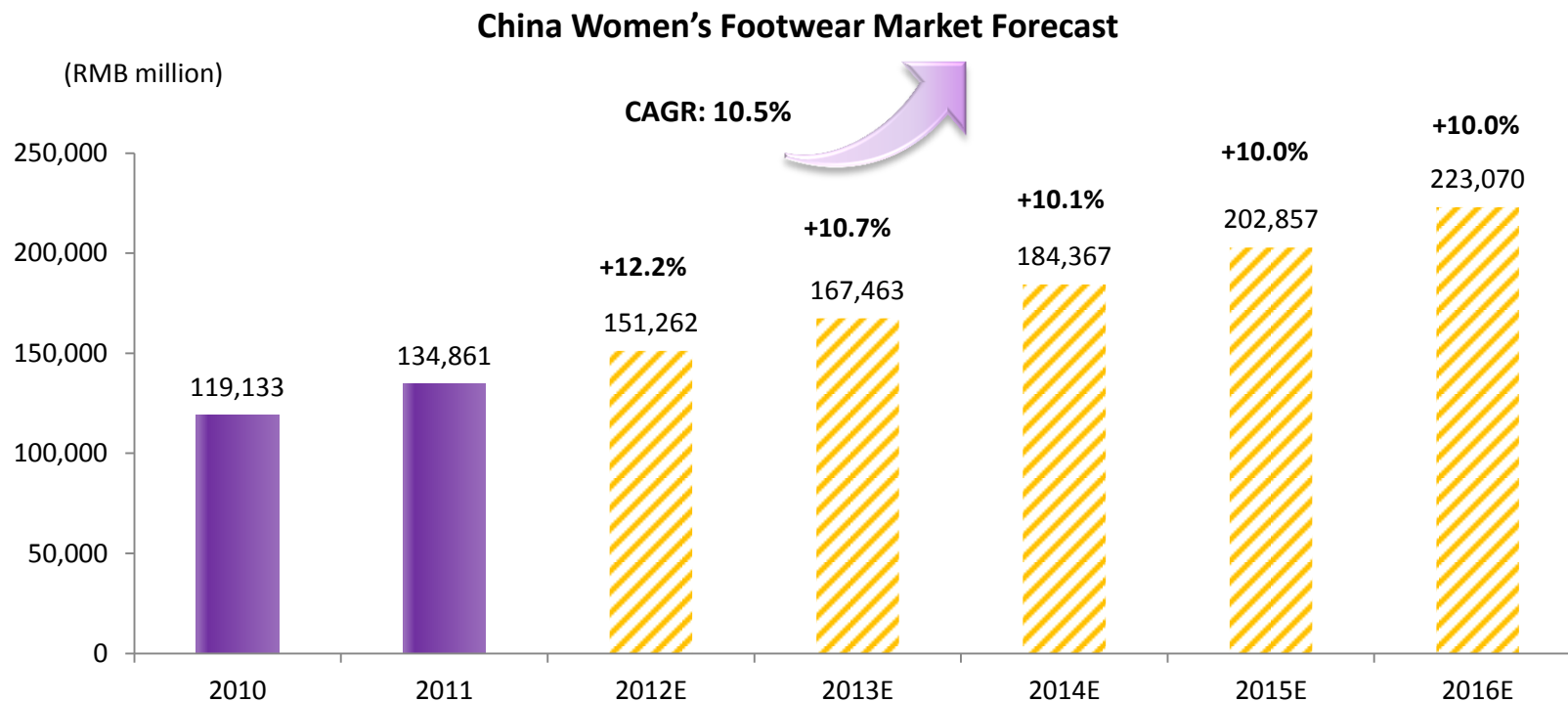
2011 Footwear Market Comparison



Data source: SCMP

- **Footwear consumption per capita in China is low**
 - China Footwear market size reached 2.26 billion pairs, surpassing the US (2.13 billion pairs) as the largest footwear market in the world
 - China's population (1,337 million) is four times that of the US (311 million)
 - Footwear consumption per capita in China was only 1.7 pairs, approximately 25% of US level, implying vast growth potential

China Women's Footwear Market Prospect

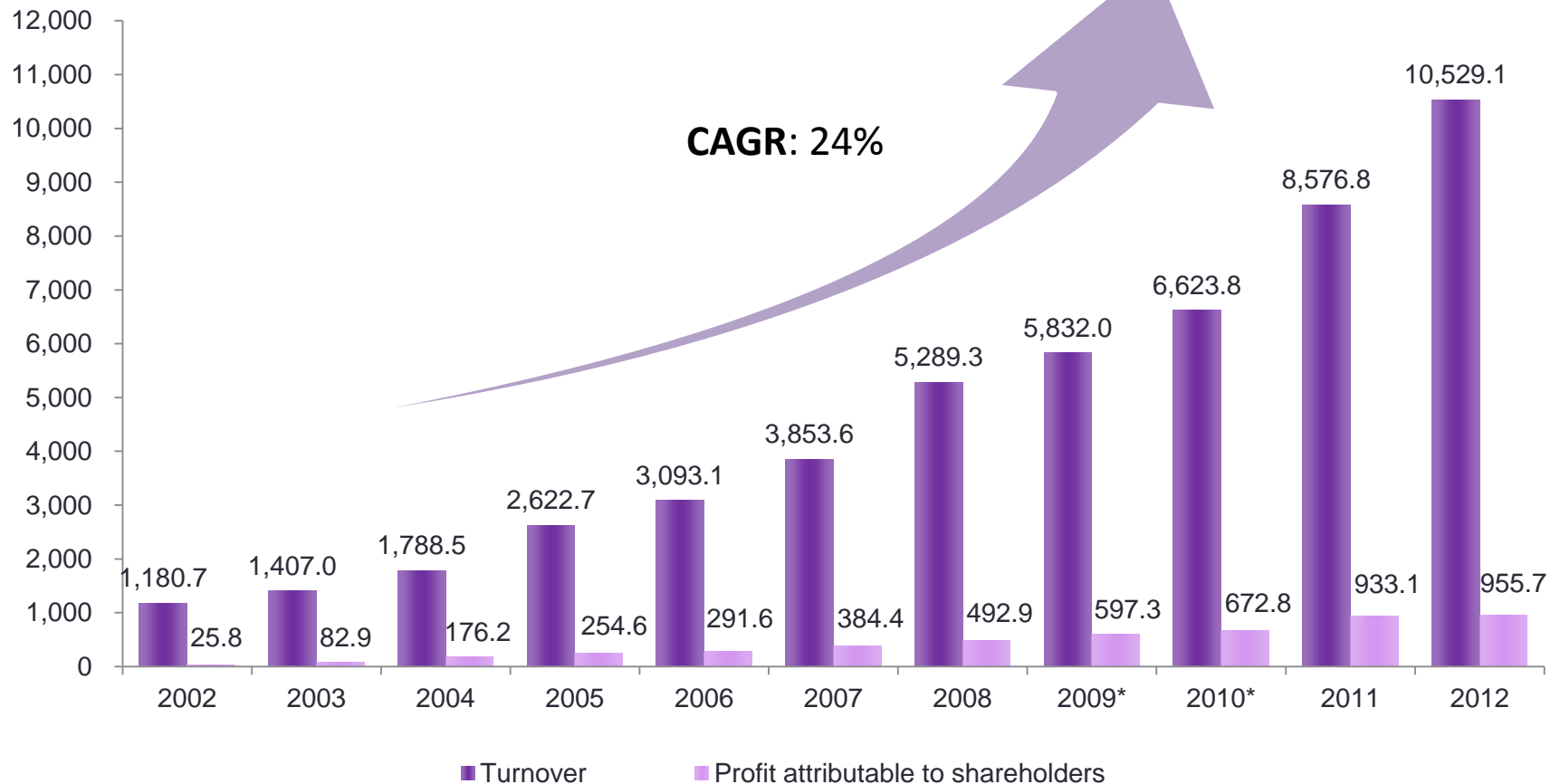


Data source: Euromonitor

- **Euromonitor forecasts China women's footwear market to grow rapidly in the coming 4 years**
 - Euromonitor forecasts China women's footwear market to reach RMB 223 billion by 2016, representing a CAGR of 10.5%

Consistent Turnover Growth

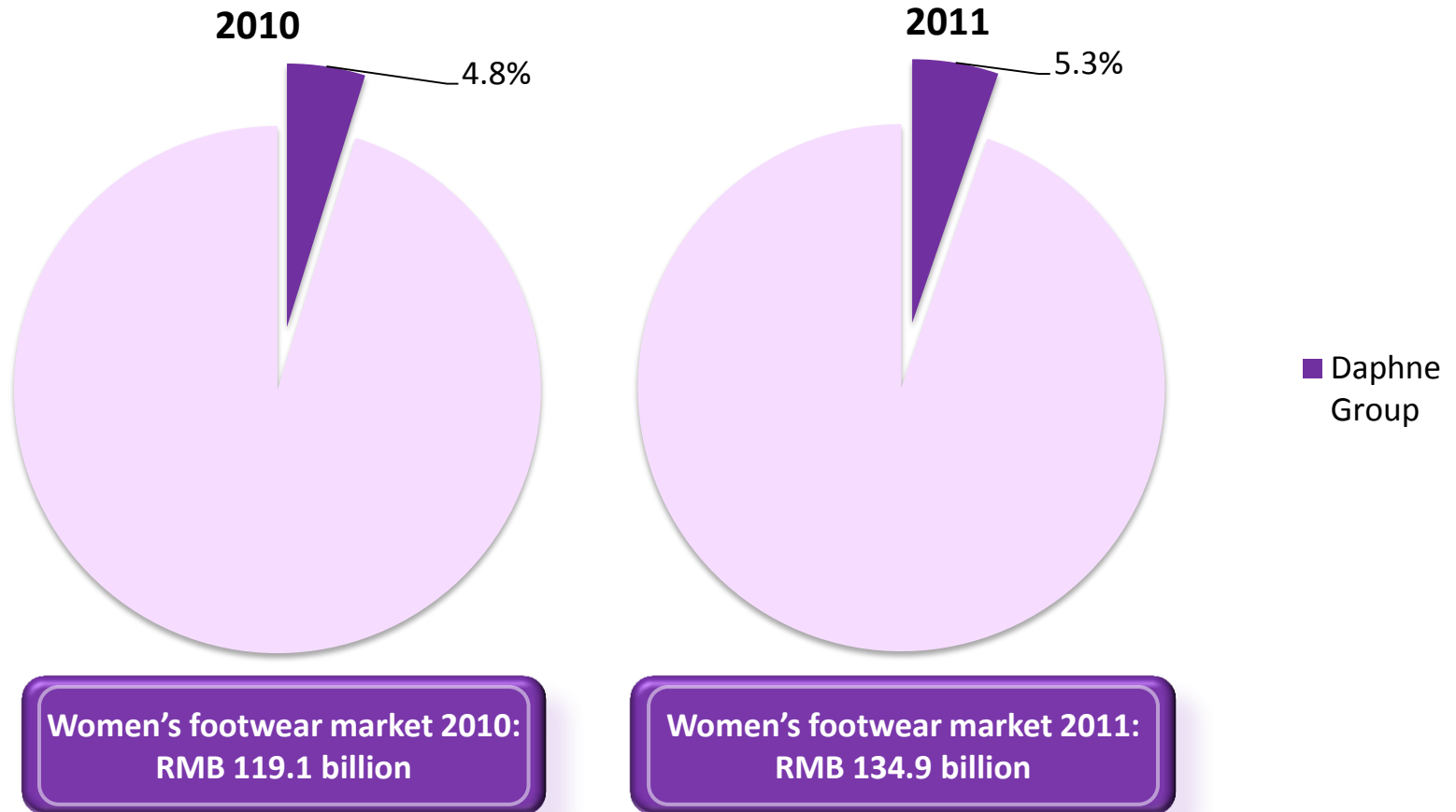
(HK\$ million)



* Amount excluding fair value loss on warrants

Daphne Group's Market Share

China Women's Footwear Market Share*



**Based on Goldman Sachs research report (2012)*

Competitive Advantages

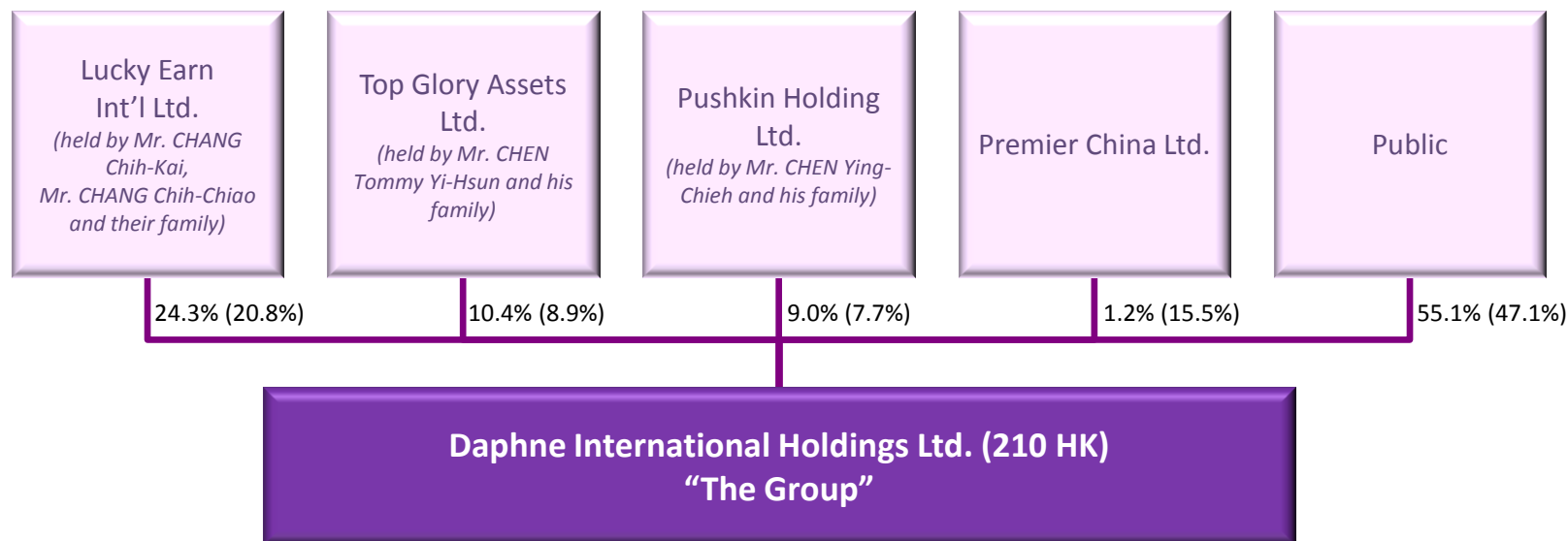
- **Leading retailer in ladies' footwear in China with strong own-brands, “Daphne” and “Shoebox”**
- **Unparalleled leadership position in the mass market**
- **Extensive nationwide sales network – reaching county level with over 6,800 outlets**
- **Vast directly-managed store network enables direct contact with customers, high autonomy and management control**
- **Solid base in mass market offers growth potential through diversification**
- **Sound financial position**
- **Experienced and professional management team**

Company Overview

- One of the leading ladies' footwear retailers in China
- Engage in product design & development, production, distribution, retail, and brand management
- Has 6,881 points-of-sales (POS) (as at 31 December, 2012)
- The Group's core brands ("Daphne" and "ShoeBox") are distributed in nearly 6,400 POS in China, of which over 85% are directly managed POS
- Other than "Daphne" and "ShoeBox", the Group's brand portfolio also includes "AEE", "Ameda", "ALDO", "AEROSOLE", etc.
- Listed on the Main Board in the Hong Kong Stock Exchange in 1995
- Market capitalisation is over HK\$17.5 billion (as at 31 December, 2012)

Shareholding Structure







As at 31 December, 2012



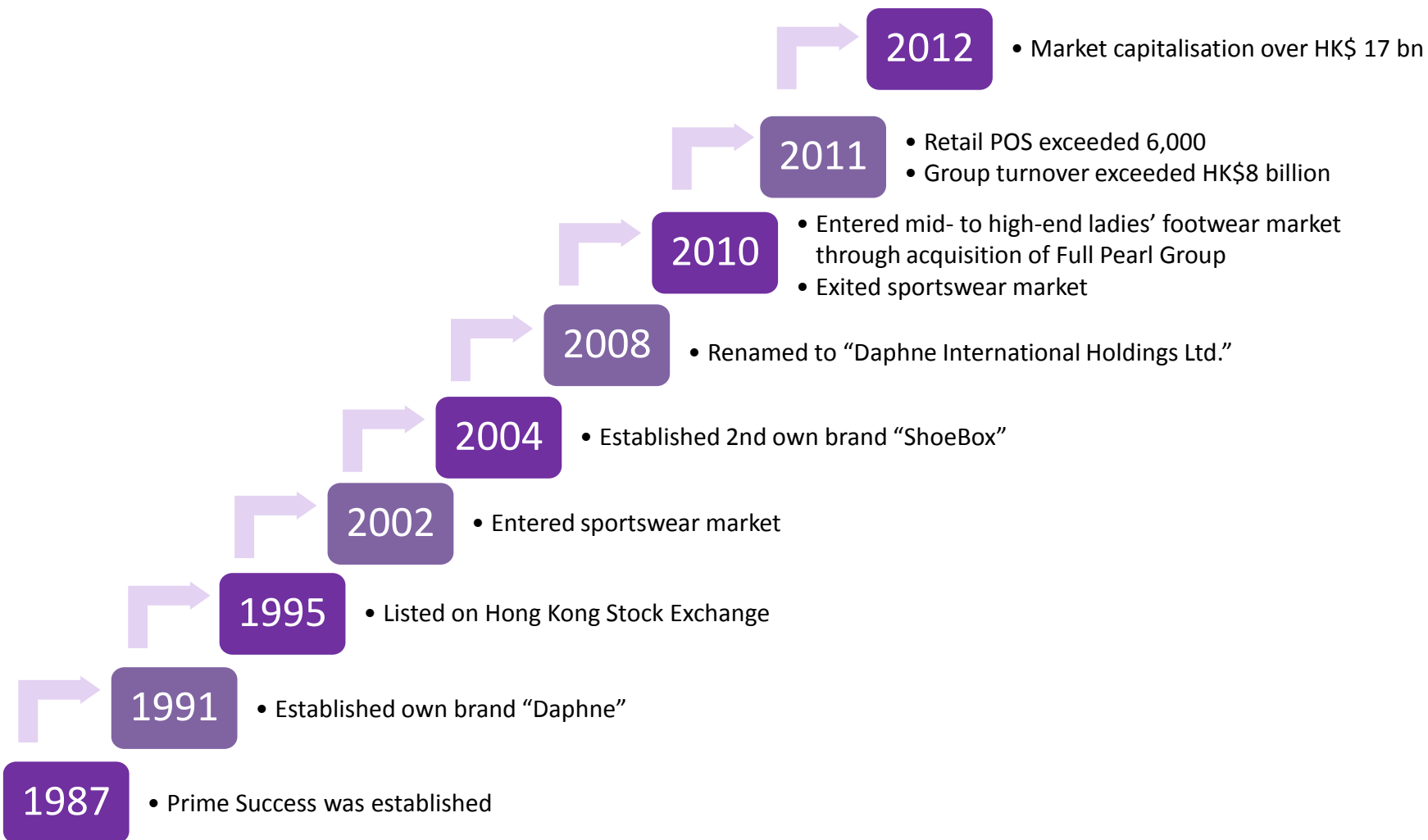
Notes:

1. Mr. CHEN Ying-Chieh is the Chairman and CEO of the Group
2. Mr. CHEN Tommy Yi-Hsun, Mr. CHANG Chih-Kai and Mr. CHANG Chih-Chiao are executive directors of the Group
3. Premier China Ltd. is a subsidiary of TPG Group Holdings (SBS) Advisors Inc.
4. Figures in the bracket indicate shareholding % after full conversion of convertible bonds and full exercise of warrants by Premier China Ltd.
5. Upon full conversion of convertible bonds and full exercise of warrants, Premier China Ltd. will obtain an additional 278,510,572 shares of the Company

Major Brand Portfolio

		Brand Ownership	ASP (RMB)
Core Brands		Own brand (channel)	< 200
		Own brand (product)	200 – 300
Mid-to High-end Brands		Own brand (product)	↑ 400 – 1200
		Sole distributorship (international brand)	
		Sole distributorship (international brand)	↓
		Own brand (channel)	

Group Milestones



Management Team - Profile

	Title	Experiences	Date joined Daphne Group
Mr. CHEN Ying-Chieh, Eddie	Chairman & CEO	Joined the Group since 1992 and has over 22 years of experience in the footwear industry	1992
Mr. LIN Che Li, Jerry	CFO	Has over 18 years of financial planning and management experience at multi-national companies	Jan 2010
Mr. HU Huan Xin, Michael	COO	Has over 22 years of supply chain and production management experience in consumer sector	Jan 2010
Ms. LU Ying, Louisa	Chief Marketing Officer	Has over 20 years of brand development and marketing experience in consumer sector	Apr 2010
Ms. HUANG Hui Chun, Juliette	Chief Product Officer	Has over 18 years of experience in the fashion industry	Sep 2010
Mr. LI Tao, Johnson	Chief Development Officer	Has over 25 years of channel development experience in consumer sector	Dec 2010
Ms. CHOU Wan Ching, Echo	Chief Human Resources Officer	Has over 23 years of human resources management experience in consumer sector	Feb 2011
Mr. LIANG Hai Xuan, Michael	Chief Information Officer	Has over 18 years of information system management experience	Aug 2011
Mr. SHIH Wen Che, Jonathan	Chief Sales Officer	Has over 28 years of strategic development and operational management experience	Mar 2012