



# 2013

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## Annual Results Presentation

26 March 2014

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

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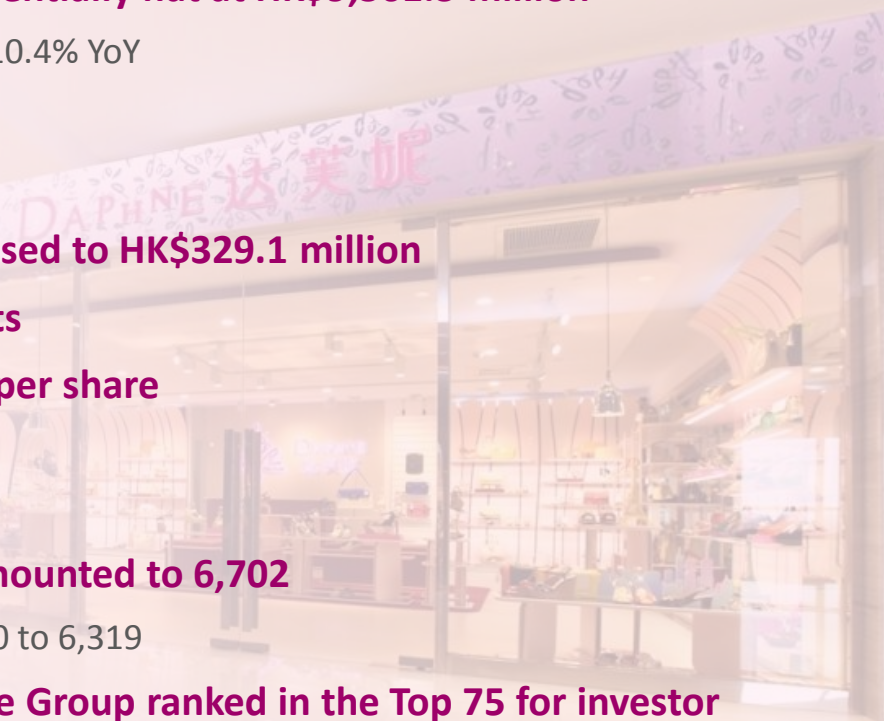
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# 2013 Annual Results Highlights

- Group turnover decreased marginally to HK\$10,446.5 million
- Turnover of Core Brands business was essentially flat at HK\$9,561.3 million
  - Core Brands' same store sales declined by 10.4% YoY
- Group's gross profit margin was 55.9%
- Group's operating profit margin was 5.0%
- Profit attributable to shareholders decreased to HK\$329.1 million
- Basic earnings per share was HK 20.0 cents
- Annual dividend declared is HK 8.0 cents per share
  - Interim dividend HK 6.0 cents per share
  - Final dividend HK 2.0 cents per share
- Group's total number of points-of-sale amounted to 6,702
  - Core Brands' points-of-sale decreased by 50 to 6,319
- In IR Magazine's 2013/14 Asia Awards, the Group ranked in the Top 75 for investor relations in Greater China



# FINANCIAL REVIEW





# Group Financial Highlights



(HK\$ million)	2013	2012	Change
<b>Turnover</b>	<b>10,446.5</b>	10,529.1	-0.8%
<b>Gross profit</b>	<b>5,838.3</b>	6,228.8	-6.3%
<b>Operating profit</b>	<b>520.2</b>	1,364.9	-61.9%
<b>Profit attributable to shareholders</b>	<b>329.1</b>	955.7	-65.6%
<hr/>			
<b>Basic EPS (HK cents)</b>	<b>20.0</b>	58.1	-65.6%
<b>Dividend per share (HK cents)</b>	<b>8.0</b>	18.0	-55.6%
- Interim (HK cents)	6.0	9.0	-33.3%
- Final (HK cents)	2.0	9.0	-77.8%
<hr/>			
<b>Gross profit margin</b>	<b>55.9%</b>	59.2%	-3.3 ppt
<b>Operating profit margin</b>	<b>5.0%</b>	13.0%	-8.0 ppt
<b>Net profit margin</b>	<b>3.2%</b>	9.1%	-5.9 ppt

(For the 12 months ended 31 Dec)

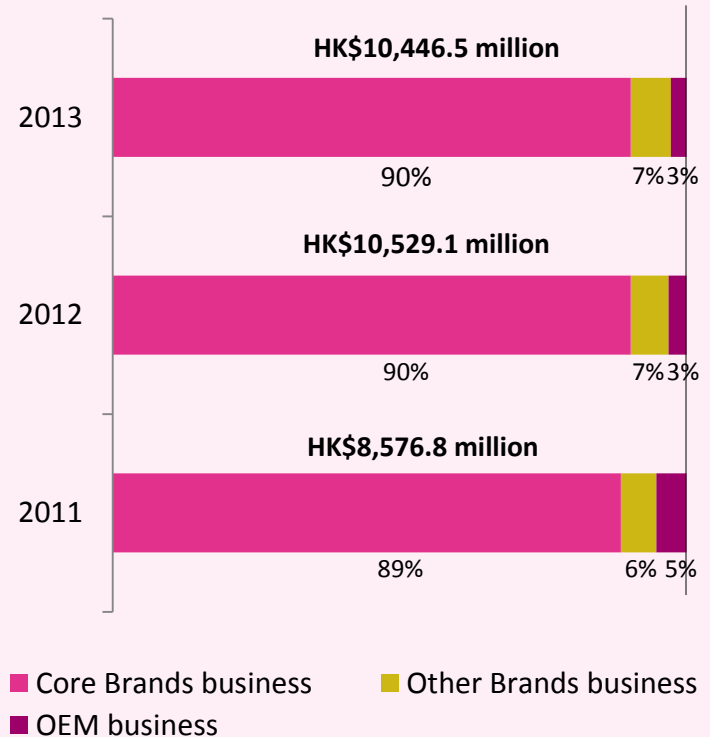
# Group Turnover

- Core Brands segment remained the largest contributor to the Group's total turnover



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

## Turnover Breakdown



(For the 12 months ended 31 Dec)

# Group Profit Margins

- **Group gross profit margin decreased by 3.3 ppt**
  - Change in product sales mix
  - Aggressive clearance of off-season items
  - Significant increase in inventory provision
- **Group operating profit margin dropped by 8.0 ppt**
  - Significant negative operating leverage, especially during the second half of the year
  - Impairment loss from the closure of non-performing stores
  - Good progress in consolidation of mid- to high-end brands partially offset the above effects



# Inventory Turnover Days & Working Capital

## ■ Group inventory turnover days was 198 days

- Lower-than-expected turnover growth
- Soft economy and unusual weather pattern affected sales of current season items
- Adjusted volume of procurement for 2014 and stepped up inventory management and control

## ■ Lower CAPEX mainly due to significant reduction in store openings



	2013	2012	Change
Average Inventory Turnover (days)	198	188	+10
Average Debtors Turnover (days)	12	11	+1
Average Creditors Turnover (days)	85	75	+10
Cash Conversion Cycle (days)	125	124	+1
CAPEX (HK\$ million)	344.2	521.0	-33.9%

(For the 12 months ended 31 Dec)



# Other Key Financial Indicators

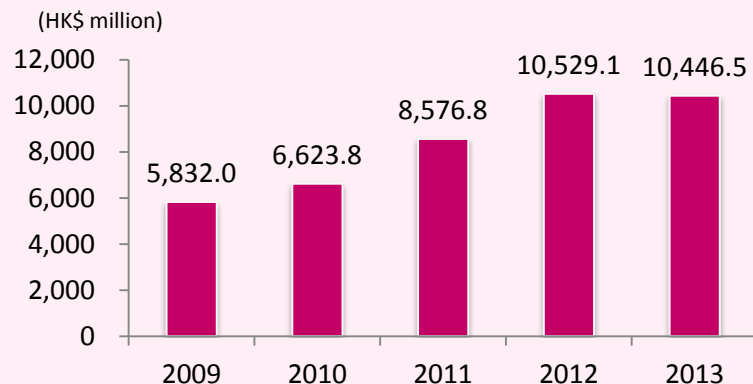
- Increase in working capital led to decrease in cash and bank balance
- No convertible bonds were converted during the year
- Decrease in current ratio is mainly due to convertible bonds with maturity within one year

<i>(HK\$ million)</i>	As at 31 Dec 2013	As at 31 Dec 2012	Change
Cash and bank balances	1,374.4	1,494.8	-8.1%
Shareholders' equity	5,043.7	4,825.3	+4.5%
Bank loan	117.0	7.3	+1,509.8%
Convertible bonds	689.2	639.7	+7.7%
Net gearing ratio	Net cash	Net cash	-
Current ratio (times)	2.4	3.5	-1.1

# Historical Financial Performance

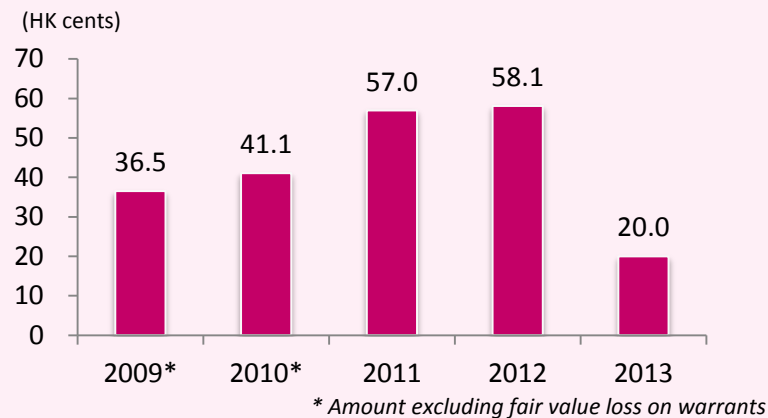
## Turnover

(For the 12 months ended 31 Dec)



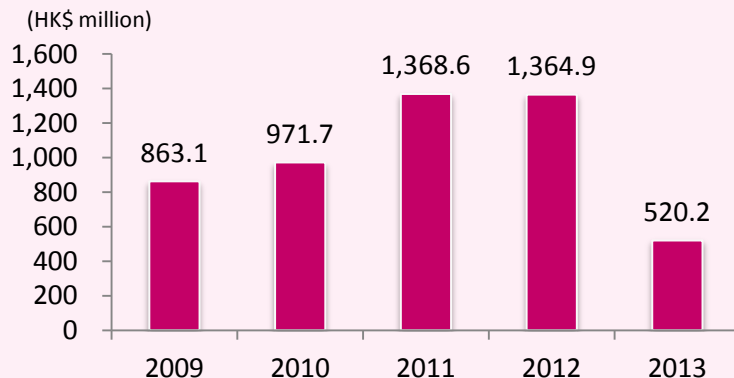
## Basic EPS

(For the 12 months ended 31 Dec)



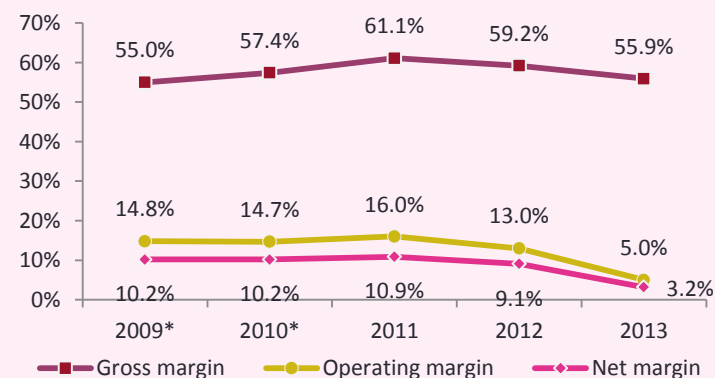
## Operating Profit

(For the 12 months ended 31 Dec)



## Margins

(For the 12 months ended 31 Dec)



# BUSINESS REVIEW



# Group Sales Network

## ■ Initiated rationalisation of sales network in view of soft market and rental pressure

- Net reduction of 179 POS (2012: net addition of 716 POS)

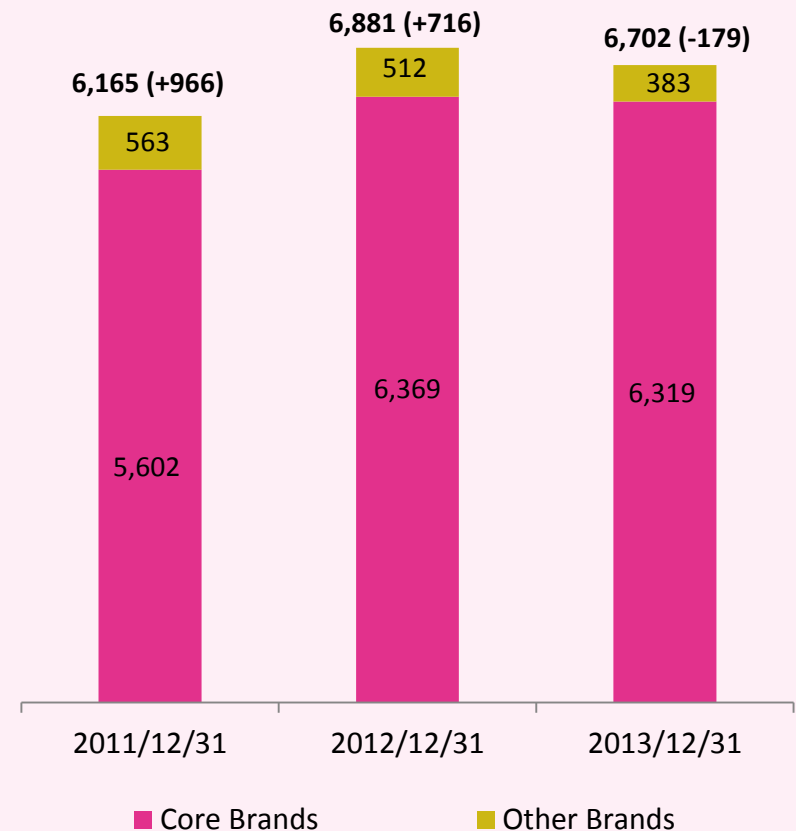
## ■ Core Brands total POS = 6,319

- Net reduction of 50 POS (2012: net addition of 767 POS)

## ■ Other Brands POS reduced by 129 (2012: net decrease of 51 POS)



## Total Number of Points-of-Sales (POS)





# Core Brands Sales Network – by Store Category

## Number of POS

	As at 31 Dec 2013	As at 31 Dec 2012	Change	% Change
- Directly-managed POS	5,491 (87%)	5,427 (85%)	+64	+1.2%
- Franchised POS	828 (13%)	942 (15%)	-114	-12.1%
<b>Core Brands Total</b>	<b>6,319</b>	<b>6,369</b>	<b>-50</b>	<b>-0.8%</b>

## Quarterly change in POS number

	Q1	Q2	Q3	Q4	2013 FY
- Directly-managed POS	+127	+136	+23	-222	+64
- Franchised POS	-27	-24	-40	-23	-114
<b>Core Brands Total</b>	<b>+100</b>	<b>+112</b>	<b>-17</b>	<b>-245</b>	<b>-50</b>

- Proportion of directly-managed stores increased to 87%
- A net decrease of 50 POS (added 64 directly-managed stores and decreased 114 franchised stores)
- Initiated closure of non-performing stores in Q4 2013, with a net closure of 222 directly-managed stores in that quarter.

# Core Brands Sales Network – by City Tier

- The Group maintained greater representation in lower tier cities

	As at 31 Dec 2013		As at 31 Dec 2012		Change	% Change
	No.	%	No.	%		
<b>Tier 1 Cities</b>	<b>703</b>	<b>11%</b>	721	11%	-18	-2.5%
<b>Tier 2 Cities</b>	<b>1,394</b>	<b>22%</b>	1,342	21%	+52	+3.9%
<b>Tier 3 Cities</b>	<b>992</b>	<b>16%</b>	981	15%	+11	+1.1%
<b>Tier 4-6 Cities</b>	<b>3,230</b>	<b>51%</b>	3,325	53%	-95	-2.9%
<b>Total</b>	<b>6,319</b>	<b>100%</b>	6,369	100%	-50	-0.8%

# Core Brands Business - Performance

(HK\$ million)	2013	2012	Change
<b>Turnover</b>	<b>9,561.3</b>	9,591.9	-0.3%
<b>Gross profit</b>	<b>5,344.6</b>	5,661.8	-5.6%
<b>Gross margin</b>	<b>55.9%</b>	59.0%	-3.1 ppt
<b>Operating profit</b>	<b>616.2</b>	1,475.7	-58.2%
<b>Operating margin</b>	<b>6.4%</b>	15.4%	-9.0 ppt

(For the 12 months ended 31 Dec)



## ■ Turnover of Core Brands business declined slightly by 0.3% YoY

- Same store sales growth -10.4%
- Reduction in POS
- Weak consumer sentiment prevailed
- Keen competition
- Unfavorable weather pattern dampened street-store foot traffic
- Higher proportion of newly trained frontline staff

## ■ Decline in profit margins mainly due to:

- Flat turnover growth
- Lower gross profit margin
  1. Change in product sales mix
  2. Aggressive clearance of off-season items
  3. Significant increase in inventory provision
- Rising staff and rental costs
- Negative operating leverage

# Core Brands Business - SSSG

Same store sales growth	Q1	Q2	Q3	Q4	FY
2013	-2.5%	-13.7%	-18.1%	-5.4%	-10.4%

- Same store sales decreased by 10.4%
- Average selling price was almost flat at RMB 184





# Other Brands Business

- Gross profit margin improved by 1.0 ppt despite increase in inventory provision
  - Lower product cost
  - Change in product sales mix
- Operating loss decreased by 32.5%
- Continued consolidation of sales network resulted in a net decrease of 129 POS

(HK\$ million)	2013	2012	Change
Turnover	731.8	690.9	+5.9%
Gross profit	405.6	375.6	+8.0%
Gross margin	55.4%	54.4%	+1.0 ppt
Operating loss	(86.1)	(127.6)	-32.5%
Operating margin	(11.8%)	(18.5%)	+6.7 ppt

(For the 12 months ended 31 Dec)



# Major Progress Made in 2H 2013

- Initiated rationalisation of store network and closed non-performing stores in 4Q
- Improved staff turnover ratio which stabilised in 1Q 2014
- Launched Retail Management System in Shoebox in 4Q as planned
- Consolidated Other Brands business with improved financial performance
- E-commerce annual turnover grew by more than 200%
- Enhanced corporate communication and disclosure with increased transparency to investors

# OUTLOOK & STRATEGIES



# 2014 Operating Environment

## External

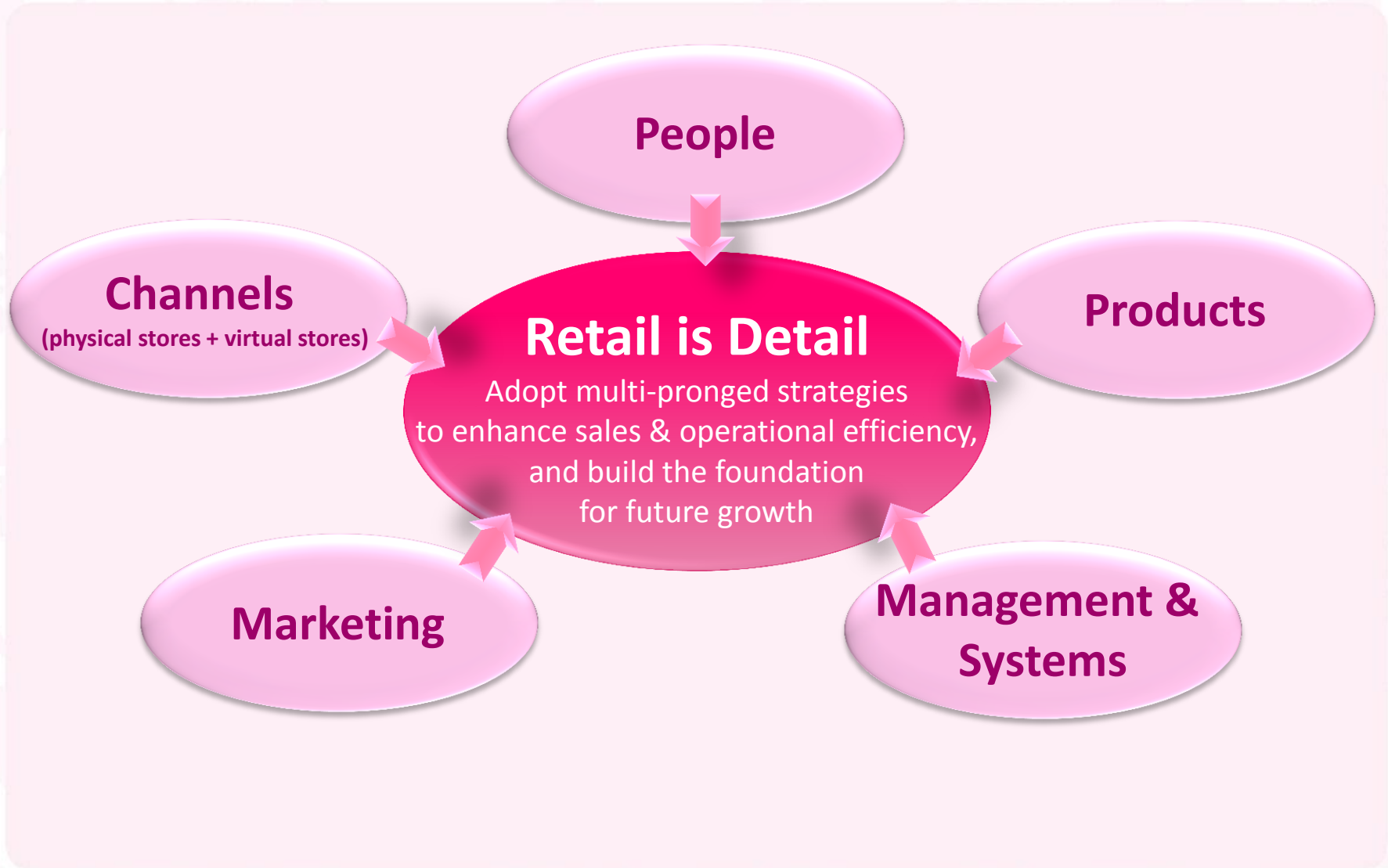
- Consumption sentiment is still weak and takes time to improve
- Inflationary pressure of operating costs including staff and rental costs
- Competition from e-commerce
- More intense competition from regional players

## Internal

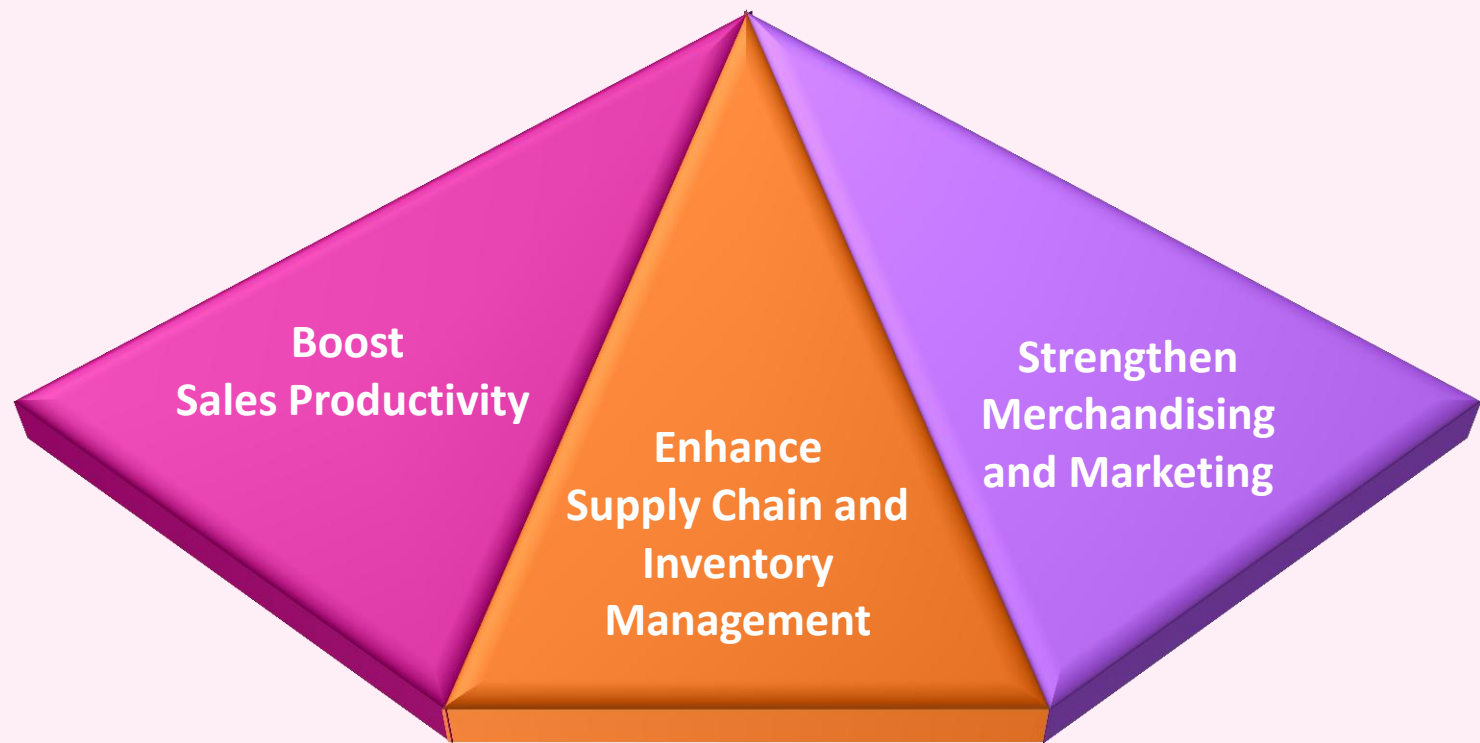
- Improve staff retention and sales productivity
- Increase overall operational and management efficiency to adapt to changing market conditions
- Enhance competitiveness to reinforce its leading position



# 2014 Strategies



# 2014 Key Objectives



# Boost Sales Productivity

## 1. Uplift Store Image

- Launch new store design
- Renovate stores at strategic locations
- Strengthen visual merchandising to increase the appeal of stores and products



**Enhance Shopping  
Experience**



# Boost Sales Productivity (cont'd)

## 2. Review and adjust channel strategy

- Perform more prudent pre-store-opening analysis and post-store-opening follow-up
- Focus on store-level profitability
- Conduct in-depth analysis and monitor sales trend of various retail channels engaged by the Group
- Consider diversification of channel strategy, if appropriate, adapting to the changing market





# Boost Sales Productivity (cont'd)

## 3. Strengthen Frontline Operation Management

Objectives:

1 boost staff motivation

2 improve staff loyalty

3 instill accountability

### 3.1 Enhance frontline sales staff productivity

- Improve incentive packages
- Strengthen staff development program
- Expand training resources
- Review and enhance sales & service training program, including content, training format, examination, etc., to boost training efficiency
  - e.g. add e-learning tool and progress tracking system
- Plan to adopt electronic scheduling system to increase staff deployment efficiency



- Enhance shopping experience

### 3.2 Improve management efficiency of frontline middle management

- Increase accountability of regional and branch offices, e.g. increase responsibilities & accountability and enhance incentive schemes to foster stronger alignment of interests and improve motivation
- Adjust workflow, scope of work and responsibilities of sales managers and store managers
- Provide in-depth store management skills training and related supporting management tools
- Adopt a new systematic, standardised and detailed approach in its store management system and procedures



- The execution of store operation and management will be greatly enhanced
- Increase the overall management capability of middle management
- Audit is made easier, which enables targeted follow-up actions for performance improvement

# Enhance Supply Chain and Inventory Management

## ■ Enhance product allocation and inventory management via Retail Management System

- Enhance category planning to further improve customisation of product allocation through data and trend analysis
- Simplify and automate stock allocation to improve efficiency and effectiveness
- Adopt auto-replenishment system to increase accuracy
- Improve product-consolidation process

## ■ Put emphasis on inventory management with a task force set up to improve inventory level

## ■ Enhance inventory mix

## ■ Maintain tight control over product costs by adopting new procurement measures and relocate certain production lines to Western China region to mitigate rising labor costs



# Strengthen Merchandising and Marketing

## ■ Increase product competitiveness

- Increase emphasis on the prevailing trend in product designs
- Expand product categories
- Offer greater diversity in product portfolio

## ■ Step up marketing efforts

- Increase intensity of marketing in terms of breath and depth
- Build stronger brand images for key brands
- Increase diversity of marketing activities and employ new marketing concepts/idea, including cross-over campaigns, etc.
- Increase the use of digital marketing, including online and mobile marketing
- More than 10 million VIP members
- Target to increase spending per VIP member and repeat purchases by increasing the engagement of members (e.g. through events and social media activities)



# Celebrity Endorsement

**Artistic & Creative Director –  
Mr. Nicholas Tse (謝霆鋒)**



**Ms. Jun Ji-Hyun (全智賢) recently  
appointed as new brand ambassador  
for Daphne brand**



# E-commerce Platform

## Omni-channel Distribution Model

### Physical Stores



### Virtual Stores

#### Official Online Store ([www.daphne.com.cn](http://www.daphne.com.cn))



#### Third-party marketplaces



Tmall



Dangdang



JD.com



QQ Shop

CRM enables targeted marketing to drive sales

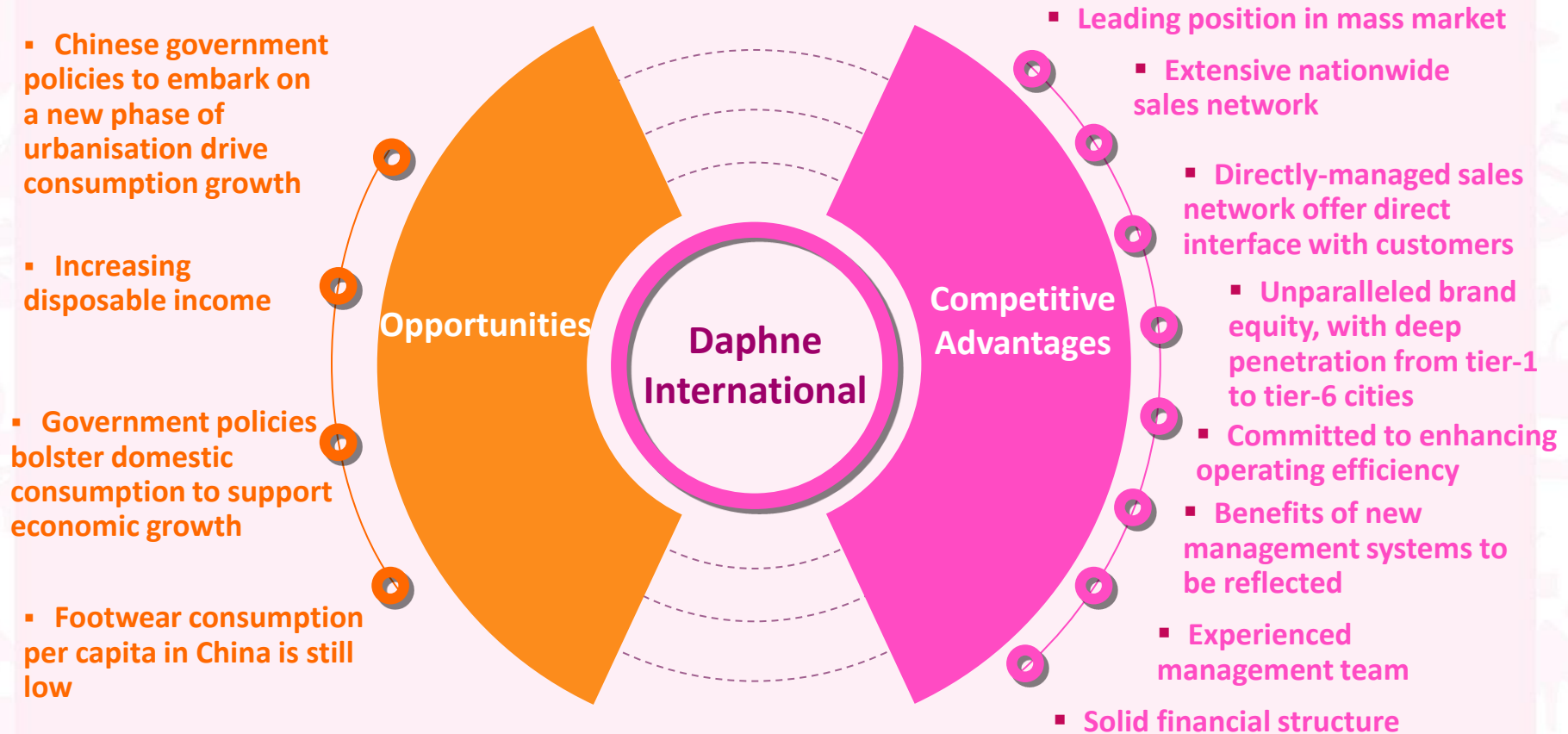


# E-commerce

- Broaden partnership with more e-commerce leaders to extend coverage and enhance online shopping experience
- Launch more integrated marketing and promotional campaigns across online and offline
- Step up efforts to thwart online IP infringement and fake products
- Expand and strengthen e-commerce operation, including back-end support functions, to facilitate future growth

	2013
Daily average no. of unique visitors (incl. official online store and third-party platforms)	~200,000
No. of official Weibo fans	~1,000,000
Annual turnover growth of e-commerce YoY	> 200%
Nov 11 festival revenue growth YoY	> 200%

# Outlook



**The Group is committed and confident to strengthen its competitiveness, and achieve growth in mid-to-long term**



# 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





# Growing Market Potential of China

## Continued urbanisation

- Government policies to embark on a new phase of urbanisation
- Continued urbanisation drives consumption growth

**731M**

Urban population

**53.7%**

China urbanisation rate

2013 Per capita consumption (RMB)

18,023

6,626

**2.7x**

Urban

Rural

## Increasing per capita income

- Per capita disposable income on the rise

**↑7.0%**

Real growth in urban residents' per capita disposable income

## Growing domestic consumption

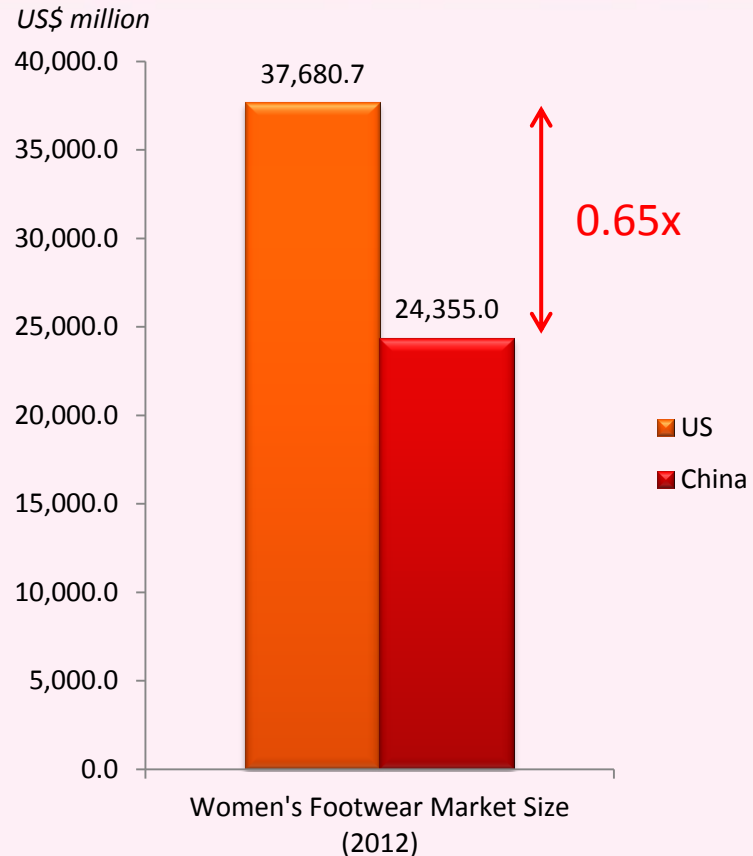
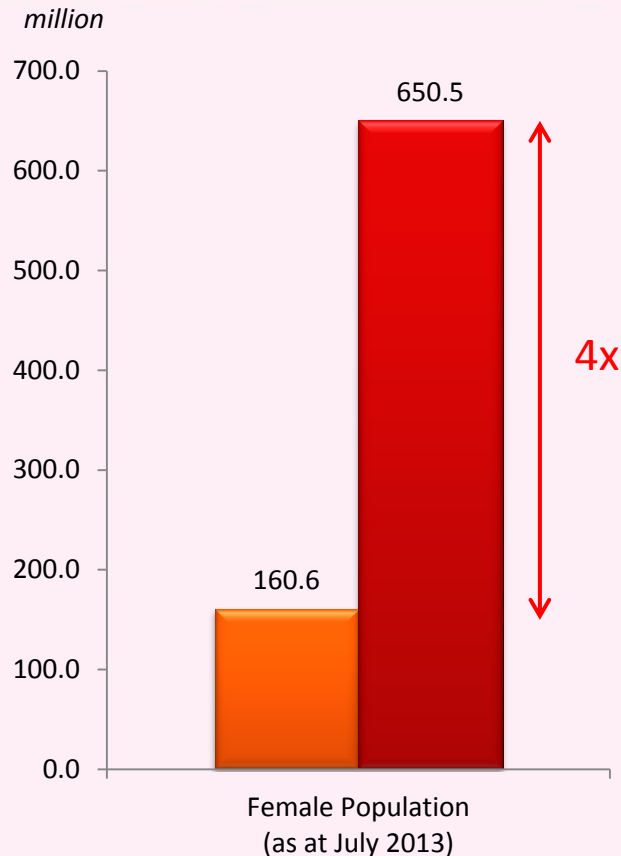
- Rebalancing of China economy favours growth of domestic consumption

**↑13.1%**

Total retail sales growth in Mainland China

*Data source: China National Bureau of Statistics, 2013 data*

# China Women's Footwear Market Potential



- China's female population is four times of that of US
- China women's footwear market size is only two-thirds of the US
- Women's footwear consumption per capita in China is low

*Data sources: Euromonitor, CIA – the World Factbook, National Bureau of Statistics*

# China Women's Footwear Market Potential (cont'd)









- **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 245.6 billion by 2017, representing a CAGR of 9.8%

*Data source: Euromonitor, May 2013*

# Company Overview

- One of the leading women's footwear retailers in China
- Engage in product design & development, production, distribution, retail, and brand management
- Has 6,702 points-of-sale (POS) (as at 31 December 2013)
- The Group's core brands ("Daphne" and "ShoeBox") are distributed in nearly 6,300 POS in China, of which 87% are directly managed POS
- Other than "Daphne" and "ShoeBox", the Group's brand portfolio also includes "AEE", "Step Higher", "ALDO", "AEROSOLE", etc.
- Listed on the Main Board in the Hong Kong Stock Exchange in 1995
- Market capitalisation is over HK\$5.75 billion (as at 31 December 2013)

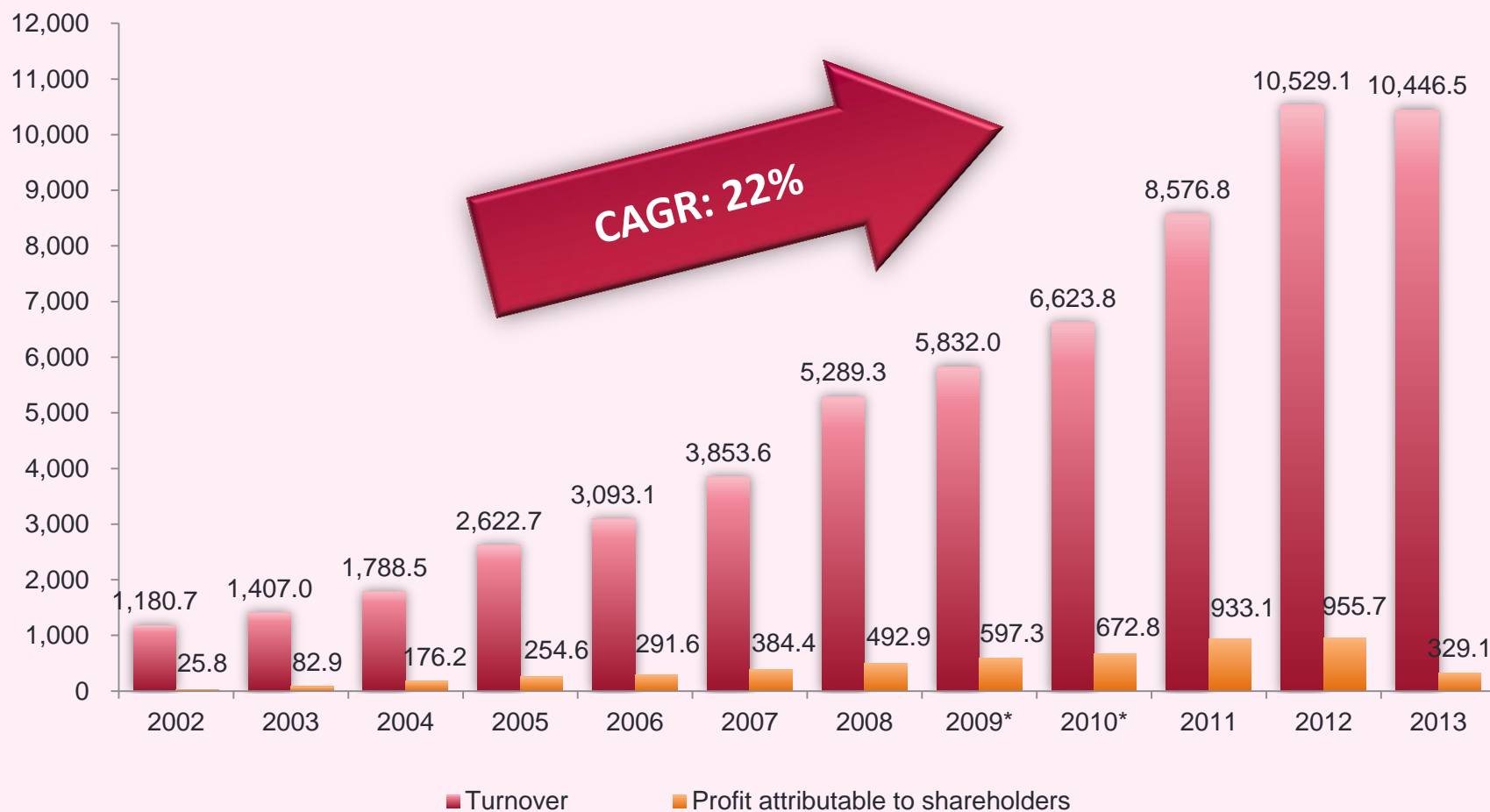
# Major Brand Portfolio

		Brand Ownership	ASP (RMB)
Core Brands		Own brand (product)	200 – 300
		Own brand (channel)	<200
Mid-to High-end Brands		Own brand (product)	↑ 400 – 1,200
		Sole distributorship (international brand)	
		Sole distributorship (international brand)	↓
		Own brand (channel)	



# Daphne Group's Turnover Growth

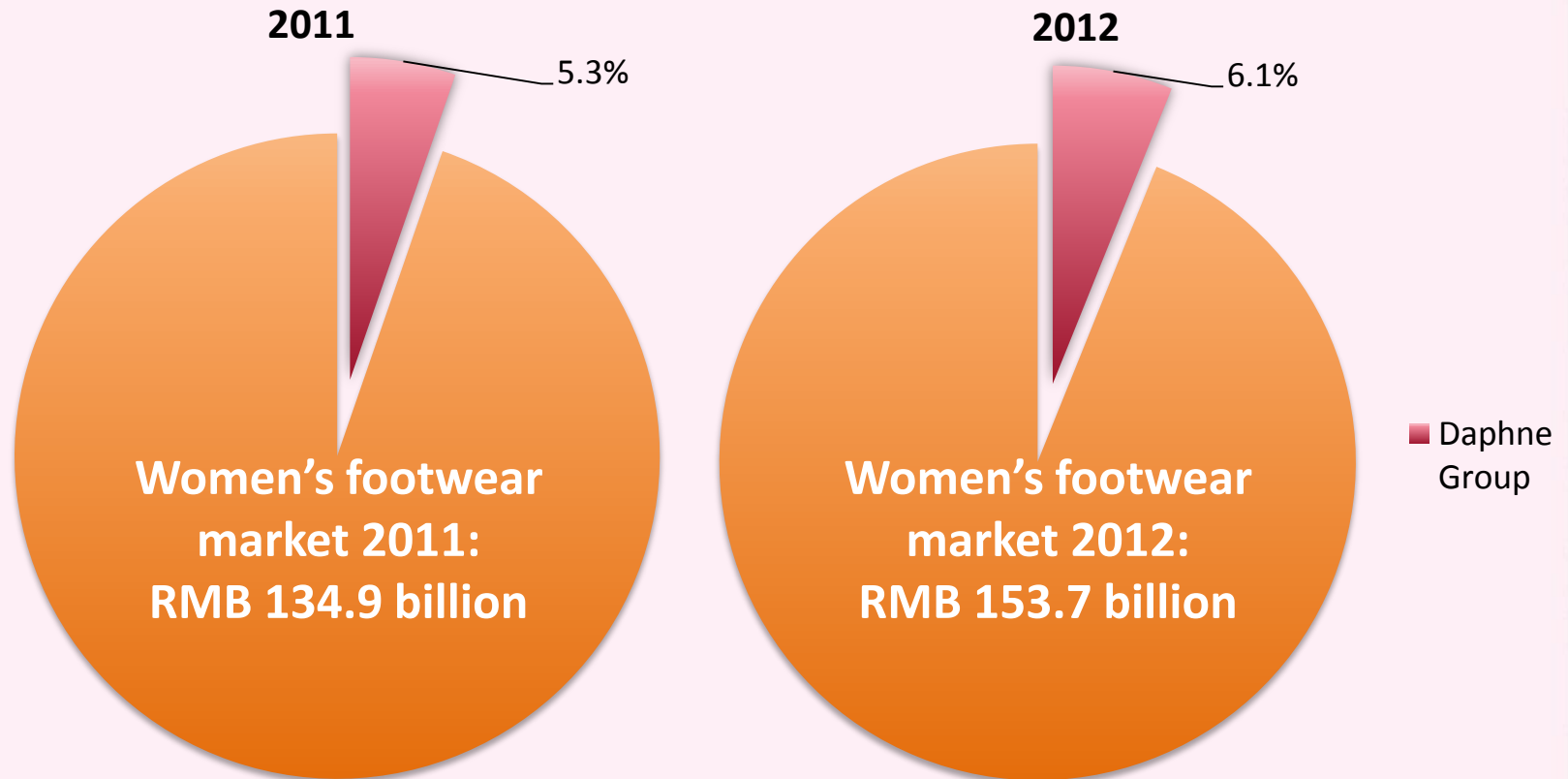
(HK\$ million)



\* Amount excluding fair value loss on warrants

# Daphne Group's Market Share

## China Women's Footwear Market Share\*

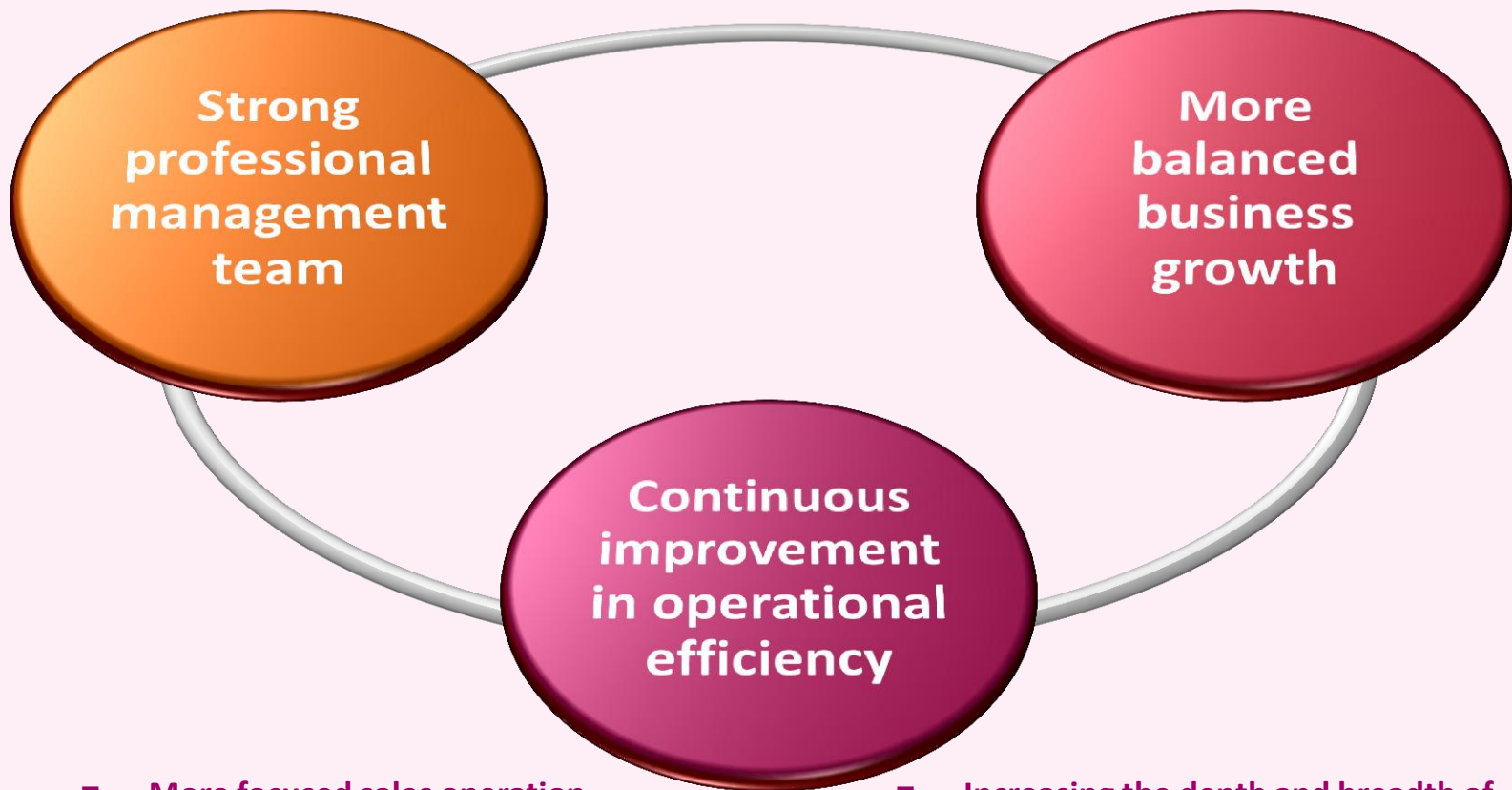


*\*Data source: Euromonitor*

# Competitive Advantages

- Leading retailer in women's 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 6,700 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 structure
- Experienced and professional management team

# Growth Drivers



- 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
- Strengthen presence in e-commerce

# Shareholding Structure

As at 31 December, 2013

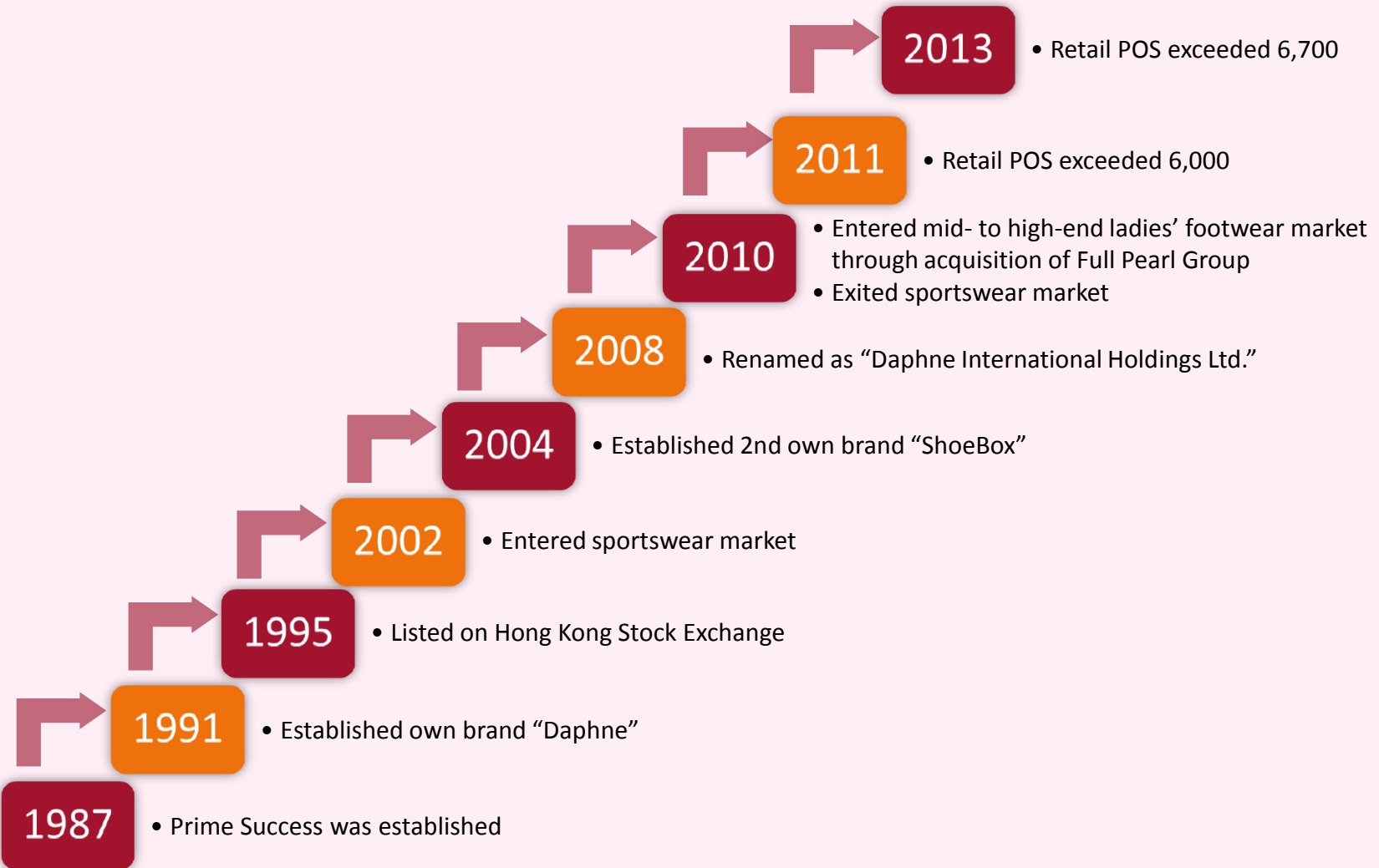


## Notes:

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



# Group Milestones



# Vision

**A leading brand management company that provides ladies and their family members with trendsetting and quality products**

