



2013

Interim Results Presentation

27 August 2013

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

Disclaimer

The information contained in this presentation is intended solely for your personal reference. Such information is subject to change without notice, its accuracy is not guaranteed and it may not contain all material information concerning Daphne International Holdings Limited (“the Company”) and its subsidiaries (collectively known as “the Group”). The Company makes no representation regarding, and assumes no responsibility or liability for, the accuracy or completeness of, or any errors or omissions in, any information contained herein.

In addition, the information contains projections and forward-looking statements that may reflect the Group’s current views with respect to future events and financial performance. These views are based on current assumptions which are subject to various risks and which may change over time. No assurance can be given that future events will occur, that projections will be achieved, or that the Group’s assumptions are correct. It is not the intention to provide, and you may not rely on this presentation as providing, a complete or comprehensive analysis of the Group’s financial position or prospects.

This presentation does not constitute an offer or invitation to purchase or subscribe for any securities or financial instruments or to provide any investment service or investment advice, and no part of it shall form the basis of or be relied upon in connection with any contract, commitment or investment decision in relation thereto.

2013 Interim Results Highlights

- Group turnover increased by 1.7% to HK\$5,168.2 million
- Turnover of Core Brands business recorded a growth of 2.1%, reaching HK\$4,738.6 million
 - Core Brands' same store sales declined 9.2% YoY
- Group's gross profit margin was 58.3%
- Group's operating profit margin was 8.7%
- Profit attributable to shareholders was HK\$310.3 million
- Basic earnings per share was 18.8 HK cents
- Interim dividend declared was 6.0 HK cents per share
 - Dividend payout ratio was at 31.9%
- Group's total number of points-of-sale amounted to 7,054
 - Core Brands' points-of-sale increased by 212 to 6,581

FINANCIAL REVIEW



Group Financial Highlights

(HK\$ million)	For the six months ended 30 Jun		Change
	2013	2012	
Turnover	5,168.2	5,079.5	+1.7%
Gross profit	3,013.2	3,083.3	-2.3%
Operating profit	450.5	699.6	-35.6%
Profit attributable to shareholders	310.3	482.6	-35.7%
Basic EPS (HK cents)	18.8	29.4	-35.9%
Interim dividend per share (HK cents)	6.0	9.0	-33.3%
Gross profit margin	58.3%	60.7%	-2.4 ppt
Operating profit margin	8.7%	13.8%	-5.1 ppt
Net profit margin	6.0%	9.5%	-3.5 ppt

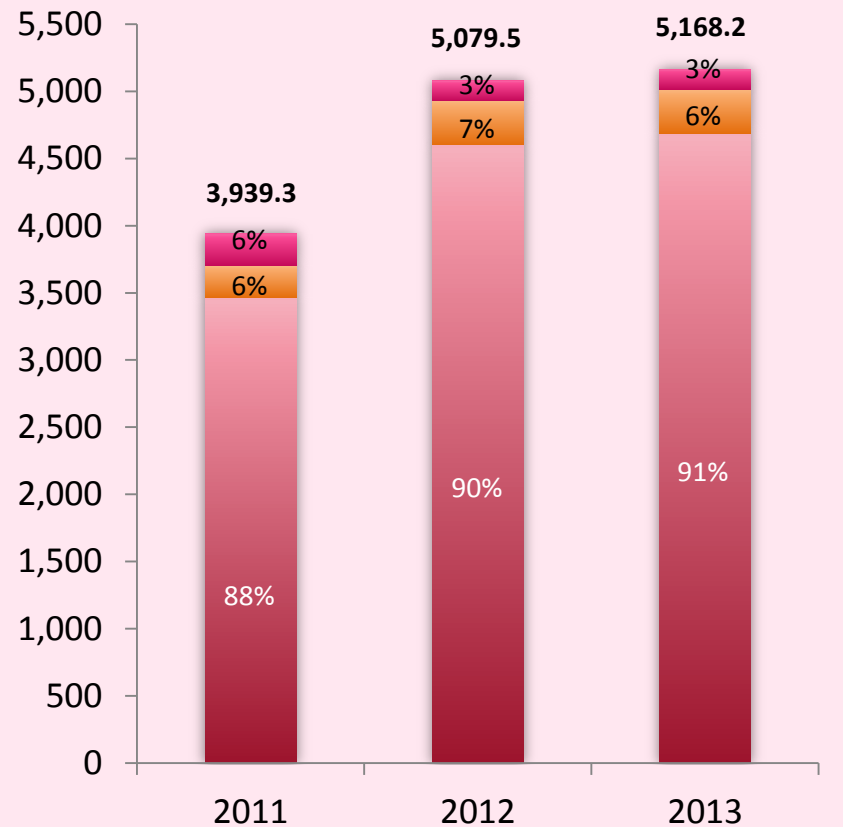
Group Turnover

- Core Brands segment continued to be the Group's focus, with turnover contribution rising to 91%, up by 1 ppt YoY
- Other Brands segment slightly decreased its contribution to the Group to 6%
- OEM segment maintained its proportion at 3%

Turnover Breakdown

(For the six months ended 30 Jun)

HK\$ million



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

■ Core Brands business ■ Other Brands business ■ OEM business

Group Profit Margins

■ Group gross profit margin decreased by 2.4 ppt

- Discounting was slightly increased in the second quarter to boost sales growth
- Change in product sales mix
- More aggressive efforts to clear off-season stocks
- Increased inventory provision

■ Operating profit margin fell by 5.1 ppt

- Higher fixed cost base from the increased number of directly-managed stores led to negative operating leverage
- Consolidation of mid- to high-end brands still in progress

Inventory Turnover Days & Working Capital

■ Inventory turnover days was 209 days

- Mainly due to lower-than-expected turnover growth
- Adjusted volume of procurement for upcoming season and will continue to step up inventory management and control

■ Lower CAPEX mainly due to slower store expansion

- Core Brands' directly-managed POS increased by 263, as compared with 411 in the same period last year

	For the six months ended 30 Jun		
	2013	2012	Change
Average Inventory Turnover (days)	209	202	+7
Average Debtors Turnover (days)	14	12	+2
Average Creditors Turnover (days)	89	79	+10
Cash Conversion Cycle (days)	134	135	-1
CAPEX (HK\$ million)	133.2	329.3	-59.6%
Effective Tax Rate (%)	25.6%	25.8%	-0.2 ppt

Other Key Financial Indicators

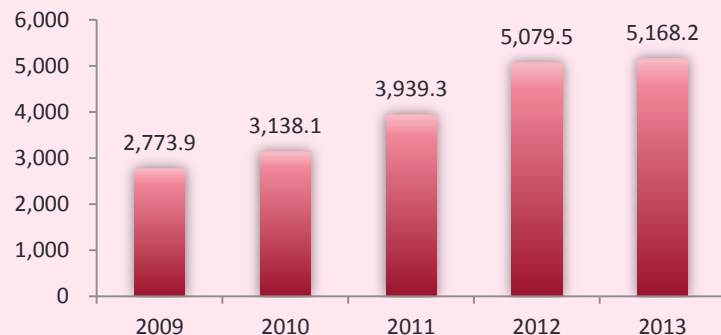
- Increase in inventories led to decrease in cash and bank balances
- No convertible bonds were converted during the period
- Current ratio remained healthy, reflecting sound financial structure

(HK\$ million)	As at 30 Jun 2013	As at 31 Dec 2012	Change
Cash and bank balances	1,252.9	1,494.8	-16.2%
Shareholders' equity	5,073.2	4,825.3	+5.1%
Bank loan	-	7.3	-100%
Convertible bonds	664.2	639.7	+3.8%
Net gearing ratio	Net Cash	Net Cash	-
Current ratio (times)	3.3	3.5	-0.2

Historical Financial Performance

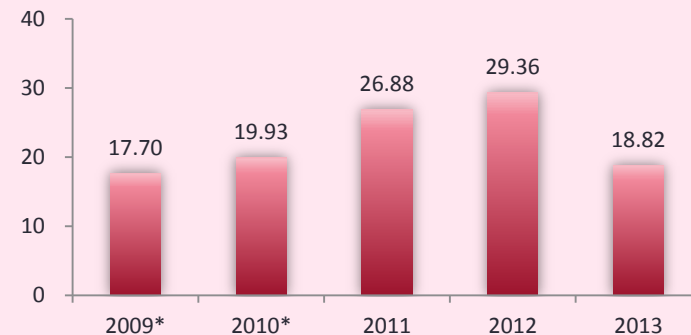
Turnover (For the 6 months ended 30 Jun)

(HK\$ million)



Basic EPS (For the 6 months ended 30 Jun)

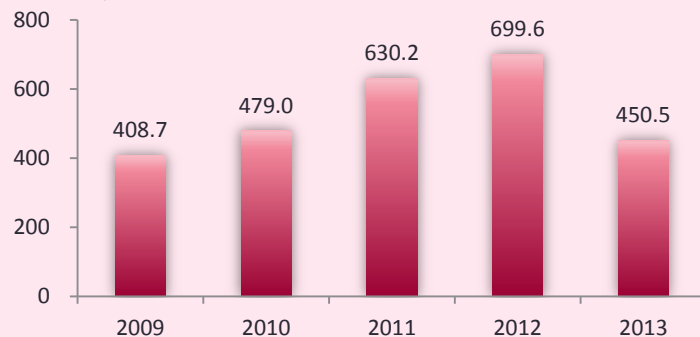
(HK cents)



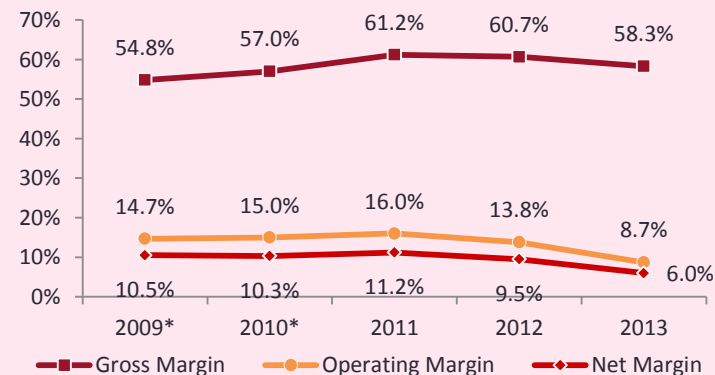
* Amount excluding fair value loss on warrants

Operating Profit (For the 6 months ended 30 Jun)

(HK\$ million)



Margins (For the 6 months ended 30 Jun)



* Amount excluding fair value loss on warrants

BUSINESS REVIEW



Group Sales Network

■ Slowed down store expansion in view of soft market situation in the first half

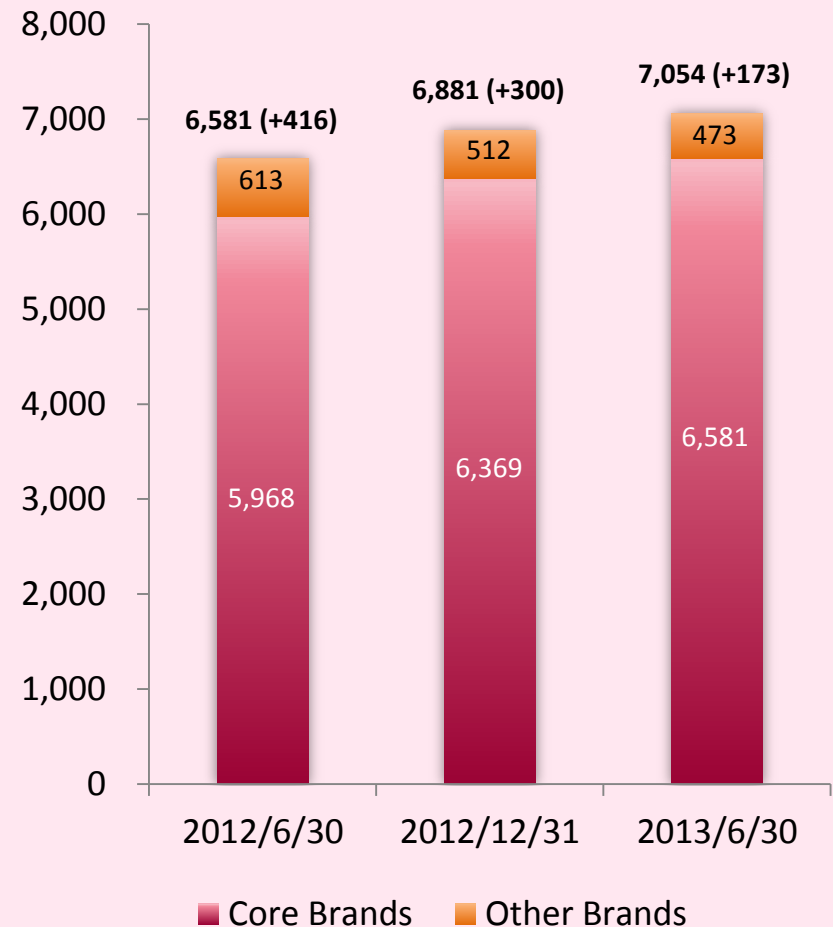
■ Net increase = 173 POS
(2012: 300 POS)

■ Core Brands total POS = 6,581

■ Net increase = 212 POS
(2012: 366 POS)

■ Continued to consolidate non-performing stores. Other Brands had a net decrease of 39 POS.

Total No. of Points-of-Sale (POS)



Core Brands Sales Network – by Store Category

- Expansion focus on directly-managed stores, of which proportion increased to 86%
- A net increase of 212 POS. Added 263 directly-managed stores, and decreased 51 franchised stores

	As at 30 Jun 2013	As at 31 Dec 2012	Change	% Change
- Directly-managed POS	5,690 (86%)	5,427 (85%)	+263	+4.8%
- Franchised POS	891 (14%)	942 (15%)	-51	-5.4%
Core Brands POS	6,581	6,369	+212	+3.3%

Core Brands Sales Network – by City Tier

- The Group maintained greater representation in lower tier cities

	As at 30 Jun 2013		As at 31 Dec 2012		Change	% Change
	No.	%	No.	%		
Tier 1 cities	747	11%	721	11%	+26	+3.6%
Tier 2 cities	1,428	22%	1,342	21%	+86	+6.4%
Tier 3 cities	1,025	16%	981	15%	+44	+4.5%
Tier 4-6 cities	3,381	51%	3,325	53%	+56	+1.7%
Total	6,581	100%	6,369	100%	+212	+3.3%

Core Brands Business – Performance

■ Turnover of Core Brands business grew 2.1% YoY

- Same Store Sales Growth -9.2%
- Slowed down store expansion
- Frontline staff turnover rate rose after the Chinese New Year holiday, but now returns to normal already

■ Decline in profit margins was mainly due to:

- Deceleration in sales growth
- Lower gross profit margin
 - Change in product sales mix
 - Increase in inventory provision
- Negative operating leverage resulted from the high fixed-cost structure of the Group's retail operation



(HK\$ mililon)	For the 6 months ended 30 Jun		Change
	2013	2012	
Turnover	4,738.6	4,639.7	+2.1%
Gross profit	2,760.2	2,821.8	-2.2%
Gross margin	58.2%	60.8%	-2.6ppt
Operating profit	490.5	778.1	-37.0%
Operating margin	10.4%	16.8%	-6.4ppt

Core Brands Business – SSSG

■ SSS decreased by 9.2%, mainly due to:

- Weak consumer sentiment as economic growth decelerated
- Poor weather conditions and unusually cold spring season
- Avian flu outbreak in Eastern China



■ Average selling price fell 1% YoY to RMB 194

Same Store Sales Growth	1Q	2Q	1H
2013	-2.5%	-13.7%	-9.2%
2012	+22%	+14%	+17%

Other Brands Business

- Gross profit margin grew by 1.3 ppt, mainly due to improved product cost
- Operating loss similar to that of last year
- Continued consolidation of sales network and resulted a net closure of 39 non-performing stores

(HK\$ million)	For the 6 months ended 30 Jun		Change
	2013	2012	
Turnover	328.8	332.6	-1.1%
Gross profit	194.7	192.4	+1.2%
Gross margin	59.2%	57.9%	+1.3 ppt
Operating (loss)	(40.0)	(40.2)	-0.5%
Operating margin	(12.2%)	(12.1%)	-0.1 ppt



OUTLOOK & STRATEGIES



Outlook for the Second Half of 2013

Opportunities

- Chinese government puts urbanisation as a major economic focus in 2013
- Continued urbanization will drive consumption growth in China
- Increasing disposable income
- Government policies to foster domestic consumption will spur market growth
- Footwear consumption per capita in China is still low

Challenges

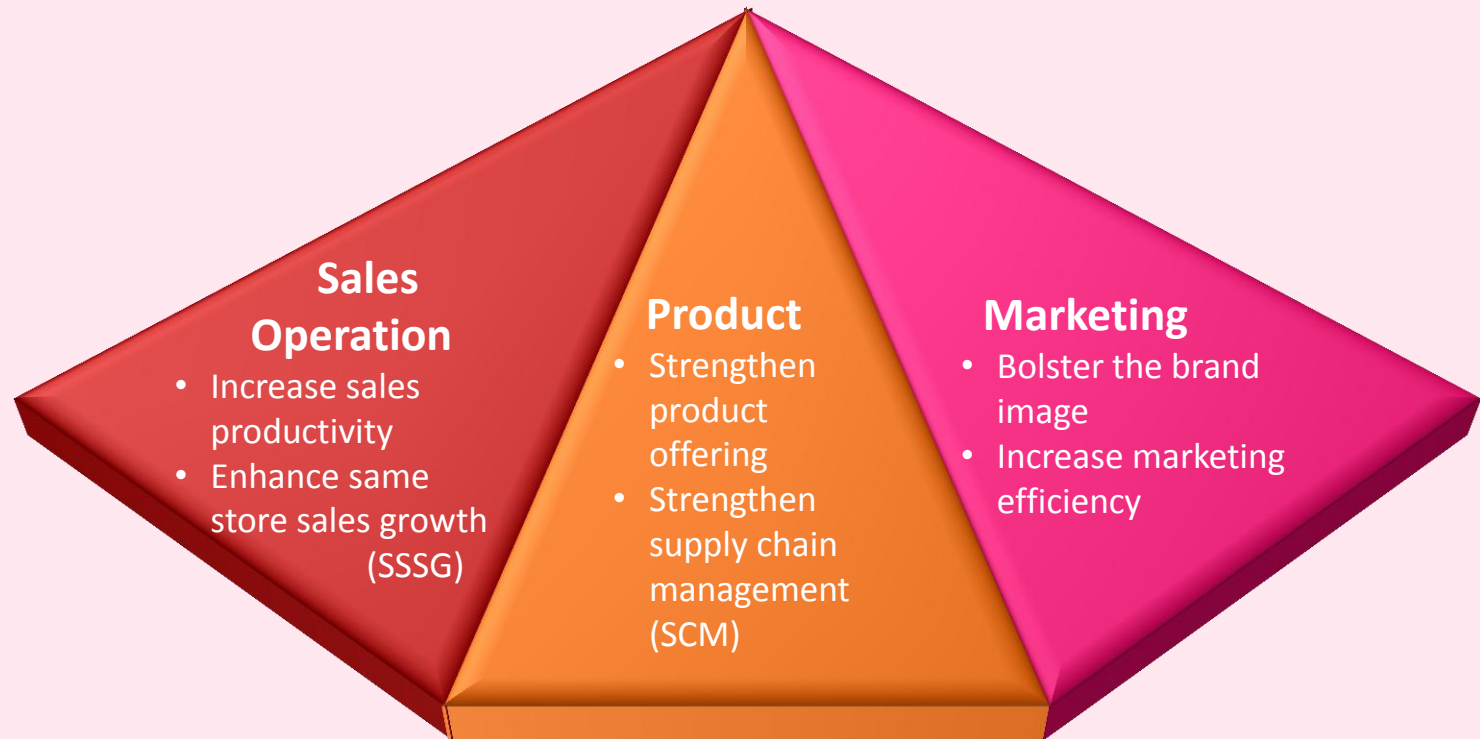
- Low visibility of market outlook
- Consumption sentiment is still weak and takes time to improve
- Inflationary pressure from labour and rental costs
- Keen competition

Competitive Advantages

- 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
- Solid financial structure

Objectives for 2013 2H

- Improve full-year results of 2013
- Build stronger fundamentals to pursue long-term growth



Increase sales productivity, and enhance SSSG

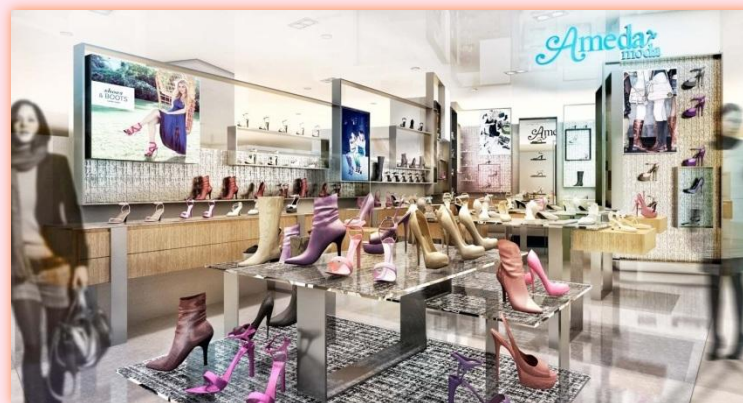
■ Boost sales productivity

- Put in place more structured and comprehensive training programs
- Refine incentive programs for frontline staff
- Enhance effectiveness by focusing on the follow-through and execution
- Improve in-store product display
- Increase sales productivity per person; e.g. raise service quality by organising service contests



■ Enhance management efficiency

- Offer store managers new management tools and monitoring system to enhance their store management efficiency
- Restructure regional and local sales offices to drive better sales growth, training efficiency and new store development
- Make efforts in assisting frontline managers to embrace the more comprehensive KPI / score-card system and performance improvement mechanism
- Continue the roll-out of “Train the Trainers” and “Sales Talent Development” programs to build up management capacity and improve succession planning

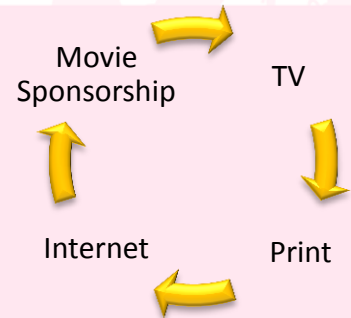


Step up rental cost control

- **Maintain prudent expansion focusing on store quality**
- **Tighten control on rental costs**
 - Expand into areas where rental is more reasonable
 - Demand reasonable rental increments upon lease renewal
 - Rationalisation of store size
- **Enhance overall quality of store portfolio and improve rental cost ratio**
 - Adopt new approach in consolidating non-performing stores
 - Speed up closures of loss-making stores
 - Overhaul store opening procedure to enhance new store profitability
- **Improve accuracy of sales projection for new stores**

Bolster brand image and increase marketing efficiency

- Uplift brand image of “Daphne” by conducting a nationwide integrated marketing campaign, covering TV, print, internet and movie sponsorship
- Appointed famous artist Mr. Richie Ren (任賢齊) as Philanthropic Ambassador for “Shoebox” brand
- Allow more creativity in brand promotions e.g. “Daphne Extreme Live Concert” in Shanghai in August, combining shoes catwalk show and pop singers performance (including A-mei, Harlem Yu, Elva Hsiao, David Tao, and Sharon Kwan), to boost sales performance
- Focus on new media and communication platforms
- Use CRM to build stronger customer relations and increase marketing effectiveness
- Review and refine pricing and promotion strategies

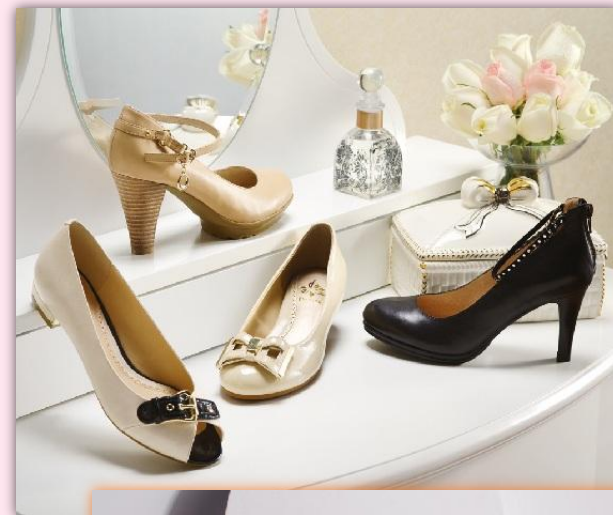


Movie sponsorship - the lead actress is Daphne's latest ambassador Li Xinai (李心艾). The movie's box office exceeded RMB 100 million for the first three weeks



Strengthen the product offering and SCM

- Strengthen the responsiveness to customer preference
- Increase diversity of product range to broaden customer base and increase value per transaction
- Integration of the new retail management system in good progress
 - Improve product development, planning and allocation
 - Better alignment of product offerings to store categorisation to increase sales
 - Improve first-batch product allocation
 - Introduce auto-replenishment system to enhance timeliness and accuracy of replenishment
 - Enable better stock integration across stores in mid or end of season
- **Enhance sales growth and inventory management**
- **Improve overall gross profit margin**
 - In operation for “Shoebox” in 4Q 2013
 - Extend to “Daphne” in 2014



Drive E-commerce business

- Develop omni-channel retail model by driving integration of online channel, physical stores and customer relationship management (CRM) to generate synergy
- The official online flagship store to collaborate with other online partners to maximise overall online sales revenue
- Plan to launch mobile app to capture the emerging shopping trend and draw customers to physical stores
- Consolidate VIP customer database and launch integrated (both online and offline) marketing campaigns to raise customer loyalty and boost VIP's contribution to sales
- Plan to consolidate and integrate inventory for both online and offline by 2014. This will offer customers with an enhanced holistic shopping experience across channels

Mid- to High-end Brands

- Focus on better-performing brands
- Adjust the brand-positioning of mid- to high-end brands to facilitate future development
- Continue the rationalisation of sales network to improve overall performance
- Become one of the Group's growth drivers in the long run
 - Cater to the growing middle-class
 - Enlarge customer base
 - Enable Daphne's customers to trade up



Vision

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





Thank you

...Q&A Session

DAPHNE INTERNATIONAL HOLDINGS LIMITED
達 芙 妮 國 際 控 股 有 限 公 司

Investor Relations Contact



Ms. Macy Leung

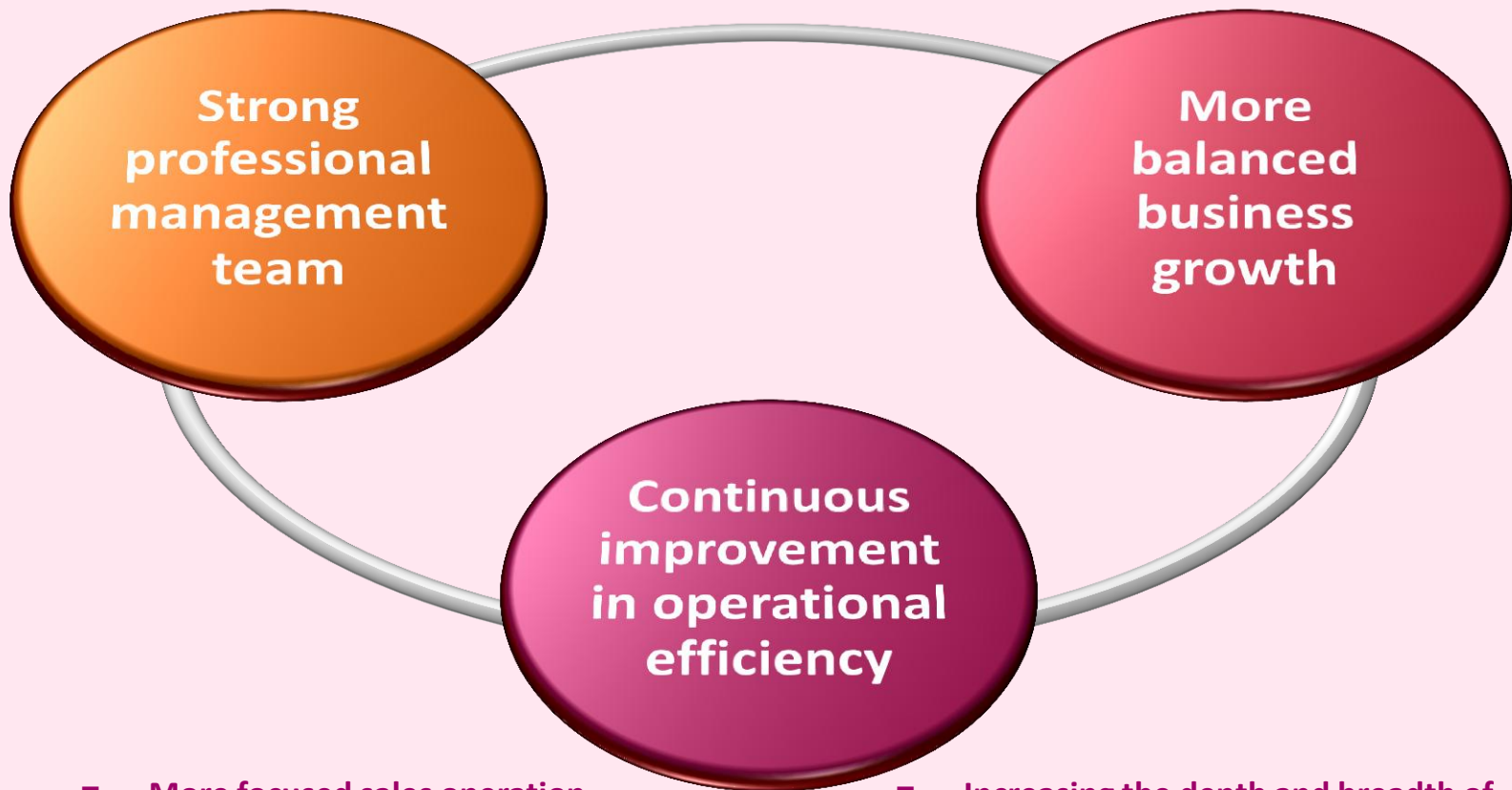
(852)-2367 9022

macyleung@daphneholdings.com

APPENDIX



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

Growing Market Potential of China

Continued urbanisation

712 M

Urban population

52.6%

China urbanisation rate

- Continued urbanisation drives consumer market growth
- Chinese government puts urbanisation as a major economic focus in 2013

Increasing disposable income

↑ 6.5%

Urban residents' disposable income per capita

- Income per capita on the rise

Growing domestic consumption

↑ 12.7%

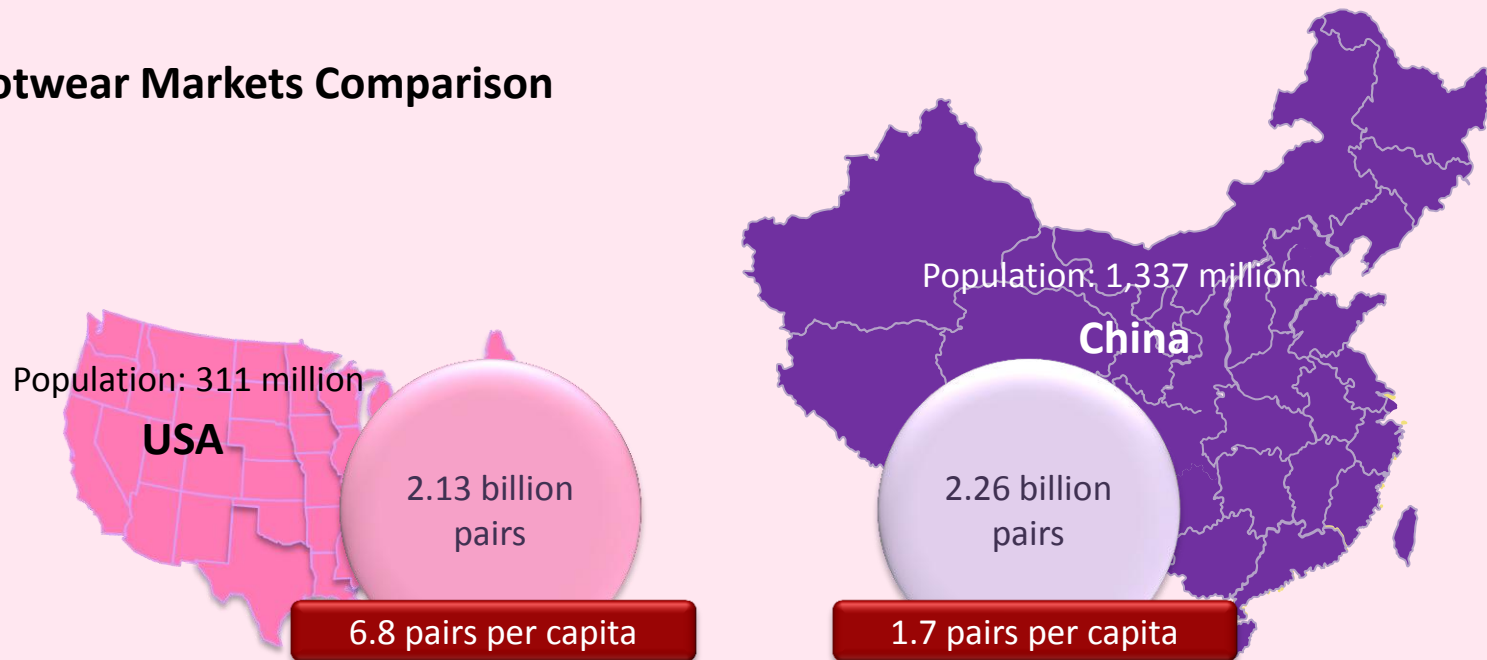
China retail sales

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

Data source: National Bureau of Statistics, China (urban population and urbanisation rate are 2012 year end data, others are 2013 1H data)

China Footwear Market Potential

Footwear Markets Comparison



■ Footwear consumption per capita in China is low

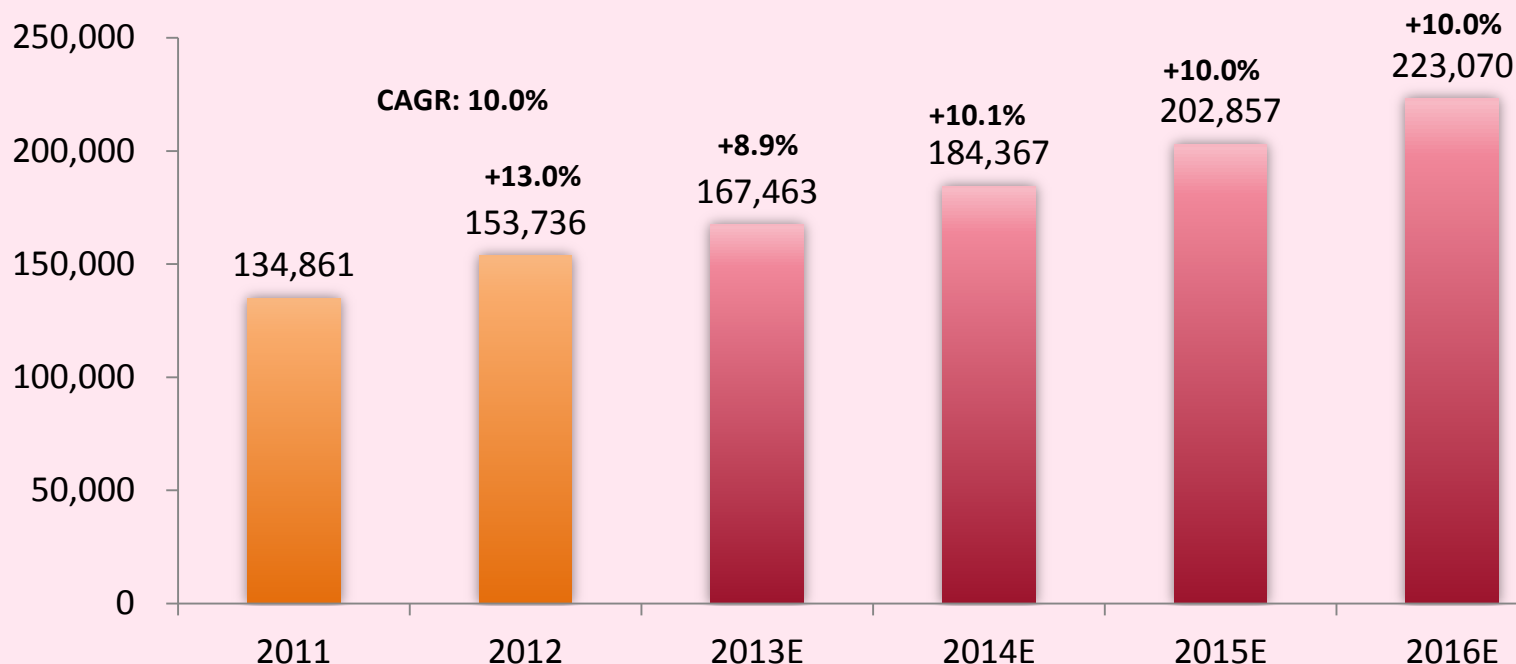
- China Footwear market size reached 2.26 billion pairs, surpassing the US (2.13 billion pairs) as the largest footwear market in the world
- China's population (1,337 million) is four times that of the US (311 million)
- Footwear consumption per capita in China was only 1.7 pairs, approximately 25%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

Data source: SCMP, data for the year of 2011

China Women's Footwear Market Prospect

(RMB million)

China Women's Footwear Market Forecast

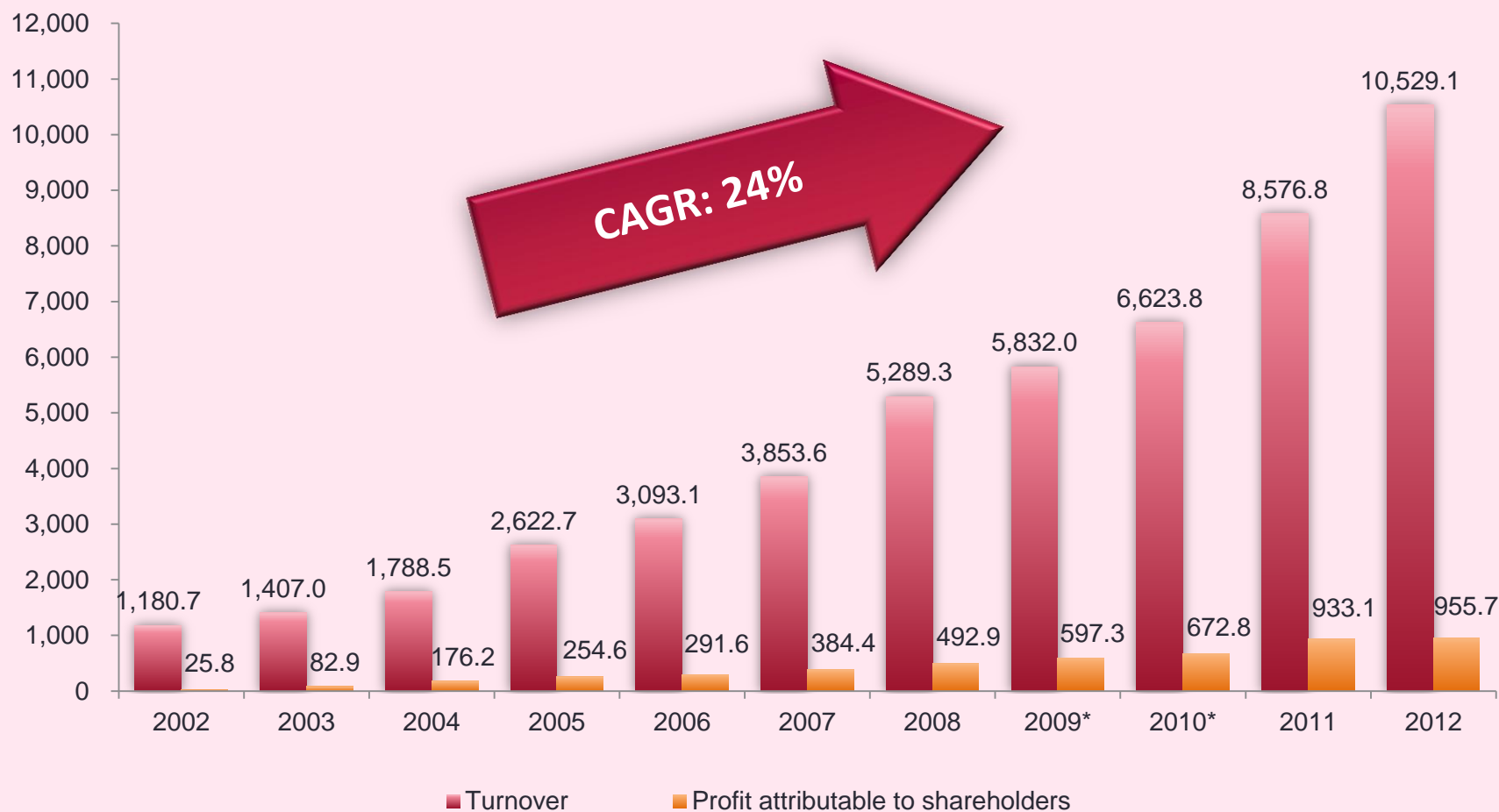


■ Euromonitor forecasts China women's footwear market to grow rapidly in the coming 3 years

■ Euromonitor forecasts China women's footwear market to reach RMB 223 billion by 2016, representing a CAGR of 10.0%

Consistent Turnover Growth

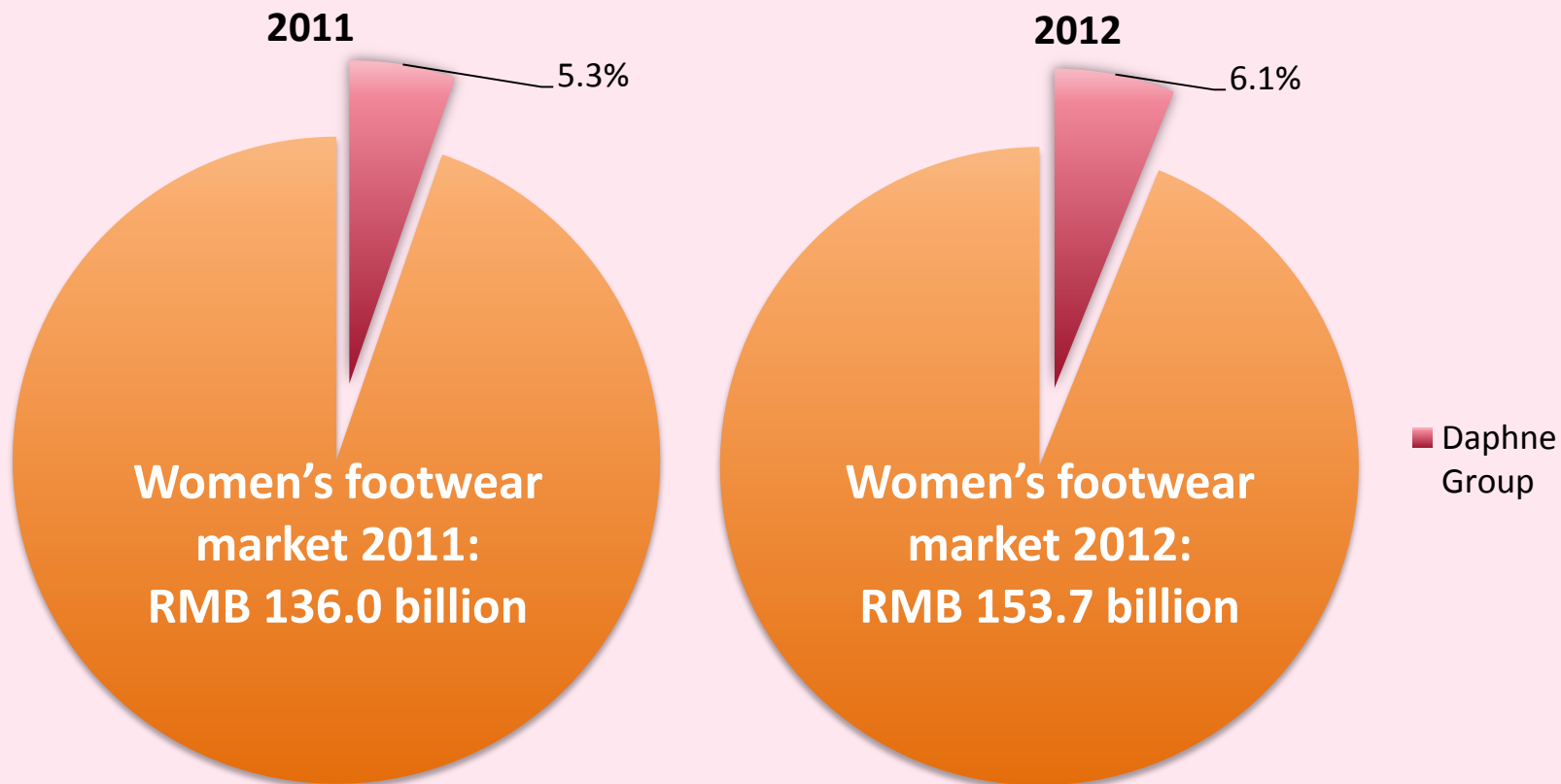
(HK\$ million)



* 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 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 7,000 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 7,054 points-of-sale (POS) (as at 30 June 2013)
- The Group's core brands ("Daphne" and "ShoeBox") are distributed in nearly 6,600 POS in China, of which over 86% 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\$10.0 billion (as at 28 June 2013)

Shareholding Structure







As at 30 June, 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

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)	<div>↑</div> <div>400 – 1,200</div> <div>↓</div>
		Sole distributorship (international brand)	
		Sole distributorship (international brand)	
		Own brand (channel)	

Group Milestones

