

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

# 2014 Interim Results Presentation

20 August 2014



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# 2014 Interim Results Highlights

- Group turnover decreased by 1.7% to HK\$5,080.7 million
- Turnover of Core Brands business decreased by 1.1% to HK\$4,685.0 million
  - Same store sales of Core Brands declined by 5.5% YoY
- Group gross profit margin was 56.4%
- Group operating margin was 4.7%
- Profit attributable to shareholders was HK\$172.4 million
- Basic earnings per share was HK 10.5 cents
- Interim dividend declared is HK 3.5 cents
- Group's points-of-sales totaled 6,598
  - Number of Core Brands points-of-sales decreased by 85 to 6,234



# FINANCIAL REVIEW



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# Group Financial Highlights

(HK\$ million)	1H 2014	1H 2013	YoY Change	2H 2013	HoH Change
<b>Turnover</b>	<b>5,080.7</b>	5,168.2	-1.7%	5,278.4	-3.7%
<b>Gross profit</b>	<b>2,865.5</b>	3,013.2	-4.9%	2,825.1	+1.4%
<b>Operating profit</b>	<b>240.7</b>	450.5	-46.6%	69.7	+245.5%
<b>Profit attributable to shareholders</b>	<b>172.4</b>	310.3	-44.5%	18.8	+814.5%
<b>Basic EPS (HK cents)</b>	<b>10.5</b>	18.8	-44.1%	1.1	+854.5%
<b>Interim dividend per share (HK cents)</b>	<b>3.5</b>	6.0	-41.7%	2.0	+75.0%
<b>Gross profit margin</b>	<b>56.4%</b>	58.3%	-1.9 ppt	53.5%	+2.9 ppt
<b>Operating profit margin</b>	<b>4.7%</b>	8.7%	-4.0 ppt	1.3%	+3.4 ppt
<b>Net profit margin</b>	<b>3.4%</b>	6.0%	-2.6 ppt	0.4%	+3.0 ppt



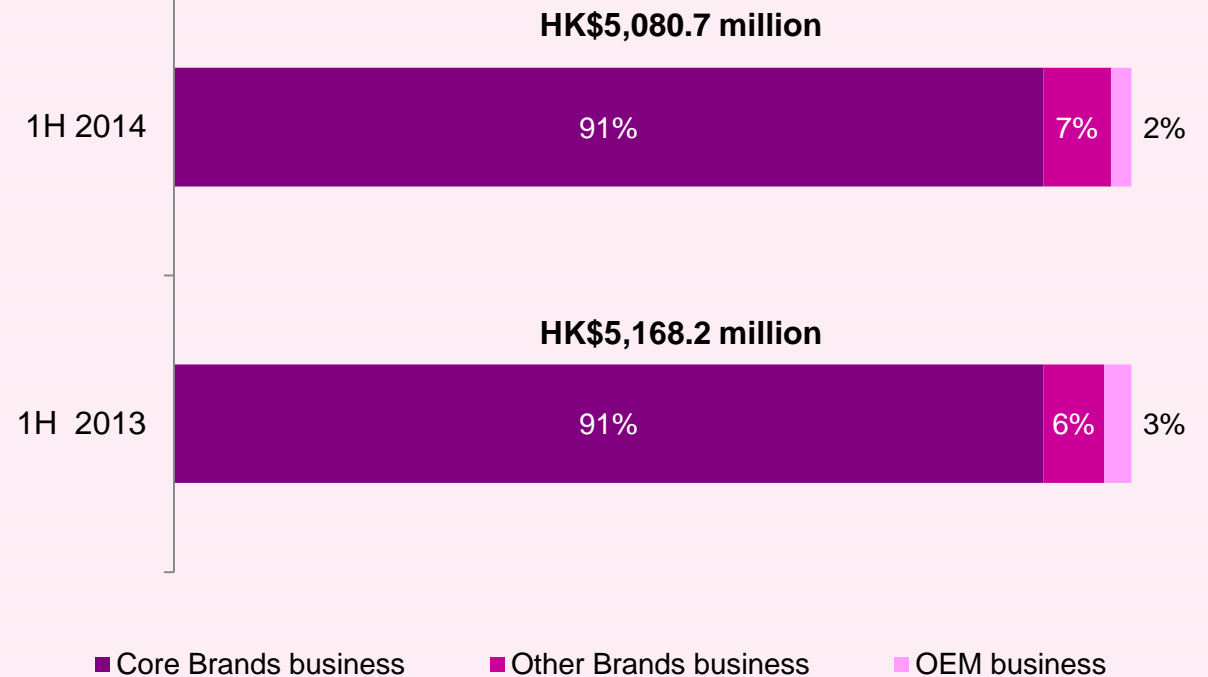


# Group Turnover



## Turnover Breakdown

(For the 6 months ended 30 Jun)



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



# Group Profit Margins

- Group gross profit margin decreased by 1.9 ppt YoY, and increased by 2.9 ppt HoH
  - Change in product sales mix
  - Aggressive clearance of off-season items
- Group operating profit margin decreased by 4.0 ppt YoY, and increased by 3.4 ppt HoH
  - Increasing key operating costs such as rental and labour costs
  - Good progress in consolidation of mid- to high-end brands portfolio partially offset the above effects



# Inventory Turnover Days & Working Capital

- Group inventory turnover days was 208 days, improved from that of last year
  - Aggressive clearance of off-season items
  - Increase diversity of clearance channels, such as strengthened partnership with online flash sales platforms
- Creditor turnover days lengthened by 25 days to 114 days
  - Improvement in efficiency of group working capital management
- More CAPEX mainly due to purchase of self-use office

	1H 2014	1H 2013	Change
Average Inventory Turnover (days)	208	209	-1
Average Debtors Turnover (days)	13	14	-1
Average Creditors Turnover (days)	114	89	+25
Cash Conversion Cycle (days)	107	134	-27
CAPEX (HK\$ million)	246.7	133.2	+85.2%





# Other Key Financial Indicators

- Hold cash and bank balances of HK\$1,427.4 million
- Maturity date of convertible bonds was extended to 24 April 2015 and no conversion during the first half of 2014

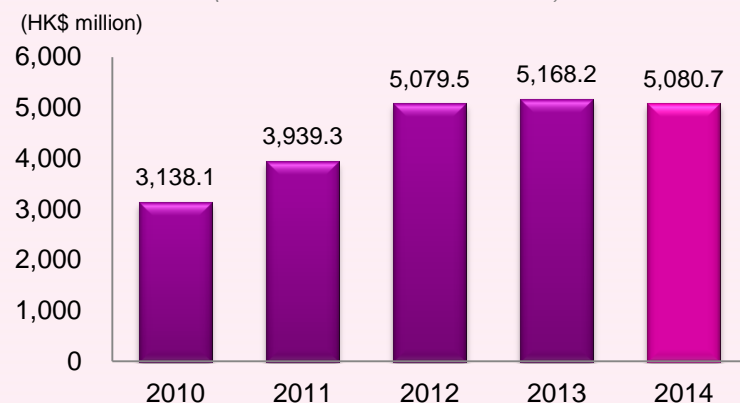
(HK\$ million)	As at 30 Jun 2014	As at 31 Dec 2013	Change
Cash and bank balances	1,427.4	1,374.4	+3.9%
Bank loans	146.5	117.0	+25.2%
Convertible bonds	666.9	689.2	-3.2%
Equity attributable to owners of the Company	5,077.3	5,043.7	+0.7%
Current ratio (times)	2.4	2.4	-
Net gearing ratio	Net cash	Net cash	-



# Historical Financial Performance

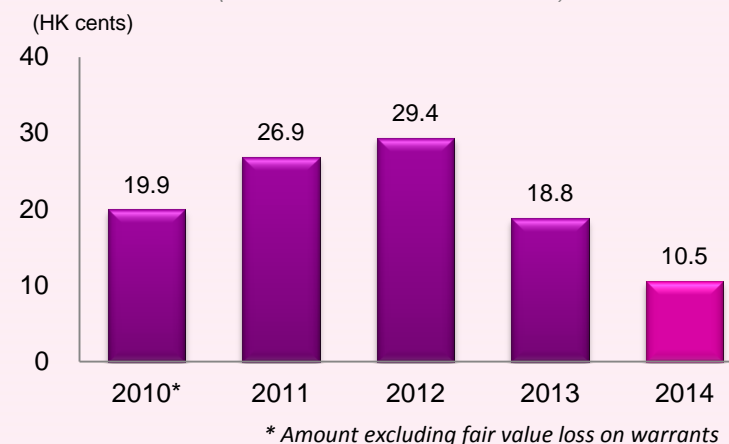
## Turnover

(For the 6 months ended 30 Jun)



## Basic EPS

(For the 6 months ended 30 Jun)



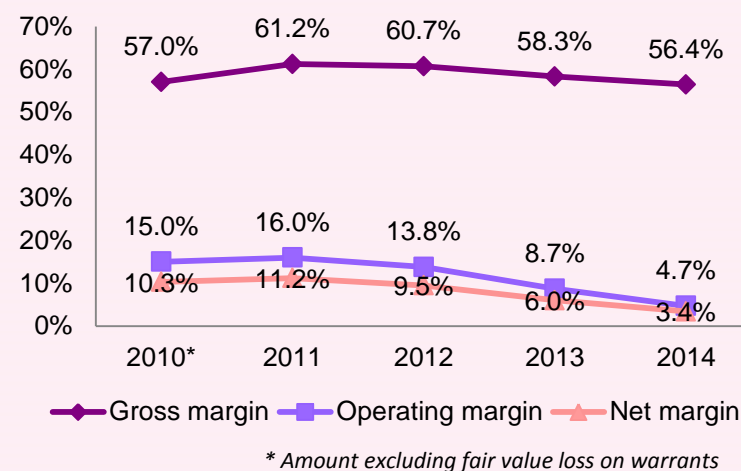
## Operating Profit

(For the 6 months ended 30 Jun)



## Margins

(For the 6 months ended 30 Jun)



# BUSINESS REVIEW



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# Group Sales Network

- Remained cautious in its store network development
  - Net reduction of 104 POS  
(1H 2013: net addition of 173 POS)
- Core Brands total POS = 6,234
  - Net reduction of 85 POS  
(1H 2013: net addition of 212 POS)
- Other Brands POS reduced by 19  
(1H 2013: net decrease of 39 POS)





# Core Brands Sales Network



- Proportion of directly-managed stores increased to 88%
- Net reduction of 85 POS (including 18 directly-managed stores and 67 franchised stores)

## Number of POS

	As at 30 Jun 2014	As at 30 Jun 2013	Change	% Change	As at 31 Dec 2013	Change	% Change
- Directly-managed POS	5,473 (88%)	5,690 (86%)	-217	-3.8%	5,491 (87%)	-18	-0.3%
- Franchised POS	761 (12%)	891 (14%)	-130	-14.6%	828 (13%)	-67	-8.1%
<b>Core Brands Total</b>	<b>6,234</b>	<b>6,581</b>	<b>-347</b>	<b>-5.3%</b>	<b>6,319</b>	<b>-85</b>	<b>-1.3%</b>

## Quarterly change in POS number

	3Q 13	4Q 13	1Q 14	2Q 14
- Directly-managed POS	+23	-222	-12	-6
- Franchised POS	-40	-23	-41	-26
<b>Core Brands Total</b>	<b>-17</b>	<b>-245</b>	<b>-53</b>	<b>-32</b>



# Core Brands Sales Network (cont'd)



- The Group maintained greater representation in lower tier cities

	As at 30 Jun 2014		As at 31 Dec 2013		Change	% Change
	No.	%	No.	%		
Tier 1 Cities	673	11%	703	11%	-30	-4.3%
Tier 2 Cities	1,395	22%	1,394	22%	+1	+0.1%
Tier 3 Cities	995	16%	992	16%	+3	+0.3%
Tier 4-6 Cities	3,171	51%	3,230	51%	-59	-1.8%
Total	6,234	100%	6,319	100%	-85	-1.3%



# Core Brands Business - Performance



鞋柜



(HK\$ million)	1H 2014	1H 2013	YoY Change	2H 2013	HoH Change
Turnover	4,685.0	4,738.6	-1.1%	4,822.7	-2.9%
Gross profit	2,622.1	2,760.2	-5.0%	2,584.4	+1.5%
Gross margin	56.0%	58.2%	-2.2 ppt	53.6%	+2.4 ppt
Operating profit	264.8	490.5	-46.0%	125.7	+110.6%
Operating margin	5.7%	10.4%	-4.7 ppt	2.6%	+3.1 ppt

## ■ Turnover of Core Brands business declined by 1.1% YoY, and 2.9% HoH

- Same store sales declined by 5.5%
- Net reduction of POS (reduction of 347 POS YoY)
- Weak consumer sentiment prevailed
- Keen competition
- Heavy rainstorms and flooding in May adversely affected street-store foot traffic

## ■ Operating profit decreased by 46.0% YoY, and surged by 110.6% HoH, due to

- Decline in same store sales
- Lower gross profit margin:
  - Aggressive clearance of off-season items
  - Change in product sales mix
- Increasing staff and rental costs
- Negative operating leverage



# Core Brands Business - SSSG



鞋柜



## ■ Same store sales improved

	2014		
	1Q	2Q	1H
Same store sales growth	-9.5%	-2.4%	-5.5%

	2013					
	1Q	2Q	1H	3Q	4Q	FY
Same store sales growth	-2.5%	-13.7%	-9.2%	-18.1%	-5.4%	-10.4%

## ■ Average selling price decreased by 5.5% to RMB 183

- Dragged by aggressive clearance of off-season items





# Other Brands Business

AEE  
爱恩

AEROSOLES  
爱柔仕

ALDO

Step Higher



(HK\$ million)	1H 2014	1H 2013	YoY Change	2H 2013	HoH Change
Turnover	358.1	328.8	+8.9%	403.0	-11.2%
Gross profit	223.3	194.7	+14.7%	210.9	+5.9%
Gross margin	62.4%	59.2%	+3.2 ppt	52.3%	+10.1 ppt
Operating loss	(8.5)	(40.0)	-78.8%	(46.1)	-81.6%
Operating margin	(2.4%)	(12.2%)	+9.8 ppt	(11.4%)	+9.0 ppt

- Driven by strong growth in e-commerce, turnover of Other Brands business increased by 8.9%

- E-commerce turnover more than doubled

- More effective online marketing
- Strengthened the partnership with third-party e-commerce platforms
- More frequent partnership with online flash sales sites for clearance of off-season items

- Mid- to high-end brands

- Net closures of 19 POS
- Reduction in store number (-109 POS YoY) led to YoY decline in turnover.
- Performance per store improved

- Overall gross margin of Other Brands business improved by 3.2 ppt, mainly due to

- Lower product cost
- Change in product sales mix

- Overall operating loss of Other Brands business significantly narrowed



# OUTLOOK & STRATEGIES



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# Operating Environment for 2H 2014

## External



- Chinese government puts urbanisation as one of the priorities
- Continuous urbanisation helps drive domestic consumption and expand the retail market
- Government policies to restructure economy with focus on domestic consumption growth
- Footwear consumption per capita in China is still low



- 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

- Continue to improve sales and operational efficiency
- Through in-depth reviews of the progress and results of various initiatives undertaken during the first half of the year, the Group will adjust and refine the initiatives to deliver desirable results in the future.
- Enhance competitiveness in all aspects and levels of operation to reinforce the Group's leading position



# Boost Sales Productivity

## ■ Uplift store image

- Renovation plan on target with progress on track
- Renovated stores showed improvement in performance and sales per sq. ft.
- Full-year target of renovating approximately 600 stores remains unchanged

## ■ Diversify sales channels

- Preliminary results in line with expectation and will consider and continue sales channels diversification
- Explore alternative sales channels according to each brand's DNA
- Increase penetration in alternative sales channels
- Continue to learn and adapt to various new channels to enhance performance

## ■ Stringent quality control of new store opening

- Early signs of improvement have been seen and will make further adjustments to improve rental ratio
- Strengthen mechanism & methodology to overhaul underperforming stores





# Boost Sales Productivity (cont'd)

## ■ Improve frontline staff sales productivity

### 1. Increase staff stability

- Increased salary
- Raised commission rate
- Improved staff retention rate
- Reduced vacancies

### 2. Strengthen frontline staff training

- Introduced e-learning and online tracking and monitoring system to enhance training effectiveness
- improved the linked sales rate
- Strengthen training with focus on field application and case sharing
- Overhaul the staff promotion system to improve performance

### 3. Strengthen frontline supervisory management

- Provide management training and tools
- Make efforts to motivate and enhance loyalty
- provide advanced management courses, e.g. leadership training
- increase the sophistication of store management system and KPIs

As the coverage of frontline operation is extensive and improvement initiatives are newly introduced, it takes time for the initiatives to adjust, refine and deliver the benefits



# Enhance Supply Chain and Inventory Management

## ■ Strengthen inventory management

- Continue the focus on clearance of off-season items by engaging diverse channels
  - Increase the number of clearance outlets, warehouse sales/clearance fairs, staff, online and franchisee sales, etc.

## ■ Continue the implementation of Retail Management System

- Automation of product allocation and replenishment is rolled out gradually, and the headcount of merchandisers is decreasing
- Progress in line with expectation, though it takes time before noticeable performance improvement can be expected

## ■ Maintain tight control over product costs

- Adoption of new procurement method, and gradual relocation of production lines from coastal areas to Western China



# Strengthen Merchandising and Marketing

## ■ Enrich Core Brands' value, image and drive differentiation to enhance their appeal to customers

- Appointed new brand ambassadors: Jun Ji-Hyun, Nicholas Tse, Guo Xuefu, et. al.
- Celebrity-driven marketing campaigns
  - Gao Yuanyuan (top actress in China) "ONDUL"
  - Cross-over with Hello Kitty
- Introduce more product lines and sub-brands to attract different customers





# Strengthen Merchandising and Marketing (cont'd)

## ■ Broaden product categories to include more accessories

- Improve product design and display of handbags to improve sales mix

## ■ Make customer loyalty programme more interesting and attractive

- Increase frequency and attractiveness of members' activities to encourage active customers and their spending, e.g. organise Daphne Extreme Live Concert, and introduce pre-paid coupons

## ■ Increase allocation in online & mobile marketing

## ■ Mid-to-high-end brands

- Explore new sales channels for each brand, e.g. TV shopping channel, online distribution partners, etc.
- Put focus on brand differentiation and improving performance per store





# Grow E-commerce Presence

- Increase the depth and breadth of partnership with key online marketplace platforms
- Strengthen the backend operation and drive integration to support future O2O strategies
- Continue to build the e-commerce team, improve the infrastructure and enhance the execution efficiency
- Step up actions against fake products
- Introduce unique coding to support identification of product authenticity



# 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



JD.com



Dangdang



Yihaodian



VIP.com

CRM enables targeted marketing to drive sales

# Vision

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



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



# THANK YOU

.....Q&A Session



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# Investor Relations Contact



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# APPENDIX



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# Growing Market Potential of China

## Continued urbanisation

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

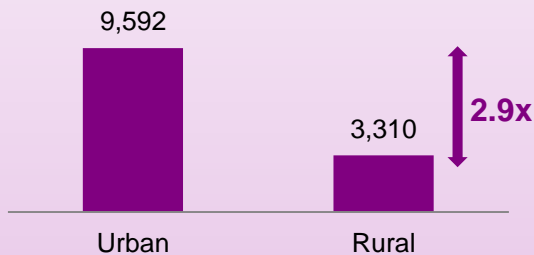
## Increasing per capita income

- Per capita disposable income on the rise

## Growing domestic consumption

- Rebalancing of China economy favours growth of domestic consumption

1H 2014 Per capita consumption (RMB)



**731M**

Urban population

**53.7%**

China urbanisation rate

**↑7.1%**

Real growth in urban residents' per capita disposable income

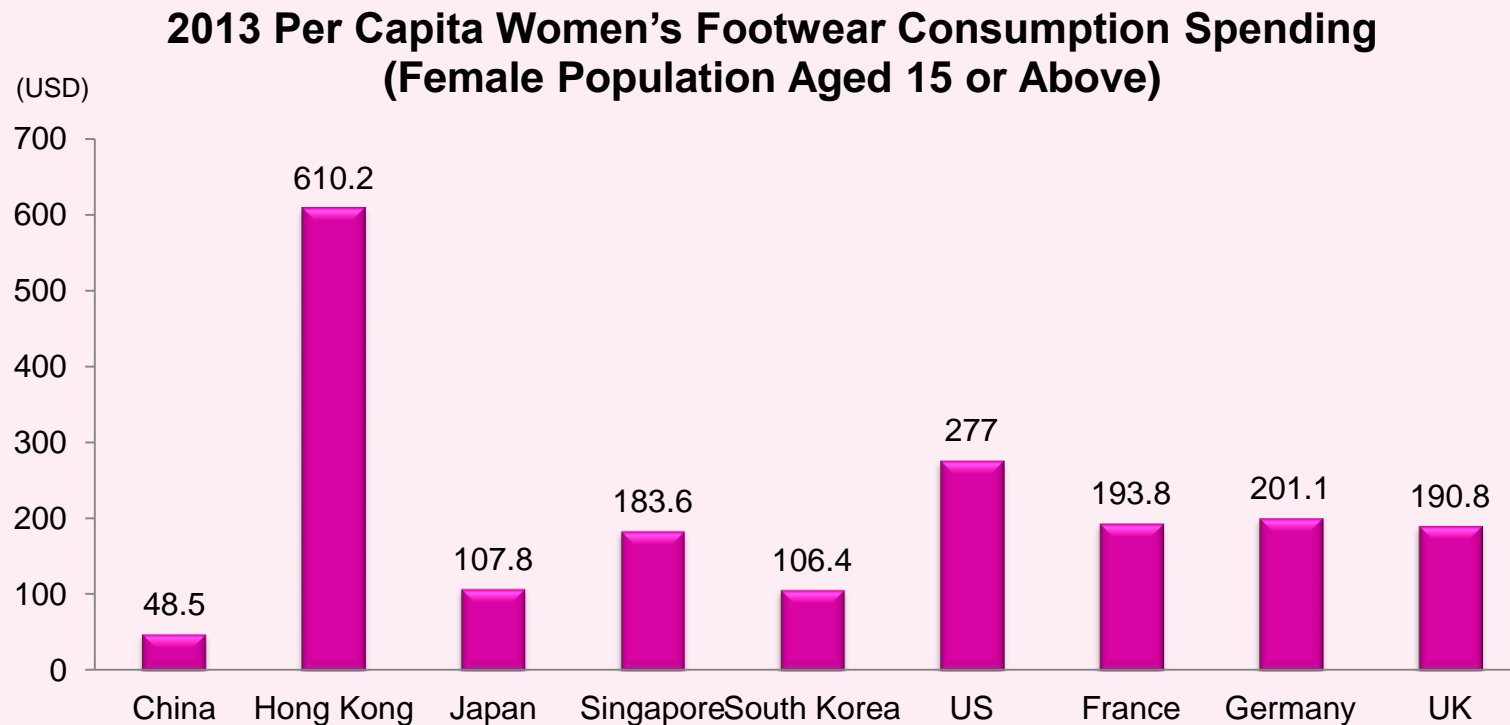
**↑12.1%**

Total retail sales growth in Mainland China

*Data source: National Bureau of Statistics, China (urban population and urbanisation rate are 2013 year end data, others are 2014 1H data)*



# China Women's Footwear Market Potential



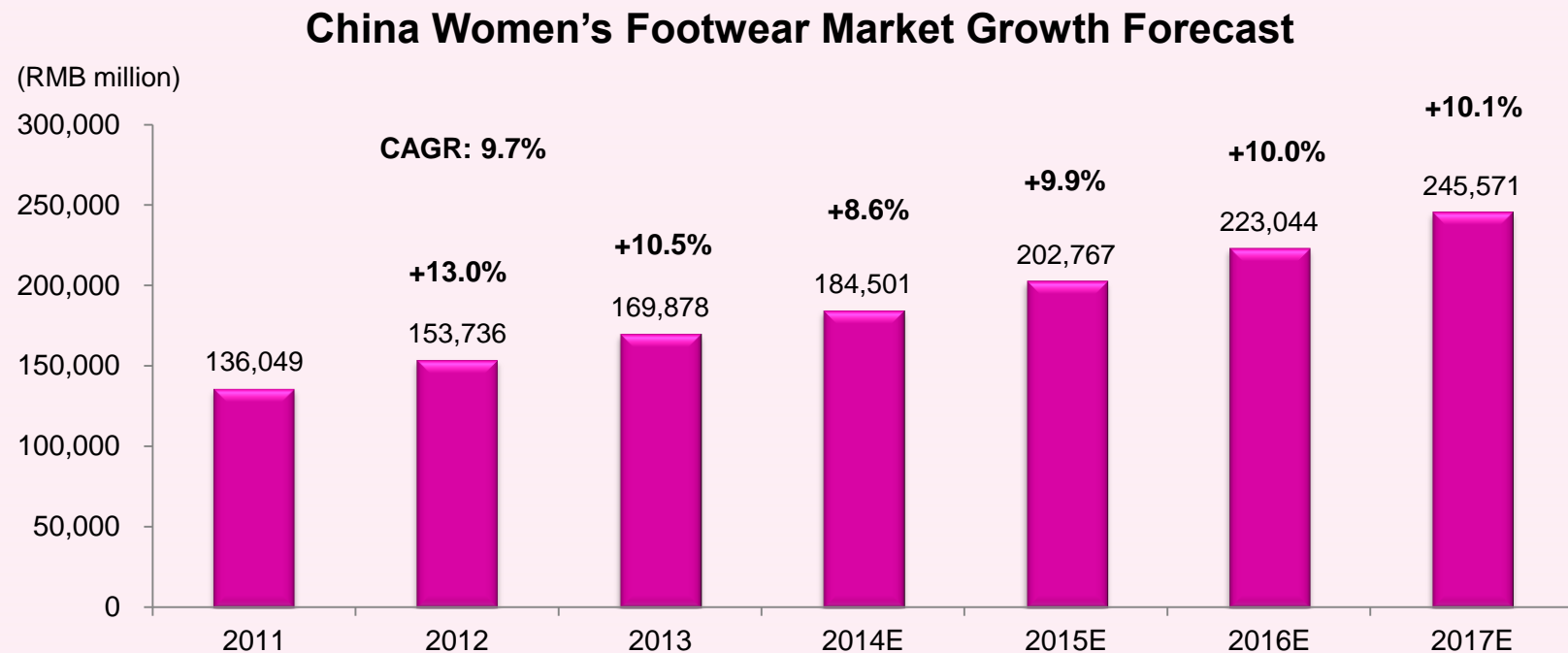
Data Source: Euromonitor

## ■ Per capita Women's footwear consumption in China is low

- Per capita footwear consumption among female population aged 15 or above in China was USD 48.5 in 2013, approximately one-sixth of that of the United States
- Per capital footwear consumption in China was lower than developed economies in Asia, such as Hong Kong, Singapore, Japan, etc.



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



Data source: Euromonitor, May 2013

## ■ 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 9.7%









# Company Overview

- One of the leading women's footwear retailers in China
- Engage in product design & development, production, distribution, retail, and brand management
- Has 6,598 points-of-sale (POS) (as at 30 June 2014)
- The Group's core brands ("Daphne" and "ShoeBox") are distributed in 6,234 POS in China, of which 88% 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\$5.0 billion (as at 30 June 2014)





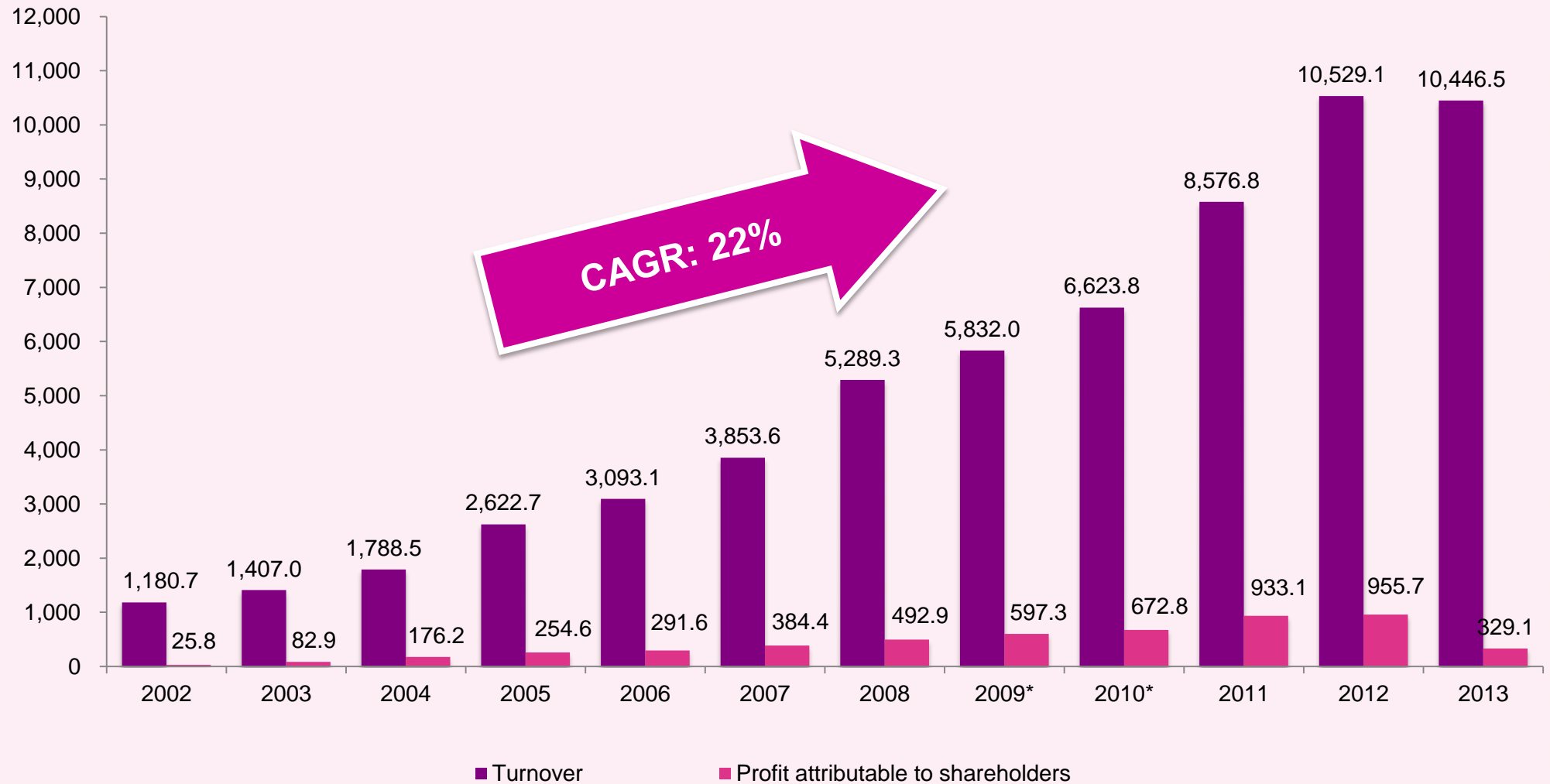
# Major Brand Portfolio

		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)	400 – 1,200
		Own brand (channel)	



# Daphne Group's Turnover Growth

(HK\$ million)

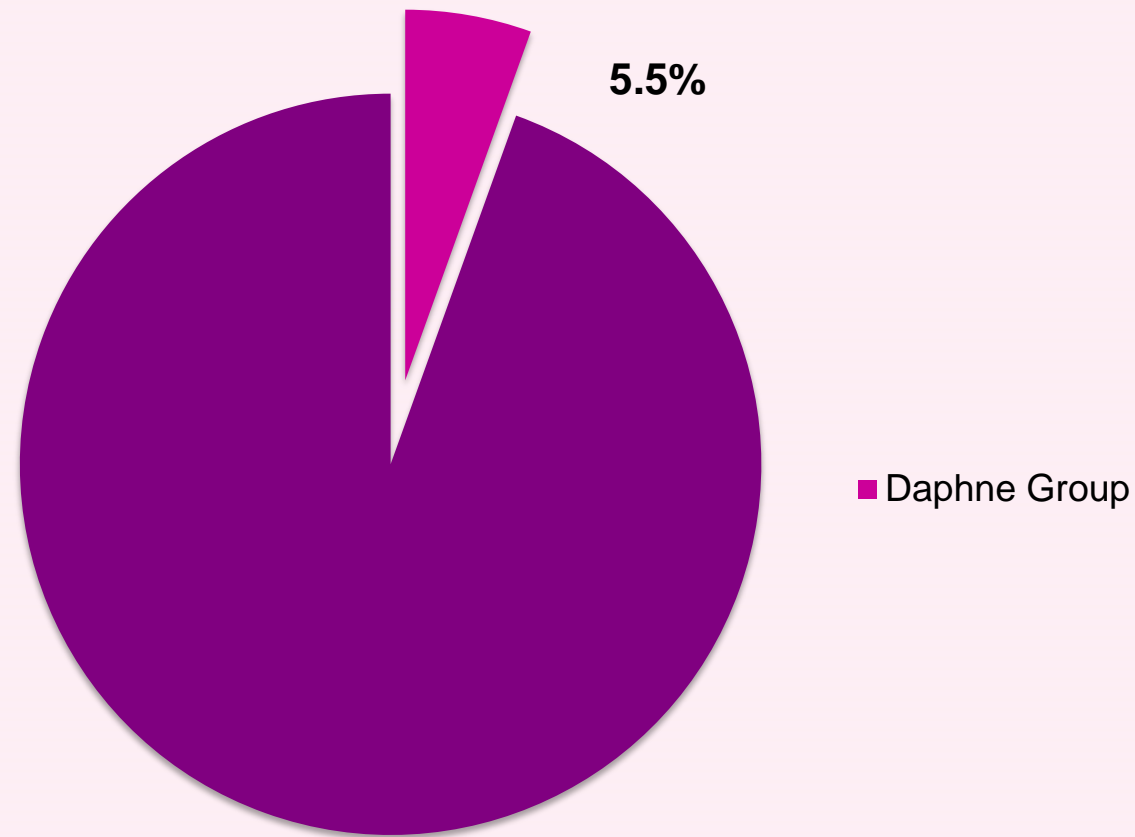


\* Amount excluding fair value loss on warrants



# Daphne Group's Market Share

China Women's Footwear Market in 2013:  
RMB 169.9 billion



*Data source: Euromonitor*

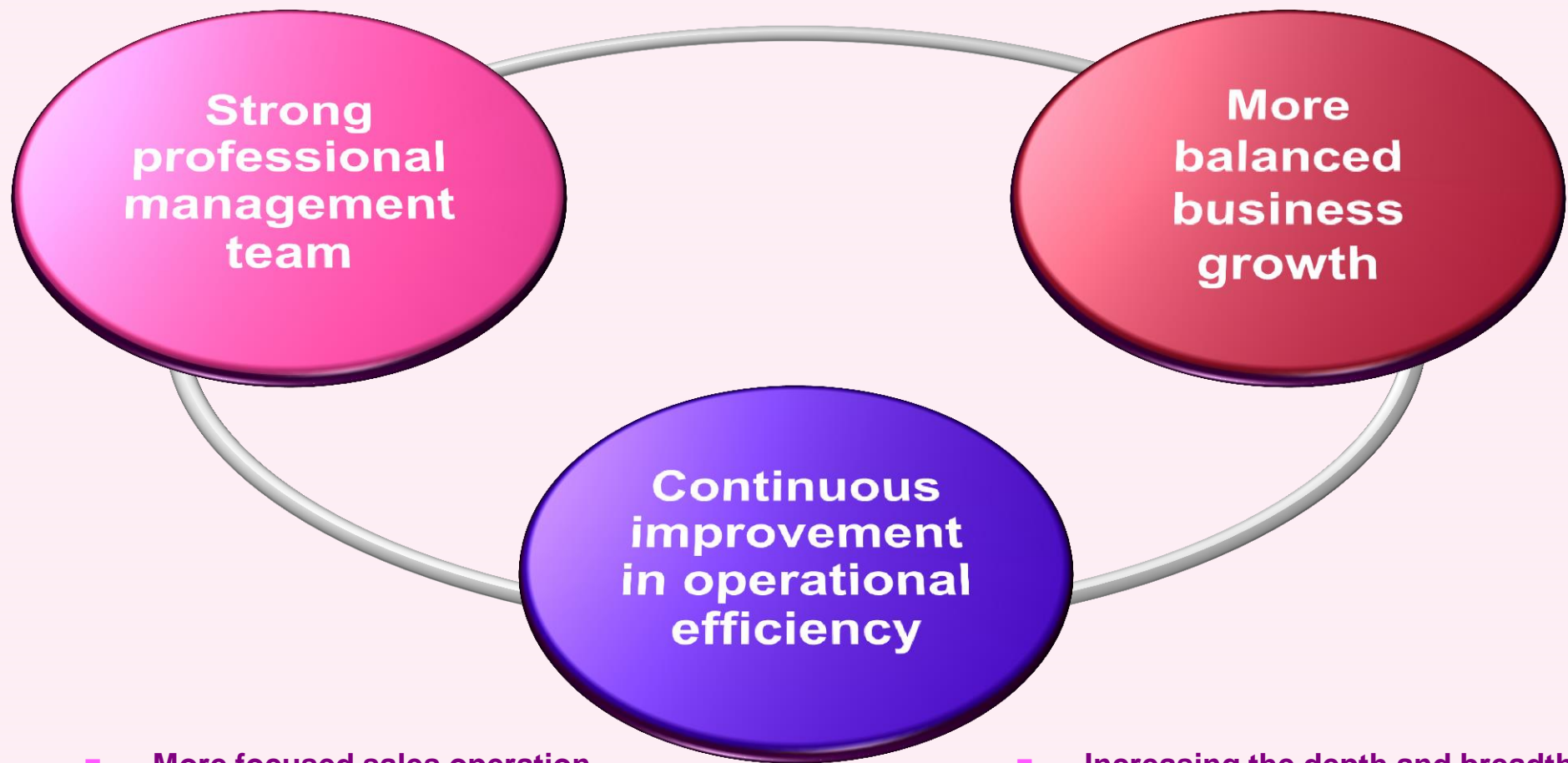


# Competitive Advantages

- 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 with near 6,600 outlets penetrating into even 6<sup>th</sup> tier cities
- 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

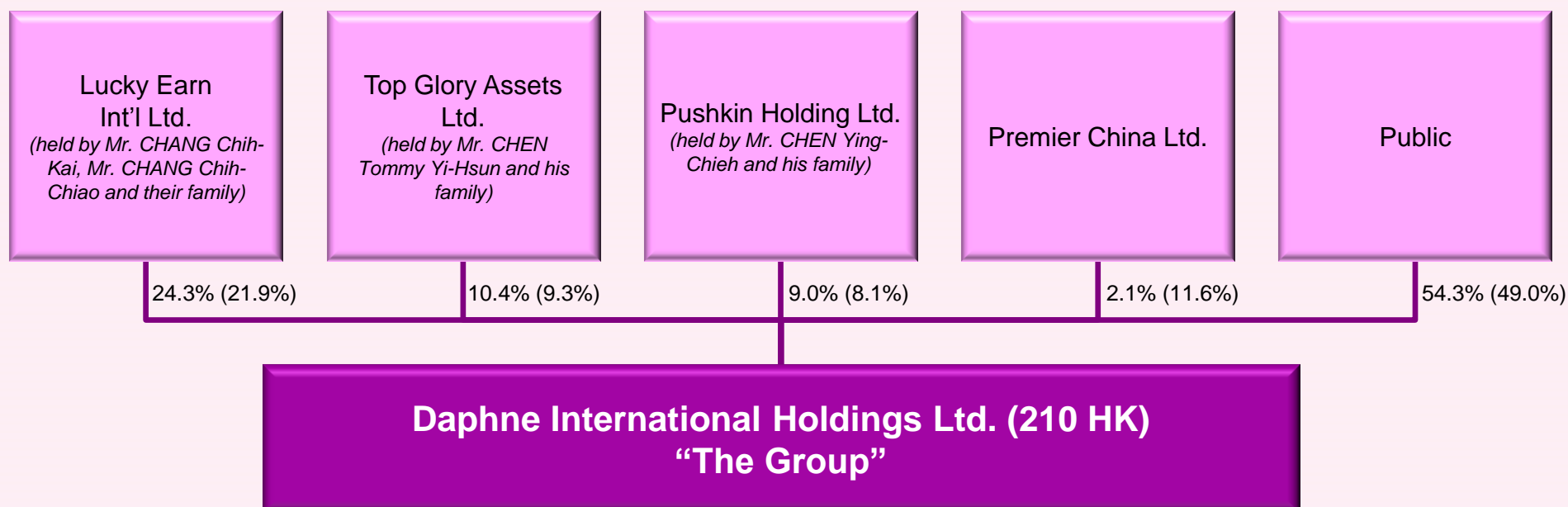
- Increasing the depth and breadth of marketing
- Strengthening brand management
- Strengthen presence in e-commerce





# Shareholding Structure

As at 30 June 2014

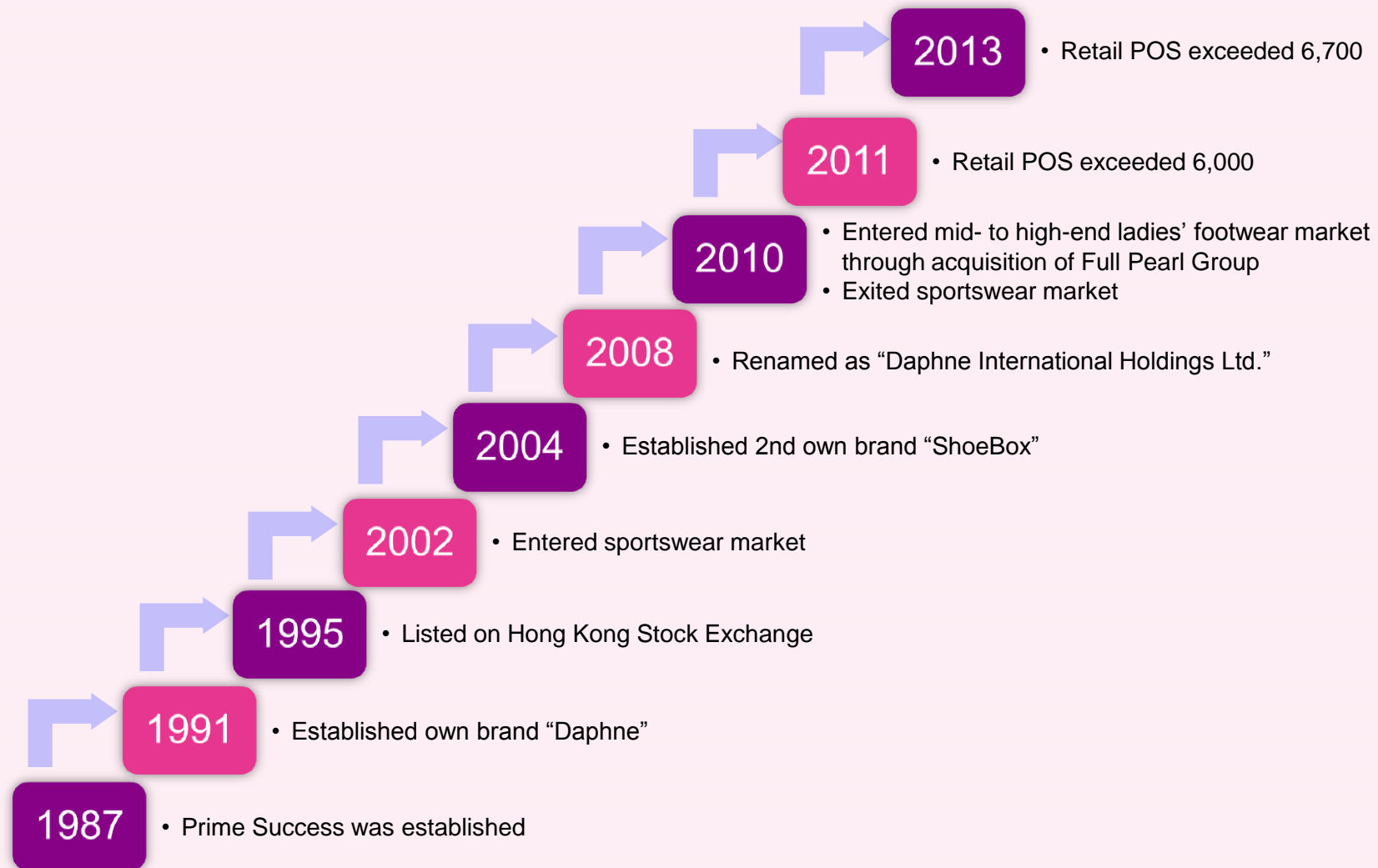


## Notes:

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 by Premier China Ltd.
5. Upon full conversion of convertible bonds, Premier China Ltd. will obtain an additional 178,510,572 shares of the Group



# Group Milestones



# Vision

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

