

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

# 2015 Interim Results Presentation

26 August 2015



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# 1H 2015 – More Challenging Than Expected

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- **The sales performance was below expectation, due to a number of factors:**
  - GDP growth of the China market continued to slow down
  - Consumer sentiment remained soft
  - Erratic weather coupled with delayed spring & summer seasons dampened the appetite for shopping of seasonal products
  - Highly promotional and discount driven competitive environment in the mass market segment for ladies' shoes
  - Intense online competition
  - Inflationary pressure in operating costs
- **Net profit was HK\$2.5 million**
  - Turnover declined by 13.9% with same store sales decreased by 16.9%
  - Gross profit margin increased by 4.3 ppt
  - Negative operating leverage increased due to the high fixed-cost retail model and inflationary pressure
  - More prudent in capital expenditure
  - Net cash balance of HK\$420.4 million

# Major Progress in 1H 2015

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- **Increased Group gross profit margin by 4.3 ppt to 60.7%**
  - Core Brands business gross margin expanded by 2.9 ppt to 58.9%
- **Enriched and restructured the product range into seven product series under Daphne to broaden the brand appeal to a wider group of customers**
- **E-commerce continued to achieve growth and profitability**
- **Sales of Other Brands improved**
- **Managed to control the operational cost base in spite of high inflationary pressure**
- **Maintained strong brand awareness in China, especially online (as evidenced in the Baidu survey and a national brand poll)**
- **Continued store remodelling program to increase its competitiveness**
- **Started downsizing the store network**
- **Inventory level decreased slightly despite inventory turnover days increased due to sluggish sales**

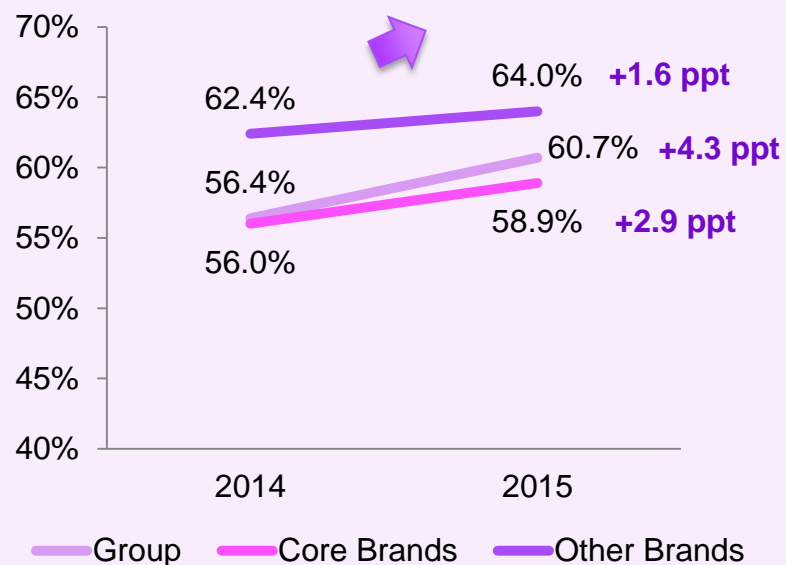
# Group Gross Margin Expanded

- Increased by 4.3 ppt despite a lower ASP for core-brand products
- Improved sales mix
- Reduced retail discounts
- Lower product costs
  - Improvement made in production, procurement, and merchandising
  - Lower raw material costs



## Gross margin

(For the six months ended 30 June)





# Enhanced Brand & Store Image

- Enriched and restructured into seven product lines with distinctive spokesperson or icon for each to strengthen the brand image, increase brand awareness and broaden its appeal to a wider group of customers
- Added one of the leading young actresses in Mainland China, Cecilia Liu, as spokesperson for its core product line “Cosmopolitan” to strengthen the brand image
- Still room for further improvement in fine-tuning the strategy and execution
- Continued store renovation to enhance store image and increase competitiveness



# Further Market Segmentation to Broaden the Brand Appeal



Trend-setting,  
sexy, enchanting

Parties & Evening Charm

Jun Ji-Hyun 全智賢



Stylish, vogue

Cosmopolitan

Cecilia Liu 劉詩詩



Comfortable,  
soft

Soft & Comfort

Nicholas Tse 謝霆鋒



Young,  
energetic, casual,  
trendy

Daphne Young

Puff Kuo 郭雪芙

O'ONDUL'  
圆漾



Elegant, exquisite,  
designed by Gao  
Yuanyuan

Ondul

Gao Yuanyuan 高圓圓



Cute,  
sweet,  
fancy,  
carefree

Hello Kitty

Hello Kitty  
collection by  
DAPHNE



Minimalist,  
basic, versatile,  
value-for-money

Dulala 杜拉拉

dulala 杜拉拉

# Strong Brand Equity

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## China Brand Power Index

- **Ranked top in the Women's Shoes category in the "China Brand Power Index 2015".**
- **Conducted by Chnbrand, one of China's most reliable brand evaluation organisations, under the guidance of the Ministry of Industry and Information Technology**
- **Survey covered 11,500 individual consumers in 30 cities across the nation, with over 7,800 brands in 158 industries examined**
- **Brand awareness and loyalty as the main assessment criteria**
- **Won this accolade for the fifth consecutive year**



# Fast Growth of E-Commerce Business

- E-commerce business continued to achieve sales growth, and maintained its profitability
- Strengthened its partnership with major online shopping platforms
  - Signed strategic partnership agreement with Alibaba in July 2015 to strengthen online marketing, promotion and operation
- Approximately 2 million unique daily visitors in major e-commerce platforms
- Implementing O2O initiatives to provide faster delivery and more efficient service



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# Financial Review



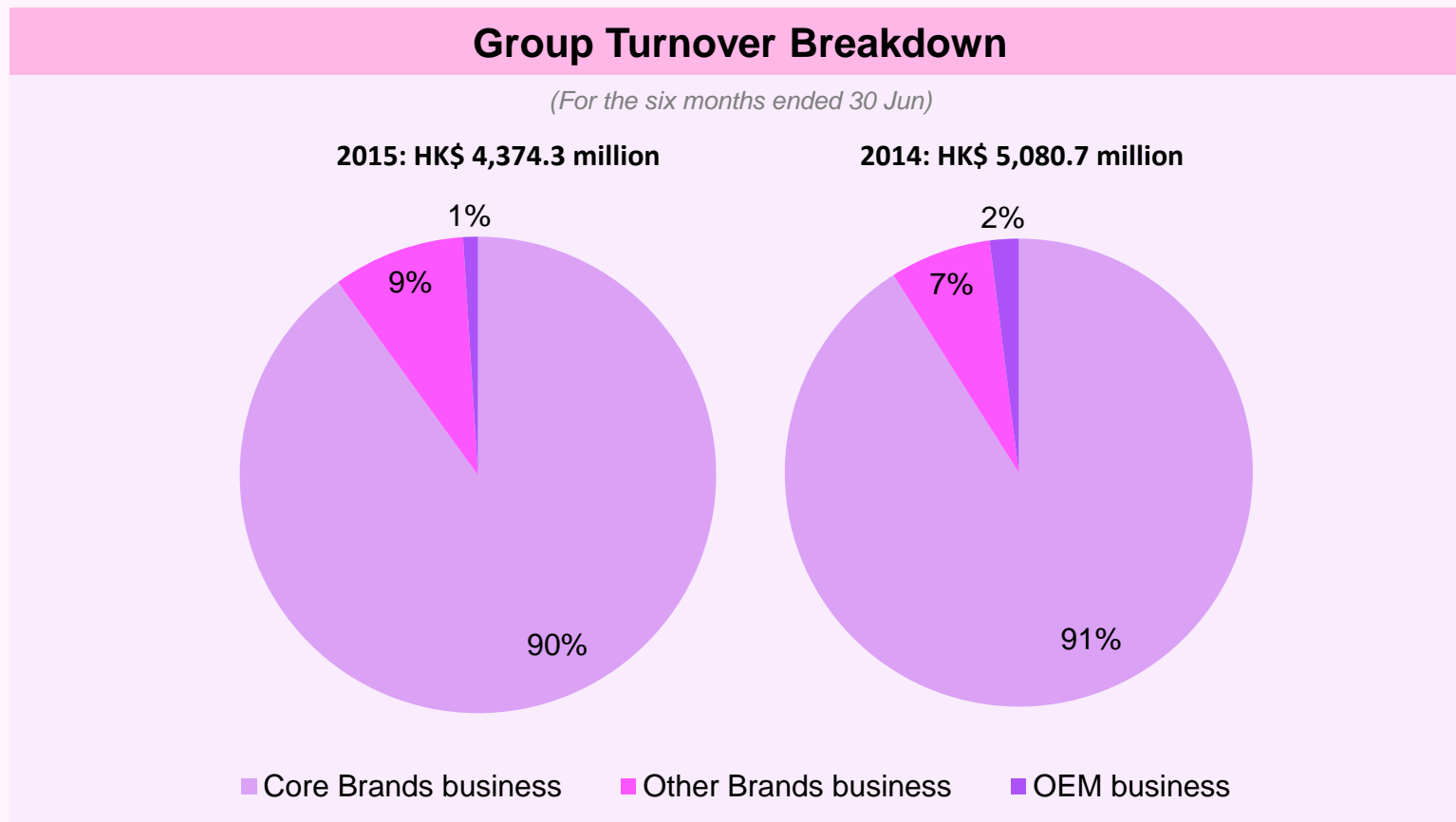
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# Group Financial Highlights

<i>(HK\$ million)</i>	1H 2015	1H 2014	Change
<b>Turnover</b>	4,374.3	5,080.7	-13.9%
<b>Gross profit</b>	2,654.6	2,865.5	-7.4%
<b>Operating profit</b>	11.0	240.7	-95.4%
<b>Profit attributable to owners of the Company</b>	2.5	172.4	-98.5%
<b>Basic EPS <i>(HK cents)</i></b>	0.2	10.5	-98.1%
<b>Interim dividend per share <i>(HK cents)</i></b>	-	3.5	-100.0%
<b>Gross profit margin</b>	60.7%	56.4%	+4.3 ppt
<b>Operating profit margin</b>	0.3%	4.7%	-4.4 ppt
<b>Net profit margin</b>	0.1%	3.4%	-3.3 ppt

# Group Turnover

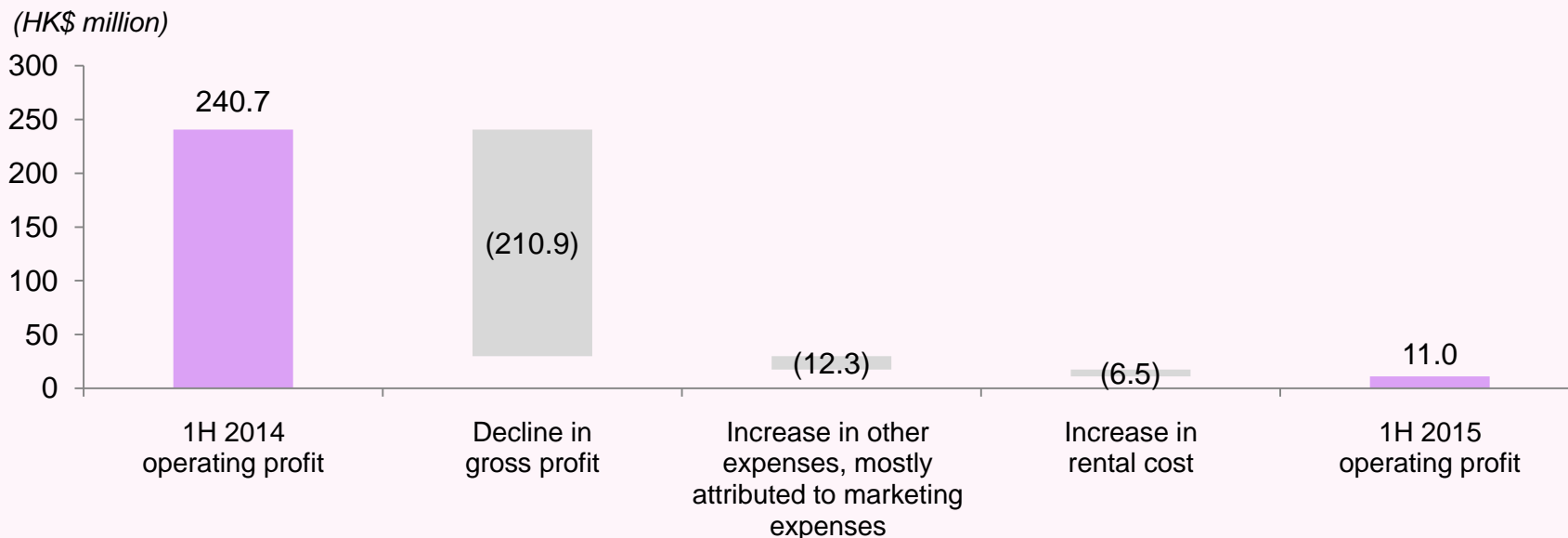
- Core Brands business remains the largest contributor to Group turnover



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

# Group Operating Profit Analysis

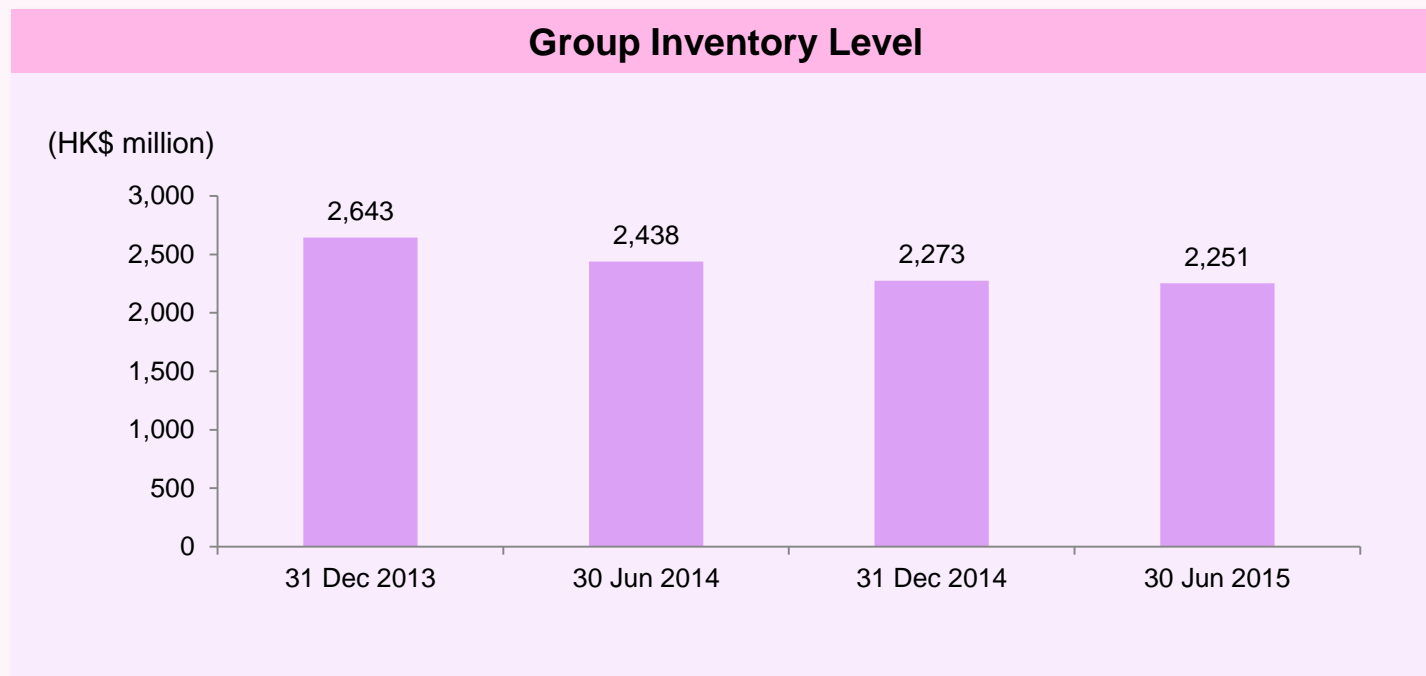
- **Group profit margin increased by 4.3 ppt YoY**
  - Adopted new pricing strategy
  - Improved sales mix
  - Lower product costs
- **Group operating expenses are comparable with last year**
  - Strived to contain rising operating expenses under inflationary environment
- **Group operating profit margin dropped by 4.4 ppt YoY**
  - Negative operating leverage due to decline in sales





# Inventory Turnover Days

- **Group inventory level continued to decline as compared to that of 2014 year end, and 2013 year end**
- **Group inventory turnover days was 238 days**
  - Despite lower overall inventory level, inventory turnover days increased due to sales decline



# Working Capital & CAPEX

- **CAPEX decreased YoY**
  - One-off purchase of self-use office incurred additional CAPEX last year
  - Less store openings in 1H 2015

	1H 2015	1H 2014	Change
<b>Average Inventory Turnover (days)</b>	238	208	+30
<b>Average Debtors Turnover (days)</b>	14	13	+1
<b>Average Creditors Turnover (days)</b>	105	114	-9
<b>Cash Conversion Cycle (days)</b>	147	107	+40
<b>CAPEX (HK\$ million)</b>	141.3	246.7	-42.7%

## Other Key Financial Indicators

- Redemption of convertible bonds resulted in lower cash & bank balances
- Post convertible bonds redemption, the Group maintains net cash position

<i>(HK\$ million)</i>	As at 30 Jun 2015	As at 31 Dec 2014	Change
<b>Cash and bank balances</b>	915.5	1,528.7	-40.1%
<b>Bank loans</b>	495.1	96.5	+413.1%
<b>Convertible bonds</b>	-	680.7	-100.0%
<b>Equity attributable to owners of the Company</b>	5,063.8	5,058.0	+0.1%
<b>Current ratio (times)</b>	3.0	2.4	+0.6
<b>Net gearing ratio</b>	Net cash	Net cash	-

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# Operational Highlights



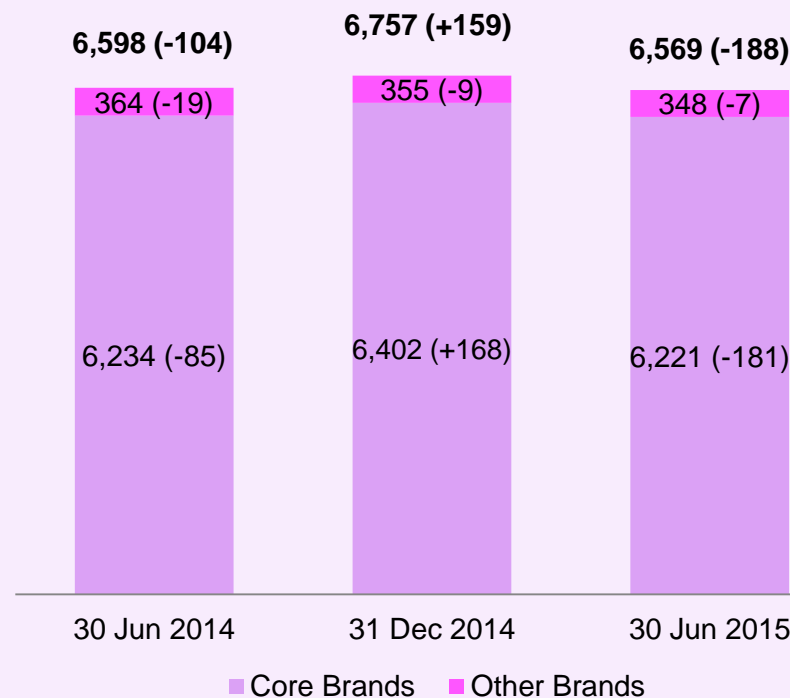
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# Group Sales Network

- Cautious store network development
- Net reduction of 181 Core Brands POS, bringing the total to 6,221
- Net reduction of 7 Other Brands POS



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





# Core Brands Sales Network



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达芙妮

鞋柜



- Net reduction of 181 POS (including 117 directly-managed stores and 64 franchised stores)
- Stepped up store closures in 2Q 2015

## Number of POS

	As at 30 Jun 2015	As at 31 Dec 2014	Change	% Change
Directly-managed POS	5,631 (91%)	5,748 (90%)	-117	-2.0%
Franchised POS	590 (9%)	654 (10%)	-64	-9.8%
<b>Core Brands Total</b>	<b>6,221</b>	<b>6,402</b>	<b>-181</b>	<b>-2.8%</b>

## Quarterly change in POS

	1Q 2015	2Q 2015	1H 2015
Directly-managed POS	+24	-141	-117
Franchised POS	-38	-26	-64
<b>Core Brands Total</b>	<b>-14</b>	<b>-167</b>	<b>-181</b>

## Core Brands Sales Network (cont'd)



鞋柜



- The Group maintained greater representation in lower tier cities

	As at 30 Jun 2015		As at 31 Dec 2014		Change	% Change
	No.	%	No.	%		
Tier 1 Cities	724	12%	731	12%	-7	-1.0%
Tier 2 Cities	1,556	25%	1,607	25%	-51	-3.2%
Tier 3 Cities	1,183	19%	1,238	19%	-55	-4.4%
Tier 4-6 Cities	2,758	44%	2,826	44%	-68	-2.4%
Total	6,221	100%	6,402	100%	-181	-2.8%



# Core Brands Business - Performance



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- Turnover of Core Brands business declined by 13.9%
- Core Brands operating margin was 1.0%

(HK\$ million)	1H 2015	1H 2014	Change
Turnover	4,034.9	4,685.0	-13.9%
Gross profit	2,376.5	2,622.1	-9.4%
Gross margin	58.9%	56.0%	+2.9 ppt
Operating profit	41.8	264.8	-84.2%
Operating margin	1.0%	5.7%	-4.7 ppt



# Core Brands Business - SSSG



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鞋柜



	1Q 2015	2Q 2015	1H 2015
Same store sales growth	-15.9%	-17.7%	-16.9%

- **Average selling price decreased by 8.2% to RMB 168**
  - Change in sales mix



## Other Brands Business

(HK\$ million)	1H 2015	1H 2014	Change
<b>Turnover</b>	389.0	358.1	+8.6%
<b>Gross profit</b>	249.0	223.3	+11.5%
<b>Gross margin</b>	64.0%	62.4%	+1.6 ppt
<b>Operating profit / (loss)</b>	5.0	(8.5)	From loss to profit
<b>Operating margin</b>	1.3%	(2.4%)	+3.7 ppt

- **Driven by strong growth in e-commerce, turnover of Other Brands business increased by 8.6%**
- **Mid- to high-end brands' performance improved**
  - Net closure of 7 POS
  - Sales performance per store improved
- **Overall gross profit margin of Other Brands business improved by 1.6 ppt**
  - Increased ASP driven by improved sales mix
- **Other Brands business recorded an operating profit of HK\$5.0 million**

**AEE**  
爱意

AEROSOLES  
爱柔仕

**ALDO**

Step Higher





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# Outlook



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# Market Outlook for 2H 2015

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## *Negative*

- Consumer sentiment remained subdued
- Recent volatility in stock market may further weaken the already soft retail market
- Both online and offline competition are intense
- Increasing labour cost

## *Positive*

- PRC government policies to promote domestic consumption
- Urbanisation continues
- Wage hikes increase purchasing power of mass-segment consumers
- Beyond cycles, mass market is still a structurally growing sector where Daphne is positioned firmly at the top
- Lower raw material costs help improve gross profit margin
- Group's e-commerce continues to grow
- Stepped up cost control, including downsizing store network

# Transformation

	2015	Long-Term Targets
<b>Products &amp; Merchandising</b>	<ul style="list-style-type: none"> <li>• Enrich the product range</li> <li>• Upgrade product quality and styles</li> <li>• Focus on high-growth product categories</li> <li>• Improve merchandising</li> <li>• Enhance inventory level and mix</li> <li>• Reduce product cost</li> </ul>	<ul style="list-style-type: none"> <li>• Affordable, fashionable and quality products to address different customers and occasions</li> </ul>
<b>Branding &amp; Marketing</b>	<ul style="list-style-type: none"> <li>• Refresh brand image</li> <li>• Further market segmentation</li> <li>• Emphasis on new media to maximise the reach to target customers</li> <li>• Improve return on investment</li> </ul>	<ul style="list-style-type: none"> <li>• Establish a modern, trendy, relevant, high value-for-money brand image</li> </ul>
<b>Distribution Channels</b>	<ul style="list-style-type: none"> <li>• Diversify channel mix</li> <li>• Store rationalisation</li> <li>• Store renovation</li> </ul>	<ul style="list-style-type: none"> <li>• Achieve more balanced and stable source of sales to maximise revenue</li> </ul>

# Transformation (cont'd)

	2015	Long-Term Targets
<b>Sales Operation</b>	<ul style="list-style-type: none"> <li>• Enhance sales staff productivity, by introducing new incentive schemes and systems</li> <li>• Use of part-time staff</li> <li>• Front-line staff optimisation</li> <li>• Mitigate inflationary pressure of key operating costs, e.g. labour and rental costs</li> <li>• Implement internal re-organisation and streamline operational structure</li> <li>• Rigorous costs management</li> <li>• Explore new platforms to increase revenue</li> </ul>	<ul style="list-style-type: none"> <li>• To increase sales and productivity</li> <li>• To improve staff retention and quality</li> <li>• To increase cost efficiency of all key operating costs</li> <li>• To enhance profitability</li> </ul>
<b>E-commerce</b>	<ul style="list-style-type: none"> <li>• Strengthen partnership with major online partners, including Tmall, JD.com, VIP.com, etc.</li> <li>• Continue to develop and implement O2O initiatives               <ul style="list-style-type: none"> <li>➢ Build a dedicated team to explore the opportunities by leveraging the sales team, loyal customers and social media platforms</li> <li>➢ Increase the online interaction between the sales team and customers</li> <li>➢ Enable online order fulfilment by major warehouses and stores</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• To increase e-commerce's contribution to more than 10% of the Group's revenue</li> </ul>

# Highlights of Business Plan

- Despite intense competition and soft consumer sentiment, opportunities beckon:

Store Network	Store rationalisation including stepping up closures of under-performing stores, and improve store profitability
E-commerce	To adopt omni-channel strategy by accelerating the development of e-commerce to complement the store rationalisation
GP Margin	To optimise gross profit by making adjustments in product offering, pricing and promotion strategies
OPEX	To exert stringent cost control with emphasis on labour and rental costs
CAPEX	Deployment of CAPEX will be more prudent

**The Group expects a transitional period before achieving transformation**



# Business Outlook and Strategy – in Medium to Long Term

- Prospect of consumption growth in China is still promising in long term
- Store rationalisation and selective store openings will improve store profitability
- Accelerate e-commerce growth by increasing resources and fuelling continuous support to O2O strategies
- Put emphasis on enhancing both online and offline shopping experience by making improvements on all-fronts of retail business: product, store, promotion, channel and people
- Healthy balance sheet to take on challenges and support the transition to revive growth



天猫焕新, 鞋新来袭!  
2015-08-20 达芙妮Daphne



女神全智贤鞋新来袭, 爱尚新我! 勇敢爱新欢~这次狠惠玩!  
天猫焕新 旗舰店多惠好礼 等你来!

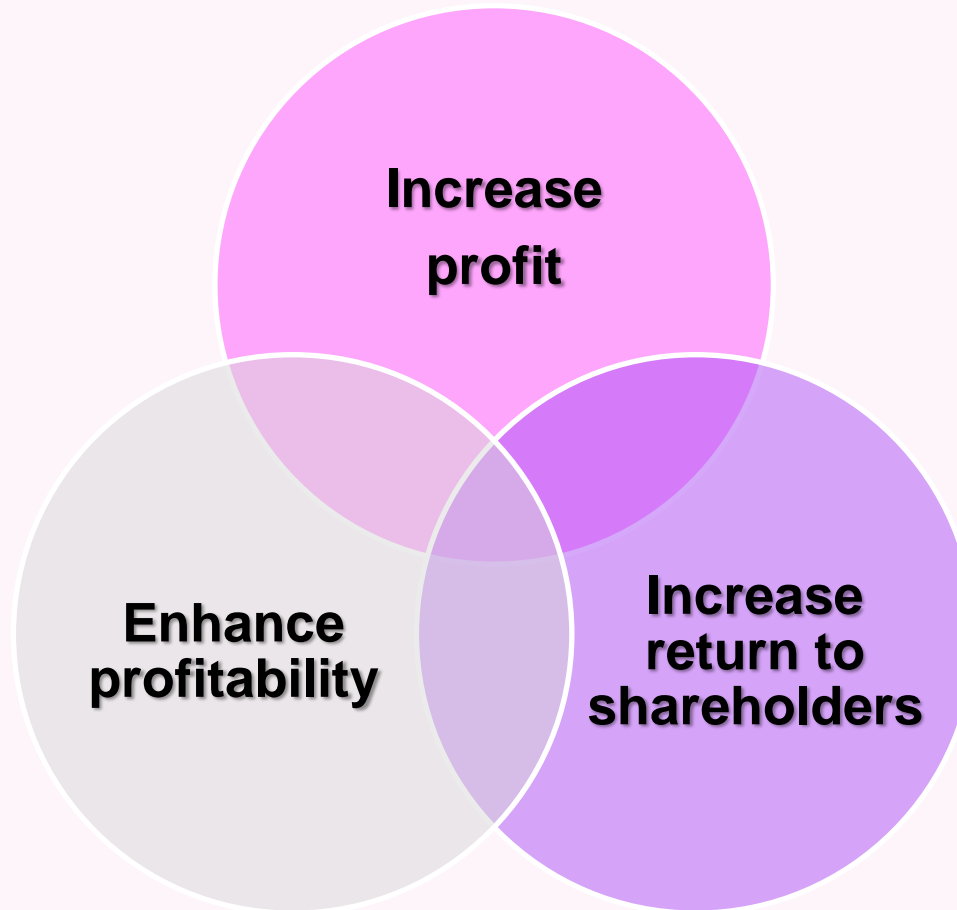


8月7日, 即今天起至8月27日, 只要前往达芙妮门店购买指定超级美鞋套餐就能获赠《落跑吧, 爱情》电影票, 以及价值1000元的惊喜大礼包哦!!! 心动不如行动, 赶紧出门抢票啦!



# Focus for Driving Improvements

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# Vision

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

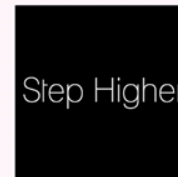


*“In view of the fast-changing retail market, increasing competition, and more diversified and sophisticated customers, the Group is determined to make bold moves to adapt to the “new normal” of China and strengthen its competitiveness, so as to strive for growth in medium to long term.”*

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# Thank you

.....Q&A session



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# Investor Relations Contact

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