



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

2016 Interim Results Presentation

24 August 2016

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1H 2016 Overview

- Group turnover decreased by 22.3% (18.5% at constant currency)
 - Turnover of Core Brands decreased by 22.8% (19.1% at constant currency)
 - Negative same-store sales growth of 11.7% YoY
 - Number of Group's points-of-sale ("POS") decreased by 16.8% YoY
 - Net closure of Group's POS was 466 during 1H
 - E-commerce achieved strong growth and remained profitable
- Inventory level continued to reduce by 21.4% as compared to that at 30 June 2015
 - Inventory turnover days reduced to 232 days from 238 days for same period last year
- Group gross profit margin at 55.4%, decreased by 5.3 ppt due to increased sales mix of aged products
 - Group operating expenses ("OPEX") decreased by 18.3%, broadly in line with the decrease in Group turnover
 - Group net profit margin was -4.8%

Financial Review



Group Financial Highlights

<i>(HK\$ million)</i>	1H 2016	1H 2015	Change
Turnover	3,400.8	4,374.3	-22.3%
Gross profit	1,884.2	2,654.6	-29.0%
Operating (loss)/profit	(249.5)	11.0	N/A
(Loss)/profit attributable to owners of the Company	(163.6)	2.5	N/A
Basic EPS <i>(HK cents)</i>	(9.9)	0.2	N/A
Interim dividend per share <i>(HK cents)</i>	Nil	Nil	-
Gross profit margin	55.4%	60.7%	-5.3 ppt
Operating profit margin	-7.3%	0.3%	-7.6 ppt
Net profit margin	-4.8%	0.1%	-4.9 ppt

*N/A: Not applicable

Challenges Faced by the Group

Group turnover was affected by:

- ✦ Soft consumer demand resulted from further economic slowdown in China
- ✦ Store traffic dampened by frequent rainstorms and flooding
- ✦ The YoY decrease of 16.8% in the number of POS for the Group
- ✦ Negative same-store sales growth of 11.7%
- ✦ Intense competition from local peers

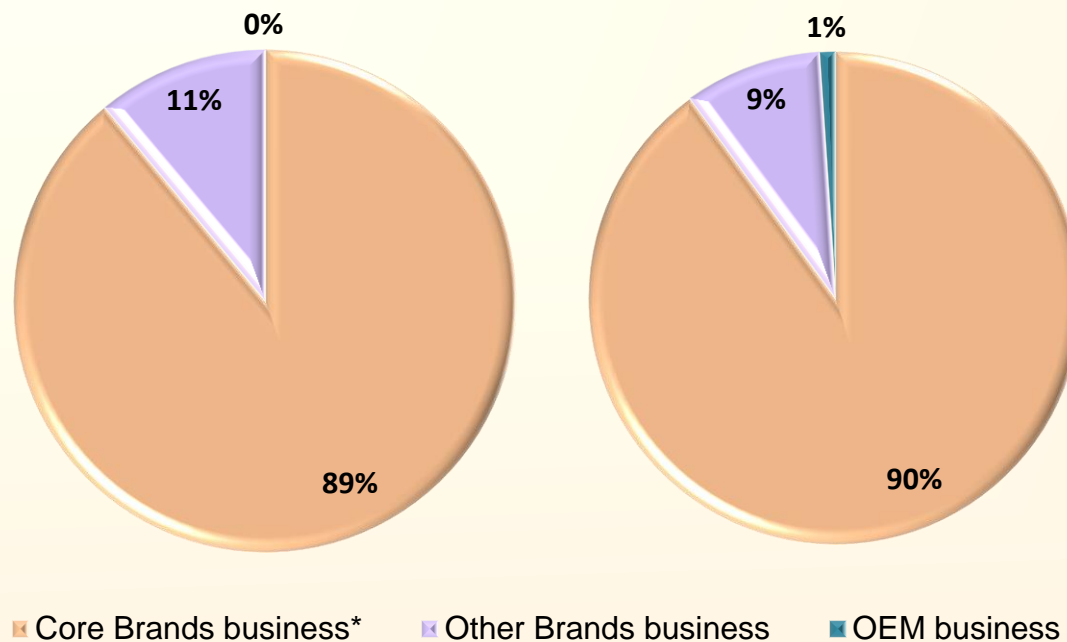


Group Turnover Breakdown

(For the six months ended 30 Jun)

2016: HK\$3,400.8 million

2015: HK\$4,374.3 million



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

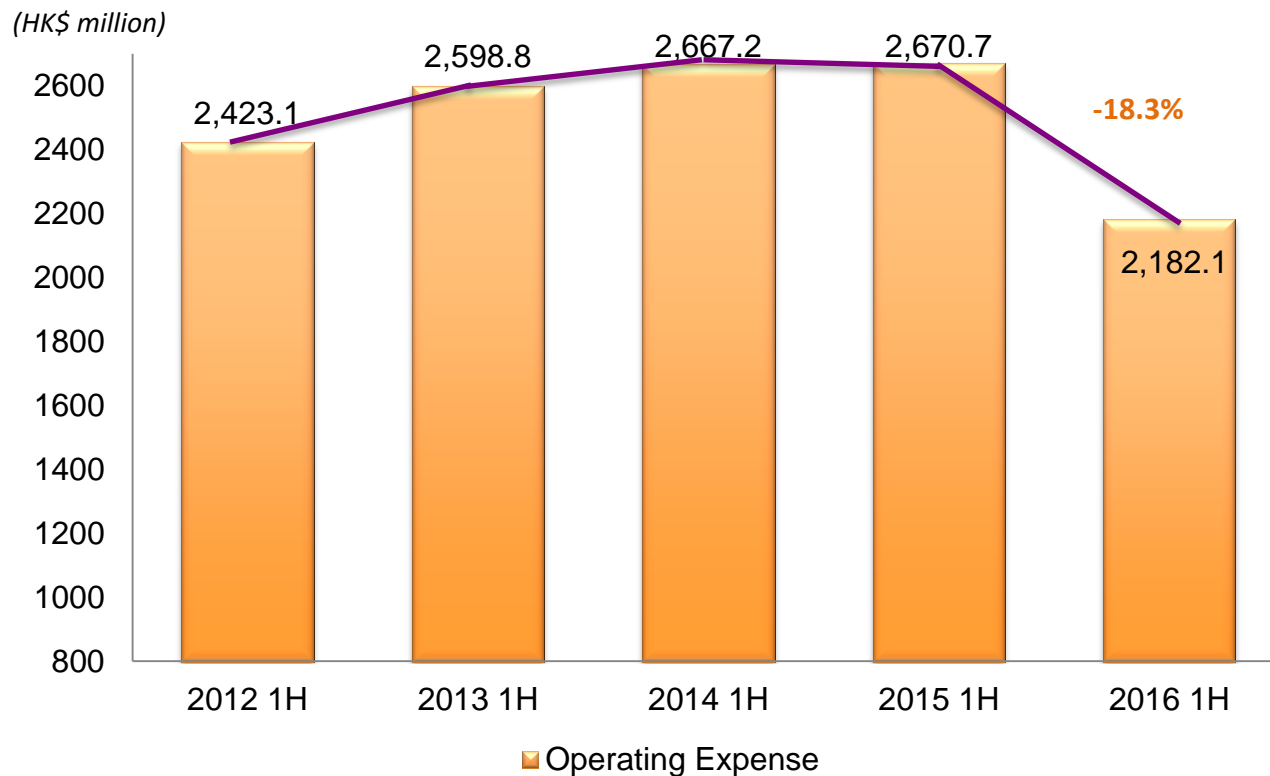
Group Gross Profit

- Group gross profit margin (“GPM”) decreased by 5.3 ppt YoY, mainly due to:
 - Increased weighting of aged products in the sales mix
 - Aged products sold at lower price
 - Highly promotional market
 - Product cost higher due to enhanced quality
- Benefit from the increase in inventory write-back was offset by above negative factors
- New products’ GPM was comparable to that of same period last year



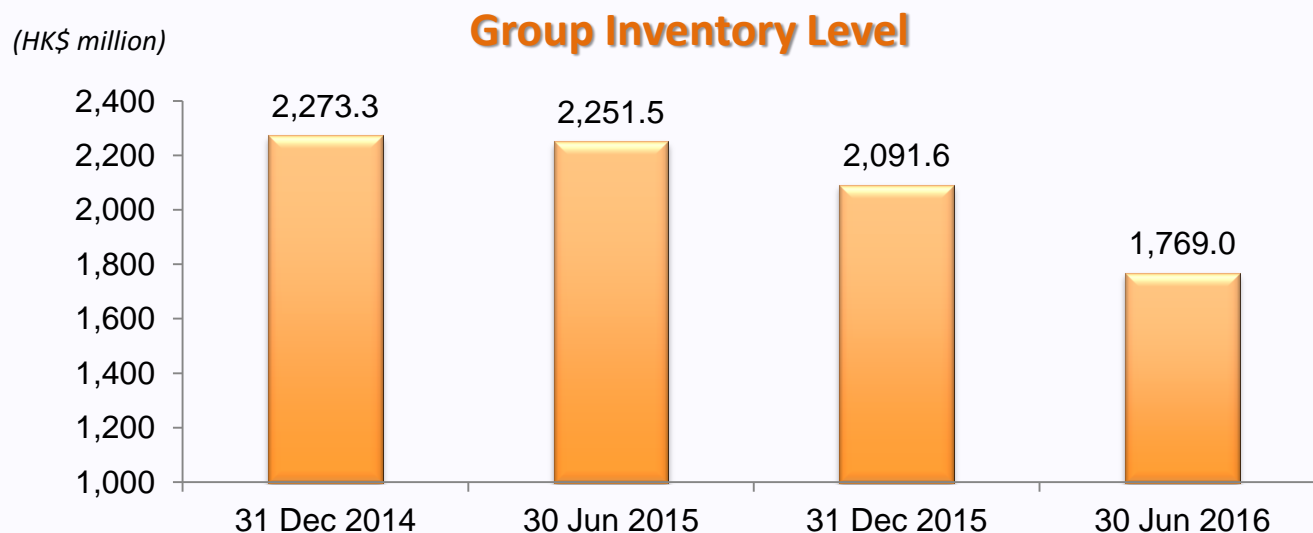
Group OPEX

- Decreased by 18.3% YoY
- Group OPEX decreased broadly in line with the decline in turnover



Inventory Level and Turnover Days

- Group inventory turnover days was 232 days (2015: 238 days)
- Group inventory level continued to decline



Inventory Optimisation

- Put emphasis on clearance of aged inventory
 - Emphasis was made at clearance outlets and special sales events to increase the sales of aged products
 - Increased the wholesales business for aged products
 - Earlier start of promotional activities
 - Increased usage of online discount shopping sites
 - More aggressive pricing to drive clearance under highly promotional market environment
- More focused product range with fewer SKUs
- Improve overall ordering



Working Capital and CAPEX

➤ CAPEX decreased by 53.8% YoY

➤ Less store openings in 1H 2016

	1H 2016	1H 2015	Change
Average Inventory Turnover (days)	232	238	-6
Average Debtors Turnover (days)	14	14	-
Average Creditors Turnover (days)	124	105	+19
Cash Conversion Cycle (days)	122	147	-25
CAPEX (HK\$ million)	65.3	141.3	-53.8%

Other Key Financial Indicators

➤ The Group maintains net cash position

<i>(HK\$ million)</i>	As at 30 Jun 2016	As at 31 Dec 2015	Change
Cash and bank balances	592.2	1,075.6	-44.9%
Bank loans	304.6	620.8	-50.9%
Equity attributable to owners of the Company	4,207.8	4,462.6	-5.7%
Current ratio (times)	3.1	2.4	+0.7
Net gearing ratio	Net cash	Net cash	-



Operational Highlights

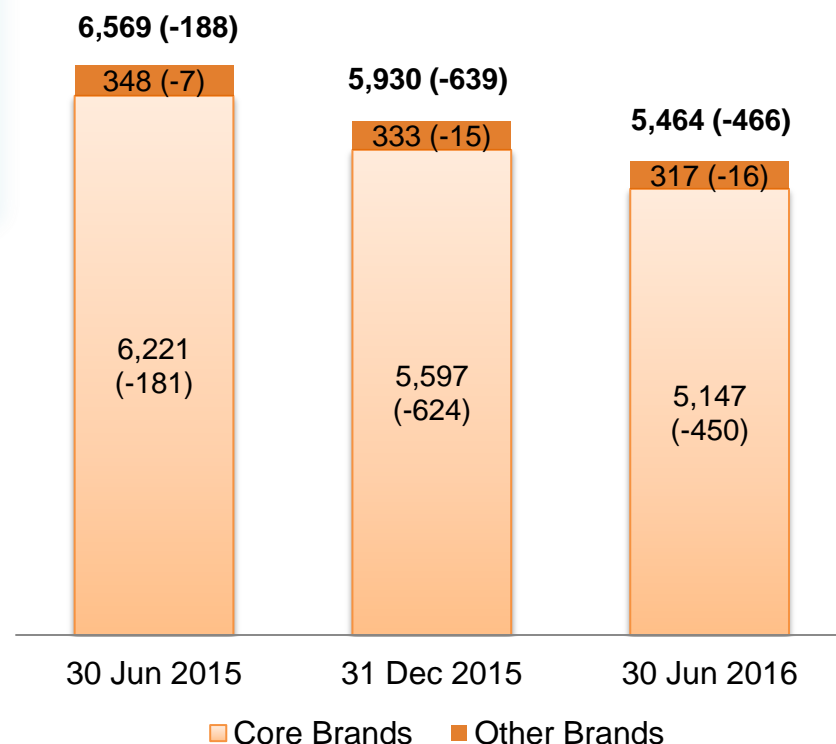


Group Sales Network

- Continued the rationalisation of stores
- Core Brands had a net reduction of 450 POS, bringing the total to 5,147
- Other Brands had a net reduction of 16 POS



Number of POS



Core Brands Sales Network

- Net reduction of 450 POS (including 400 directly-managed stores and 50 franchised stores)
- Stepped up store closures in 2Q 2016

Number of POS

	As at 30 Jun 2016	As at 31 Dec 2015	Change	% Change	As at 30 Jun 2015	Change	% Change
Directly-managed POS	4,656 (90%)	5,056 (90%)	-400	-7.9%	5,631 (91%)	-975	-17.3%
Franchised POS	491 (10%)	541 (10%)	-50	-9.2%	590 (9%)	-99	-16.8%
Core Brands Total	5,147	5,597	-450	-8.0%	6,221	-1,074	-17.3%

Quarterly change in POS

	1Q 2016	2Q 2016	1H 2016
Directly-managed POS	-139	-261	-400
Franchised POS	-37	-13	-50
Core Brands Total	-176	-274	-450

Core Brands Sales Network (cont'd)

- ✦ The Group maintained greater representation in lower tier cities

	As at 30 Jun 2016		As at 31 Dec 2015		Change	
	No.	%	No.	%		
Tier 1 Cities	588	11%	637	11%	-49	-7.7%
Tier 2 Cities	1,260	25%	1,376	25%	-116	-8.4%
Tier 3 Cities	949	18%	1,030	18%	-81	-7.9%
Tier 4-6 Cities	2,350	46%	2,554	46%	-204	-8.0%
Total	5,147	100%	5,597	100%	-450	-8.0%



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Core Brands Business - SSSG

➤ Average selling price decreased by 4.2% to RMB161

- Change in sales mix
- Aged products sold at a lower price

	1Q 2016	2Q 2016	1H 2016
Same store sales growth	-6.2%	-15.9%	-11.7%



Core Brands Business - Performance

(HK\$ million)	1H 2016	1H 2015	Change
Turnover	3,113.6	4,034.9	-22.8%
Gross profit	1,649.7	2,376.5	-30.6%
Gross profit margin	53.0%	58.9%	-5.9 ppt
Operating (loss)/profit	(236.4)	41.8	N/A
Operating profit margin	-7.6%	1.0%	-8.6 ppt

- Turnover of Core Brands business declined by 22.8%
- Store number reduced by 17.3% YoY
- Material decrease in gross profit margin
- High fixed cost structure of retail operation





Other Brands Business

(HK\$ million)	1H 2016	1H 2015	Change
Turnover	388.8	389.0	-0.1%
Gross profit	221.2	249.0	-11.2%
Gross profit margin	56.9%	64.0%	-7.1 ppt
Operating profit	1.7	5.0	-66.0%
Operating profit margin	0.4%	1.3%	-0.9 ppt

➤ **Turnover of Other Brands business was flat, as the turnover growth of e-commerce offset the decline of turnover in Mid- to high-end brands and others**

➤ **Overall gross profit margin of Other Brands business dropped by 7.1 ppt**

- Increased weighting of e-commerce sales and aged products
- Highly promotional market

➤ **Mid- to high-end brands' performance was affected by**

- YoY reduction in the number of POS by 8.9%
- Decreased sales due to unfavourable weather in 2Q and negative SSSG

➤ **Other Brands business recorded an operating profit of HK\$1.7 million**

E-Commerce Business

- Continued to deliver strong turnover growth and remained profitable
- Increased its sales contribution to the Group's turnover
- Brand equity of Daphne remained strong in China as reflected from its online leadership in women's footwear
- More online discount sites were deployed to support clearance of aged products
- Strategic partnership with key online partners, including Alibaba, and JD.com, helped boost online exposure and sales



Outlook



Focus of Improvement Plan

- Focus on cost reduction and improving margins
- Key initiatives include:

Progress made in 1H 2016

Store rationalisation

- ✓ Net closures of 400 directly-managed stores under Core Brands
- ✓ Total operating lease rentals reduced by 19.2%

Next Steps

- Continue to have net closures until the Group resumes profitability
- Continue to combine stores and open larger stores to improve cost efficiency



Focus of Improvement Plan (cont'd)

Inventory rationalisation and optimisation

Progress made in 1H 2016

- ✓ Reduction of inventory level by 21.4% as compared to that at 30 June 2015
- ✓ Improvement of 6 days in inventory turnover days
- ✓ Improved the inventory mix



Next Steps

- Continue to reduce the inventory level and turnover days
- Put emphasis on improving inventory mix
- Reduce ordering for F/W 2016
- Focus on clearance of aged products and replenishment of best-selling products simultaneously to optimise sales and GPM
- Aged products will be carefully allocated in different category of stores

Focus of Improvement Plan (cont'd)

	Progress made in 1H 2016	Next Steps
<i>Personnel rationalisation</i>	✓ Group's total staff cost decreased significantly	<ul style="list-style-type: none"> ➤ Continue to make adjustment according to size of store network ➤ Streamline the workflows and organisational structure both at stores and back offices
<i>Pursue a more balanced channel mix</i>	✓ Reduced the ratio of street stores	<ul style="list-style-type: none"> ➤ Continue to drive for better balance in channel mix ➤ Monitor store performance of different channels and make adjustments accordingly



Focus of Improvement Plan (cont'd)

Expand e-commerce business

Progress made in 1H 2016

- ✓ Achieved growth higher than that of overall e-commerce sector*
- ✓ Increased its contribution to the Group's turnover
- ✓ O2O: online order fulfilment by offline inventory

Next Steps

- Continue to strengthen the strategic relationship with both key and emerging online partners
- Continue to build customer base and increase its penetration for its new online stores
- Roll out the warehouse sharing programme to more cities to enhance the stock supply and delivery service
- Continue to build online capabilities
- Continue to enhance O2O initiatives by leveraging offline capabilities



* Source: The Ministry of Commerce, PRC, 19 July 2016

Focus of Improvement Plan (cont'd)

**Pursue
“differentiation”
strategy, and adopt
a multi-brand and
multi-category
approach**

Progress made in 1H 2016

- ✓ Introduced a new multi-brand store format
- ✓ Introduced combined and large store format
- ✓ Introduced new product category in Daphne stores
- ✓ Made adjustment for the SKUs of sports fashion style

Next Steps

- Make adjustments in various aspects of multi-brand stores to foster its successful growth
- Continue the development of large-store format and adjust as necessary to pursue the multi-brand and multi-category direction
- Continue to add and build new sub-brands, new product lines to tap new customer segments and refresh brand image
- Continue to improve the product quality and styles to reinforce its brand and product positioning



Thank you
.....Q&A session



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