

**Daphne International Holdings Limited**  
**2017 Annual Results Announcement**

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**Group Turnover at HK\$5,211.0 Million**  
**Gross Profit Margin Increased by 1.9 Percentage Points to 52.8%**  
**E-commerce Operation Continued to be Profitable**  
**Inventory Level Further Decreased**

**Operational Highlights:**

- Group turnover amounted to HK\$5,211.0 million
- Group gross margin increased by 1.9 percentage points to 52.8%
- Operating cost dropped by 17.2%, broadly in line with the decline in the Group's sales
- e-commerce operation continued to be profitable, with contribution to the Group's revenue continued to increase
- Inventory level further decreased to HK\$1,246.9 million
- Remained at net cash position of HK\$330.0 million
- Daphne topped the "China Net Promoter Score" (women's footwear category) in 2017 and therefore named the most recommended women's footwear brand by customers
- Shoebox topped Chnbrand's "China Customer Satisfaction Index 2017" (women's footwear category) for two consecutive years, and Daphne ranked the third in 2017
- Daphne ranked top for the seventh consecutive year in the "China Brand Power Index 2017" (women's footwear category)

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

(28 March 2018 – Hong Kong) – The leading ladies' footwear retailer in China – **Daphne International Holdings Limited** ("Daphne" or the "Group", stock code: 0210), announced today its annual results for the year ended 31 December 2017.

2017 is an important year for the Group as it initiated a number of transformation measures, including brand revamp and product upgrade, to address the market challenges. In that year of transition, the Group's turnover decreased by 19.9%, in line with the 21.7% decline in the total number of stores. However, the Group's gross profit margin increased to 52.8% (2016: 50.9%) because of an increase in the gross profit margin at the Core Brands Business.

Group operating loss was narrowed to HK\$688.8 million in 2017 from HK\$819.5 million for the previous year. Loss attributable to shareholders of the Company decreased to HK\$734.2 million for the year of 2017 (2016: HK\$819.1 million). Basic loss per share was HK44.5 cents (2016: HK49.7 cents). The board of directors did not recommend the payment of a final dividend (2016: Nil).

The Group initiated adjustment of its channel mix to align with its refreshed brand images and continued to optimise its store network in 2017, and the move led to a net reduction of 1,064 points of sale ("POS"). Therefore, the total number of the Group's POS was 3,836 as at 31 December 2017, of which 3,589 POS (a net decrease of 1,009 POS) were under its Core Brands Business and 247 POS (a net decrease of 55 POS) were under its Other Brands Business. Continued efforts in inventory management decreased the inventory level further to HK\$1,246.9 million as of 31 December 2017, from HK\$1,414.5 million in 2016.

## **Core Brands Business**

As a result of the reduction in store number and decline in same-store sales, the Group's turnover of the business of its Core Brands, "Daphne" and "Shoebox", in Mainland China decreased by 20.8% to HK\$4,703.2 million (2016: HK\$5,936.0 million). The segment revenue generated from sales to external customers of the Core Brands Business accounted for 86% of the Group's total revenue for 2017 (2016: 88%).

Despite the negative impact of the continued effort to clear the aged inventory during the year, Core Brands Business' gross profit margin still managed to increase to 49.2%, up by 1.9 percentage points, mainly attributable to the Group's adoption of a stable pricing strategy to support its new brand images. Although the efforts made for key transformation initiatives only started to be reflected at customer touch-points in the second half of 2017, mostly in the last few months, and many of their benefits were not yet realised, the Group was able to narrow the operating loss to HK\$667.6 million in 2017 from HK\$744.1 million in the previous year. When the Group launched its well-received autumn and winter collections with enhanced design, it recorded the best quarterly same-store sales performance in the fourth quarter of the year.

## **Other Brands Business**

The Group's Other Brands business mainly consists of its e-commerce business and the operations of mid- to high-end brands (including the Group's own brands, and brands under exclusive distributorships such as "AEE", "STEP HIGHER", "AEROSOLE" and "ALDO", in Mainland China, Hong Kong and Taiwan). Due to the soft market situation and a net decrease of 18.2% in its POS from 302 to 247, the turnover of the mid- to high-end brands portfolio decreased during the year and therefore the turnover of Other Brands Business segment decreased to HK\$733.5 million (2016: HK\$813.0 million). This segment accounted for approximately 14% (2016: 12%) of the Group's total revenue in 2017, and recorded an operating loss of HK\$7.1 million (2016: a profit of HK\$7.8 million).

Although the online competition became more intense, and the Group had been adhering to its stable pricing policy throughout the year, the Group's e-commerce business was stable and remained profitable in 2017. Its contribution to the Group's revenue continued to increase. Store pick-up service was officially launched in 2017 at selected stores for online orders. This new service not only helped support online sales and strengthened the inventory management for the Group as a whole, but also encouraged repeat purchases at the offline stores.

## **Awards**

Daphne retained its number one position in the "China Brand Power Index 2017" (women's footwear category) by Chnbrand for the seventh consecutive year. It also topped the "China Net Promoter Score" in 2017 in women's footwear category and therefore became the most recommended women's footwear brand by customers. Shoebox topped "China Customer Satisfaction Index 2017" (women's footwear category) for two consecutive years, and Daphne ranked the third in 2017. The achievement reflected the Group's efforts in the improvement of branding and products. These are national surveys that each interviewed over 10,000 consumers across 35 cities in China.

## **Outlook**

The Group is making every endeavour in implementing its plan for business transformation which features a wide spectrum of the Group's operation. Since the beginning of the Group's roll-out of its key initiatives in early 2017, it takes time to prepare for full implementation of the plan with most of the hard work from the implementation process starting to reflect at customer touch points until the third and fourth quarter of 2017. With prudent estimation of the complexity of such an extensive business transformation involving internal restructuring and re-engineering, phase-in and phase-out of new and old systems and practices, tremendous external and internal co-ordination and communication, the Group understands that it takes time to roll out the measures across a vast country and to yield results. Some key initiatives are implemented by phases to tackle the complexity. Along the

implementation process, the Group will closely monitor and respond to the changing consumer preferences and the evolving market situation by doing necessary modification to its new measures. Although most of its measures are progressing as planned, the Group is well aware that there are still a lot to be done.

The Group is poised to roll-out Daphne's new-image stores steadily in 2018, and will also continue with the adjustment in its channel mix to complement the new brand images. The Group's product design team and brand management team will analyse sales data and customer feedback from the autumn and winter 2017 collection and incorporate adequate changes in product design and portfolio, product quality, product ordering and allocation to enhance its future product collections. The Group has also planned to make further adaptations of its supply chain to the overall product upgrade. While a new batch of crossover products with "Opening Ceremony" brand for the upcoming spring and summer seasons is about to be launched, the Group is working on the next major crossover project for its autumn and winter collection in 2018. To make its CRM programme more appealing and engaging, the Group will enrich its loyalty programme and improve the recruitment mechanism of new members.

The Group's e-commerce business will continue the pursuit of "O2O" business by strengthening interaction between online and offline, and improve the related efficiency. For example, the Group will extend the coverage of its shop-pick-up service in its store network. It also has plans in the pipeline to expand its online sales distribution network. In addition to bringing a wider range of exclusive products to its online product offerings, the Group will see improving customers' online shopping experience as an ongoing measure. In view of the fast evolution of the online retail market in China, the Group's e-commerce team has dedicated its efforts to closely monitor market dynamics and will plan to take adequate actions to maintain and expand its online market presence.

Looking ahead, Mr. Kevin Chang, Daphne's Chairman and Chief Executive Officer, said, "The Group is confident that the business transformation plan is leading it towards the growth path, albeit that its benefits may take time to realise. Nevertheless, the management is dedicated to ensuring effective execution of the transformation initiatives and resolving challenges during the process. With its stable financial position, the Group will be able to continue with its value creation for shareholders and strive for sustainable growth."

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#### **About Daphne International Holdings Limited**

Established in 1987, Daphne International Holdings Limited was listed on the Main Board of The Stock Exchange of Hong Kong Limited in 1995. The Group is principally engaged in the manufacturing, marketing and distribution of ladies' footwear under its own and exclusively-distributed brands, with 3,836 points-of-sale in Mainland China, Taiwan and Hong Kong. Its core own-brand, "Daphne", is now a leading ladies' footwear brand in Mainland China, and another own-brand, "Shoebox", is also growing at a fast pace in the mass market of Mainland China.

For further information, please visit [www.daphne.com.cn](http://www.daphne.com.cn) or contact:

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