

[For Immediate Release]

Daphne International Holdings Limited
2017 Interim Results Announcement

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Group Turnover at HK\$2,732.7 Million
Gross Profit Margin Increased by 0.3 percentage point to 55.7%

Driven by Brand Revamp and Product Upgrade
E-commerce Business Continued to Record Sales Growth
Inventory Turnover Days Down to 200 Days

Operational Highlights:

- Group turnover amounted to HK\$2,732.7 million
- Turnover of Core Brands* business amounted to \$2,465.1 million
- Group gross margin increased by 0.3 percentage point to 55.7%
- Total number of the Group's points-of-sale ("POS") was 4,570, consisting of 4,292 POS under its Core Brands
- Financial position remained solid with net cash at HK\$607.4 million
- E-commerce business continued to record sales growth and remained profitable
- Inventory turnover days reduced by 32 days to 200 days
- Group operating expenses reduced by 19.7%, in line with the decrease in the Group's turnover
- Ranked top for the seventh consecutive year in the "China Brand Power Index 2017" (in the "Women's Shoes" category)

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

(29 August 2017 – Hong Kong) – The leading ladies' footwear retailer in China – **Daphne International Holdings Limited** ("Daphne" or the "Group", stock code: 0210), announced today its interim results for the six months ended 30 June 2017.

During the first half of 2017, the mass market for women's footwear was yet to see a consistent improving trend and remained to be intensely competitive. The Group's local peers gave considerable markdowns even as early as the beginning of spring and summer seasons in 2017. Although the inflation rate decelerated, operating costs such as the costs of labour and logistics continued their growth trend during the first half of 2017.

For the six months ended 30 June 2017, the Group's turnover decreased by 19.6% to HK\$2,732.7 million (1H2016: HK\$3,400.8 million). The decrease was mainly attributable to a year-on-year decrease of 16.4% in the number of the Group's points-of-sale ("POS"), and decrease in same-store sales at its Core Brands Business. Although gross profit decreased to HK\$1,522.0 million (1H2016: HK\$1,884.2 million), the Group's gross margin increased slightly to 55.7% (1H2016: 55.4%)

However, loss attributable to shareholders was HK\$209.5 million (1H2016: HK\$163.6 million) because no deferred tax asset would be recognised for certain temporary differences and tax losses when compared to those for the same period of 2016. Basic loss per share was HK12.7 cents compared to HK9.9 cents for the

corresponding period in 2016. The board of directors did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (1H2016: Nil).

With a net closure of 330 POS during the period under review, the Group had a total number of 4,570 POS as at 30 June 2017. As a result of the Group's prudent inventory management and its efforts in the clearance of aged products, the Group's inventory turnover days were 200 days, down by 32 days compared to those for the same period last year. The financial position of the Group remained solid with the net cash, being cash and bank balances less bank borrowings, at HK\$607.4 million.

Core Brands Business

As a result of a year-on-year decrease of 16.6% in Core Brands POS and negative same-store sales growth, the Group's turnover of the business of its Core Brands, "Daphne" and "Shoebox", in Mainland China decreased by 20.8% to HK\$2,465.1 million (1H2016: HK\$3,113.6 million). The segment revenue from external customers accounted for 86% of the Group's total revenue (1H2016: 89%).

The Group continued rationalisation of its stores in the soft market environment and had net closures of 306 POS under the Core Brands for the period under review. Therefore, its Core Brands Business had a total of 4,292 POS comprising 3,987 directly-managed stores and 305 franchised stores as at 30 June 2017, which meant a year-on-year reduction of 16.6% from the 5,147 POS as at 30 June 2016.

Gross margin at the Core Brands Business decreased slightly from 53.0% to 52.5%. The Group managed to narrow its operating loss at the Core Brands Business to HK\$191.1 million.

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 distributionships such as "AEE", "STEP HIGHER", "AEROSOLE" and "ALDO", in Mainland China, Hong Kong and Taiwan). The Other Brands Business segment accounted for approximately 14% (1H2016: 11%) of the Group's total revenue during the period under review. Turnover at the Other Brands Business decreased slightly to HK\$380.9 million (1H2016: HK\$388.8 million), as the turnover growth of its e-commerce business could not offset the decrease in the revenue from the mid- to high-end brands portfolio.

Overall gross margin of the Other Brands Business increased by 1.4 percentage points to 58.3% mainly due to the increased proportion of new products in the sales mix. Benefitting from the increased contribution of the Group's e-commerce unit, the Other Brands Business saw its operating margin improve and its operating profit increased to HK\$4.1 million (1H2016: HK\$1.7 million). The Group's e-commerce business continued to record sales growth and remained profitable for the period under review. Therefore, its contribution to the Group's revenue continued to increase.

Outlook

As the Group endeavours in various aspects of its operation to achieve a thorough brand revamp, the year 2017 is likely to mark a significant stage of the Group's transition. The Group is committed to its plan for business transformation which features a comprehensive brand revamp together with product upgrade. The design and production of the fall and winter collections in 2017 by the energised design team is well under way. The Group believes that the new elements added to the upcoming product portfolio should bring a refreshing look to its fall and winter products. The initial customer response to the announcement of the crossover project by the Group and Opening Ceremony has been encouraging. The Group expects that the

respective launches of its autumn and winter collections will add impetus to the Daphne brand.

Also, the Group initiated organisational restructuring in late June to facilitate more effective and consistent brand management, and more direct and efficient internal communication to support the business transformation. The Group expects that this move will enhance the shopping experience and sales efficiency at its stores in the medium and long term. The Group will continue to optimise its store network and channel mix while planning a roll-out of Daphne's new-image stores in coming months. The Group also strives to foster the growth of its e-commerce business by stepping up its online and offline customer engagement via its online stores and social media platforms. It will continue with its omni-channel solution by taking more O2O initiatives while leveraging its vast offline presence.

Looking ahead, **Mr. Kevin Chang, Daphne's Chairman and Chief Executive Officer**, said, "Although this year will only see the beginning of the Group's efforts for its massive brand revamp and taking new initiatives in business transformation, the progress made in the past eight months made the Group confident that it is heading in the right direction. The Group's determination to succeed in its strategic business transformation is unwavering. Looking ahead, although the competition in the mass market for women's footwear may remain intense, the dedicated, visionary management team will continue to execute its strategic brand development and business transformation steadily. The team endeavours to develop the Group into a thriving business that can achieve healthy growth and deliver sustainable financial performance in the long run."

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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 4,570 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.

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