[For Immediate Release]

Daphne International Holdings Limited
2018 Annual Results Announcement
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Group Turnover at HK$4,127.1 Million
Inventory Level Continued to Improve
Laid the Groundwork for Future Organic Development

(26 March 2019 – 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 2018 ("the Year").

The Group's turnover decreased to HK$4,127.1 million during the Year, mainly attributable to the decrease in turnover at its Core Brand Business resulted from a decrease in its number of stores and the decline in same-store sales. The Group's gross profit decreased to HK$2,061.0 million as a result of the increased proportion of aged inventory in sales mix. Gross margin was 49.9%.

The Group's operating loss was HK$786.6 million in 2018. Loss attributable to shareholders of the Company was HK$994.4 million. Basic loss per share was 60.3 HK cents. The board of directors did not recommend payment of a final dividend (2017: Nil).

In face of the deteriorating operating environment, the Group accelerated the pace of closing down loss-making stores to improve its overall operational efficiency. On the other hand, it tried to increase its market penetration through the sales channel of the trendier shopping mall to adapt itself to the fast-changing consumption patterns and consumer preferences. After a net closure of 1,016 points-of-sale ("POS") during the Year, the Group had a total number of 2,820 POS as at 31 December 2018. The Group continued to succeed in reducing operating expense by 16.8% in 2018 despite the inflationary environment by closing some underperforming stores and by streamlining its operations. The Group's financial position remained solid with a net cash surplus.

Core Brands Business

Owing to the shrinking sales network and decline in same-store sales, turnover of the Core Brands Business, "Daphne" and "Shoebox" in Mainland China, decreased to HK$3,798.8 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 2018.

To cope with the difficult operating environment faced by brick-and-mortar retailers, the Group continued with the adjustment to its channel mix by closing down underperforming stores. As a result, the Group ended the year with a net closure of 941 POS (including 899 directly-managed stores and 42 franchised stores), representing a 26.2% year-on-year reduction in the number of the POS under its Core Brand Business.

The Group continued to liquidate aged inventory at substantial discounts throughout the Year. This, coupled with the rising raw material cost, inevitably exerted downward pressure on the gross margin of the Core Brands Business. Consequently, Core Brands Business' gross margin fell to 45.2% in 2018.

Although the operating expenses of the Core Brand Businesses were reduced by 15.8% year on year, such savings were not sufficient to offset the negative impact of the decline in sales and the substantial erosion of gross margin. Thus, operating loss of the Core Brands Business was HK$797.7 million during the Year.

Other Brands Business

The Group's Other Brands Business mainly consists of its e-commerce business and the operations of mid-range and high-end brands (including the Group's own brands and brands under exclusive distributorships). In 2018, turnover of the Other Brands Business decreased to HK$582.5 million, mainly attributable to the challenging retail market and the 30.4% net reduction in the number of POS during the Year.

Due to aggressive clearance of aged inventory and higher contribution from e-commerce business, gross margin of Other Brands Business decreased to 54.4% compared with that for the previous year. This, together with the negative operating leverage, resulted in an operating loss of HK$26.7 million for Other Brands Business in 2018.

The e-commerce business continued to increase its contribution to the Group's turnover and remained profitable during the Year. Moreover, its operating profit margin improved despite a slowdown in the online retail market. It was because the Group adopted a policy to stabilize the prices of its products and scaled down its promotional activities. To adapt to the rapidly changing consumer behaviour and consumption patterns, the Group put up more products exclusively for online sales and deepened its e-commerce business's collaboration with emerging social media and e-commerce platforms. The Group also stepped up the integration of its online and offline businesses as part of its "New Retail" strategy. It adopted new information technology solutions to provide customer with an experience of the seamless integration of online and offline shopping in the "New Retail" era.

Outlook

Significant improvements made by the Group with remedial measures in 2017 and 2018 have laid the groundwork for future organic development. Such achievements included aggressive clearance of aged inventory that has optimized the inventory mix and restored the inventory to a healthy level; and the downsizing of the sales network through closure of loss-making stores. In addition, the continued efforts to adjust its brand marketing strategy also resulted in increased proportion of young people in its customer base and gradual growth in both footfall and sales at its stores. Looking ahead, the Group is ready to proceed to the next stage of its business transformation in which it will innovate a business model to eliminate the bottlenecks in its business operation.

Product upgrade is one of the key initiatives in the business transformation so the Group will increase investment in product research and development with emphasis on trendiness and comfort. The Group will continue to enrich its portfolio of diverse products with more trendy and athleisure shoes to better serve customers' needs. In addition to launching new products more frequently, the Group will also broaden the product range to seize more business opportunities.

Another key initiative of the business transformation is to build up an efficient supply chain system to meet the requirements of product development and sales at stores. The Group will search for new manufacturers that are capable to carry out quick response manufacturing. Production volume will be determined according to market feedback which can help to reduce the risk of inaccurate predictions and thus to minimize the obsolete inventory. The Group will continue to optimize its logistics and distribution system by adopting an information technology system to realize the automation of inventory replenishment and the integration of regional warehouses to shorten the delivery lead time.

To expand its market share, the Group will adopt a three-pronged approach to enhancing the efficiency of its sales channel. Firstly, as the Group's retail network consists mostly of self-operated stores, the business model adopted is inevitably "asset heavy". To mitigate the business risks associated with such business model, the Group will introduce a "partnership system" into its retail network. Secondly, the Group will closely monitor the performance of its stores so that it can take remedial measures promptly if they underperform. Thirdly, the e-commerce operation team will work closely with the product design and supply chain departments so that they can launch products that meet the specific demands of customers who shop online. In additional to key online platforms, it will also commit more resources to its cooperation with social media and e-commerce partners with a view to adapting itself better to the fast-changing consumer behavior and consumption patterns. The Group also plans to form strategic partnerships with selected online distributors to maintain and expand the Daphne brand's share of the online retail market for shoes.

The Group is aware that the relationship between its business and customers is no longer merely characterized by the provision of products. The key to growing a business is connecting with its customers. To effectively track the changing consumer preferences and market trends for more accurate predictions, the Group will continue to cooperate with a big data company. This will enhance the Group's capability to apply the big data analytics so as to identify opportunities effectively on the market and then launch products that can meet with enthusiastic market responses.

This year, the Group will collaborate with a brand consultancy company in fine-tuning its brand marketing strategy. It will place emphasis on how to strike a chord with young consumers when conducting marketing campaigns on social media and how to keep in close touch with them. The Group will also continue with celebrity product placement that can help strengthen its refreshed brand image and help its products gain more exposure in the media. Meanwhile, it will continue to improve its customer relationship management ("CRM") by introducing upgraded membership activities and benefits to boost customer loyalty and the repeat sales. Leveraging the advanced CRM tools, the Group will be able to provide customers with an experience of the seamless integration of online and offline shopping in the "New Retail" era.

The Group will further streamline its organizational structure and optimize the internal processes to become a leaner and more efficient organization. New incentive and appraisal schemes will be introduced to motivate the staff to do its best at work. Meanwhile, the Group aims to build a competitive cost structure through stringent cost control. More attention will be paid to cash flow management to improve its financial condition.

Looking ahead, Mr. Kevin Chang, the Group's Chairman and Chief Executive Officer, said, "The all-around transformation of our business is not a quick fix so it takes time to yield noticeable results. Nevertheless, the management has been taking an all-out effort to ensure effective execution of the business transformation initiatives. We have a strong conviction that such initiatives will strengthen the Group's core advantages and enable it to resume growth and achieve a turnaround."

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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 2,820 points-of-sale in Mainland China and Taiwan. 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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