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

(*Incorporated in the Cayman Islands with limited liability*)
(**Stock code: 210**)

Unaudited Operational Update for the Fourth Quarter of 2013,

Preliminary Profit Review for the Year of 2013

and Highlights of Business Plan for 2014

The board of directors ("Board") of Daphne International Holdings Limited ("Company", together with its subsidiaries, "Group") announces the unaudited operational data and information of the Group's Core Brands business for the fourth quarter of 2013, the preliminary review of the operating performance and profit of the Group for the year ended 31 December 2013, and highlights of business plan for 2014. This announcement is made pursuant to provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Core Brands Business	For the fourth quarter of 2013	For the year of 2013
Same store sales growth rate ("SSSG") (*YoY % change*)	-5.4%	-10.4%
Net increase/decrease of points-of-sale ("POS")	-245 *(reduced 222 directly-managed stores, and reduced 23 franchised stores)*	-50 *(added 64 directly-managed stores, and reduced 114 franchised stores)*

	As at 31 December 2013
Total number of points-of-sale for Core Brands	6,319

Note: Core Brands business refers to the operation of "Daphne" and "Shoebox" brands in Mainland China

* *for identification purpose only*

The Fourth Quarter of 2013

For the fourth quarter of 2013, the same store sales of the Group's Core Brands business recorded a year-on-year decline of 5.4%. This is compared against 2.0% growth for the same period last year. As a result, the same store sales growth of the Core Brands for the year of 2013 is –10.4% versus +9% of 2012.

Sales performance in the fourth quarter of 2013 was adversely affected overall by a combination of :

- A softer market due to a slowdown in consumers' spending
- Unanticipated warm weather conditions in October and November
- Keen competition
- higher proportion of newly trained frontline staff

Average selling price has a mid-single-digit decrease than that of the same period last year**.**

Business Review of the Group for 2013

Weak consumer sentiment in Mainland China prevailed during the year. The unusual weather patterns affected foot traffic of street stores and added pressure on sales performance. Keen competition and staff turnover issue in early 2013 brought on further challenge to the Group during the year under review.

With a negative same store sales growth and net store closures, turnover of the Core Brands business was almost flat when compared to that of last year. The Group ended the year of 2013 with a net decrease of 50 POS for the Core Brands after a more stringent review of the store portfolio, as compared to 767 net store openings for 2012.

Due to intensive efforts in off-season items clearance, a more conservative approach in inventory management, closure of non-performing stores, and consolidation of mid- to high-end brands portfolio, the Group's gross profit margin saw low single-digit contraction. Inventory turnover days, as a result of the preparation for an earlier Chinese New Year in 2014 and unsatisfactory sales of the summer season, increased when compared to that of last year.

As a result of negative operating leverage under a slow-sales environment and impairment loss on closure of non-performing stores, the operating margin of the Core Brands business saw significant contraction, especially in the second half of the year.

As the consolidation of the mid- to high-end brand portfolio, including rationalisation of its sales network, has shown good progress, the operating loss for this segment decreased as compared to that of last year.

The performance in 2013 was exceptional compared to previous years due to a combination of adverse external and internal factors. However, during the year, the Group dedicated efforts to improve staff retention and training, closed down non-performing stores and adopted more prudent inventory management. These initiatives will not only enhance sales growth and ease operating deleverage, but will also lay the foundation for improvement in the Group's performance in the coming years.

Preliminary Profit Review of the Group for 2013

Based on a preliminary review of the unaudited consolidated management accounts and the information currently available, the board wishes to inform the shareholders of the Company and potential investors that, profit attributable to owners of the Company for the year ended 31 December 2013 is expected to have a significant decline and resulted in a low single-digit net margin, as compared to that of last year. The decline in profit of the Group is mainly due to:

- Sales almost flat
- Negative same store sales growth
- Lower gross profit margin
- A significant increase in inventory provision
- Significant negative operating leverage, especially during the second half of 2013
- An additional increase in impairment loss from the closure of non-performing stores

Highlights of Business Plan for 2014

In 2014, the Group will seek to focus on its fundamentals and strengthen its core competitive advantages to drive further differentiation from its competitors and improve its performance. To achieve the goal, the Group has thoroughly reviewed various business aspects and mapped out a business plan to address the major issues it faced in 2013. Strategic focus will be put on three main areas: the sales productivity, the supply chain and inventory management, as well as its merchandising and marketing.

Boost Sales Productivity
To maintain and improve its sales force, the Group will stabilise staff retention rate by providing more competitive incentive packages, a more efficient staff scheduling system, clearer guidelines and enriched staff development programs. It will also seek to boost sales productivity and customer experience by improving frontline sales skills through enhanced training programs and by fostering a stronger service culture. These initiatives will enable the stores to achieve more efficient product replenishment and improve product display, leading to an anticipated boost in sales. In addition, the Group will enhance its store operation management through performance evaluation against comprehensive key performance indicators, as well as increased accountability of various levels of frontline managers and branch offices.

Enhance Supply-chain and Inventory Management
The Group will drive for more customer-focused supply chain management and more efficient inventory management to facilitate sales growth and increase profitability. This will include increasing the sell-through rate and improvement in inventory level. The Group will make efforts to enhance product quality, shorten production cycle, and reduce replenishment lead time to achieve better alignment of customer demand and product supply. In addition, it will step up efforts to clear off-season products via more diverse distribution channels.

Strengthen Merchandising and Marketing
In order to increase the overall competitiveness and product differentiation, the Group will strive to increase product categories, put more emphasis on the trendy elements in product designs, and offer diversity in its product portfolio. Visual merchandising at the store level will be strengthened. Product allocation and replenishment will be further customised at the store level. The roll-out of the Retail Management System has been in good progress. This new system will enable automation of

product allocation as well as more efficient product planning and inventory management. When it is in full operation since the second half of 2014, it will increase the Group's efficiency and effectiveness in merchandising.

The Group will bolster brand image by dedicating more intensive efforts in marketing and brand-building activities, such as online marketing, and community / charity events. Emphasis will be put on the integration of online and offline businesses. Moreover, customer relationship management (CRM) will be better utilised to strengthen customer loyalty and increase repeat purchases. Furthermore, the Group will continue to review and refine its pricing and promotion strategies to improve its profitability.

Although the Group underwent tough times in 2013, positives remain intact. Factors such as government policies which foster domestic consumption and urbanization, increasing disposable income, and low penetration of ladies' footwear in Mainland China, all present opportunities for the Group's long-term growth. The Group's leading position in the mass market, strong nation-wide brand equity, extensive retail network with broad coverage of low-tier cities, and strong balance sheet will enable the Group to capture these opportunities and propel sustainable business growth.

The Board wishes to remind investors that as the Company is still in the process of finalising its results for the year ended 31 December 2013, the information contained in this announcement is only based on the preliminary assessment made by the Board with reference to the information currently available. Such information has not been reviewed or audited by the independent auditors of the Company. The final results of the Group for the year ended 31 December 2013 is expected to be published in March 2014.

Shareholders and potential shareholders of the Company are cautioned not to unduly rely on such information, and are advised to exercise caution when dealing in the shares of the Company.

By Order of the Board
Daphne International Holdings Limited
Chen Ying-Chieh
Chairman

Hong Kong, 20 January 2014

As at the date of this announcement, the Board comprises Mr. Chen Ying-Chieh, Mr. Chang Chih-Kai, Mr. Chang Chih-Chiao and Mr. Chen Tommy Yi-Hsun being the executive directors, Mr. Kim Jin-Goon being the non-executive director; Mr. Huang Shun-Tsai, Mr. Kuo Jung-Cheng and Mr. Lee Ted Tak Tai being the independent non-executive directors and Mr. Lau Wai Kei, Ricky being the alternate director to Mr. Kim Jin-Goon.