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 Second Quarter of 2013
Preliminary Profit Review for the First Half of 2013
And Highlights of Business Plan for the Second Half of 2013

The board of directors (the "Board") of Daphne International Holdings Limited (the "Company", together with its subsidiaries, the "Group") announces the unaudited operational data and information of the Group's core brands business for the second quarter ended 30 June 2013, the preliminary review of the operating performance and profit of the Group for the six months ended 30 June 2013, and highlights of plan for the second half of 2013. 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 second quarter of 2013**	**For the first half of 2013**
Same store sales growth rate ("SSSG") (*YoY % change*)	-13.7%	-9.2%
Net addition of points-of-sale	112 *(added 136 directly-managed stores, and reduced 24 franchised stores)*	212 *(added 263 directly-managed stores, and reduced 51 franchised stores)*

	As at 30 June 2013
Total number of points-of-sale for core brands	6,581

* *Core brands business refers to the operation of "Daphne" and "Shoebox" brands in Mainland China*

The Second Quarter of 2013

For the second quarter of 2013, the same store sales of the Group's core brands business recorded a year-on-year decline of 13.7%. This is compared against 13.5% growth for the same period last year. As a result, the same store sales growth rate of the core brands for the first half of 2013 is –9.2% versus +16.7% of the same period in 2012.

The sales performance in the second quarter of 2013 was mainly affected by:
- Weak consumer sentiment as economic growth decelerates
- Poor weather conditions and unusually cold spring season
- Avian flu outbreak in Eastern China

Average selling price was not a significant factor affecting the sales performance as it was marginally lower than that of the same period last year.

Business Review of the Group for the First Half of 2013

Consumer sentiment in Mainland China continued to be soft in the first half of the year. This was especially pronounced during the disappointing pre-Chinese-New-Year period which has always been the peak winter shopping season. Poor weather conditions and unusually cold spring season since mid-March dampened the store traffic and exerted further downward pressure on the sales performance. As the majority of the points-of-sales ("POS") are street stores, they are more exposed to the impact of the prolonged unfavourable weather.

Turnover of the core brands business recorded a low single digit growth on a year-on-year basis, despite negative same store sales growth, and a slower store opening pace. 212 POS was added for the core brands during the first half of 2013, as compared to 366 net store openings for the same period last year.

With unfavourable weather and weak sales in the first quarter, discount was marginally increased in the second quarter this year to drive sales growth. Together with aggressive off-season items clearance, the gross profit margin saw low single digit contraction during the first half of the year. As sales growth was lower than expected, the inventory turnover days of the interim period increase moderately when compared to that of last year's same period.

The larger fixed-cost base built up from the increased proportion of directly managed stores last year combined with a slow-sales-growth environment resulted in a negative operating leverage, and therefore significantly affected the operating margin of the core brands business in the first half of the year.

As the consolidation of the mid- to high-end brand portfolio, which includes rationalisation of its sales network and adjustment in brand positioning, was still underway, the operating loss for this segment during the six-month period will likely be comparable to that of the same period last year.

Despite the sluggish market environment during the period, the Group remained committed to the efficiency improvement initiatives introduced earlier this year. We improved our staff training programs and store operation management to raise sales productivity. Product design and product range were further upgraded and adjusted. Customer Relations Management system ("CRM") was utilised to enable more targeted marketing. We also stepped up cost cutting and monitoring measures.

Preliminary Profit Review of the Group for First Half of 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 six months ended 30 June 2013 is expected to have a meaningful decline as compared to that of the same period last year and resulted in a mid-single digit net margin. The decline in profit is mainly due to:

- Deceleration in sales growth
- Lower gross profit margin
- Negative operating leverage resulted from the high fixed-cost structure of our retail operation

Highlights of Business Plan for the Second Half of 2013

In response to the more challenging market environment, the management team is now focused on taking the necessary steps to improve results of 2013, as well as building stronger fundamentals to pursue long-term growth. A comprehensive action plan has been formulated with emphasis in the following areas:

1. Increase sales productivity, and enhance SSSG

Measures will be stepped up to strengthen the strategic initiatives launched earlier this year with an aim to boost sales productivity. The Group will put in place enhanced training program, and refine the incentive programs for its front-line staff. Focus will be put on the follow-through and the execution to increase the effectiveness of various programs. Store managers will be provided with management tools and new monitoring system to improve their management efficiency.

With respect to network management, a new approach will be adopted to consolidate non-performing stores and the store opening procedure will be overhauled to increase the profitability of new stores. This is aimed at improving the overall store portfolio quality. In addition, the regional and local sales offices are being restructured to drive sales growth, front-line staff training, and new stores development.

More support will be provided to those initiatives introduced earlier such as the adoption of a more comprehensive Key Performance Indicators (“KPI”) system to the front-line managers, “Train the Trainers” program, “Sales Talent Development” scheme, to ensure a smooth and efficient implementation in the second half of the year. These programs will help building a stronger front-line management capability to support sustainable performance in future.

In view of the current macro environment, new store openings will be maintained at a cautious pace, to allow for more prudent cost control and business development. Also, as a result, more efforts and resources can be focused on improving the same store sales and the productivity of the new stores.

2. Strengthen the product offering, and supply chain management

The Group will continue to strengthen its responsiveness to customer preference by tightening up the production cycle and the replenishment lead time. The diversity of the product range will be increased to broaden our appeal to different customers and increase the value per transaction.

The set-up of the new retail management system is in good progress and will be in operation for “Shoebox” in the fourth quarter of 2013. The system will be extended to “Daphne” in 2014 and will enhance the sales growth and inventory management by allowing more efficient product planning and allocation.

3. Bolster up the brand image and increase marketing efficiency

The image of “Daphne” brand will receive an overall uplift through the launch of a nation-wide integrated marketing program with multi-media exposures comprising television, print, internet and movie sponsorship. Emphasis will be put on new media and communication platforms, as well as the CRM to build stronger customer relationship and increase marketing effectiveness. Furthermore, the Group will continue to review and refine its pricing and promotion strategies to improve its profitability.

The visibility of the market outlook in the second half of the year now remains low, nevertheless, the Group is committed to driving all the key initiatives and their benefits will be gradually reflected in the medium term. While the performance of the first half of 2013 is below expectation, the Group looks to revive growth and improve performance in the second half of the year.

The Board wishes to remind investors that as the Company is still in the process of finalising its results for the six months ended 30 June 2013, the information contained in this announcement is only based on a 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 interim results of the Group for the six months ended 30 June 2013 is expected to be published in August 2013.

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, 11 July 2013

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.

* *for identification purpose only*