

[For Immediate Release]

Daphne International Holdings Limited
2014 Annual Results Announcement

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Group Turnover at HK\$10,355.6 Million

Inventory Value Decreased by 14.0% Improved Inventory Mix
Net Cash Position Increased to HK\$751.5 million from HK\$568.2 million last year

Operational Highlights:

- Group turnover amounted to HK\$10,355.6 million.
- Turnover of Core Brands* business amounted to HK\$9,492.6 million.
- Total number of points-of-sale (POS) reached 6,757 of which the number of Core Brands POS amounted to 6,402.
- Total value of inventory was decreased by 14.0% or HK\$369.6 million. The inventory mix also improved.
- Net cash position increased to HK\$751.5 million from HK\$568.2 million last year.
- Other Brands Business successfully achieved a turnaround to an operating profit of HK\$17.9 million for the year from the operating loss of HK\$86.1 million in last year.
- Turnover of e-commerce business nearly doubled.
- In Baidu's Digital Brand Equity Survey 2014, "Daphne" ranked top in ladies' footwear sector in China.

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

(24 March 2015 – 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 2014.

The year 2014 was extremely challenging for retailers in Mainland China, where the gross domestic product ("GDP") recorded the slowest growth in over two decades, and consumer confidence remained weak. The Group also faced keen competition from local regional players and online retailers. Rising operating costs, especially labour costs, as well as the absence of the pre-Chinese New Year festive shopping season and the unusual weather patterns seriously affected retailers. For the year of 2014, the Group's turnover amounted to HK\$10,355.6 million (2013: HK\$10,446.5 million). Gross profit declined by 1.7% to HK\$5,737.6 million (2013: HK\$5,838.3 million).

Profit attributable to shareholders was HK\$176.0 million (2013: HK\$329.1 million). Basic earnings per share were HK10.7 cents (2013: HK20.0 cents). The board of directors did not propose any final dividend, to retain cash for future development in light of the challenging market conditions.

As at 31 December 2014, the Group's points-of-sale (POS) totaled 6,757, representing a net increase of 55 POS during the year. The Group's sales network includes 6,402 POS under its Core Brands ("Daphne" and "Shoebox" in Mainland China) and 355 POS for Other Brands business.

To cope with the challenges in Mainland China's operating environment and mass market for ladies' shoes, the Group stepped up a number of measures to adapt itself to the market conditions, and managed to make positive progress in key areas during 2014.

First of all, the Group maintained comparable annual turnover despite the tough market situation, and narrowed the same-store sales decline as compared to that of 2013. Although aggressive destocking efforts led to contraction in the gross profit margin of the retail business, the Group managed to record positive growth in the sales volume, thanks to the improvement of store traffic and the broadening of customer base.

As a result of the Group's efforts to clear aged stocks, the total value of inventory decreased, and inventory turnover days fell by 4 days to 194 days in 2014 as compared to 2013, and substantially improved from 208 days recorded in the first half of 2014. The inventory mix was also improved. Liquidating old inventory during the year also served to improve the cash situation, as reflected by the increase in cash and bank balances to HK\$1,528.7 million (2013: HK\$1,374.4 million). Net cash position increased to HK\$751.5 million from HK\$568.2 million last year, in spite of a large one-time office purchase during 2014.

In 2014, the Group's brand image was revitalized with the implementation of the celebrity-driven marketing strategy in 2014. New image ambassadors were signed during the year, including popular Korean actress Ms. Jun Ji-Hyun, top artist from Hong Kong Mr. Nicholas Tse, and top singer and actress from Taiwan Ms. Puff Kuo. In addition, the Group created crossover brand and product lines, such as the "Ondul" brand in collaboration with top actress in Mainland China, Ms. Gao Yuan Yuan, and the "Hello Kitty Collection by Daphne" product line. Store image was enhanced through a renovation programme of more than 600 stores and the launch of a new store design. These investments in marketing not only revitalized the brand image, but also improved the store traffic and the Group's competitiveness. The strong brand equity of "Daphne" in China was reflected in Baidu's Digital Brand Equity Survey 2014, in which Daphne ranked first in ladies' footwear sector in China.

On the e-commerce front, the Group delivered strong online sales growth and increased e-commerce turnover contribution to the Group. The growth is mostly driven by sales volume. In Alibaba's most important online shopping event "Singles' Day 2014", the Daphne brand ranked top in Tmall's ladies' shoes category. The Group also strengthened its partnerships with key online shopping platforms, including Tmall, VIP.com and JD.com. With the support of more interactive and diversified online promotions, the Group's online customer base was further broadened.

During the year, the Group paid particular attention to rationalize cost structure and invested in key aspects in order to build a healthier and solid platform for future growth. In addition to the decisive measures to manage inventory and revitalize the brand and store image, the Group invested in its workforce to stabilize the sales staff and improved retention rate. New store management programmes were introduced and sales skill training programmes were conducted. These measures led to improved performance of new stores.

Core Brands Business

During the period under review, the retail market was still undermined by the generally soft consumer sentiment in Mainland China. Despite a low-single-digit decline in same-store sales, turnover of the Group's Core Brands business, represented by its propriety brands "Daphne" and "Shoebox" in Mainland China, amounted to HK\$9,492.6 million, comparable to that of 2013 (2013: HK\$9,561.3 million). The segment accounted for 90% of the Group's total turnover (2013: 90%).

As the Group resumed net store openings during the second half of the year, it had a total of 6,402 POS under Core Brands, representing a net increase of 83 POS for 2014. The directly-managed stores comprised 90% of the total store portfolio of Core Brands, up from 87% of last year.

In the second half of the year, the Group was determined to manage the inventory level. Therefore, it carried out aggressive promotions with deep discounts to drive the top line, and in particular, to clear aged products. These efforts led to a positive same-store sales growth for the third quarter.

Other Brands Business

The Other Brands business of the Group mainly refers to the operation of mid- to high-end brands, including own-brands and brands with exclusive distribution rights, in Mainland China, Hong Kong and Taiwan. Brands including “AEE”, “Step Higher”, “ALDO”, and “AEROSOLES” in this business segment cater to the growing middle-class consumer segment and broaden the Group’s customer base in the long run. In 2014, the fast-growing e-commerce unit gathered strong momentum and increased its contribution to this business segment, which drove the overall turnover of the Other Brands business to grow 14.6% to HK\$838.4 million (2013: HK\$731.8 million). The overall Other Brands business contributed approximately 8% (2013: 7%) to the Group’s total turnover. This business segment successfully achieved a turnaround to an operating profit of HK\$17.9 million from the operating loss of HK\$86.1 million in 2013.

The Group remained focused on projecting a more distinctive brand image and product offerings, which helped increase sales efficiency and improved the average profitability per store of this brand portfolio. As a result, the portfolio of mid- to high-end brands performed better during the year with narrowed operating loss.

The remarkable performance of e-commerce was attributable to increased intensity and diversity of online marketing activities, close partnerships with major online shopping platforms, and strong online sales of out-of-season items. The e-commerce business unit continued to see improvement in its net profit, although its contribution to the Group’s profit was still small.

Outlook

Decelerating economic growth, sluggish consumer sentiment, fast-changing consumer behavior, and intensive competition are some of the challenges the Group faces. However, positive industry factors in this global economic powerhouse, such as incessant urbanization, and proactive policies to enhance personal income and job creation still remain. Daphne is well-positioned to tap the immense potential of China’s consumption market.

In view of the solid progress made, the Group believes it is steering towards the right direction in evolving its growth model. Nevertheless, these improvement measures will take time to translate into financial returns. In the coming year, the Group will press on to execute its dynamic strategies for medium- and long-term growth. The Group’s key strategic initiatives will focus on strengthening inventory management, bolstering brand image, stepping up marketing and merchandising, and accelerating e-commerce growth, which is expected to underpin its overall sales and operational performance.

Looking ahead, Mr. Eddie Chen, Daphne’s Chairman and Chief Executive Officer, concluded, “With over 20 years of experience in the ladies’ footwear industry in China, Daphne has a long track record of success through both peaks and troughs of economic cycles. Undoubtedly, Daphne’s unparalleled brand influence will provide us with a solid base and strong leverage to pursue future prosperity. We will seize opportunities for growth and tackle challenges by taking full advantage of our well-scaled business model, financial strength, strong brand equity, and adaptability. We are committed to pressing ahead with all the improvement initiatives and are confident to resume growth in the medium and long term.”

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 over 6,700 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 or contact:

Daphne International Holdings Limited

Macy Leung

Tel: (852) 2367 9022

Fax: (852) 2311 3170

Email: macyleung@daphneholdings.com

iPR Ogilvy & Mather

Callis Lau / Janis Lai / Maggie Chui

Tel: (852) 2136 6952 / 2169 0646 / 2136 8059

Fax: (852) 3170 6606

Email: daphne.intl@iprogilvy.com