[For Immediate Release]

Daphne International Holdings Limited
2015 Annual Results Announcement

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Group Turnover at HK$8,379.1 million
Improved Product Sales Structure Leading Gross Profit Margin to Expand to 56.4%

Maintained Net Cash Position Demonstrating Sound Financial Position

Operational Highlights:

- Group turnover amounted to HK$8,379.1 million.
- Turnover of Core Brands* business amounted to HK$7,720.2 million.
- Group gross profit margin increased by 1% to 56.4%
- Total number of the Group's points-of-sale (POS) decreased by 827 to 5,930, consisting of 5,597 POS under its Core Brands.
- Maintained net cash position. Cash and bank balances amounted to HK$1,075.6 million.
- E-commerce business continued to achieve sales growth
- Daphne maintained its top ranking in the Tmall women's shoes category in Alibaba's Single's Day event.

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

(29 March 2016 – 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 2015.

Retailers had a very difficult year in China in 2015. The country's gross domestic product (GDP) growth recorded a 25-year low and the growth in the total retail sales of consumer goods further dwindled to 10.7% in 2015. While trying to adapt to the "new normal" of China's economy, the retailers had to cope with other challenges such as the competitive e-commerce players, the erratic weather patterns resulted from global warming. Moreover, weak Asian currencies induced some Mainland Chinese consumers to travel and shop overseas, thus affecting the domestic consumption. On the other hand, the retailers were weighed down with increasing operating costs, including rents and wages.

For the year of 2015, the Group's turnover decreased to HK$8,379.1 million (2014: HK$10,355.6 million), due to the decline in Core Brands Business and shrinking business volume from its original equipment manufacturing (OEM) Business. Gross profit declined by 17.7% to HK$4,724.7 million (2014: HK$5,737.6 million), however, gross profit margin increased to 56.4% (2014: 55.4%). Loss attributable to owners of the Company during the year under review was HK$378.9 million (2014: Profit of HK$176.0 million attributable to owners of the Company). Basic loss per share was HK23.0 cents in contrast to the basic earnings per share of HK10.7 cents in 2014. The board of directors did not propose any final dividend.

The Group rationalized its stores during the year so as to improve the quality of the overall store network in the future. As at 31 December 2015, the Group's points of sales (POS) numbered 5,930, a net decrease of 827.

Addressing the deteriorating market conditions, the Group carried out a number of decisive measures, including the acceleration of closures of loss-making stores, downsizing the back offices, relocation of factories from the coastal area to inland, putting focus on the inventory level by cancelling most of the replenishment orders. These rationalization initiatives incurred extra charges to the Group in 2015, including the provision for slow-moving inventories of HK$216.9 million (2014: write-back of provision of HK$119.8 million), and one-off restructuring costs of approximately HK$141.1 million in relation to the relocation of factories (2014: Nil). These additional charges significantly impacted the Group's performance in 2015.

Although the adjustment in replenishment orders and rationalization initiative of inventory led to a lower inventory level at the end of 2015 than that at the end of 2014, the inventory turnover days increased to 218 days (2014: 194 days), due to slower sales in 2015.

During the year under review, the Group could still maintain its net cash position after the convertible bonds redemption. As at 31 December 2015, the Group's cash and bank balances amounted to HK$1,075.6 million.

On the e-commerce front, despite more fierce online competition with increased entries of international brands into China, the Group's e-commerce business continued to deliver sales growth and a profit. Daphne maintained its top ranking in sales in the women's shoes category in Alibaba's Single's Day event in 2015. The Group opened more online stores in various platforms of major shopping sites to increase its products' exposures in the online market and reach different types of customers. During the year, the Group launched its warehouse sharing program which would help enhance its online shopping service, provide stronger support to its O2O business and improve the overall inventory management in the future.

Core Brands Business
Affected by the weak retail market and the negative same-store sales growth during the year, turnover of the business of Core Brands, "Daphne" and "Shoebox", in Mainland China recorded a year-on-year decline of 18.7% to HK$7,720.2 million (2014: HK$9,492.6 million). Contribution from the Core Brands segment accounted for 90% of the Group's total turnover (2014: 90%).

The Group accelerated the closures of loss-making stores, especially in the fourth quarter of 2015. This resulted in a net decrease of 805 POS during the year. The Group had a total of 5,597 POS under its Core Brands, comprising 5,056 directly-managed stores and 541 franchised stores in 2015.

On the pricing front, the Group adopted a new pricing strategy as a mean to attract customers with less emphasis on discounts, while the new pricing system led to about 4.6% year-on-year decrease in the average selling price for Core Brands. The unusually warm winter in 2015 made the demand softer. The Group was forced to offer steeper discounts during the second half of the year to remain competitive. The discounts on products and the increased provision for inventory cut the gross profit margin of Core Brands business from 53.8% by 0.1 percentage point to 53.7%.

Other Brands Business
The Other Brands business of the Group mainly consists of the operations of mid-range to high-end brands in Mainland China, Hong Kong and Taiwan, including own-brands, and brands with exclusive distribution rights comprising "AEE", "Step Higher", "AEROSOLES" and "ALDO", and the growing e-commerce unit with increasing contribution to the revenue. During the year under review, the aggregate turnover of the Other Brands business decreased by 0.7% to HK$832.7 million (2014: HK$838.4 million), and accounted for 10% of the Group's total turnover in 2015, compared to the 8% of that in 2014. This business segment essentially achieved breakeven in a challenging year, recording an operating profit of HK$1.3 million.

Outlook

The Group is making an all-out effort to adapt to the 'new normal' of the country's economy by focusing on enhancing sales and management efficiency. On the sales front, the Group will allocate more resources to product differentiation, and will diversify its marketing endeavours to support it. Also, the Group will make major adjustments in its supply chain to enable small-batch productions, and will overhaul the logistics process in order to facilitate inventory turnover and tighten inventory control. With regard to the uplifting of the store performance, the Group will turn some of its stores into "multi-brand" stores, which offer broader product offerings in a refreshing shopping environment so as to boost customer spending. The Group will also continue to invest more resources to expand its e-commerce business.

The Group's same-store sales momentum for its Core Business appears more stabilised, registering a mid-single-digit decline for the first quarter year-to-date of 2016 on a year-on-year basis. Based on management assessment of preliminary unaudited information, it is anticipated that the profitability for the first quarter-to-date is likely to improve slightly from that of the same period last year. However, the second quarter, as an important quarter when the new spring and summer products are launched, is still with a lot of uncertainties. The Group will continue to dedicate itself to working on the improvement initiatives, and endeavour to improve its performance for the year.

Looking ahead, **Mr. Eddie Chen, Daphne's Chairman and Chief Executive Officer**, concluded, "By taking bold steps in rationalisation, the Group aims to improve its cost structure, management and sales efficiency. The Group also ventures out to adopt new methods so as to adapt to the new market conditions and changing customer preferences. We believe that these actions will deliver sustainable improvements in our business operation and competitive strengths in long term. The Group is committed, with its best endeavour, to taking comprehensive actions to weather the current headwinds, so as to restore its performance. With such key strengths as a sound balance sheet, a strong national brand equity, and the product excellence, the Group is confident that it will be able to make great strides to reinforce its market leadership.

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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 over 5,900 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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