

[For Immediate Release]

**Daphne International Holdings Limited
2015 Interim Results Announcement**

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Group Turnover at HK\$4,374.3 Million

Group Gross Profit Margin Expanded by 4.3 Percentage Points to 60.7%

Operational Highlights:

- Group turnover amounted to HK\$4,374.3 million.
- Turnover of Core Brands* business amounted to HK\$4,034.9 million.
- Total number of points-of-sale (POS) for the Group became 6,569, and the number of Core Brands POS reduced by 181 to 6,221.
- Group gross profit margin expanded by 4.3 percentage points to 60.7%.
- Other Brands Business achieved a turnaround with a small operating profit.
- E-commerce business continued to achieve sales growth and maintained its profitability.
- Daphne ranked top in the “China Brand Power Index 2015” (Women’s Shoes category) conducted by Chnbrand, one of the most credible brand rating organisations in China.
- The Group was awarded “Best IR Company” in the small-cap category in the inaugural Investor Relations Award 2015 organised by the Hong Kong Investor Relations Association.

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

(25 August 2015 – Hong Kong) – The leading ladies’ footwear retailer in China – **Daphne International Holdings Limited** (“Daphne” or the “Group”, stock code: 0210), announced today its interim results for the six months ended 30 June 2015.

During the first half of the year, Chinese economy has entered into a “new normal” as its growth continued to decelerate. This led to adjustments in various industries and sectors, and the economic environment became volatile, which was reflected in the soft consumer sentiment. Besides, e-commerce channel continued its high growth, and therefore intensified the competition with retailers. The delayed spring and summer seasons in 2015 placed further challenge to fashion retailers. Local regional chains in the mass market segment of ladies’ shoes resorted to earlier launch of deeper discounts, and resulted a highly promotional and discount-driven competitive environment. Retailers were squeezed further from the inflationary pressure of operating costs including labour cost. Against this backdrop, for the six months ended 30 June 2015, the Group’s turnover decreased by 13.9% to HK\$4,374.3 million (1H2014: HK\$5,080.7 million). However, margin expanded by 4.3 percentage points to 60.7% (1H2014: 56.4%) due to improvement of sales mix and lower product costs.

Profit attributable to owners of the Company was HK\$2.5 million (1H2014: HK\$172.4 million). Basic earnings per share was HK0.2 cents (1H2014: HK10.5 cents). The Board did not recommend the payment of an interim dividend.

Core Brands Business

In spite of mounting market challenges and unfavourable weather patterns, the Group upheld its discounting policy until the adverse effect of the weather subsided.

Turnover of the Core Brands business, represented by its propriety brands “Daphne” and “Shoebox” in Mainland China, recorded a year-on-year decline of 13.9% for the first half of the year to HK\$4,034.9 million (1H2014: HK\$4,685.0 million), as a result of a negative same store sales performance and net store closures.

Pressing on with its cautious approach to store network development, the Group had a net decrease of 181 points-of-sale (“POS”) during the period and had a total of 6,221 POS under its Core Brands, comprising 5,631 directly-managed stores and 590 franchised stores, as at 30 June 2015. Segment revenue from external customers still accounted for 90% of the Group’s total revenue during the period under review (1H2014: 91%).

In an attempt of further market segmentation, the Group enriched and restructured Daphne product range into seven product series in spring & summer season this year to enhance its appeal to a broader customer base and to increase its differentiation from the competitors. Each of product series was tailored to different customer niches and serves different occasions. The Group also added one of the top young actresses in Mainland China, Cecilia Liu, to its group of spokespersons (including the popular Korean actress, Jun Ji-Hyun, and pop singer and leading actor, Nicholas Tse) to endorse one of its core product lines - Cosmopolitan. By increasing the association of the product lines with the spokespersons, the Group built a strong brand image, and improved the marketing efforts.

Gross profit margin for Core Brands business expanded by about 2.9 percentage points to 58.9%, due to the improved sales mix of new products, in spite of a year-on-year drop of about 8.2% in its average selling price. However, the decrease in sales exerted significant pressure on inventory management and operating margin. Due to the high fixed cost structure of the Group’s retail operation, and inflationary pressure on key operating costs, the operating profit margin of Core Brands business was significantly affected by negative operating leverage and decreased to 1.0%.

Other Brands Business

The Other Brands business of the Group mainly consists of the operations of mid- to high-end brands (including own-brands, and brands with exclusive distribution rights comprising “AEE”, “Step Higher”, “AEROSOLE” and “ALDO”, in Mainland China, Hong Kong and Taiwan) while the fast-growing e-commerce unit increased its contribution to this business segment in recent two years. For the six months ended 30 June 2015, turnover of the Other Brands business increased by 8.6% year-on-year to HK\$389.0 million. The Other Brands business segment accounted for approximately 9% of the Group’s total turnover during the period under review. Mid- to high-end brand portfolio had a net reduction of seven POS during the period under review. However, this brand portfolio’s performance continued to improve as a result of the persistent effort to focus on the performance on a per-store basis.

The Group’s e-commerce business continued to achieve sales growth, and maintained its profitability. It has also strengthened its partnership with major online shopping platforms, especially Tmall, which will increase its competitiveness over its online peers in the future. Moreover, the Group remained committed to its O2O (“online-to-offline”) initiatives which will offer stronger support to its online sales, allowing the Group to provide faster delivery and more efficient service, and to enhance overall inventory management.

The Other Brands business continued to improve its gross profit margin, and achieved a turnaround with a small operating profit.

Outlook

Although the uncertain market outlook in the second half of 2015 now is further clouded with the recent volatility in the stock market, the management team has dedicated itself to taking necessary steps to improve the second-half results of 2015 as well as building stronger fundamentals to pursue long-term growth. To cope with the intensified competition both online and offline, the Group puts focus of its improvement programme on boosting sales, improving inventory management, expense control and accelerating its e-commerce growth. While stepping up its promotional activities for the remainder of the summer season, the Group is also reviewing and modifying its strategies for merchandising, pricing and promotion for the upcoming autumn and winter seasons. The Group will also consider store rationalisation, along with some major adjustments in its offline distribution channels. For the initiatives to enhance operational efficiency, the Group is committed to improve its execution through ongoing review and fine-tuning. The Group is also working on an expansion plan for its e-commerce business and will allocate more resources to fuel its growth and O2O initiatives, which will include deepening its collaboration with various e-commerce platforms. While the performance of the Group for the first half is below expectations, the Group endeavours to improve its performance for the second half of the year.

Looking ahead, Mr. Eddie Chen, Daphne's Chairman and Chief Executive Officer, concluded, "The Chinese government has been implementing policies to promote domestic consumption. Urbanisation continues and disposable income of both urban and rural populations grows consistently, along with the trend of increasing minimum wages. Beyond cycles, the mass market is still a structurally growing sector where Daphne is positioned firmly at the top. Although the headwind is strong, the Group is determined to make bold moves to adapt to the "new normal" of China and strengthen its competitiveness, by leveraging its core strengths, unparalleled national brand equity, and healthy balance sheet, so as to strive for growth in the medium and long term."

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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 6,500 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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