

[For Immediate Release]

Daphne International Holdings Limited
2016 Annual Results Announcement

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Group Turnover at HK\$6,501.7 Million
Enhance Core Brands and Optimise Sales Channel Mix

E-commerce Sales Maintained Strong Sales Growth
Inventory Level Continued to Reduce

Operational Highlights:

- Group turnover amounted to HK\$6,501.7 million
- Turnover of Core Brands* business amounted to HK\$5,936.0 million
- Total number of the Group's points-of-sale (POS) was 4,900, consisting of 4,598 POS under its Core Brands
- Net cash position increased to HK\$692.8 million
- E-commerce business continued its strong sales growth and remained profitable
- Inventory level continued to reduce by 32.4% to HK\$1,414.5 million
- Group operating expenses reduced by 20.4%, broadly in line with the decline in sales.
- Ranked top for the sixth consecutive year in the "China Brand Power Index 2016" (in the "Women's Shoes" category)

**Core Brands business refers mainly to the operations under the brands "Daphne" and "Shoebox" in Mainland China*

(28 March 2017 – 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 2016.

The business environment in 2016 remained challenging for retailers in China as the country was restructuring its economy and trying to make domestic consumption a key growth driver. China's gross domestic product (GDP) growth decelerated from 6.9% in 2015 to 6.7% in 2016, which was the lowest in the past 26 years. The growth rate of China's total retail sales of consumer goods also slowed down for the seventh consecutive year. In addition, online competition became more intense as more shoe brands used online channels to clear their excess inventory with very aggressive promotions. Operating costs which included rental, labour and logistics costs, continued their increasing trend in 2016, albeit at a slower rate. Furthermore, consumer behaviour has been changing very rapidly in recent years, due to the growing market penetration of smart phones, increasing popularity of online shopping and more frequent overseas travels. Many retailers, including Daphne, are adapting their operations substantially for these fast-evolving patterns of consumer behaviour.

The Group's turnover in 2016 decreased by 22.4% to HK\$6,501.7 million (2015: HK\$8,379.1 million), mainly attributable to the decline in turnover of Core Brands Business which decreased its points-of-sale ("POS") considerably and recorded a decrease in same-store sales. Gross profit declined by 29.9% to HK\$3,311.7 million (2015: HK\$4,724.7 million), while gross margin decreased to 50.9% (2015: 56.4%), mainly due to the increased proportion of revenues generated from the sales of heavily discounted aged products.

Loss attributable to shareholders was HK\$819.1 million for the year of 2016 (2015: HK\$378.9 million). Basic loss per share was HK49.7 cents (2015: basic loss per share of HK23.0 cents). The board of directors did not recommend the payment of a final dividend (2015: Nil).

The Group stepped up the rationalisation of stores during the year to improve the quality of its overall store network. As at 31 December 2016, the total number of the Group's POS was 4,900 with a net decrease of 1,030 POS during the year. Meanwhile, the Group's drive to liquidate the aged inventory helped improve its net cash position to HK\$692.8 million (2015: HK\$454.8 million).

Core Brands Business

As a result of the significant reduction in the number of POS and the decrease in same-store sales, turnover of the business of Core Brands, "Daphne" and "Shoebox", in mainland China decreased by 23.1% to HK\$5,936.0 million (2015: HK\$7,720.1 million). The segment revenue generated from sales to external customers of the Core Brands Business accounted for 88% of the Group's total revenue for 2016 (2015: 90%).

In view of the soft market conditions, the Group accelerated the closure of non-performing stores since the second quarter of 2016 and ended the year with a net closure of 999 POS. The Group had a total of 4,598 POS under its Core Brands in 2016, comprising 4,246 directly-managed stores and 352 franchised stores.

In 2016, the Group offered aggressive discounts to liquidate the aged stocks. This, together with the increased proportion of aged products in the sales mix, caused the gross margin of the Group's Core Brands Business to decrease by 6.4 percentage points to 47.3% in 2016 (2015: 53.7%). Since fixed cost accounted for a greater portion in the cost structure of the Group's retail operation, the decrease in sales resulted in a greater percentage decrease in net operating profit. As a result, the operating margin of the Core Brands Business decreased.

Other Brands Business

The Group's Other Brands Business mainly consists of the operations of mid- to high-end brands (including the Group's own brands, and brands for which the Group has exclusive distribution rights, comprising "AEE", "STEP HIGHER", "AEROSOLES" and "ALDO" in Mainland China, Hong Kong and Taiwan), as well as its growing e-commerce unit. During the year under review, aggregated turnover of the Other Brands Business decreased by 2.4% to HK\$813.0 million (2015: HK\$832.7 million). However, the Other Brands Business segment increased its contribution to the Group's total turnover in 2016 to 12% (2015: 10%). Its contribution to the Group's operating profit also increased to HK\$7.8 million. Gross margin of the Other Brands Business decreased slightly due to the increased proportion of e-commerce's contribution in this segment's total revenue.

The Group's e-commerce business continued its strong sales growth and yielded a small profit. Its sales growth is mostly driven by sales volume, and saw a slight increase in gross margin as the Group enhanced its promotional strategies. The Group's e-commerce business maintained its strong growth momentum throughout the year, showing that Daphne's brand equity remained strong in the online marketplace. Besides, the Group strengthened its integration of online and offline businesses through its extensive offline store network and warehouse sharing programme.

Outlook

As local consumer sentiment remained soft due to China's economic slowdown, fashion retailers have to deal with a number of challenges in 2017. In response to the current challenges, the Group's management team conducted a thorough review of its operations and business functions and plans to differentiate the Core Brands from the competition and enhances the shopping experience in order to stimulate sales and boost customer traffic. The Group initiated a brand revamp including launch of new logos to project a young, contemporary, stylish and vibrant brand image. To make the brand even more interesting and alluring, the Group will launch crossover projects in partnership with emerging star fashion brands, online key-opinion leaders and celebrities to broaden its appeal for different types of customers and offer a platform for its marketing. To ensure success of the brand revamp and product upgrade, the Group has also invested in and adjusted the key business functions such as marketing, staff training and development, production and supply chain management. The Group has also pledged to enhance the shopping experience, so as to freshen up customers' perception on its Core Brands and increase its competitiveness. The consolidation of the Group's store network is almost completed. The Group will continue to optimise its sales channel mix by decreasing the proportion of street stores in the total number of retail outlets.

Looking ahead, **Mr. Kevin Chang, Daphne's Chief Executive Officer**, concluded, "Leveraging Daphne's strong brand equity and its focus on core strengths, the Group will make every endeavour to sustain the strong growth momentum of its e-commerce business, and will leverage its extensive store network to accelerate the integration of online and offline business to gain synergy. To build up its operations for sustainable and long-term growth, the Group has been endeavouring to make the Core Brands unique and refreshing. The Group is confident that the actions underway will enable it to further the development and pave the way for its growth in the future."

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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 4,900 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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