[For Immediate Release]

Daphne International Holdings Limited
2016 Interim Results Announcement

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Group Turnover at HK$3,400.8 Million
Demonstrated Stable Financial Position and Maintained Net Cash Position

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

Operational Highlights:

- Group turnover amounted to HK$3,400.8 million
- Turnover of Core Brands* business amounted to HK$3,113.6 million
- Total number of the Group's points-of-sale (POS) decreased to 5,464, consisting of 5,147 POS under its Core Brands
- Maintained net cash position. Cash and bank balances amounted to HK$592.2 million
- E-commerce business continued to achieve strong sales growth
- Inventory level continued to reduce by 21.4% as compared to that at 30 June 2015
- Group operating expenses decreased by 18.3%, broadly in line with the decrease in Group turnover
- Ranked top in the "China Brand Power Index 2016" (Women's Shoes category) for the sixth consecutive year

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

(23 August 2016 – 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 2016.

The global market environment has been tough in 2016, and China is undergoing its transition of shifting the major economic driver to domestic consumption from fixed asset investment. Despite various measures introduced by the government to boost the economy, China's gross domestic product (GDP) growth in the first half of 2016 stated the lowest in the past 25 years. The growth rate of China's total retail sales of consumer goods also decelerated for the fifth consecutive year. Chinese consumer behaviour is fast-changing than ever because of their increased exposures with more overseas travels, continued urbanisation, rising market penetration of smart phones and technological advancements. The prevailing sports fashion trend in recent year also caused some dilution impact on the consumption of women's footwear. Competition in the mass segment of women's footwear became intense since the second quarter of 2016, as the frequent rainstorms and flooding in China during the period further dampened the already soft consumer sentiment and slow store traffic. Also the inflationary pressure of operating costs exerted additional challenge to retailers in general.

For the six months ended 30 June 2016, the Group's turnover decreased by 22.3% to HK$3,400.8 million (1H2015: HK$4,374.3 million) mainly due to a material year-on-year decrease in the number of points-of-sale (POS) and negative same-store sales growth. Gross profit decreased to HK$1,884.2 million (1H2015:

HK$2,654.6 million) with a year-on-year decline of 29.0%, mainly because of the increase in the sales proportion of aged products. Gross profit margin decreased by 5.3 percentage points year on year mainly due to increased weighting of aged products in the sales mix.

Loss attributable to owners of the Company was HK$163.6 million (1H2015: profit of HK$2.5 million). Loss per share was HK9.9 cents compared to the basic earnings per share of HK0.2 cent for the corresponding period in 2015. The board of directors did not recommend the payment of an interim dividend.

The Group continued the rationalisation of its store network during the period so as to improve the quality of the overall store network. As at 30 June 2016, the Group's points of sales (POS) numbered 5,464 with a net closure of 466 during the period under review.

Core Brands Business

Affected by the material year-on-year decrease in the store number and the negative same-store sales growth, turnover of the business of Core Brands, "Daphne" and "Shoebox", in Mainland China recorded a year-on-year decline of 22.8% to HK$3,113.6 million (1H2015: HK$4,034.9 million) for the period under review. The decline in sales of Core Brands was more driven by sales volume, as the average selling price decreased by only 4.2% during the period. The segment revenue from external customers accounted for approximately 89% (1H2015: 90%) of the Group's total revenue during the period under review.

The Group had a net closure of 450 POS under the Core Brands for the period under review. As a result, there was a total of 5,147 POS (comprising 4,656 directly-managed stores and 491 franchised stores) as at 30 June 2016.

The Group made aggressive efforts in clearing aged inventory during the second quarter. Consequently, gross profit margin decreased by 5.9 percentage points because of the increased weighting of aged products in the sales mix and their lower average selling price as compared with those in the same period last year. Given the high fixed cost structure of the Group's retail operation, the decrease in sales, together with a decrease in gross profit margin, exerted significant downward pressure on operating margin. Therefore, a negative operating margin of 7.6% (1H2015: positive operating margin of 1.0%) resulted.

Other Brands Business

The revenue at the Other Brands business of the Group was mainly contributed by the operations of mid- to high-end brands (including the Group's own brands, and brands with exclusive distribution rights comprising "AEE", "STEP HIGHER", "AEROSOLES" and "ALDO", in Mainland China, Hong Kong and Taiwan). Turnover of the Other Brands business was about flat at HK$388.8 million (1H2015: HK$389.0 million), accounted for approximately 11% (1H2015: 9%) of the Group's total revenue, as the turnover growth of e-commerce offset the decrease in the revenue from the mid- to high-end brand portfolio and others.

Leveraging the strong brand equity of Daphne, the Group's e-commerce business unit remained on track for strong sales growth, and continued to be a profitable business unit. This thriving e-commerce business unit continued to increase its contribution to the Group's total revenue during the period under review. The warehouse-sharing programme, as one of the major online-to-offline ("O2O") initiatives, was in good progress during the period under review, and will further enhance the dispatch and delivery services of the Group's e-commerce business and overall inventory management when it is implemented more widely in the Group's store network in long run.

Outlook

Despite the current headwinds, the Group will stay focused on its adaptation to the new normal of China and remain committed to its improvement plan which, the Group believes, will transform it into a leaner but stronger company. The Group will continue the rationalisation of its network of stores in the second half of 2016, and the priority will also be given to inventory optimisation for the rest of the year. The Group will continue to invest in its e-commerce business to support its growth. It will continue to strengthen its partnership with both major and emerging online shopping platforms and seek more support from them for its promotional activities and big-data analysis. Faster product delivery for online transactions will be available to more cities when the warehouse sharing programme, as a key O2O initiative, will be more widely implemented in the Group's nationwide network of stores in the coming months. Besides, the Group will continue its stringent expense control which plays an important role in addressing a retailer's challenge in a sluggish market. In addition to the rationalisation of workforce according to the size of the store network, the Group is also looking to ways of streamlining the workflows and organisational structure at both store and back office levels.

Looking ahead, **Mr. Kevin Chang, Daphne's Chief Executive Officer,** concluded, "As part of the differentiation strategy, the Group will continue to adopt the multi-brand and multi-category approach and put emphasis on product differentiation. It is making various adjustments to foster a successful growth of its new multi-brand store format recently launched. After increasing product categories under its own brands to tap new customer segments and help refresh the brand image, the Group is monitoring the progress and conducting analysis for its future product planning. With Daphne's strong brand equity and focus on its core strengths, the Group is determined to strengthen its foothold in the market, and endeavours to improve the Group's performance for the remaining of the year."

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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 5,464 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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