

[For Immediate Release]

**Daphne International Holdings Limited**  
**2014 Interim Results Announcement**

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**Group Turnover at HK\$5,080.7 Million**

**Celebrity-driven Marketing Campaigns Refreshed Brand Image**

**Operational Highlights:**

- Group turnover amounted to HK\$5,080.7 million
- Turnover of Core Brands\* business amounted to HK\$4,685.0 million
- Total number of points-of-sale (POS) reached 6,598 of which the number of Core Brands POS amounted to 6,234
- Consolidated Other Brands business with improved financial performance
- E-commerce turnover more than doubled

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

(19 August 2014 – 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 2014.

During the first half of the year, China's economic growth continued to decelerate and consumer confidence remained soft in general. The emergence of the e-commerce channel, together with the increasing labour and rental costs further clouded the outlook of the retail sector and exerted pressure on the Group's performance during the period under review. For the six months ended 30 June 2014, the Group's consolidated turnover fell slightly to HK\$5,080.7 million (1H 2013: HK\$5,168.2 million). The Group's gross profit for the period was HK\$2,865.5 million, compared to HK\$3,013.2 million in the same period last year. Operating profit was HK\$240.7 million (1H 2013: HK\$450.5 million).

Profit attributable to shareholders amounted to HK\$172.4 million (1H 2013: HK\$310.3 million). Basic earnings per share were 10.5 HK cents (1H 2013: 18.8 HK cents). The Board recommended payment of an interim dividend of 3.5 HK cents (1H 2013: 6.0 HK cents) per share for the year ended 31 December 2014. The dividend payout ratio is 33.5% (1H 2013: 31.9%).

As at 30 June 2014, the Group's points-of-sale (POS) totalled 6,598, representing a net decrease of 104 POS during the first half.

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## **Core Brands Business**

During the period under review, the retail market was still undermined by the generally soft consumer sentiment in Mainland China. Despite negative same store sales growth and net store closures, turnover of the Group's Core Brands business, represented by its propriety brands "Daphne" and "Shoebox" in Mainland China, amounted to HK\$4,685.0 million, slightly down by 1.1% year-on-year (1H 2013: HK\$4,738.6 million). The segment accounted for 91% of the Group's total turnover (1H 2013: 91%).

Pressing on with its cautious approach to store network development, the Group ended the first half with a total of 6,234 POS under its Core Brands, representing a net decrease of 85 POS during the period. The directly-managed stores comprised 88% of the total store portfolio of Core Brands, up from 86% of last year.

During the first half of the year, same store sales recorded a mid-single digit decrease, but the decline narrowed on a quarter-on-quarter basis. The sales trend had been improving since mid-March, except for the dip in May which was caused by prolonged unfavourable weather patterns. Average selling price decreased by about 5.5% as compared to that of last year, which was mostly due to the increased sales mix of off-season items with deeper discounts. Opportunistic clearance of off-season items led to gross profit margin contraction during the first half of the year to 56%. However, progress of such clearance initiative was in line with our plan, and improved the Group's inventory turnover days to 208 days (1H 2013: 209 days). The gross profit margin contraction narrowed from quarter to quarter.

Celebrity-driven marketing campaigns, including those by Ms. Jun Ji-Hyun, Mr. Nicholas Tse and Ms. Gao Yuan Yuan, were launched in June and refreshed Daphne's brand image and improved store traffic.

The combination of soft sales growth and inflationary pressure on key operating costs, such as labour and rental costs, led to negative operating leverage. As a result, the operating margin of the Core Brands business in the first half of the year decreased to 5.7% (1H 2013: 10.4%).

## **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 "AEROSOLE" in this business segment cater to the growing middle-class consumer segment and broaden the Group's customer base in the long run. The fast-growing e-commerce unit increased its contribution to this business segment, and drove the overall turnover of the Other Brands business to grow 8.9% to HK\$358.1 million (1H 2013: HK\$328.8 million). The overall Other Brands business contributed approximately 7% (1H 2013: 6%) to the Group's total turnover. Consolidation of the mid- to high-end brand portfolio continued and performance per store improved. As a result, the operating loss for this segment significantly reduced to HK\$8.5 million in the first half of 2014. The Group had a net decrease of POS under Other Brands by 19 to 364 POS as at 30 June 2014.

The enhanced performance of e-commerce was a result of increased diversity of marketing activities, in particular, those linked with new product launches. Strong online sales of off-season items also helped fuel this positive trajectory.

## **Outlook**

Industry headwinds still remain as the overall retail market challenges prevail. In the second half of the year, despite moderate sales improvement towards the end of the second quarter, market visibility remains low.

In view of the sluggish market environment, the Group is determined to strengthen core competitive strengths and drive for efficiency improvement to emerge even stronger from the intense competition. During the first half of the year, initiatives to enhance operational efficiency progressed in line with the Group's plan, but will take time for them to translate into positive contributions to sales and key performance indicators. Based on the findings and conclusions from the analysis along the implementation of its key strategic initiatives, the Group will continue to adjust and refine the measures, and improve execution. The Group is also working on a business plan encompassing both offline and online businesses, with emphasis on sales productivity, supply chain management, branding and marketing to support its overall sales performance.

Looking ahead, Mr. Eddie Chen, Daphne's Chairman and Chief Executive Officer, concluded, "China's rising living standard, continuous urbanization and policies to spur domestic consumption will continue to bode well for the development of the women's footwear market. As an industry player with a longstanding record of success through both tough and buoyant economic circumstances, adapting to market changes to enhance our competitiveness is not unfamiliar to us. We are determined and committed to make every endeavour to strengthen our leading position in the ladies' shoe market and thrive, so as to deliver growth in the medium to 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 and has been admitted as one of the constituent stocks of the Hang Seng MidCap Index, effective on 7 March 2011. The Group is principally engaged in the manufacturing, marketing and distribution of ladies' footwear under its own and exclusively-distributed brands, with over 6,200 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.

Daphne ranked the second in the award of the Best Managed Mid-Cap Companies in China 2012 by *FinanceAsia*, a leading financial publication in Asia.

For further information, please visit [www.daphne.com.cn](http://www.daphne.com.cn) or contact:

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