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**ANNUAL RESULTS PRESENTATION**

29 March 2017

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# The Group had a tough year in 2016

- Weak consumer sentiment prevailed
- Intense competition from local peers and online players
- Inflationary pressure of operating expenses, including rental and staff costs, remained
- Negative operating leverage
- Charges from rationalisation of inventory, stores and personnel



# Progress made in 2016

- Accelerated store rationalisation
  - Net closure of 1,030 POS
- Aggressive liquidation of aged inventory
  - Inventory level reduced by 32.4% to HK\$1,414.5 million from HK\$2,091.6 million
- Adopted prudent management decision on inventory rationalisation
- Continued stringent expense control
  - Operating expense reduced by 20.4%
- Net cash increased to HK\$692.8 million from HK\$454.8 million
- E-commerce continued strong growth and remained profitable
- Commenced the groundwork for new branding and product strategies of 2017



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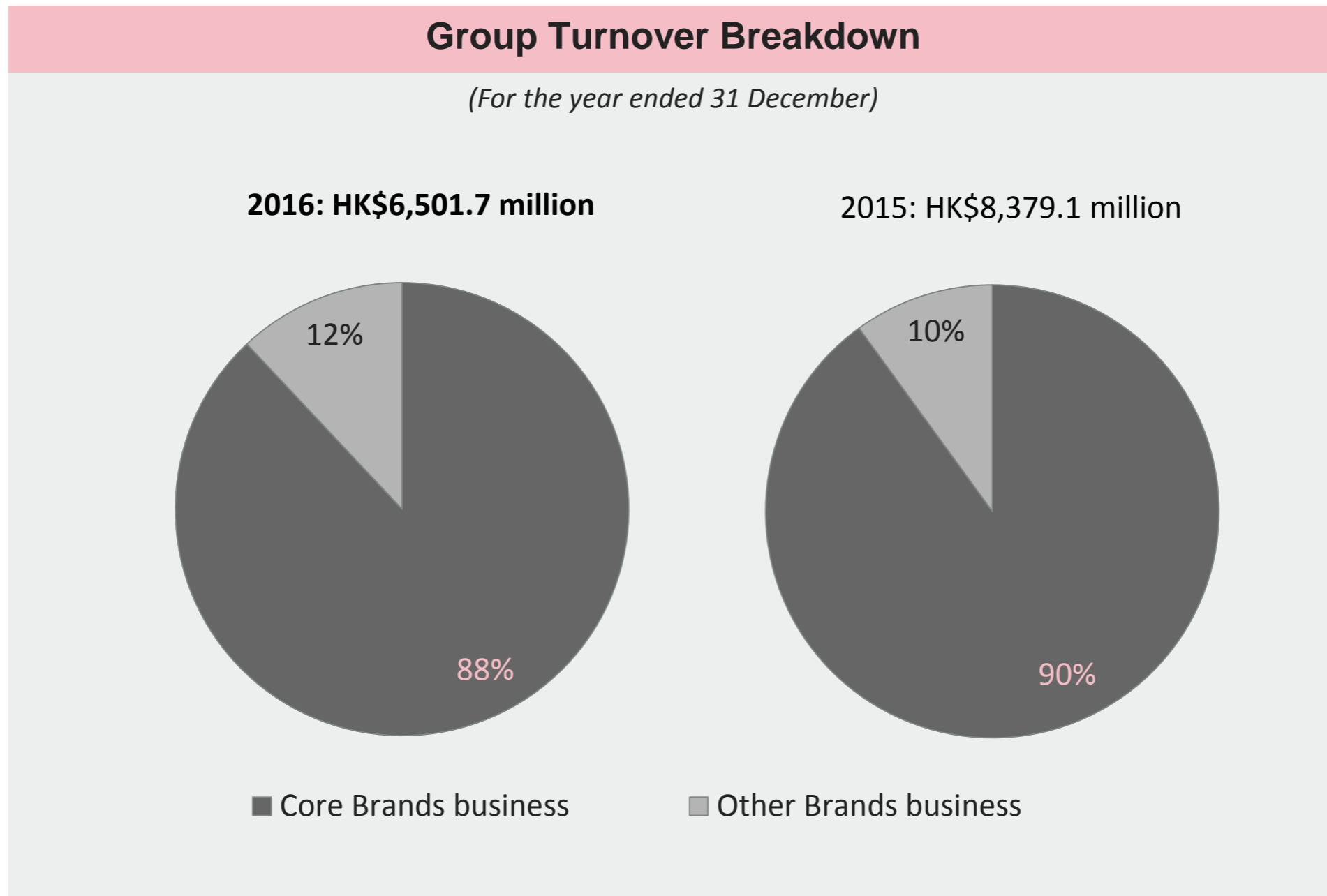
# Financial Review

# Group Financial Highlights

<i>(HK\$ million)</i>	2016	2015	Change
<b>Turnover</b>	6,501.7	8,379.1	-22.4%
<b>Gross profit</b>	3,311.7	4,724.7	-29.9%
<b>Operating loss</b>	(819.5)	(497.6)	+64.7%
<b>Loss attributable to shareholders</b>	(819.1)	(378.9)	+116.2%
<b>Basic loss per share <i>(HK cents)</i></b>	(49.7)	(23.0)	+116.1%
<b>Dividend per share <i>(HK cents)</i></b>	Nil	Nil	-
<b>Gross margin</b>	50.9%	56.4%	-5.5ppt
<b>Operating margin</b>	-12.6%	-5.9%	-6.7ppt
<b>Net margin</b>	-12.6%	-4.5%	-8.1ppt

*(For the year ended 31 December)*

# Group Turnover Breakdown



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

# Group Gross Margin

- Group's gross margin decreased by 5.5ppt YoY, mainly due to:
  - Increased weighting of aged products in the sales mix
  - Aged products sold at lower price
  - Highly promotional market
- New products' gross margin was comparable to that of last year





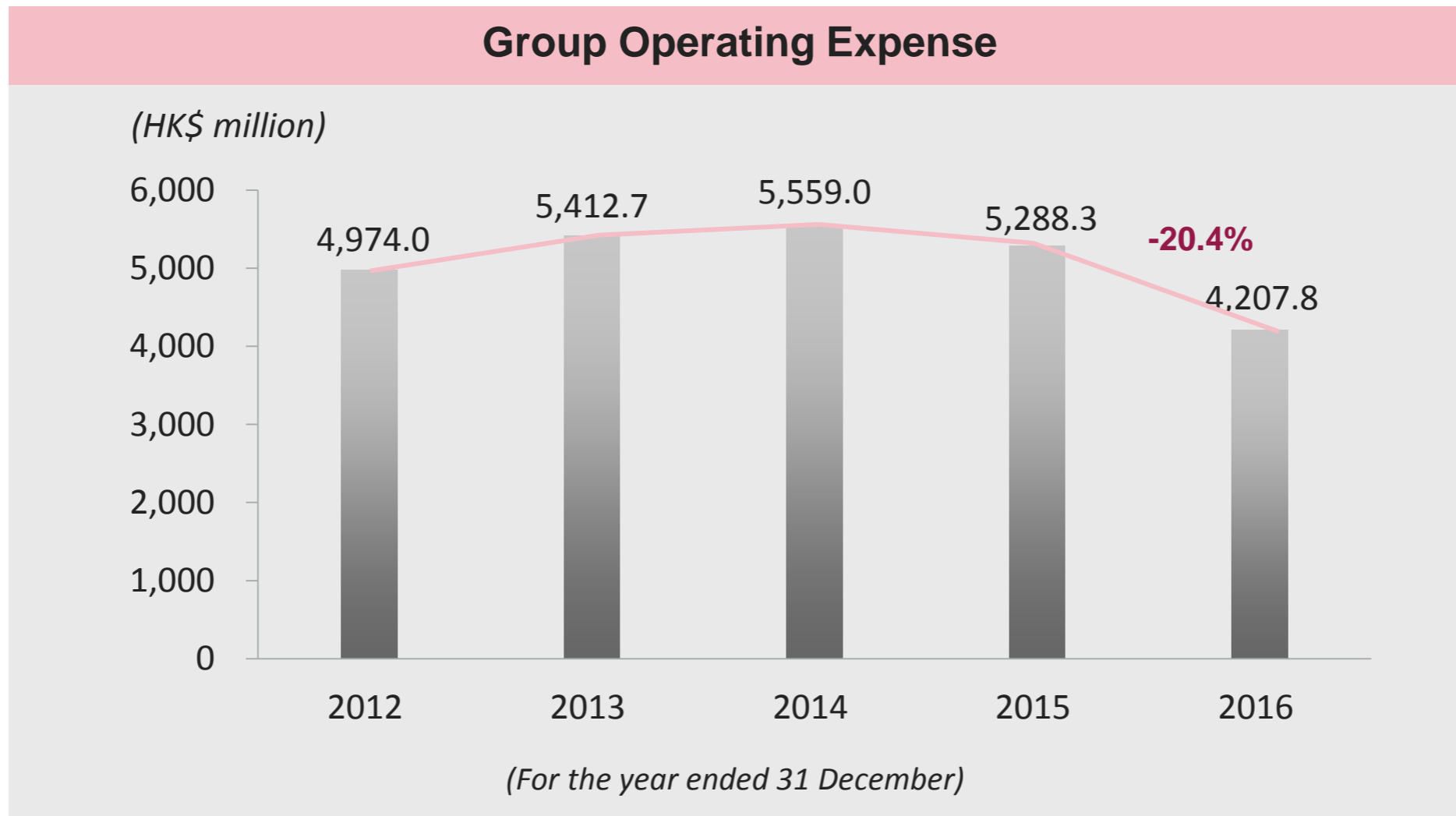
# Charges from Rationalisation Initiatives in 2016

- Accelerated store closure
  - Net closure: 1,030
- Increased staff severance payment
- Prudent inventory management and provision



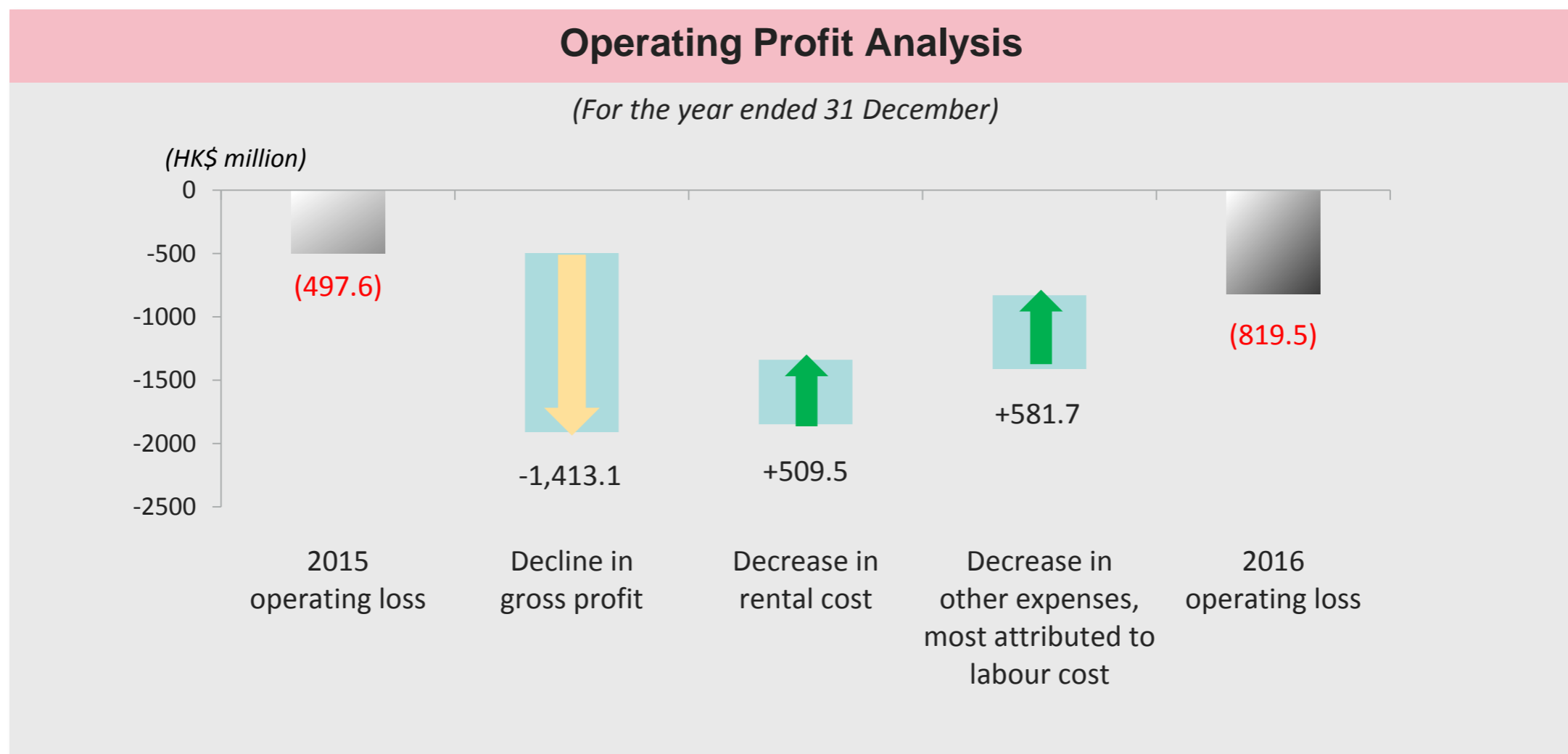
# Group Operating Expense

- Decreased by 20.4% YoY
- Group operating expense decreased broadly in line with the decline in turnover, under inflationary environment



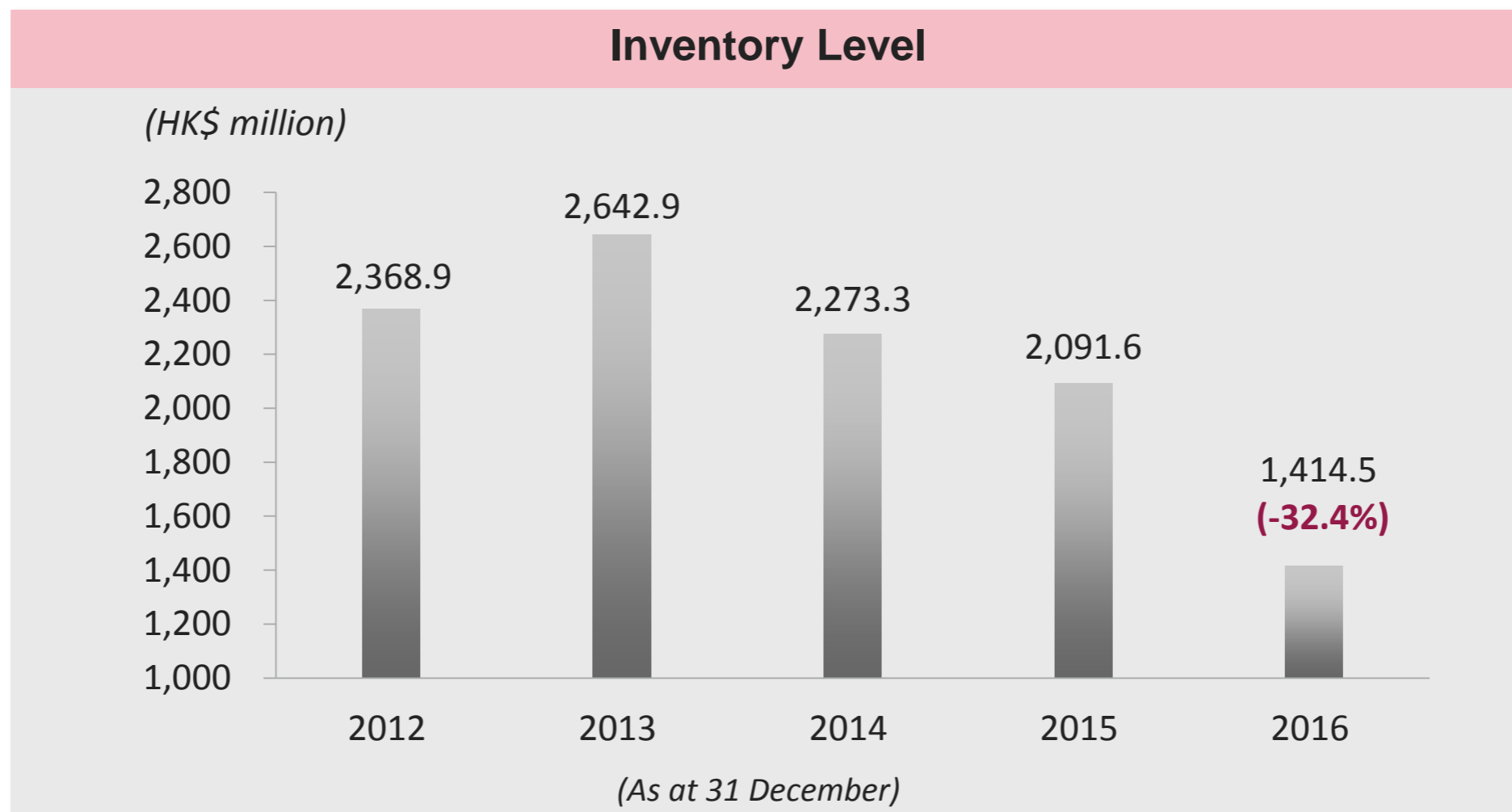
# Group Operating Profit Analysis

- Group gross margin decreased by 5.5ppt YoY
- Group operating margin dropped by 6.7ppt YoY



# Inventory Level and Turnover Days

- Group inventory turnover days was 201 days, decreased by 17 days (2015: 218 days)
- Group inventory level continued to decrease to HK\$1,414.5 million, a reduction of HK\$677.1 million, as compared to that of 2015 year end
- After reviewing inventory level, the Group made a provision for inventories charged to cost of sales of HK\$34.2 million (2015: provision HK\$216.9 million)



# Working Capital and Capital Expenditure

- Capital expenditure greatly reduced
  - Substantial reduction in new store openings in 2016

	2016	2015	Change
Average Inventory Turnover (days)	201	218	-17
Average Debtors Turnover (days)	13	12	+1
Average Creditors Turnover (days)	130	113	+17
Cash Conversion Cycle (days)	84	117	-33
Capital Expenditure (HK\$ million)	110.9	301.5	-63.2%

*(For the year ended 31 December)*



# Other Key Financial Indicators

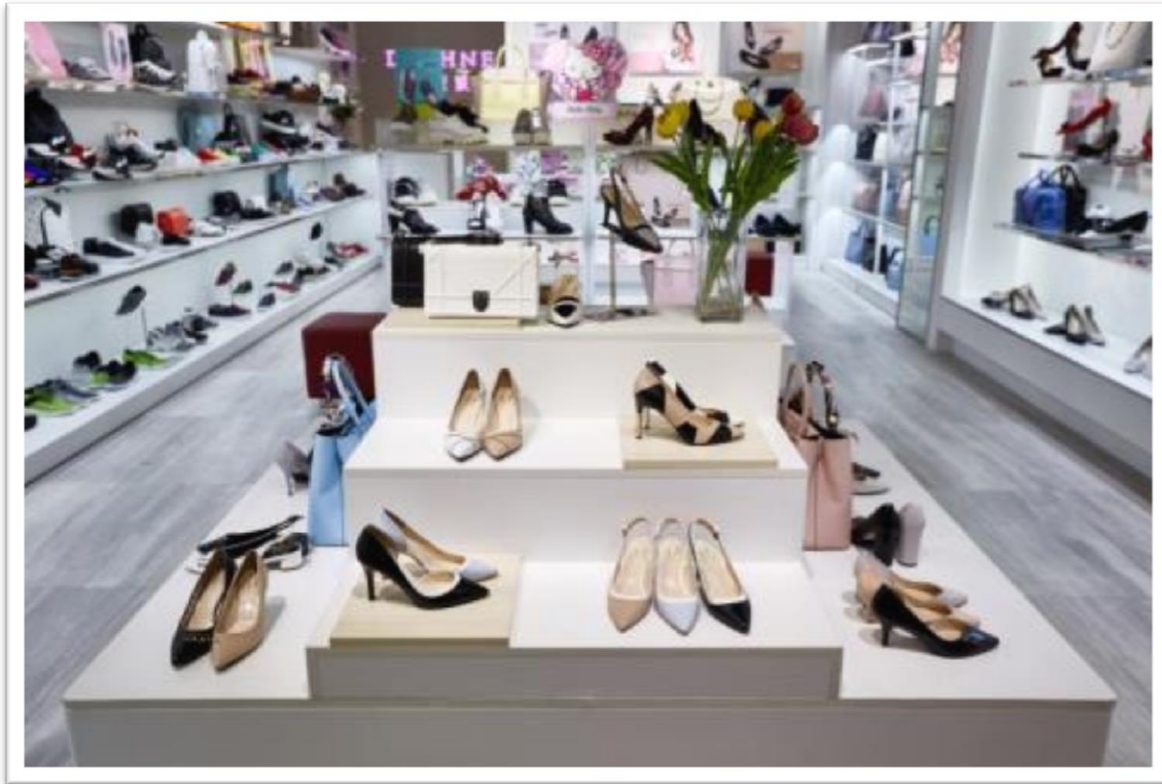
- The Group improved its net cash position
- The Group's net cash was increased by HK\$238.0 million in 2016 to HK\$692.8 million, benefited from aggressive liquidation of aged inventories

<i>(HK\$ million)</i>	As at 31 Dec 2016	As at 31 Dec 2015	Change
Cash and bank balances	989.5	1,075.6	-8.0%
Bank loans	296.7	620.8	-52.2%
Equity attributable to shareholders	3,371.4	4,462.6	-24.5%
Current ratio (times)	2.4	2.4	-
Net gearing ratio (%)	Net cash	Net cash	-

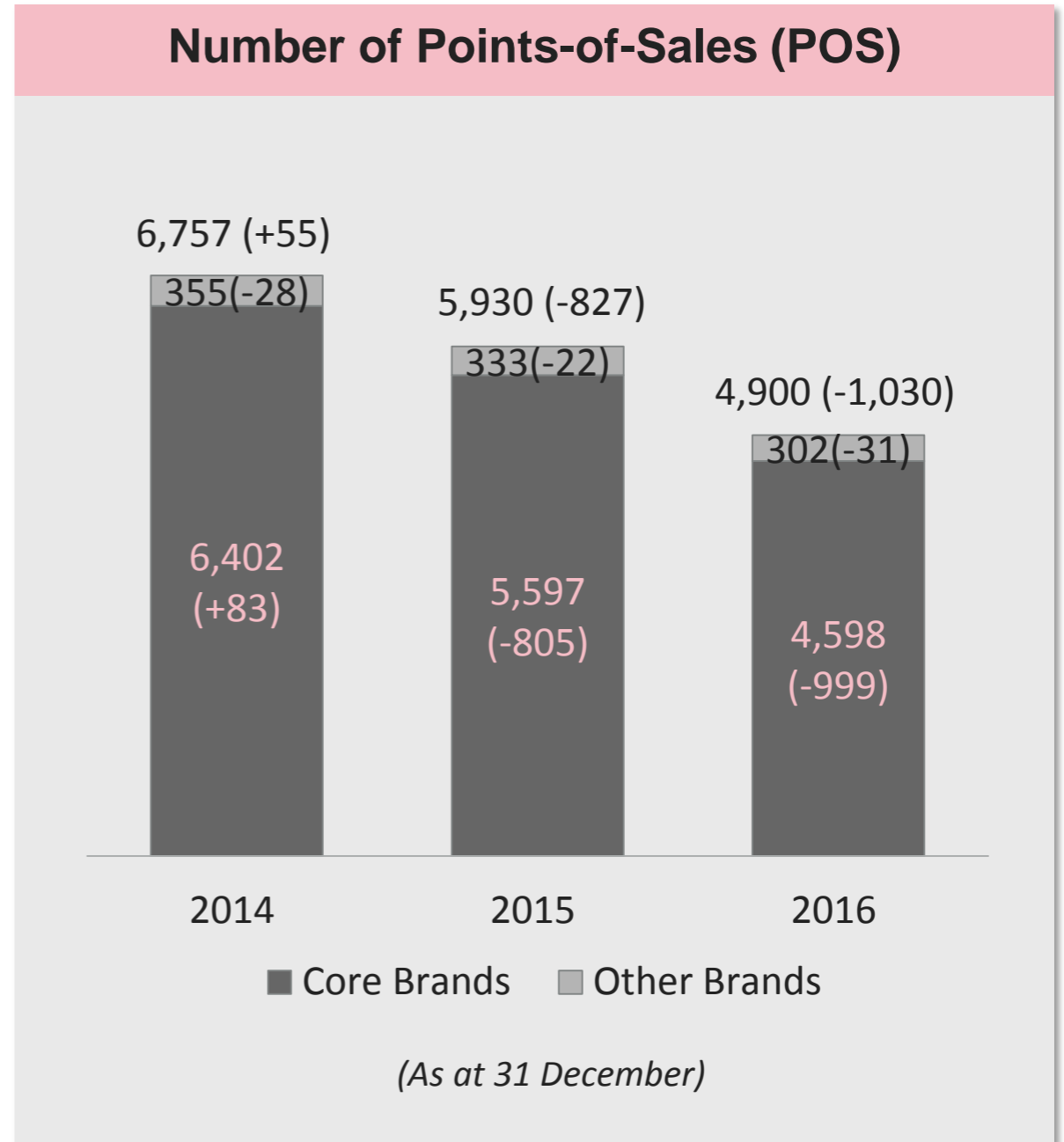
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# Operational Highlights

# Group Sales Network



- Store rationalisation
  - Core Brands had a net reduction of 999 POS, bringing the total to 4,598
  - Other Brands had a net closure of 31 POS





# Core Brands Sales Network

- Net reduction of 999 POS (including 810 directly-managed stores and 189 franchised stores)

## Number of POS

	As at 31 Dec 2016	As at 31 Dec 2015	Change	% Change
Directly-managed POS	4,246 (92%)	5,056 (90%)	-810	-16.0%
Franchised POS	352 (8%)	541 (10%)	-189	-34.9%
<b>Core Brands Total</b>	<b>4,598</b>	<b>5,597</b>	<b>-999</b>	<b>-17.8%</b>

## Quarterly change in POS

	1Q 16	2Q 16	3Q 16	4Q 16	FY 16
Directly-managed POS	-139	-261	-284	-126	-810
Franchised POS	-37	-13	-23	-116	-189
<b>Core Brands Total</b>	<b>-176</b>	<b>-274</b>	<b>-307</b>	<b>-242</b>	<b>-999</b>

## Core Brands Sales Network (cont'd)

- Maintained greater representation in lower tier cities

	As at 31 Dec 2016		As at 31 Dec 2015		Change	% Change
	No.	%	No.	%		
<b>Tier 1 Cities</b>	514	11%	637	11%	-123	-19.3%
<b>Tier 2 Cities</b>	1,125	25%	1,376	25%	-251	-18.2%
<b>Tier 3 Cities</b>	890	19%	1,030	18%	-140	-13.6%
<b>Tier 4-6 Cities</b>	2,069	45%	2,554	46%	-485	-19.0%
<b>Total</b>	<b>4,598</b>	<b>100%</b>	<b>5,597</b>	<b>100%</b>	<b>-999</b>	<b>-17.8%</b>



# Core Brands Business - SSSG

- Same-store sales growth was -11.7% for the year of 2016

Same-store sales growth	1Q	2Q	3Q	4Q	FY
2016	-6.2%	-15.9%	-13.0%	-10.1%	-11.7%

- Average selling price decreased by 4.8% to RMB159 (2015: RMB167)



# Core Brands Business - Performance

(HK\$ million)	2016	2015	Change
Turnover	5,936.0	7,720.1	-23.1%
Gross profit	2,808.2	4,149.2	-32.3%
Gross margin	47.3%	53.7%	-6.4ppt
Operating loss	(744.1)	(362.4)	+105.3%
Operating margin	-12.5%	-4.7%	-7.8ppt

(For the year ended 31 December)

- **Core Brands' turnover decreased by 23.1%**

- YoY reduction of 17.8% POS
- SSSG -11.7%

- **Gross margin decreased by 6.4ppt**

- Increased weighting of aged products in sales mix
- More aggressive discounting to liquidate aged inventory

- **Operating margin decreased by 7.8ppt**

- Decrease in sales
- Substantial decrease in gross profit
- Negative operating leverage
- Prudent inventory management and provision
- Charges for rationalisation of stores and personnel





# Other Brands Business - Performance

(HK\$ million)	2016	2015	Change
<b>Turnover</b>	813.0	832.7	-2.4%
<b>Gross profit</b>	480.1	505.6	-5.0%
<b>Gross margin</b>	59.0%	60.7%	-1.7ppt
<b>Operating profit</b>	7.8	1.3	+500.0%
<b>Operating margin</b>	1.0%	0.2%	+0.8ppt

(For the year ended 31 December)

- **Turnover of Other Brands business decreased by 2.4%**

- Turnover growth of e-commerce did not offset the decline of turnover in mid- to high-end brands and others
- Mid- to high-end brands and others had a YoY net decrease of 9.3% in POS

- **Overall gross margin of Other Brands business dropped by 1.7ppt**

- Increased weighting of e-commerce sales

- **Mid- to high-end brands' performance slightly improved with reduced losses**

- **Other Brands business recorded an operating profit of HK\$7.8 million**

- Benefited from increased contribution of the profitable e-commerce unit

# **2017 Outlook**

To turn a new page,

and take on a new look.....

**DAPHNE INTERNATIONAL HOLDINGS LIMITED**

**達芙妮國際控股有限公司**

DAPHNE

New Logo



New Logo



To drive differentiation,  
and meet more sophisticated customers' expectation,  
this is our plan for 2017:

## Brand Revamp

i. New logo

ii. New store image

iii. Initiate crossover projects

iv. New marketing approach

# 1. Brand Revamp

- Appointed professionals to lead the design process for the revamp of brand identities
- Place emphasis on the “stylish and chic” elements to enhance our appeal to young and more discerning customers today
- Tell customers that we are “**Different**” through a **young, contemporary, trendy, and vibrant image**

# 1. Brand Revamp (cont'd)

## iii. Initiate crossover projects

- Crossover partners: upcoming star fashion brands, online key-opinion leaders and celebrities
- Target different niche group of customers with different crossover partners
- Create the hip brand perception and broaden the appeal of Daphne



# Opening Ceremony

A star fashion brand from USA, that is highly regarded by fashionistas



**OPENING  
CEREMONY**  
Est. 2002

**DAPHNE**



# 1. Brand Revamp (cont'd)

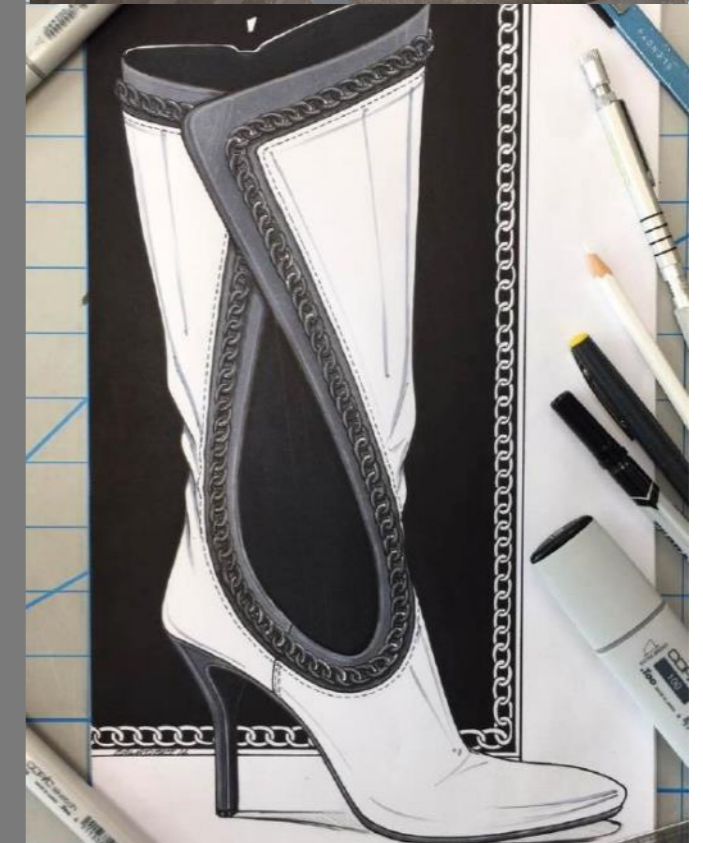
## iv. New Approach of Marketing

- Conduct a thorough review to enhance cost-efficiency in marketing
- Place emphasis on online marketing
- Leverage the upcoming crossover projects, and seasonal product launches
- Expand and restructure the marketing team to enhance marketing effectiveness and efficiency
- Appoint professional marketing agency to conduct integrated marketing campaigns

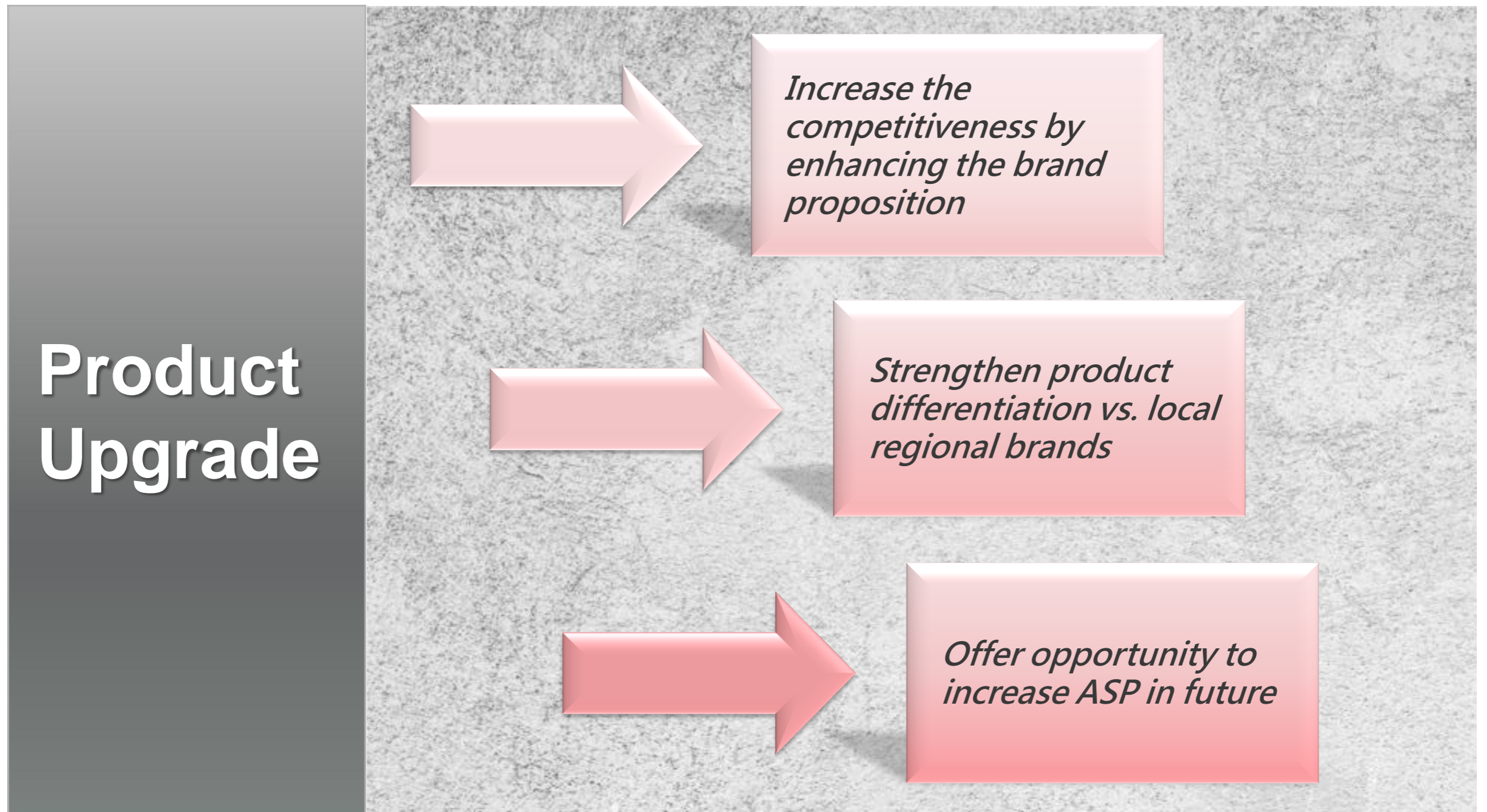


## 2. Product Upgrade

- Make investment in product upgrade including design, and product quality
- Appoint a prominent designer with rich experience in renowned global and regional women's shoes brands to lead the Group's design team
- Expand and reorganise the product design team
- Offer more diversity in the product range of Core Brands
- Rearrange the product portfolio to adapt the recent market changes and latest fashion trend
- Restructure the production and supply chain management functions to support the upgrade of the product quality and design



## 2. Product Upgrade (cont'd)



# 3. Boost Performance from Channel Management

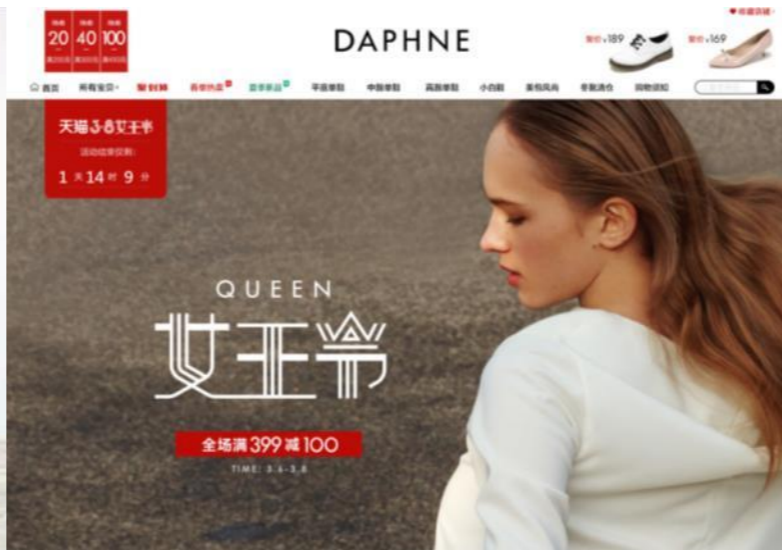
- May consider net store opening in 2017 if retail market becomes more stable in coming months
- Continue to reduce the ratio of street stores
- Pursue higher penetration in channels offering more stable performance and foot traffic
- Consider a gradual expansion of the franchise scheme





# 4. Expand E-commerce Business

- Accelerate the integration of online and offline businesses
- Increase pre-sale offers
- Drive more interactions with online customers to increase loyalty and sales
- Enhance cross-functional efforts to improve performance of e-commerce



# 5. Enhance Shopping Experience

- Place emphasis on customer service
- Invest in people, both frontline and back office, to enhance staff's capability and efficiency
  - Build a talent pool
  - Enrich the training programmes and mystery shoppers' programmes
  - Enhance various incentive schemes



# 2017 Strategies



# 2017 — “Be Focused”

- ✓ Invest in key areas
- ✓ Drive differentiation
- ✓ Increase competitiveness
- ✓ Enhance shopping experience
- ✓ Disciplined and diligent execution





## Target

Revive the growth path and  
achieve turnaround ASAP

## Vision

To be the most popular mass-fashion brand  
with leading market share and customer reputation ,  
whilst creating superior shareholder's return

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# Thank You

.....Q&A session

DAPHNE INTERNATIONAL HOLDINGS LIMITED  
達芙妮國際控股有限公司

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