

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

2015 Annual Results Presentation

30 March 2016



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Group Faced Unprecedented Challenges in 2015

- **In 2015, the Group's performance was affected by:**
 - General economic slowdown
 - Intense competition from local peers and online players
 - Inflationary operating costs including rental and staff costs
 - Erratic and extreme weather patterns
 - Increased charges from rationalisation of stores, inventory, factories and personnel

Financial Review



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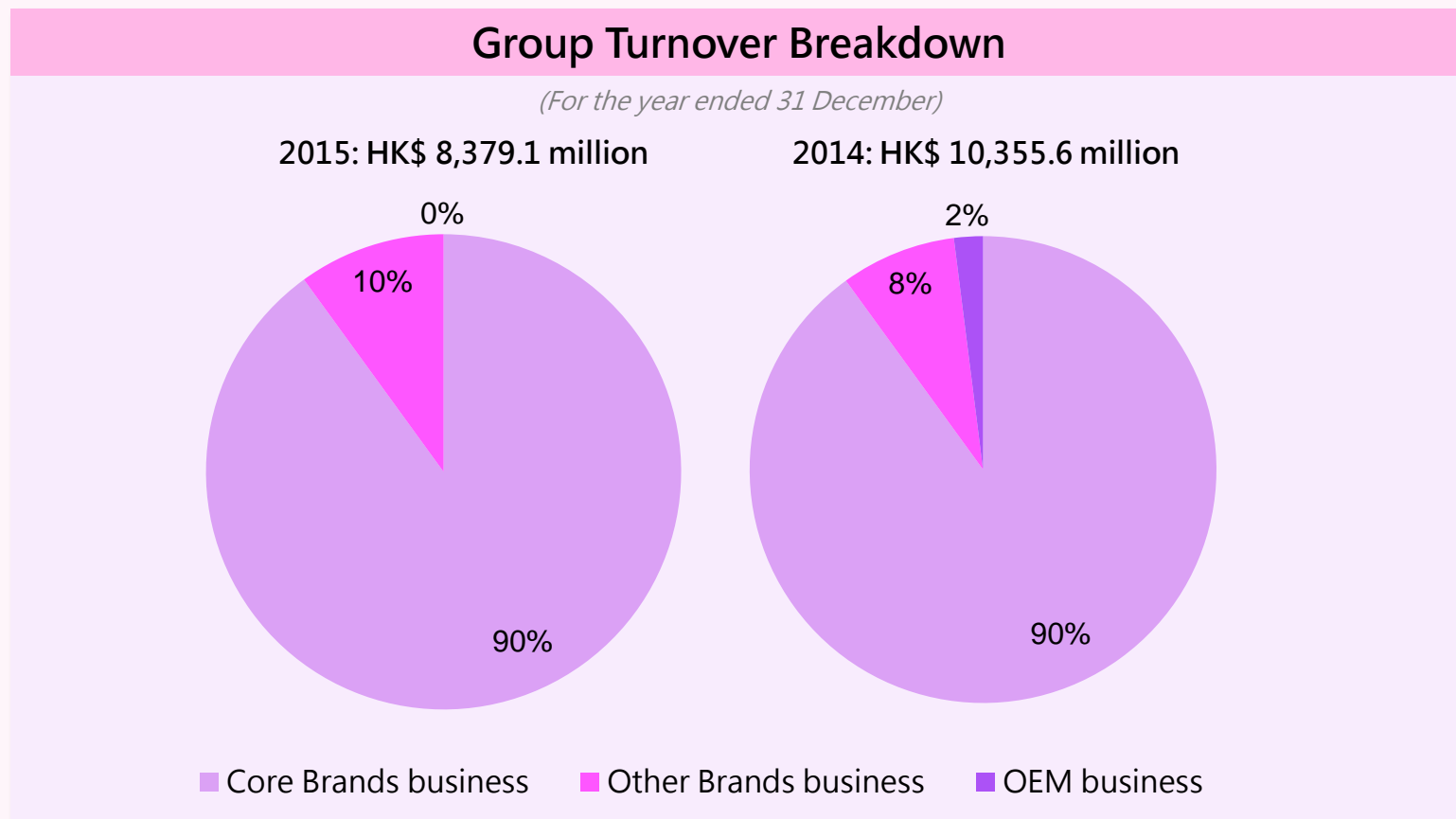
Group Financial Highlights

<i>(HK\$ million)</i>	2015	2014	Change
Turnover	8,379.1	10,355.6	-19.1%
Gross profit	4,724.7	5,737.6	-17.7%
Operating (loss)/profit	(497.6)	262.4	-289.6%
(Loss)/profit attributable to owners of the Company	(378.9)	176.0	-315.2%
Basic (loss)/earnings per share <i>(HK cents)</i>	(23.0)	10.7	-315.0%
Dividend per share <i>(HK cents)</i>	-	3.5	-100.0%
- Interim	-	3.5	-100.0%
- Final	-	-	-
Gross profit margin	56.4%	55.4%	+1.0ppt
Operating profit margin	-5.9%	2.5%	-8.4ppt
Net profit margin	-4.5%	1.7%	-6.2ppt

(For the year ended 31 December)

Group Turnover

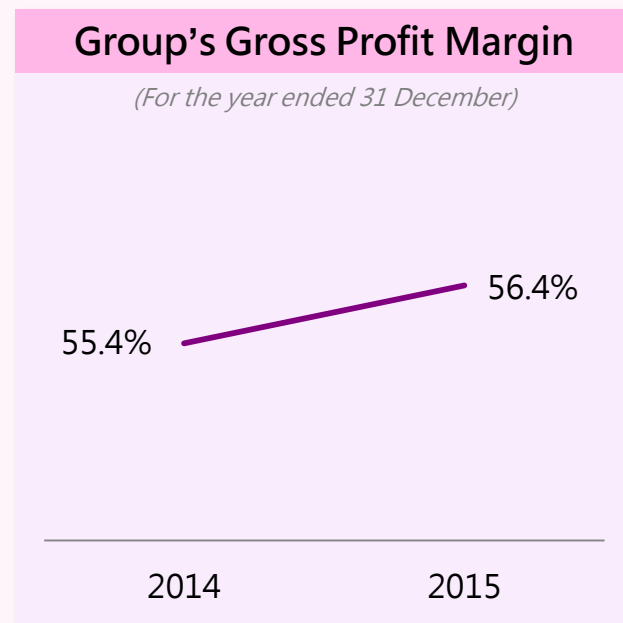
- Core Brands business remains the largest contributor to Group turnover



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

Group Profit Margins

- **Group's gross profit margin increased by 1.0ppt YoY.**
 - Group gross profit margin recorded slight increase despite lower Core Brands ASP
 - Group's gross profit margin, excluding inventory provision, increased by 4.8ppt YoY
 - Increase in gross profit margin due to:
 - Improved sales mix
 - Enhancement made in product design
 - New pricing strategy
 - Lower product costs
- **Group's operating profit margin decreased by 8.4ppt YoY:**
 - Inflationary operating cost such as labour and rental costs
 - Increased operational charges from rationalisation of stores, factories and personnel
 - Increased operating deleverage

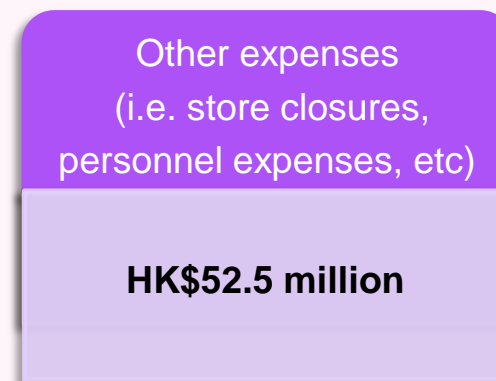
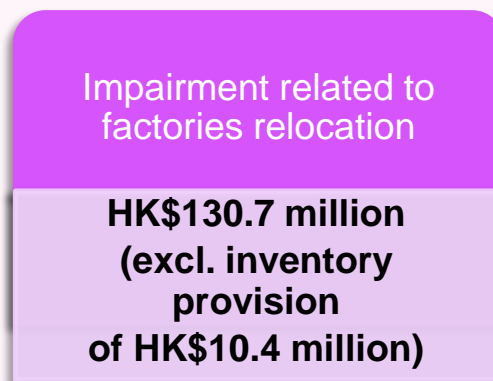


Costs Incurred by Rationalisation Initiatives in 2015

- **As 2H FY15 market conditions deteriorated, we undertook decisive actions:**
 - Closed down loss-making stores
 - Relocated factories in coastal area to rationalise production cost
 - Downsized the back office (both at the regional offices and headquarters)
 - Cancelled additional product ordering
 - Focused on inventory level and management
- **These actions led to increased expenses for 2015**



Examples of Increased Expense Items:



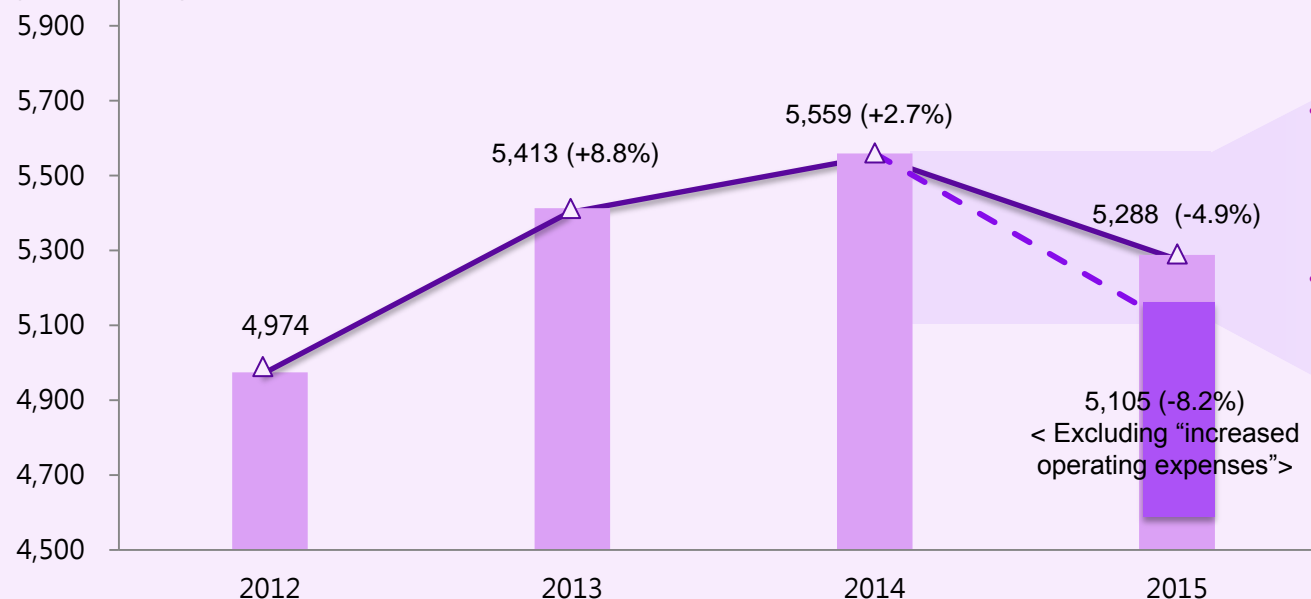
Cost Control Measures Delivered Substantial Cost Saving

- Managed to contain rising operating expenses under inflationary environment

Operating Cost

(For the year ended 31 December)

(HK\$ million)



- Reduction of routine costs**
 - Decline in rental cost
 - Net decline in labour cost and other expenses
- Increased operating expenses**
 - Expenses incurred from rationalisation of factories
 - Other expenses incurred from rationalisation

Inventory Level and Turnover Days

- Group inventory turnover days was 218 days (2014: 194 days)
- After review of inventory level, the Group made a provision for slow-moving inventories of HK\$216.9 million (2014: write-back HK\$119.8 million)
- Group inventory level continued to decrease as compared to that of 2014 year end



Working Capital and CAPEX

- **Reduction in CAPEX mainly due to:**
 - One-off purchase of self-use office incurred additional CAPEX in 2014
 - Substantial reduction in new store openings and store renovation in 2015

	2015	2014	Change
Average Inventory Turnover (days)	218	194	+24
Average Debtors Turnover (days)	12	12	-
Average Creditors Turnover (days)	113	103	+10
Cash Conversion Cycle (days)	117	103	+14
CAPEX (HK\$ million)	301.5	518.9	-41.9%

(For the year ended 31 December)

Other Key Financial Indicators

- **Redemption of convertible bonds in 1HFY15 resulted in lower cash and bank balances**
- **Post convertible bonds redemption, the Group maintains net cash position**

<i>(HK\$ million)</i>	As at 31 Dec 2015	As at 31 Dec 2014	Change
Cash and bank balances	1,075.6	1,528.7	-29.6%
Bank loans	620.8	96.5	+543.6%
Convertible bonds	-	680.7	-100.0%
Equity attributable to owners of the Company	4,462.6	5,058.0	-11.8%
Current ratio (times)	2.4	2.4	-
Net gearing ratio	Net cash	Net cash	-

Operational Highlights

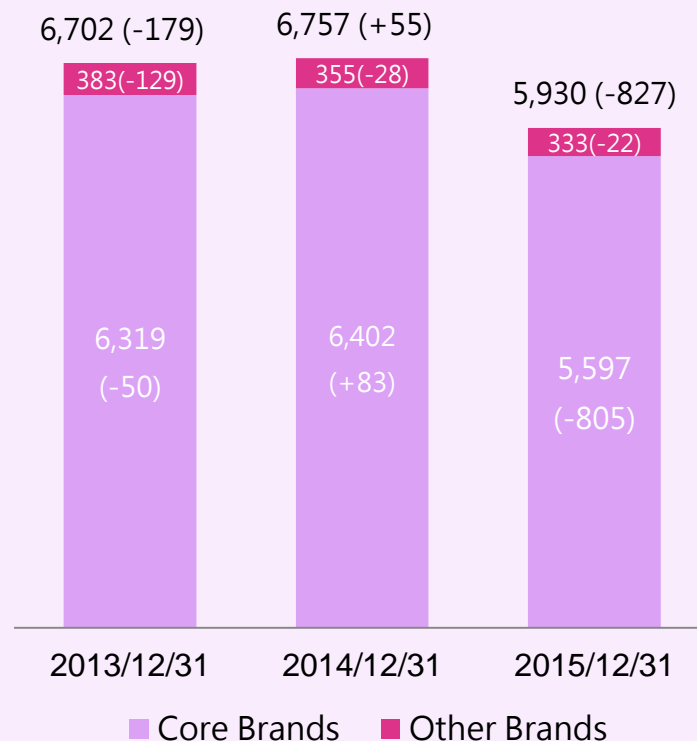


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Group Sales Network



Number of Points-of-Sales (POS)



- **Store rationalisation**

- Core Brands had a net reduction of 805 POS, bringing the total to 5,597
- Net reduction of 22 Other Brands' POS



Core Brands Sales Network

- Net reduction of 805 POS (including 692 directly-managed stores and 113 franchised stores)
- Accelerated store closures in 4Q2015

Number of POS

	As at 31 Dec 2015	As at 31 Dec 2014	Change	% Change
Directly-managed POS	5,056 (90%)	5,748 (90%)	-692	-12.0%
Franchised POS	541 (10%)	654 (10%)	-113	-17.3%
Core Brands Total	5,597	6,402	-805	-12.6%

Quarterly change in POS

	1Q 15	2Q 15	3Q 15	4Q 15	FY 15
Directly-managed POS	+24	-141	-191	-384	-692
Franchised POS	-38	-26	-28	-21	-113
Core Brands Total	-14	-167	-219	-405	-805

Core Brands Sales Network (cont'd)



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- The Group maintained greater representation in lower tier cities

	As at 31 Dec 2015		As at 31 Dec 2014		Change	% Change
	No.	%	No.	%		
Tier 1 Cities	637	11%	731	12%	-94	-12.9%
Tier 2 Cities	1,376	25%	1,607	25%	-231	-14.4%
Tier 3 Cities	1,030	18%	1,238	19%	-208	-16.8%
Tier 4-6 Cities	2,554	46%	2,826	44%	-272	-9.6%
Total	5,597	100%	6,402	100%	-805	-12.6%

Core Brands Business - Performance

(HK\$ million)	2015	2014	Change
Turnover	7,720.2	9,492.6	-18.7%
Gross profit	4,149.2	5,103.3	-18.7%
Gross margin	53.7%	53.8%	-0.1ppt
Operating (loss)/profit	(362.4)	225.2	-260.9%
Operating margin	-4.7%	2.4%	-7.1ppt

- **Under the sluggish market, Core Brands' turnover saw a decline. The same store sales of the core brands business recorded a year-on-year decline of 18.5%**

- Consumer sentiment remained soft
- Erratic and extreme weather patterns
- Intense competition from both online and offline



- **Gross profit margin decreased by 0.1ppt**

- More aggressive discounting in 2H FY15
- YoY increase in inventory provision

- **Operating margin decreased by 7.1ppt YoY**

- Negative same store sales growth
- Substantial decrease in gross profit
- Inflationary cost pressure including rental and labour costs
- Increased operating leverage
- Increased charges for rationalisation of stores and personnel

Core Brands Business - SSSG



- Same store sales growth was -18.5% for the year of 2015

	1Q 2015	2Q 2015	3Q 2015	4Q 2015	FY 2015
Same store sales growth	-15.9%	-17.7%	-19.7%	-20.2%	-18.5%

- **Average selling price decreased by 4.6% to RMB167 (2014: RMB175)**
 - Adopted different pricing and discounting strategies as compared to those of last year
 - Changes in sales mix
 - Weak consumer sentiment on winter shoes and boots due to the warm winter in 2H FY15



Other Brands Business - Performance

(HK\$ million)	2015	2014	Change
Turnover	832.7	838.4	-0.7%
Gross profit	505.6	525.3	-3.8%
Gross margin	60.7%	62.7%	-2.0ppt
Operating profit	1.3	17.9	-92.7%
Operating margin	0.2%	2.1%	-1.9ppt

- **Turnover of Other Brands business decreased by 0.7%**
 - Erratic weather affected mid-to-high-end brands' turnover, gross profit margin and inventory level
 - The growth of e-commerce business did not offset the turnover decline in mid-to-high-end brands
 - Daphne continued to rank top in ladies' shoes category in Alibaba's Singles' Day event
- **Other Brands' performance was affected by:**
 - Net closure of 22 POS
 - Slow sales resulted from erratic weather, and increased discounts to drive sales caused a decline in its gross profit margin
- **Overall gross profit margin of Other Brands business decreased by 2.0ppt**
 - Lower ASP and lower gross profit margin of mid-to-high-end brands products
 - Change in sales mix
- **Other Brands business recorded an operating profit of HK\$1.3 million**



Outlook



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Retail Market Outlook

+ Positive Factors

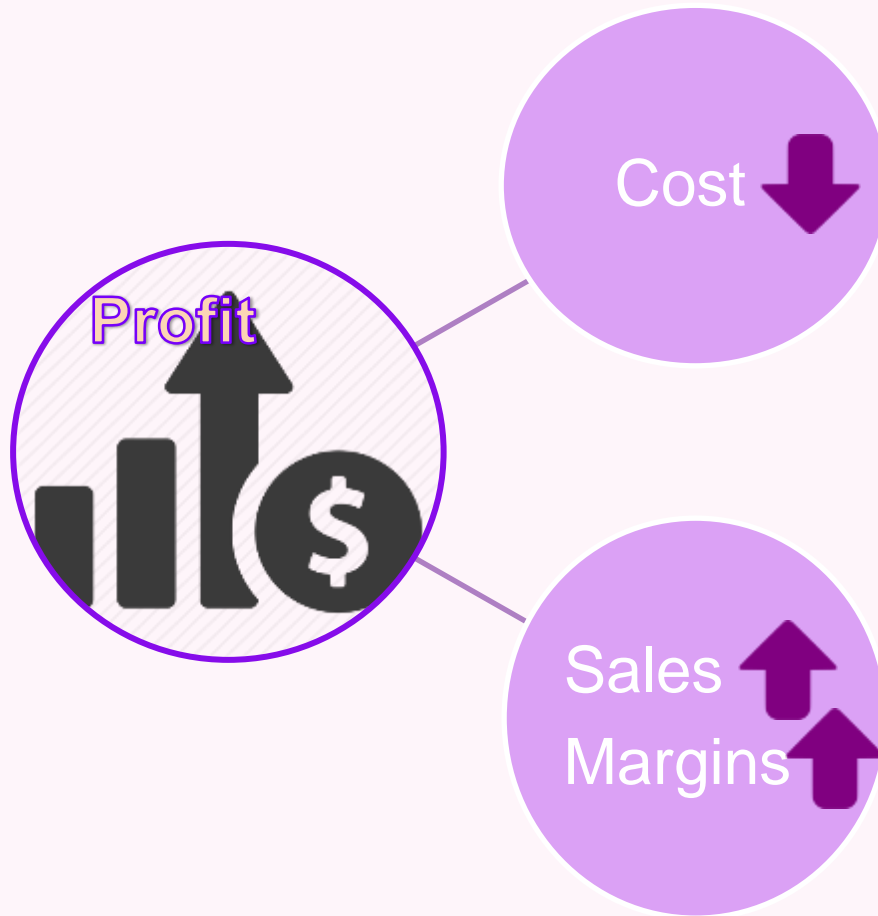
- PRC government policies to promote domestic consumption
- Urbanisation continues
- Raw material prices maintain at a low level which will benefit the Group's gross profit margin
- The Group's substantial store closures in 2015 help ease the rental pressure, so as to reduce operating deleverage
- Leveraging its strong online brand equity and its growth in e-commerce, the Group will continue to grow its e-commerce business



- Negative Factors

- Slower economic growth of China
- Fast-changing consumer preferences and behaviours
- Inflationary operating costs in China including labour and rental costs
- More intense competitive environment from the soft 2015

2016 Turnaround Roadmap



- ✓ Store rationalisation
- ✓ Inventory rationalisation
- ✓ Personnel rationalisation

- ✓ Enhance store performance
- ✓ Increase differentiation to strengthen competitiveness
- ✓ Drive improvement in supply chain
- ✓ Revitalise and diversify marketing efforts
- ✓ Expand e-commerce business

2016 Improvement Plan

- For key initiatives we already made progress in 2015, we will continue in 2016:

Store Rationalisation

- ✓ Closely monitor store performance and will address under-performing stores decisively
- ✓ Combine stores and open large stores to improve shopping environment and sales efficiency

Inventory Rationalisation

- ✓ 2016 target for inventory turnover days: <200 days
- ✓ Drive improvement in inventory management system, so to optimise inventory level and mix
- ✓ Adopt an integrated approach to foster close co-ordination among supply chain, store operation and promotion to reduce inventory turnover days

Personnel Rationalisation

- ✓ Simplify the organisation structure to enhance management efficiency and reduce expenses
- ✓ Further downsizing the workforce and improve incentive system to boost motivation

Enhance Store Performance

- **Introduce new “multi-brand” store format**
- **Enhance the store portfolio**
 - Reduce the ratio of street stores to step up the adjustments in the channel mix
 - Testing the new “multi-brand” stores with larger size, so to offer better shopping environment and competitiveness
 - Adopt more stringent review criteria and process to increase the success rate of new stores
 - Strive to reduce rental or achieve more favourable rental arrangement and terms upon lease negotiation
- **Improve the product replenishment mechanism to increase sales efficiency**
- **Explore new distribution concepts and new sales channels**



Enhance Store Performance (cont'd)

- **Strengthen the motivation and accountability of frontline sales managers**
 - Simplify the “Key Performance Index” system by putting the top priority on profit
 - Flatten the organisation structure, improve performance appraisal systems and incentive schemes to improve motivation
e.g. profit-sharing
- **Enhance store management and improve operational efficiency**
 - Improve mystery shoppers programme and store evaluation mechanism
 - Improve conversion rate and linked-sales rate
 - Streamline the frontline team structure



New “Multi-Brand” Store Format

Aim : Broader product offerings in a more comfortable shopping environment to provide customers with more choices and improve sales performance

- **Located in shopping malls and hypermarkets/supermarkets — the combination of different shopping districts, together with tailored brands and product portfolio to attract different customers**
- **Multi-brand**
- **More varieties of products**
- **More trendy and comfortable shopping environment**

➔ Boost customer spending and increase sales efficiency



Increase Differentiation to Strengthen Competitiveness

- Invest in the development of “differentiated” products vis-à-vis competition
- Add more trendy product categories
- Put more emphasis on achieving better leverage from best-selling items
 - Increase its ratio in the sales mix
 - Strengthen the support of its merchandising, inventory management and supply chain
 - Sharpen the response mechanism
- Increase penetration of high-growth and more resilient product categories
- Enhance the overall product allocation and merchandising
- Modify pricing and discounting policy to achieve optimisation of price and gross profit margin so as to earn customers’ recognition of the brand value

Explore Opportunities through a Customer Survey

- The survey interviewed 2,650 people, covering customers in 170 cities
- Focus on product, style, price, service and competitors
- The survey results were analyzed together with sales data analysis and other internal reports

Findings :

- **Daphne’s competitive strengths :**
 - Offer a broad variety of trendy styles
 - Good value-for-money
- **Opportunities arise by increasing “differentiation” against competitors**

Drive Improvement in Supply Chain

- Enable smaller-batch production
- Increase flexibility of supply chain, including the dispatch system, to shorten the lead time
- Make adjustment to quantity ordered
- Enhance the feedback and communication mechanism to improve the effectiveness of best-selling products via speedy replenishment orders
- Closely monitor slow-moving items and their timely disposal
- 2016 target for inventory turnover days: < 200 days



Revitalise and Diversify Marketing Efforts

- Revitalise and diversify marketing efforts to enhance brand image
 - Launched innovative products to project the trend-setting brand image
 - Jointly-developed with Tencent the Disney kid shoes with GPS feature, by leveraging the technology of advanced bluetooth chip. 640 million active QQ users can help in search of lost children
 - Ally with a popular fashion magazine to strengthen brand association and awareness among young female customers



Expand E-Commerce Business

- **Leverage the leadership position and strong brand equity:**
 - Daphne maintains its top ranking in the women's shoe category of Alibaba's Single's Day event, despite fierce online competition in 2015 with entries of more international brands
- **Increase the exposures and number of virtual stores in various major online shopping platforms**
- **Extend its sales network to emerging online shopping platforms**
- **Further develop O2O initiatives**
 - Implementing warehouse sharing programme
- **Step up marketing efforts**
- **Continue to build online capabilities**

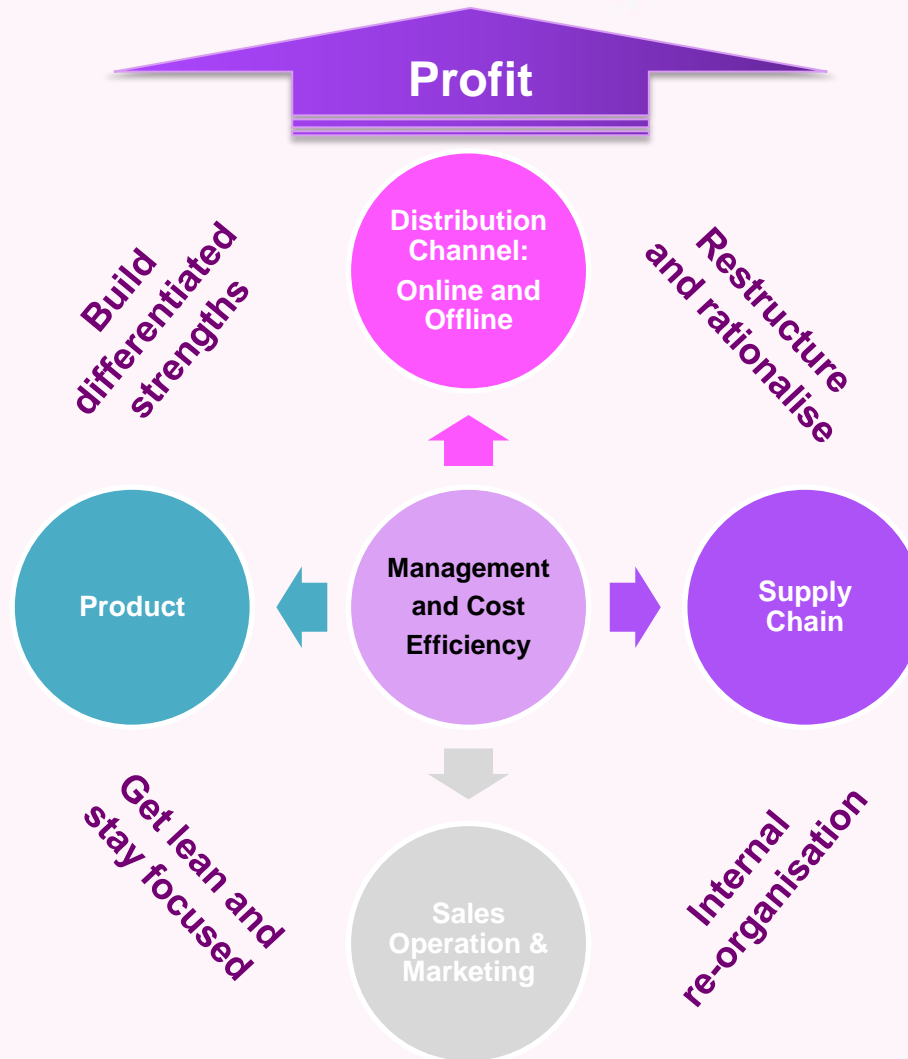


Summary: Making Progress on the Turnaround Plan

- **Leading mass-consumer brand in China with the most extensive sales network nation-wide**
- **Identified key action items to address the adverse macro environment and fierce competition**
- **Took decisive actions and will continue to adopt new approaches in 2016**
 - Build differentiated strengths and coordinate resources to support execution
 - Restructure and rationalise internal organization
 - Get lean and stay focused
- **Made progress in 2015 and will continue the transformation in 2016**



A Summary of 2016 Improvement Plan



Focus in key areas to enhance the management and cost efficiency, so to improve profitability

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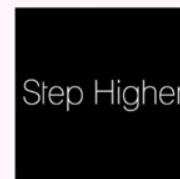
- 1 ... Is No. 1 ladies' footwear brand in China (mass market)
- 2 ... Has the largest distribution network in the industry (for a single brand)
- 3 ... Ranked 1st in the ladies' shoes category of Alibaba's Singles' Day event
- 4 ... Has over 20 years' experience in the women's footwear market in China
- 5 ... Weathered through ups and downs of business cycles over the past 20 years and Daphne still stays as the leading brand in the industry
- 6 ... Has a solid financial position with strong balance sheet
- 7 ... Operate in the "right" market where consumption in China will thrive in medium and long term

Ultimate Goal of 2016



Thank you

.....Q&A session



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