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Stella International Holdings Limited
九興控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

**BUSINESS UPDATE OF THE GROUP
FOR THE SECOND QUARTER OF 2020
AND
PROFIT WARNING**

The board (the “Board”) of directors (the “Directors”) of Stella International Holdings Limited (the “Company”) would like to provide an update on the business development of the Company and its subsidiaries (collectively, the “Group”) for the second quarter of 2020, and details of matters noted based on a preliminary review of the operating results of the Group for the six months ended 30 June 2020. This announcement is made pursuant to Rule 13.09 (2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

TOTAL CONSOLIDATED REVENUE

The unprecedented global outbreak of COVID-19 has made the Group’s operating environment extremely challenging. The slowdown of economic activities, including lockdowns in many countries, resulting from the pandemic, significantly impacted the business of the Group’s brand customers and disrupted some of the Group’s production facilities in China and Southeast Asia. As a result of this adverse situation, the Group’s unaudited consolidated revenue¹ decreased by 43.4% to approximately US\$248.0 million (2019: US\$438.0 million) for the three months ended 30 June 2020 and decreased by 31.9% to approximately US\$511.2 million (2019: US\$750.6 million) for the six months ended 30 June 2020, as compared to the corresponding periods of the last financial year.

* For identification purpose only

¹ Including the Group’s manufacturing business, branding business and other businesses not covered herein, and after the elimination of inter-segment sales.

MANUFACTURING BUSINESS

An analysis of the revenue, quantity and ASP in relation to the manufacturing business of the Group for the three months and six months ended 30 June 2020 is shown in the table below:

	For the three months ended 30 June (Unaudited)			For the six months ended 30 June (Unaudited)		
	2020	2019	Change (%)	2020	2019	Change (%)
Revenue (<i>US\$ million</i>)	247.8	435.4	-43.1	504.5	742.5	-32.1
Quantity (<i>million pairs</i>)	9.4	16.8	-44.0	20.4	29.5	-30.8
Average Selling Price (<i>US\$/pair</i>)	26.4	25.9	+1.9	24.7	25.2	-2.0

The fall in revenue and shipment volume for the three months ended 30 June 2020 was attributable to the COVID-19 pandemic, which prompted customers to delay and cancel orders and shipments, as well as changing seasonal orders patterns with more customers requiring shorter lead times compared to the same period of the last financial year.

The increase in ASP for the three months ended 30 June 2020 was mostly driven by changes to the Group's product mix and customer mix.

PROFIT WARNING

The Board wishes to inform the shareholders of the Company (the "Shareholders") and potential investors that, based on the preliminary review of the unaudited consolidated management accounts of the Group for the six months ended 30 June 2020, and information currently available to the Board, the Group expects that a net loss may be recorded for the period as compared with a net profit for the corresponding period of 2019. The expected loss was mainly attributable to:

- (a) a significant decrease in shipment volumes due to customers delaying and cancelling orders and shipments as a result of the COVID-19 pandemic, as well as changing seasonal order trends as described in the section above headed "Manufacturing Business" in this announcement;
- (b) higher one-off costs incurred from:
 - i. severance payments and impairment of property, plant and equipment made and incurred in connection with the permanent closure of factories in Mainland China, as the Group accelerates its planned migration of production capacity to Southeast Asia; and

- ii. overhead costs related to temporary factory closures in Mainland China, the Philippines and Bangladesh, incurred to comply with local government measures to curb the spread of COVID-19; and
- (c) operating deleverage due to workers at some of the factories in Mainland China, Indonesia and Vietnam being granted extra days off by the Group because of the reduction in orders, which led to lower utilisation of these production facilities.

Looking forward, while the retail sales of the Group's brand customers are recovering gradually, there is still considerable uncertainty surrounding how the COVID-19 pandemic may impact on the sales and order visibility of the Group's manufacturing business in the second half of 2020. In the meantime, the Group will continue to implement internal initiatives such as improving manufacturing efficiency, tightening cost controls, enhancing its operations and exploring new customer opportunities to grow the business. This will enable the Group to better weather the challenging external environment while ensuring that it is well-placed to restore capacity in a more advantageous and margin-accretive manner when demand normalises.

At present, with dedicated efforts in cash flow management, the Group's financial position remains solid with sufficient cash on hand and total undrawn bank facilities of over US\$180 million to meet its current business needs. While exerting tight control over its capital expenditure, the Company will proceed with its plan to set up a new factory in Indonesia in the second half of 2020 to enhance its cost efficiency and competitiveness in the long-term.

The Company will continue to closely monitor the external environment and the Group's exposure to the prevailing risks and uncertainties, and take measures to mitigate the risks in a timely manner.

The information contained in this announcement is only based on a preliminary assessment by the management of the Company of the unaudited consolidated management accounts of the Group for the six months ended 30 June 2020 and the currently available information, and such information has not been audited or reviewed by the Company's auditors and may be subject to adjustments.

The consolidated interim results of the Group for the six months ended 30 June 2020 are expected to be announced in August 2020. Shareholders and potential investors are advised to read the Company's interim results announcement with care when it is published.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Stella International Holdings Limited
Chen Li-Ming, Lawrence
Chairman

Hong Kong, 16 July 2020

As at the date of this announcement, the executive Directors are Mr. Chen Li-Ming, Lawrence and Mr. Chi Lo-Jen; the non-executive Directors are Mr. Chiang Jeh-Chung, Jack and Mr. Chao Ming-Cheng, Eric; and the independent non-executive Directors are Mr. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, BBS, Mr. Yue Chao-Tang, Thomas, Mr. Lian Jie and Ms. Shi Nan Sun.