# Demand Slowdown Impacts Stella's 2016 Performance

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*Profit stabilised towards end of year as the Group adjusted to rapidly changing operating environment*

*Hong Kong, 16 March, 2017* – **Stella International Holdings Limited** ("Stella" or the "Group"; SEHK: 1836), a leading developer, manufacturer and retailer of quality footwear and leather goods products, today announced its audited annual results for the year ended 31 December 2016.

**Financial & Operational Highlights:**

| | For the year ended 31 December | | Change (%) |
|---|---|---|---|
| ***(US$'000)*** | **2016** | **2015** | |
| Turnover | **1,550,864** | 1,769,852 | -12.4 |
| Gross profit | **290,544** | 371,630 | -21.8 |
| Profit before tax | **88,258** | 128,745 | -31.4 |
| Net profit | **81,577** | 121,047 | -32.6 |
| Basic earnings per share (US cents) | **10.2** | 15.3 | -33.3 |
| GP margin (%) | **18.7** | 21.0 | -2.3 pts |
| NP margin (%) | **5.3** | 6.8 | -1.5 pts |
| Average selling price ("ASP") per pair (US$) | **28.1** | 29.3 | -4.1 |
| Total shipment during the year (mn pairs) | **52.9** | 58.2 | -9.1 |
| No. of retail stores | **331** | 335 | -4 stores |

**Results Summary**

The Group's consolidated revenue for the year ended 31 December 2016 was US$1,550.9 million, a decline of 12.4% compared to the previous year. Shipment volumes declined 9.1% to 52.9 million pairs. The decline in revenue and shipment volumes was mostly attributed to the continued weakness in the non-sports footwear products, which resulted in the lower utilisation of our non-sports footwear factories and lower efficiency, especially in the first half of the year. The impact of this was partially offset by increasing demand for our athleisure products, which remains a key growth driver.

Gross profit in the twelve months ended 31 December 2016 fell 21.8% to US$290.5 million. Full year net profit attributable to shareholders of the Company declined 32.6% to US$81.6 million.

The average selling price ('ASP') of our footwear products fell 4.1% to US$28.1 per pair due to changes to our product mix. Our gross profit margin for the year fell to 18.7%, while our net profit margin fell to 5.3%.

We are pleased to announce a final dividend of HK30 cents per share and a special dividend of HK10 cents per share. Together with the interim dividend of HK 30 cents per share paid, our total dividend pay-out ratio for 2016 was 87.5%.

Mr. Lawrence Chen, Chief Executive Officer of the Group, said, "Global political events and changing consumer tastes both had an impact on our financial performance during the year under review. However, our ability to cope with these changes stabilised towards the end of the year, which helped us to reduce inefficiencies and the under-utilisation of some of our factories. This enabled us to restore some of our margins toward the end of the year."

**Proactive Adjustments to Manufacturing Capacity to Meet Rising Athleisure Trend**

We continued to make proactive adjustments to our manufacturing business to better cater for the rising popularity of 'athleisure' footwear products – a fashionable take on the traditional sports shoes. These adjustments included substituting some of our existing non-sports footwear capacity to meet rising athleisure orders, while also reducing headcounts to better control capacity and costs.

Demand for athleisure products continued to cannibalise demand for casual footwear products – a key product segment for the Group – as the result of the ongoing convergence between sports, casual and fashion in the retail market. Fashion footwear contributed 42.0% to our total revenue (2015: 46.0%) during the year under review, while the contributions from our casual footwear and athleisure footwear products were 29.0% and 24.0% respectively (2015: 32.5% and 16.9%).

Geographically, North America and Europe continued to be our two largest markets, accounting for 52.3% and 25.1% of total revenue during the year under review. This was followed by the PRC (including Hong Kong), which accounted for 13.1%, Asia (other than the PRC), which accounted for 7.4% and other geographical regions, which accounted for 2.1%.

**Continued Commitment to 'Italian Quality'**

We further grew our market share in the premium footwear market due to the unparalleled reputation we have built in delivering 'Italian quality', as well as flexibility and research and development capabilities. These capabilities continue to be underpinned by our state-of-the-art design, research and development centers in Dongguan, China and Venice, Italy.

This reputation for high-quality design and R&D was also instrumental in helping us win the trust of new customers in the athleisure space and expanding our relationship with existing customers.

## Signs of Turnaround for the Retail Business

Our retail business displayed some signs of a turnaround in terms of revenue and same-store sales, particularly towards the end of the year. This was primarily due to the various strategies and initiatives being implemented by our new retail management team, including the ongoing closure of underperforming stores and counters; the launch of multi-brand stores; the opening of new standalone stores in high-potential shopping malls in China; the refurbishment of older stores; as well as the use of online platforms for effective marketing strategies and to clear off-season merchandise.

We continued to expand the presence of our *Stella Luna* and *What For* brands in Europe to support the value of our retail brands in China. We also expanded our work with leading retailers around the world, such as *Lane Crawford* and *Barneys New York*, to bring our retail brands to new markets, including Hong Kong and the United States, for the first time, while also making them available on their ecommerce channels.

Revenue from the retail business declined slightly during the year under review, down 3.1% to US$77.8 million. Same-store sales (in China only) fell 6.2% to US$50.2 million. The segment recorded a gross profit of US$53.0 million during the year under review, and a net loss of US$1.6 million.

As of 31 December 2016, we operated a total 207 *Stella Luna* stores, 118 *What For* stores and 6 *JKJY by Stella* stores globally.

Mr. Stephen Chi, CEO of the Group's retail business, said, "It is encouraging to see some turnaround in the performance of our retail business as the result of the strategies being implemented by our new management team. We are excited to see the continued introduction of our retail brands in new global markets, as this plays an important role in increasing the value and visibility of brands in China."

## Grant of Option to Sell 60% of Stella's China Retail Business

In October 2016, the Group granted an option to Max Group to acquire a 60% stake in our China retail business, after which we will still maintain control over our retail brands, as well as our retail operations in Europe.

## Future Plans & Prospects

We see demand for our footwear products stabilising in the first half of 2017, in light of continued economic recovery in the United States, although we will continue to closely monitor risks arising from the ongoing Brexit negotiations, rising trade protectionism in the United States and slowing economic growth in China, among others. We also continue to expect more demand for athleisure products in 2017, which will continue to partially cushion for the overall weakness in non-sports footwear products.

Despite the disappointing decision by the United States government not to ratify the Trans-Pacific Partnership (TPP), we will continue to expand our athleisure footwear manufacturing capacity, particularly in locations such as Vietnam, in order to increase our competitiveness in this sector. We will also convert more of our manufacturing capacity in other areas into additional capacity for athleisure footwear products.

We will continue to invest in our research and development capabilities in order to improve and extend our range of innovative footwear products to deepen our customer relationships and remain the partner of choice for leading footwear brands around the world. We will also remain committed to strict cost controls and ongoing efficiency improvement measures, while also better managing headcounts and work hours.

Our retail management team will continue to implement their strategies to turnaround the retail business in China. We will also continue to expand our retail presence in Europe and other global markets to further grow the value of our retail brands and to bring back this brand equity to China.

Mr. Jack Chiang, Chairman of the Group, concluded, "Despite the prevailing risks in the global economy, our fundamental strategy is unlikely to change. We will continue to invest in our ability to deliver value, quality and craftsmanship to achieve our mission of "making the best shoes", which will position our business strongly for the future and deliver long-term returns to our shareholders."

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**Consolidated Income Statement**
*For the year ended 31 December, 2016*

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **US$'000** | US$'000 |
| **Revenue** | **1,550,864** | 1,769,852 |
| Cost of sales | **(1,260,320)** | (1,398,222) |
| **Gross profit** | **290,544** | 371,630 |
| Other income | **19,352** | 17,670 |
| Other gains and losses | **18,760** | (2,319) |
| Distribution and selling expenses | **(92,614)** | (99,863) |
| Administrative expenses | **(86,618)** | (98,194) |
| Research and development costs | **(62,048)** | (59,888) |
| Share of result of a joint venture | **1,370** | 90 |
| Share of results of associates | **43** | 247 |
| Finance costs | **(531)** | (628) |
| **Profit before tax** | **88,258** | 128,745 |
| Income tax expense | **(7,044)** | (8,594) |
| **Profit for the year** | **81,214** | 120,151 |
| **Other comprehensive (expense) income** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation of foreign operation | **(1,136)** | (961) |
| Share of exchange differences of associates and a joint venture | **451** | 332 |
| Other comprehensive expense for the year, net of income tax | **(685)** | (629) |
| Total comprehensive income for the year | **80,529** | 119,522 |
| Profit (loss) for the period attributable to: | | |
| Owners of the Company | **81,577** | 121,047 |
| Non-controlling interests | **(363)** | (896) |
| | **81,214** | 120,151 |
| Total comprehensive income (expense) for the year attributable to: | | |
| Owners of the Company | **80,815** | 120,322 |
| Non-controlling interests | **(286)** | (800) |
| | **80,529** | 119,522 |
| Earnings per share - Basic and diluted (US$) | **0.102** | 0.153 |