Stella's Fashion Athletic Products Drive Improved Financial Performance in the First Half of 2017

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Rising demand for footwear products supports higher revenue, shipments and gross profit

Adjusted operating profit improved 21.0% to US$36.9 million excluding one-off items

Hong Kong, 17 August 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 unaudited interim results for the six months ended 30 June 2017.

Financial & Operational Highlights:

	For the six months ended 30 June		**Change**
(US$'000)	**2017**	**2016**	
Revenue	**762,433**	721,388	5.7%
Gross profit	**140,928**	133,224	5.8%
Gross profit margin (%)	**18.5**	18.5	-
Profit before tax	**31,751**	32,882	-3.4%
Operating profit	**31,547**	30,490	3.5%
Operating margin (%)	**4.1**	4.2	
Profit attributable to Owners of the Company	**28,505**	30,380	-6.2%
Basic earnings per share (US$)	**0.0360**	0.0383	-6.0%
Excluding one-off non-recurring items:			
Adjusted profit before tax	**37,132**	32,882	13.0%
Adjusted operating profit	**36,927**	30,490	21.0%
Adjusted net profit	**33,886**	30,380	11.5%
Average selling price ("ASP") per pair (US$)	**26.6**	27.1	-1.9%
Total shipment during the period (mn pairs)	**27.0**	25.4	6.3%
No. of retail stores	**322**	324	-2

Results Summary

The Group's consolidated revenue for the six months ended 30 June 2017 increased 5.7% to US$762.4 million, compared to US$721.4 million in the corresponding period of last year. Shipment volumes rose 6.3% to 27.0 million pairs, compared to 25.4 million pairs in the corresponding period of last year. The increase in revenue and shipment volumes were mostly attributed to growing demand for our fashion athletic products and stabilising demand for our casual and fashion footwear products.

Gross profit for the six months under review rose 5.8% to US$140.9 million, compared to US$133.2 million during the corresponding period of last year. However, our net profit declined 6.2% to US$28.5 million, compared to US$30.4 million during the corresponding period of last year, primarily affected by some one-off non-recurring expenses recorded during the period. Excluding this one-off item, adjusted net profit was US$33.9 million, an increase of 11.5% compared to the corresponding period of last year.

The average selling price ("ASP") of our footwear products fell 1.9% to US$26.6 per pair due to changes to our customers' product mix, compared to US$27.1 per pair in the corresponding period of last year.

We are pleased to announce an interim dividend of HK 30 cents per share.

Mr. Lawrence Chen, Chief Executive Officer of the Group said, "We are pleased to have been able to deliver growth in our operations during the period, notwithstanding some one-off non-recurring items recorded during the period. Our effort to quickly enhance efficiencies and enhance utilisation puts us in a good position to continue to meet current consumer demands."

Continued Success in Leveraging on Fashion Athletic Trend

Our financial performance during the six months under review continued to be underpinned by growing demand for our fashion athletic products – a fashionable take on the traditional sports shoe. The uniqueness of our products ensured that we continued to grow our customer base in this segment, as well as expand our relationship with existing customers, by proactively leveraging on our reputation for design, R&D, quality and unique skill base for developing compelling footwear products.

We further enlarged the range of fashion athletic footwear products within our overall product portfolio, including customised products during the period, which will enable us to remain a partner of choice to customers in this segment in the years to come.

Despite this continued growth, fashion footwear was the biggest contributor to our overall revenue during the six months ended 30 June 2017, contributing 36.0% of total revenue. The contributions from casual footwear and fashion athletics were 29.3% and 28.8% respectively.

Geographically, North America and Europe remain our two largest markets, accounting for 47.1% and 29.7% of our total revenue during the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 13.5%, Asia (other than the PRC), which accounted for 7.6% and other geographic regions, which accounted for 2.1%.

Further Diversification of Manufacturing Base

In response to the growing fashion athletic trend, we are further diversifying our manufacturing base in South-East Asia, with our new fashion athletic-focused manufacturing factory in Vietnam to become operational in the second half of 2017. While our China-based manufacturing base remains an essential part of our operations, our diverse manufacturing base continues to enable us to overcome persistent labour supply and labour cost problems in Coastal China.

We also continued to actively adjust our manufacturing operations to utilise some of our existing casual footwear manufacturing capacity to meet rising orders for fashion athletic footwear. We have been achieving this objective at a good pace, which enabled us to further enhance efficiencies and utilisation at our factories during the period. We also continued to reduce headcount to better control capacity and costs.

Retail Optimisation Strategy Remains in Place for China Retail Business Growth

Our retail business in China saw a return to positive revenue growth and same stores sales growth during the six months under review as the result of the retail optimisation strategy being implemented by our retail management team.

Revenue from the retail revenue grew 13.0% to US$45.1 million, compared to US$39.9 million during the corresponding period of last year. Same store sales (in China only) rose 6.9% to US$26.3 million during the period, compared to US$24.6 million during the corresponding period of last year.

We continued to expand the brand outreach of our *Stella Luna* and *What For* brands in Europe to support the value of our retail brands in China. As at 30 June 2017, the Group has 205 Stella Luna stores worldwide and 115 What For stores worldwide.

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

In October 2016, we granted an option to Max Group Holdings Limited ("Max Group") to acquire a 60% stake in our China retail business. On 19 July 2017, Max Group completed the acquisition of the 60% stake, after which the China retail business ceased to be a wholly-owned subsidiary of the Group.

We continue to maintain control over our retail brands – *Stella Luna*, *What For and JKJY by Stella*, as well as our retail operations in Europe and other markets.

Mr. Stephen Chi, CEO of the Group's retail business said, "In a short time, the new retail management team, led by the leaders of Max Group, has had a tremendous impact on the performance of our retail business in China. We are excited to have found the right partner that can drive returns from the operation of our store network in China, while we can focus on what we do best: namely designing and producing beautiful footwear products for consumers all over the world."

Future Plans & Prospects

The fashion athletic sector will remain a key growth area for our manufacturing business, although we see the current rate of growth in demand for this product segment will normalise in the second half of the year. In order to maintain our competitive edge, we will invest further in our R&D capabilities to improve and extend our range of innovative footwear products, particularly in the fashion athletic segment. We will also focus on growing our fashion athletic footwear manufacturing capacity, particularly in Vietnam, in order to increase our competitiveness.

Given the current demand environment, we are cautiously optimistic about the prospects for the second half of the year, bearing in mind external risks that may affect the confidence of our customers and consumers, such as terrorist attacks, tensions related to North Korea, protectionist rhetoric in the United States and the initiation of official Brexit negotiations.

Despite the disposal of our majority stake in our China retail business, we remain more committed than ever to develop the profile and desirability of our global retail brands (for which we remain the exclusive manufacturer.)

We will continue to expand our directly owned retail store network in Europe and other markets going forward, while maintaining a minority interest in our retail stores in China. We expect that the growing profile of our brands will continue to showcase our unique design and fashion capabilities to customers and consumers.

Mr. Jack Chiang, Chairman of the Group, concluded, "Looking ahead to the rest of the year, the current external environment is unlikely to change. Fortunately, the proactive steps we have taken over the last one and a half years to improve our manufacturing processes, production allocation, research and development, and efficiency has put us in a better place to tackle challenges as they arise. We also remain committed to controlling working hours and headcounts to control costs, without compromising on our mission to "make the best shoes.""

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Consolidated Income Statement
For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Revenue	**762,433**	721,388
Cost of sales	**(621,505)**	(588,164)
Gross profit	**140,928**	133,224
Other income	**12,944**	12,878
Other gains and losses	**(2,389)**	481
Distribution and selling expenses	**(51,330)**	(43,303)
Administrative expenses	**(40,149)**	(39,948)
Research and development costs	**(29,089)**	(30,720)
Share of result of a joint venture	**1,040**	540
Share of results of associates	**15**	(76)
Finance costs	**(219)**	(194)
Profit before tax	**31,751**	32,882
Income tax expense	**(3,520)**	(2,438)
Profit for the period	**28,231**	30,444
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operation	**117**	(207)
Share of exchange differences of associates and a joint venture	**16**	(11)
Other comprehensive expense for the period net of income tax	**133**	(218)
Total comprehensive income for the period	**28,364**	30,226
Profit (loss) for the period attributable to:		
Owners of the Company	**28,505**	**30,380**
Non-controlling interests	**(274)**	**64**
	28,231	**30,444**
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**28,767**	30,189
Non-controlling interests	**(403)**	37
	28,364	30,226
Earnings per share - Basic and diluted (US$)	**0.0360**	0.0383