Solid Demand and Volume Growth Supports Stella's Performance in the First Half of 2018

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Currency movements during the interim period offset effect of ongoing efficiency gains

Hong Kong, 16 August 2018 – **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 2018.

Financial & Operational Highlights:

	For the six months ended 30 June		**Change**
(US$'000)	**2018**	**2017**	
Revenue	**739,253**	762,433	-3.0%
Gross profit	**121,837**	140,928	-13.6%
Gross profit margin (%)	**16.5**	18.5	-2.0 ppt
Profit before tax	**26,549**	31,751	-16.4%
Operating profit	**26,775**	31,547	-15.1%
Operating margin (%)	**3.6**	4.1	-0.5 ppt
Profit attributable to Owners of the Company	**22,946**	28,505	-19.5%
Basic earnings per share (US$)	**0.0290**	0.0360	-19.4%
Excluding one-off non-recurring items:			
Adjusted profit before tax	**42,318**	37,132	14.0%
Adjusted operating profit	**42,544**	36,927	15.2%
Adjusted net profit	**38,714**	33,886	14.2%
Average selling price ("ASP") per pair (US$)	**24.9**	26.6	-6.4%
Total shipment during the period (mn pairs)	**29.0**	27.0	7.4%

Results Summary

The Group's consolidated revenue for the six months ended 30 June 2018 decreased by 3.0% to US$739.3 million. However, excluding revenue from our former China retail business and current China wholesale business, our unaudited comparable consolidated revenue for the six months under review improved by 0.8%.

Shipment volumes rose 7.4% to 29.0 million pairs, compared to 27.0 million pairs in the corresponding period of last year. The increase in consolidated revenue and shipment volumes was mostly attributed to the ongoing recovery in demand for our fashion footwear products, increased seasonal ordering activity for our casual footwear products and stabilised ordering activity for our fashion athletic footwear products.

The average selling price ("ASP") of our footwear products fell 6.4% to US$24.9 per pair, compared to US$26.6 per pair in the corresponding period of last year due to changes to our product mix, as well as changes to our customers' product mix.

Our operating profit decreased by 14.9% to US$26.8 million, compared to US$31.5 million during the corresponding period of last year. The appreciation of the RMB during the six months under review impacted our operating margin and overall profitability, resulting in a 19.6% decline in net profit to US$22.9 million, compared to US$28.5 million during the corresponding period of last year.

Excluding the one-off items, as well as the impact of the RMB appreciation in the first six months of this year, our adjusted operating profit increased by 15.2% to US$42.5 million, while our adjusted net profit increased by 14.2% to US$38.7 million.

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

Mr. Lawrence Chen, Chief Executive Officer of the Group said, "External factors, particularly currency movements, shrouded some of our positive achievements during the first half of 2018. The solid manufacturing efficiency gains we are realising leaves us in good stead to benefit fully from positive developments in our business environment while increasing our ability to defend against negative events."

Increasing Demand for Fashion Athletic Products

Demand for our fashion athletic footwear products, our main growth driver, stabilised in the second quarter of 2018 after a somewhat soft first quarter. This was supported by higher orders from one of our main customers, which supported the utilisation rate at our new manufacturing facility in Vietnam.

We continued to grow our customer base in this segment, which currently includes world-famous athletic brands, as well as premium and luxury fashion brands that are seeking to enter into the fashion athletic arena. We are already seeing some early-phase contributions from these high-end customers, which could provide a new foundation for our future growth. Leveraging on our long-established reputation for design, research and development, quality, and our unique skill base for developing compelling footwear products, we are uniquely positioned to become a partner of choice to brands in this segment.

Recovery and Higher Orders for Fashion Footwear Products and Casual Products
Changes to our customers' product mix resulting from current fashion trends – for example, fewer orders for boots and increased orders for sandals – resulted in higher orders for our fashion products. This change in product mix also reduced some of the cannibalisation from fashion athletic footwear seen last year while further reducing ASP at the same time, which fell to US$24.9 per pair, a decline of 6.4% compared to the corresponding period of last year.

Fashion footwear remains the biggest contributor to our overall revenue during the six months ended 30 June 2018, contributing 33.8% of total revenue. The contributions from casual footwear and fashion athletics were 31.1% and 32.1% respectively, while the Group's own retail brands accounted for 3.0% of total revenue.

Geographically, North America and Europe remain our two largest markets, accounting for 48.7% and 30.9% of our total revenue during the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 9.9%, Asia (other than the PRC), which accounted for 7.6% and other geographic regions, which accounted for 2.9%.

Ongoing Efficiency Gains and Refinement of Global Manufacturing Footprint
We continued to diversify our manufacturing base during the first six months of the year, focusing particularly on ramping up activity at our new manufacturing facility in Vietnam, moving us closer to our medium-to-long-term goal of achieving a manufacturing base that is evenly split between Mainland China and locations outside of Mainland China. This will allow us to overcome persistent labour supply and labour cost problems in China's coastal regions while taking advantage of the shift within China's workforce away from transient migrant labour towards a more resident and career-focused workforce.

Development of Branding Business in Europe
We continued to focus on building the global profile and value of our three contemporary retail brands – *Stella Luna*, *What For* and *JKJY by Stella*, each of which showcases our unique design and quality production capabilities. We adjusted the size of our retail store network in France and continued to invest in e-commerce channels, while also enhancing our visibility and presence in famous department stores around the world.

Mr. Stephen Chi, CEO of the Group's Fashion Footwear Division and the Branding Business Division, said, "Sales of our own brands continued to grow in Europe during the period under review, while we continued to successfully grow the profile of our brands. This ongoing strategy will also enable us to demonstrate the high-level of design and quality that we incorporate into all of our manufactured footwear products – Stella's key differentiating attribute."

Future Plans & Prospects

We expect our shipment volume to grow reasonably strongly in the second half of the year, supported by a steady but normalised growth in demand for our sports fashion footwear products, which remains our main growth driver. We also expect to see more stable demand for our casual and fashion footwear products.

We will continue to selectively reduce production capacity in some locations in order to improve utilisation rates and protect margins while focusing on building on the production efficiency achieved in the first half of the year in order to boost our financial performance. We will also further invest in our R&D capabilities in order to improve and extend our range of innovative footwear products to deepen our customer relationships.

Under our branding business, we will build further on our brands' good level of recognition in France and other markets and invest further in expanding their reach, particularly in German-speaking markets through distributors.

We will continue to closely monitor potential risks arising from external events, particularly the trade tensions between the United States and China, as well as from our currency exposure.

Mr. Jack Chiang, Chairman of the Group, concluded, "Despite the good progress we are making in strengthening the long-term health of our business, we will continue to take heed of potential external challenges, as well as factors that may impact our financial performance in the second half of 2018. These include currency movements and the trade policies of our key export markets, in particular."

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Consolidated Income Statement
For the six-months ended 30 June, 2018

	For the six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Revenue	**739,253**	762,433
Cost of sales	**(617,416)**	(621,505)
Gross profit	**121,837**	140,928
Other income	**8,957**	12,944
Other gains and losses	**(1,633)**	(2,389)
Distribution and selling expenses	**(30,879)**	(51,330)
Administrative expenses	**(43,826)**	(40,149)
Research and development costs	**(27,297)**	(29,089)
Share of result of a joint venture	**2,508**	1,040
Share of results of associates	**(1,840)**	15
Finance costs	**(1,278)**	(219)
Profit before tax	**26,549**	31,751
Income tax expense	**(4,537)**	(3,520)
Profit for the period	**22,012**	28,231
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operation	**(514)**	117
Share of exchange differences of associates and a joint venture	**(266)**	16
Other comprehensive (expense) income for the period, net of income tax	**(780)**	133
Total comprehensive income for the period	**21,232**	28,364
Profit (loss) for the period attributable to:		
Owners of the Company	**22,946**	28,505
Non-controlling interests	**(934)**	(274)
	22,012	28,231
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**22,040**	28,767
Non-controlling interests	**(808)**	(403)
	21,232	28,364
Earnings per share		
- basic (US$)	**0.0290**	0.0360
- diluted (US$)	**0.0290**	0.0359