Operational Efficiency Gains Underpin Stella's 2018 Annual Results

* * * * *

Robust orders for fashion athletic footwear support the growth of shipment volumes

Mr. Lawrence Chen appointed as new Chairman of the Group

Hong Kong, 21 March 2019 – **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 2018.

Financial & Operational Highlights:

	For the year ended 31 December		Change (%)
(US$ million)	**2018**	**2017**	
Revenue	**1,588.6**	1,577.3	0.7%
Gross profit	**277.1**	270.2	2.6%
Gross profit margin (%)	**17.4%**	17.1%	0.3 ppt
Profit before tax	**66.3**	63.2	4.9%
Operating profit	**67.9**	64.9	4.6%
Operating profit margin (%)	**4.3%**	4.1%	0.2 ppt
Net profit for the year	**62.2**	59.7	4.2%
Profit attributable to Owners of the Company	**65.5**	62.0	5.6%
Basic earnings per share (US cents)	**8.3**	7.8	6.4%
Excluding one-off non-recurring items:			
Adjusted operating profit	**110.8**	82.1	35.0%
Adjusted operating profit margin (%)	**7.0%**	5.2%	1.8 ppt
Adjusted net profit	**105.1**	76.9	36.7%
Adjusted net profit margin (%)	**6.6%**	4.9%	1.7 ppt
Average selling price ("ASP") per pair (US$)	**25.8**	26.7	-3.5%
Total shipment during the year (mn pairs)	**60.2**	56.6	6.4%

Results Summary

Our consolidated revenue for the year ended 31 December 2018 rose by 0.7% to US$1,588.6 million compared with the previous year. However, on a comparable basis (after adjustments for the disposal of Group's former China retail business), our unaudited comparable consolidated revenue for the year under review improved by 3.3% respectively.

Shipment volumes rose 6.4% to 60.2 million pairs, compared to 56.6 million pairs in the previous year. The recovery in consolidated revenue and shipment volumes was mostly attributed to robust ordering activity for our fashion athletic products and higher overall orders for our casual and fashion footwear products.

The ASP for our footwear products in the final quarter of 2018 turned positive following price increases for some products. Nevertheless, due to changes in our product mix, as well as changes in our customers' product mix, the ASP for the full year fell 3.5% to US$25.8 per pair, compared to US$26.7 per pair in the previous year.

Our gross profit and operating profit recovered steadily in the second half of the year under review as the result of production efficiency gains. Our gross profit for the full year rose 2.6% to US$277.1 million compared to the previous year, while the full year net profit attributable to shareholders of the Company increased to US$65.5 million.

Excluding the one-off items of US$42.9 million in aggregate, our adjusted operating profit increased by 35.0% to US$110.8 million, while our adjusted net profit was US$105.1 million, an increase of 36.7% compared to the previous year.

We are pleased to announce a final dividend of HK 45 cents per share. Together with the interim dividend of HK 30 cents per share paid, our total dividend for 2018 was HK 75 cents, an increase of HK 15 cents compared to the previous year.

Mr. Chi Lo-Jen, Chief Executive Officer of the Group said, "Despite the uncertainties in the macro-economic environment, we are pleased with the stronger ordering activity seen in 2018, as well as with the enhanced mix of orders we received. The efficiency gains we achieved as the result of the ongoing refinement of our manufacturing footprint enabled us to become more nimble and responsive to our customers, while also increasing our ability to defend our margins and protect ourselves from negative external events."

Robust Demand for Fashion Athletic Products

Demand for our fashion athletic footwear products was robust, with strong orders from our major customers continuing to support the utilisation rate at our new manufacturing facility in Vietnam.

With a growing customer base ranging from world-famous athletic brands to premium and luxury fashion brands seeking to enter into the fashion athletic market, Stella is a strongly positioned leader in the fashion athletic footwear segment. Our long-established reputation for quality, design and research, development and commercialisation ability, and adaptability makes us the partner of choice for brands entering this segment – which remains our biggest growth driver.

Increased Orders for Fashion Footwear Products and Casual Products

We saw higher full-year orders for our fashion and casual footwear products although the gain was modest. This recovery was driven by improving market confidence among our customers. Changing fashion trends – for example, fewer orders for boots and increased orders for sandals – was one of the reasons behind the lower ASP for our footwear products during the year under review.

Fashion footwear remained our largest segment, contributing 36.4% of total revenue during the year under review. The contributions from casual footwear and fashion athletics were 28.7% and 32.1% respectively, while the Group's own retail brands accounted for 2.8% of total revenue.

Geographically, North America and Europe remain our two largest markets, accounting for 51.1% and 29.2% of our total revenue during the year under review. This was followed by the PRC (including Hong Kong), which accounted for 10.0%, Asia (other than the PRC), which accounted for 6.4% and other geographic regions, which accounted for 3.3%.

Further Efficiency Gains and Continued Refinement of Global Manufacturing Footprint

We closed two factories in Mainland China during the year under review as we ramped-up activity and production efficiency at our new manufacturing facility in South East Asia. We also continued to diversify our manufacturing base during the year, as we move closer to our medium-to-long-term goal of having majority of production facilities outside of Mainland China. This will allow us to overcome challenges related to persistent labour supply and labour cost in China, while making solid efficiency gains.

Expanding the Global Profile of Branding Business

We continued to focus on building the global profile and value of our two contemporary retail brands – *Stella Luna* and *What For*, each of which showcase our unique design and fashion capabilities. During 2018, we adjusted the size of our retail store network in France, explored distributorship in other European countries and continued to invest in e-commerce channels, while also enhancing the visibility and presence of our brands in famous department stores around the world.

Future Plans & Prospects

We expect shipment volumes in 2019 to be around the same level as the year under review, with a steady but normalised growth in demand for our fashion athletic footwear products and stable demand for our casual and fashion footwear products. ASP in 2019 is likely to remain broadly stable and will depend on our product mix and our customers' product mix.

Our priority for the coming year will be to improve margins. We will continue to ramp up our new manufacturing facility in Vietnam, which is specifically geared towards fashion athletic products, to increase production efficiency and grow margins. We will also aim to adjust the price for some products while actively managing orders for some product categories. We will also continue to selectively reduce capacity in some parts of China to improve utilisation, while investing further in our R&D capabilities to improve and extend our range of innovative footwear products and deepen out customer relationships.

For our branding business, we will continue to build on the good level of brand recognition built in France and other markets to expand our reach in Europe further. We will also invest further in product development.

We will closely monitor potential risks to our operations arising from external events, particularly trade negotiations between the United States and China, the potential impact of Brexit, as well as ongoing consolidation amongst footwear brands and the effect that rising e-commerce penetration is having on them.

Retirement of Chairman and Deputy Chairman

We also announced today the retirement of Mr. Jack Chiang, Chairman of the Group, and Mr. Eric Chao, Deputy Chairman of the Group, with Mr. Lawrence Chen, the Group's former Chief Executive Officer, appointed as the new Chairman of the Group. This is the next step in our natural leadership transition following Mr. Chi's succession as the current Chief Executive Officer of the Group on 1 January 2019.

This management transition will have no effect on our day-to-day operations, nor will it result in a change to our corporate strategy.

Mr. Lawrence Chen, incoming **Chairman** of the Group, said, "As founding members of our management team, Jack and Eric have been major forces behind establishing Stella as the successful and respected company it is today. I am extremely grateful for their service and dedication over the years and wish them a happy retirement from their former positions. I am honoured to continue serving Stella as Chairman."

He concluded, "Our primary focus now is to further enhance our margins in order to provide stable returns to our shareholders, while continuing to 'make the best shoes' and delivering quality and value to our customers. We will also continue to actively monitor for any changes to our external environment in 2019 that may affect our financial performance."

####

For further information, please contact:

Macy Leung
Head of Investor Relations
Email: macy.leung@stella.com.hk

Consolidated Income Statement
For the year ended 31 December, 2018

	For the year ended 31 December	
	2018	2017
	US$'000	US$'000
Revenue	1,588,583	1,577,270
Cost of sales	(1,311,461)	(1,307,066)
Gross profit	277,122	270,204
Other income	19,284	26,510
Other gains and losses, net	(754)	(5,486)
Selling and distribution expenses	(60,572)	(89,107)
Administrative expenses	(167,247)	(138,624)
Impairment losses on financial assets	(5,196)	--
Finance costs	(2,945)	(981)
Share of profit of a joint venture	10,920	1,380
Share of losses of associates	(4,305)	(2,844)
Gain on the disposal of subsidiaries	-	2,185
Profit before tax	66,307	63,237
Income tax expense	(4,081)	(3,547)
Profit for the year	62,226	59,690
Other comprehensive income/(loss)		
Other comprehensive income/(losses) that may be reclassified subsequently to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	434	3,120
Reclassification adjustments for foreign operations disposed of during the year	-	(2,180)
Share of other comprehensive losses of joint venture and associates	352	(240)
Other comprehensive income for the year, net of tax	82	700
Total comprehensive income for the year	62,308	60,390
Profit attributable to:		
Owners of the Company	65,455	61,955
Non-controlling interests	(3,229)	(2,265)
	62,226	59,690
Total comprehensive income attributable to:		
Owners of the Company	65,249	62,946
Non-controlling interests	(2,941)	(2,556)
	62,308	60,390
Earnings per share attributable to ordinary equity holders of the parent		
- basic (US$)	0.083	0.078

- diluted(US$)	0.083	0.078