Stella's Interim Profit Increased by 77% in 2019

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Expanded profitability supported by enhanced product mix and efficiency improvements

Hong Kong, 22 August 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 unaudited interim results for the six months ended 30 June 2019.

Financial & Operational Highlights:

	For the six months ended 30 June		Change (%)
(US$ '000)	**2019**	**2018**	
Revenue	**750,577**	739,253	1.5%
Gross profit	**135,040**	121,837	10.8%
Gross profit margin (%)	**18.0**	16.5	1.5 ppt
Profit before tax	**44,777**	26,549	68.7%
Operating profit	**45,887**	28,413	61.5%
Operating profit margin (%)	**6.1**	3.8	2.3 ppt
Profit for the period	**38,931**	22,012	76.8%
Profit attributable to Owners of the Company	**38,937**	22,946	69.7%
Basic earnings per share (US cents)	**4.9**	2.9	69.0%
Excluding one-off non-recurring items:			
Adjusted operating profit	**52,987**	35,413	49.6%
Adjusted operating profit margin (%)	**7.1**	4.8	2.3 ppt
Adjusted net profit	**46,031**	29,012	58.7%
Adjusted net profit margin (%)	**6.1**	3.9	2.2 ppt
Average selling price ("ASP") per pair (US$)	**25.2**	24.9	1.2%
Total shipment during the year (mn pairs)	**29.5**	29.0	1.7%

Results Summary

Our consolidated revenue for the six months ended 30 June 2019 rose by 1.5% to US$750.6 million, compared to US$739.3 million in the corresponding period of last year. Shipment volumes rose 1.7% to 29.5 million pairs, compared to 29.0 million pairs in the corresponding period of last year.

The average selling price ("ASP") of our footwear products rose 1.2% to US$25.2 per pair, compared to US$24.9 per pair in the corresponding period of last year due to changes to our product mix and customer mix.

Our gross profit and operating profit improved significantly during the six months under review, which was mostly attributed to a moderate year-on-year improvement in the production efficiency and the continued ramp-up of our new manufacturing facility in Vietnam; further re-allocation of our production capacity from China to South East Asia; and a much-enhanced product mix and customer mix.

Our gross profit for the period under review rose 10.8% to US$135.0 million compared to the corresponding period of last year. Our operating profit rose 61.5% to US$45.9 million, with our operating margin improving to 6.1% from 3.8%. Our adjusted recurring operating margin[1] increased to 7.1%. Our net profit for the period under review rose 76.8% to US$38.9 million, with the growth being mostly attributed to the reasons outlined above in addition to a low base.

We are pleased to announce an interim dividend of HK 40 cents per share, compared to HK 30 cents per share in the corresponding period of last year, due to the good progress of margin expansion and cash conversion.

Mr. Chi Lo-Jen, Chief Executive Officer of the Group said, “Our results for the first six months of this year confirms that we are well on track to achieving margin recovery and long-term sustainable earnings growth. We are also seeing clear results from the customised strategies we are implementing for our different product categories.”

Accelerating Demand for Fashion Sports Products

Demand for our fashion sports products has continued to grow strongly, with increased orders from our major customer supporting the utilisation rate at our new manufacturing facility in Vietnam.

As a result of our long history of serving fashion brands, Stella is uniquely positioned to cater to the current convergence between fashion and sports. As major sportswear brands increasingly seek shorter lead-times and smaller batch order for their limited edition, fashion-focused/collectable product lines, we are one of the very few manufacturers who can deliver the responsiveness, premium quality and flexibility needed to meet their requirements.

We are also progressively growing our customer base in this segment, particularly premium and luxury fashion brands that are seeking to enter into the fashion sports market. Our long-established reputation for craftsmanship, design, adaptability and commercialisation ability will ensure that we remain the partner of choice for all brands entering this segment.

Customised Strategies for Fashion and Casual Footwear Segments

We are implementing different strategies to improve the performance of our fashion and casual footwear segments as we become more active in managing orders and our customer mix in order to progressively enhance margins. This resulted in reduced orders for our fashion and casual footwear products during the six months under review although the ASP for both segments increased.

Fashion footwear was the biggest contributor to our overall revenue during the six months ended 30 June 2019, contributing 34.9% of total revenue. The contributions from casual footwear and fashion sports products were 28.4% and 34.5% respectively, while the Group’s own retail brands accounted for 2.2% of total revenue.

Geographically, North America and Europe remain our two largest markets, accounting for 48.8% and 30.1% of our total revenue during the six months under review. This was followed by the PRC

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[1] Excluding the impact of finance costs, tax expenses and one-off items, which mainly comprised of severance, closure and impairment costs

(including Hong Kong), which accounted for 11.3%, Asia (other than the PRC), which accounted for 6.7% and other geographic regions, which accounted for 3.1%.

Ongoing Efficiency Gains and Refinement of Manufacturing Footprint

We closed one factory in Mainland China during the first six months of the year as we continued to ramp-up activity and production efficiency at our manufacturing facilities in South East Asia.

We also continued to diversify our manufacturing base as we move closer to our medium-to-long-term goal of achieving a footprint where a majority of our production capacity will be outside of Mainland China. This will allow us to overcome persistent labour supply and labour cost issues in China while making solid quality and efficiency gains.

Development of Branding Business in Europe

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 showcases our unique design and fashion capabilities. During the six months under review, we continued to adjust the size of our retail store network in France, explore distributorships in other European countries and invest in e-commerce channels, while also enhancing our visibility and presence in famous department stores around the world.

Future Plans & Prospects

Despite the prevailing external headwinds, we still expect shipment volumes for the full-year 2019 to be around the same level as for the full-year 2018, with further volume growth and increased demand for our fashion sports footwear products. ASP should remain broadly stable and will depend on our product mix and our customers' product mix.

We will continue to prioritise margin expansion in the second half of 2019 by increasing our production efficiency. We will also focus on improving the performance of our fashion and casual footwear businesses, while continuing to ramp-up our new manufacturing facility in Vietnam, which is specifically geared towards fashion sports products, increasing production efficiency and growing margins. We will also aim to adjust the price for some products while actively managing orders for some product categories.

We will also invest further in our branding business, including in product development and distribution, to enrich our product portfolio and build stronger fundamentals for *Stella Luna* and *What For*, building on the good level of recognition these brands have developed in France and other markets. We are also pleased to announced that Stella's 2018 Annual Report was awarded the Silver Award in the 'Manufacturing: Consumer & Commercial Product' category at the 2019 ARC Awards, recognising our improving outreach to the investment community.

We will continue to monitor potential risks to our operations such as ongoing consolidation among footwear brands, any further development of the trade tensions initiated by the United States, and the continued penetration of e-commerce and its impact on our brand customers.

Mr. Lawrence Chen, Chairman of the Group, said, "Strong competition, changing national trading policies, and evolving consumer behaviour has forced global footwear brands to change their sourcing strategies and product mix. This aligns well with Stella's unique proposition of excellent craftsmanship, creative design, speed to market, small-batch agility and a geographically diverse manufacturing footprint. We will continue to focus on improving returns and creating value for our stakeholders."

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Consolidated Income Statement
For the six-months 30 June, 2019

	For the six months ended 30 June	
	2019	2019
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Revenue	**750,577**	739,253
Cost of sales	**(615,537)**	(617,416)
Gross profit	**135,040**	121,837
Other income	**9,253**	8,957
Other gains and losses, net	**(1,097)**	(1,633)
Selling and distribution expenses	**(29,879)**	(30,879)
Administrative expenses	**(71,240)**	(69,708)
Impairment losses on financial assets	**(183)**	(1,415)
Finance costs	**(918)**	(1,278)
Share of profit of a joint venture	**6,040**	2,508
Share of losses of associates	**(2,239)**	(1,840)
Profit before tax	**44,777**	26,549
Income tax expense	**(5,846)**	(4,537)
Profit for the period	**38,931**	22,012
Other comprehensive loss		
Other comprehensive losses that may be reclassified subsequently to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(135)**	(514)
Share of other comprehensive gains/(losses) of a joint venture and associates	**350**	(266)
Other comprehensive income (loss) for the period, net of tax	**215**	(780)
Total comprehensive income for the period	**39,146**	21,232
Profit attributable to:		
Owners of the Company	**38,937**	22,946
Non-controlling interests	**(6)**	(934)
	38,931	22,012
Total comprehensive income attributable to:		
Owners of the Company	**39,218**	22,040
Non-controlling interests	**(72)**	(808)
	39,146	21,232
Earnings per share attributable to ordinary equity holders of the parent		
- basic (US$)	0.0491	0.0290
- diluted(US$)	0.0491	0.0290