Stella's Annual Net Profit for 2019 Increased by 54.2%

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Margin expansion strategy delivers robust improvement in profitability

Adjusted recurring operating margin increased to 8.2%

Hong Kong, 19 March 2020 – **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 2019.

Financial & Operational Highlights:

	For the year ended 31 December		**Change (%)**
(US$ million)	**2019**	**2018**	
Revenue	**1,544.8**	1,588.6	-2.8%
Gross profit	**293.6**	277.1	6.0%
Gross profit margin (%)	**19.0%**	17.4%	1.6 ppt
Profit before tax	**100.0**	66.3	50.8%
Operating profit	**105.5**	67.9	55.4%
Operating profit margin (%)	**6.8%**	4.3%	2.5 ppt
Net profit for the year	**95.9**	62.2	54.2%
Profit attributable to Owners of the Company	**95.9**	65.5	46.4%
Basic earnings per share (US cents)	**12.1**	8.3	45.8%
Excluding one-off non-recurring items:			
Adjusted operating profit	**126.6**	110.8	14.3%
Adjusted operating profit margin (%)	**8.2%**	7.0%	1.2ppt
Adjusted net profit	**117.0**	105.1	11.3%
Adjusted net profit margin (%)	**7.6%**	6.6%	1.0ppt
Average selling price ("ASP") per pair (US$)	**25.8**	25.8	0
Total shipment during the year (mn pairs)	**59.4**	60.2	-1.3%

Results Summary

Our consolidated revenue for the year ended 31 December 2019 declined by 2.8% to US$1,544.8 million compared with the previous year. Shipment volumes declined 1.3% to 59.4 million pairs, compared to 60.2 million pairs in the previous year. The decline in consolidated revenue was mostly attributed to lower overall shipment volumes during the year and the restructuring and consolidation of the Group's retail operations in Europe within our branding business.

The average selling price ("ASP") of our footwear products for the year was stable at US$25.8 per pair (2018: US$25.8 per pair, although the Group continued to make changes to its product mix and customer mix.

Our gross profit and operating profit improved significantly during the year as a result of our margin improvement initiatives, namely, improving production efficiency, adjusting production capacity from China to Southeast Asia, and improving our customer mix and product mix.

Our operating profit rose 55.4% to US$105.5 million, with our operating margin improving to 6.8% from 4.3%. Our adjusted recurring operating margin[1] increased to 8.2%. Our net profit for the year under review rose 54.2% to US$95.9 million, with the growth being mostly attributed to the reasons outlined above.

We are pleased to recommend a final dividend of HK$45 cents per share. Together with the interim dividend of HK$40 cents per share paid, our total dividend for 2019 would be HK$85 cents, an increase of HK$10 cents compared to the previous year.

Mr. Chi Lo-Jen, Chief Executive Officer of the Group said, "In 2019, we made significant progress in securing our long-term success and profitability by prioritising margin expansion over shipment volume growth. This is reflected by the solid improvement in operating profit and net profit. Looking ahead to 2020, our main priority will be to safeguard our operational stability while continuing to optimise our margins where possible."

Strong and Sustained Demand for Fashion Sports Products

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

We are also progressively growing our customer base in this segment, targeting premium and luxury fashion brands that are seeking to enter into the fashion sports market.

We are uniquely capable of serving these brands due to our long history of serving fashion brands and being one of the first in the market to cater to the ongoing convergence between fashion and sports. As more and more 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, craftmanship, design, adaptability and flexibility needed to meet their requirements.

Implemented Differentiated Strategies to Improve Performance of Fashion and Casual Footwear Segments

We continued to actively manage the orders and customer mix of our fashion and casual footwear segments, implementing different strategies for each business in line with our margin expansion strategy. This resulted in an increase in the ASP for both our fashion and casual footwear products during the year under review although shipment volumes for these two segments were lower.

Fashion footwear remained the biggest contributor to our revenue during the year ended 31 December 2019, contributing 38.0% of the manufacturing revenue during the year under review. The contributions from casual footwear and fashion sports products were 25.6% and 35.1% respectively, while the Group's own branded products under the branding business accounted for 1.3% of total revenue.

Geographically, North America and Europe remain our two largest markets, accounting for 51.2% and 27.6% of our total revenue during the year under review. This was followed by the PRC (including Hong Kong), which accounted for 12.1%, Asia (other than the PRC), which

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

accounted for 6.3% and other geographic regions, which accounted for 2.8%.

Ongoing Efficiency Gains and Refinement of Manufacturing Footprint

We closed three factories in Mainland China during the year under review as we continued to ramp-up activity and production efficiency at our manufacturing facilities in Southeast Asia in line with our margin expansion strategy. This also moved us closer to our medium-to-long-term goal of achieving a diversified manufacturing footprint where a majority of our production capacity will be outside of Mainland China.

Consolidation of Our 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 showcase our unique design and fashion capabilities.

During the year under review, we continued to adjust and consolidate our retail operations in Europe, particularly the size of our retail store network in France, while exploring new distributorships in other European countries and investing further in e-commerce channels.

Outlook: Future Plans & Prospects

We will prioritise operational stability in 2020. Full-year shipment volumes and ASP for 2020 will depend on the extent that prevailing external headwinds – including the impact of the COVID-19 virus outbreak – affects our operations. The full-year ASP for 2020 will also depend on our product mix and our customers' product mix.

We are approaching the final phase of migrating our production capacity from Mainland China to Southeast Asia. We will continue to drive efficiency improvements and improve our product mix.

We recently finalised plans to expand our manufacturing footprint in Southeast Asia by adding a new factory in Indonesia in 2020. This is part of our ongoing strategy for enhancing margins.

Outside of the listed Group, we have been progressively ramping-up and improving our capability in manufacturing quality leather goods and accessories, including items such as small leather goods and handbags, to meet growing demand from brands looking to outsource the production of these products. This achievement was an important factor in our decision to incorporate the leather goods manufacturing business into the listed Group during the first half of 2020.

We will continue to restructure and strengthen the distribution network for our branding business in Europe following the consolidation of our store network, particularly in France. We will continue to invest in product development, in distribution to markets other than France, and in our online sales capabilities to maintain recognition and the value of our *Stella Luna* and *What For* brands.

Outlook: Impact of COVID-19 Virus Outbreak and Other Risks

In terms of the direct impact of the COVID-19 virus outbreak on our manufacturing operations in the first quarter of 2020 in China, we have no manufacturing facilities in Hubei province and only a tiny portion of our workforce comes from Hubei province. 70% of our manufacturing capacity in 2020 is located outside of Mainland China where our factories continued to operate as normal over the Lunar New Year ("CNY") break and throughout the first quarter of 2020.

Within Mainland China, which makes up 30% of our manufacturing capacity, some of our factories in Guangdong experienced a delay in their work resumption as we complied with new guidelines and requirements introduced by the government to avoid the spread of the virus. Our workforce return rate on the first day after CNY in Mainland China was satisfactory, ranging from

60% to 90% at key factories and continued to improve to over 95% in the following weeks. The first quarter of the year is typically the low season for orders compared to the rest of the year.

We have shut down our manufacturing operations in the Philippines for around a month following the government's decision in mid-March to lock down the entire of Luzon Island to contain the COVID-19 virus. We have already relocated orders assigned there to our factories located in other countries.

We will also continue to monitor other potential risks to our operations and work closely with our customers to manage risks as they arise.

Mr. Lawrence Chen, Chairman of the Group, said, "2020 is already bringing a new set of external challenges. However, we are well placed to cope with this because of the proactive steps we have taken to become an integral partner to our customers and to safeguard our operational stability."

He continued, "We also see some positive aspects emerging from the COVID-19 outbreak - an opportunity to reset and recalibrate our operations so that we have a stronger base for our future growth. This will also allow us to bounce back more quickly from any negative effects that we experience as we continue to implement our strategies and create value for our shareholders."

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Consolidated Income Statement

For the year ended 31 December, 2019

	For the year ended 31 December	
	2019	2018
	US$'000	US$'000
Revenue	**1,544,830**	1,588,583
Cost of sales	**(1,251,221)**	(1,311,461)
Gross profit	**293,609**	277,122
Other income	**25,022**	19,284
Other losses, net	**(2,658)**	(754)
Selling and distribution expenses	**(63,739)**	(60,572)
Administrative expenses	**(154,010)**	(167,247)
Impairment losses on financial assets	**(1,179)**	(5,196)
Finance costs	**(1,882)**	(2,945)
Share of profit of a joint venture	**6,977**	10,920
Share of losses of associates	**(2,099)**	(4,305)
Profit before tax	**100,041**	66,307
Income tax expense	**(4,123)**	(4,081)
Profit for the year	**95,918**	62,226
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	**1,719**	612
Share of other comprehensive losses of joint venture and associates	**(156)**	(530)
Other comprehensive income for the year, net of tax	**1,563**	82
Total comprehensive income for the year	**97,481**	62,308
Profit attributable to:		
Owners of the Company	**95,925**	65,455
Non-controlling interests	**(7)**	(3,229)
	95,918	62,226
Total comprehensive income attributable to:		
Owners of the Company	**97,557**	65,249
Non-controlling interests	**(76)**	(2,941)
	97,481	62,308
Earnings per share attributable to ordinary equity holders of the parent		
- basic (US$)	**0.121**	0.083
- diluted(US$)	**0.121**	0.083