Stella Retained Solid Balance Sheet with a Strong Cash Position Despite Challenging Business Environment

Highlights:

- Revenue decreased by 32% year-on-year due to the disruption to global retail caused by COVID-19
- Reported net loss of US$5.2 million and adjusted net profit of $9.1 million
- Cash generated from operations increased by 45% due to credit risk controls and working capital management
- Solid balance sheet with US$55 million cash and over US$180 million undrawn bank facilities despite the pandemic
- Continue diversification of production locations and long-term margin improvement with investment in Indonesia

Hong Kong, 20 August 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 unaudited interim results for the six months ended 30 June 2020.

Despite the challenges arising from the unprecedented global outbreak of COVID-19, we made further progress in implanting our margin-accretive strategy by accelerating the permanent closure of our factories in China, migrating our capacity to Southeast Asia and investing in a new factory location in Indonesia to improve our long-term margins.

Business Performance

The Group's consolidated revenue for the six months ended 30 June 2020 declined by 32% to US$511.5 million. The decline in revenue was driven by a decrease in both shipment volume and ASP as customers delayed and cancelled shipments and orders due to the COVID-19 pandemic. Shopping malls and stores in almost every country were forced to temporarily close for months as part of localised efforts to curb the spread of the virus, severely impacting the business of our customers. Our manufacturing operations were also impacted by local shutdowns, which curtailed operating efficiency across our business and eroded the progress we have been making on improving margins over the last year. The significant decrease in shipment volume, operating deleverage, and increase in one-off costs led to an operating loss of US$3.4 million and a net loss of US$5.2 million for the six months ended 30 June 2020.

The one-off costs mainly comprised of severance payments and other related costs, overhead costs related to factory suspensions and PRC Government subsidies related to COVID-19. If excluding the net one-off expenses of US$14.3 million, the non-GAAP adjusted operating profit during the period under review would be US$10.9 million and adjusted net profit would be US$9.1 million.

Stable financial position with a proactive focus on credit risk and cash flow management

To address the negative ramifications of the pandemic, the Group implemented stringent cost reduction and control measures, reassessed and improved its credit risk and adopted a cautious approach to its cashflow management. As a result, cash generated from operations increased by 45% during the period under review. The Group retained its solid balance sheet with US$55 million cash and over US$180 million undrawn bank facilities. The Group also turned to a net cash position for the first half of the year.

Given COVID-19 and the consequential very challenging business circumstances in which we find ourselves, the Board has resolved not to declare an interim dividend for the period ended 30 June 2020.

Outlook

Order visibility for the remainder of 2020 remains low, especially for Spring/Summer 2021 seasonal products for which our customers may adopt a cautious attitude to ordering.

Despite this, given our solid balance sheet with a net cash position and total undrawn bank facilities of over US$180 million, we will continue to implement our long-term strategic initiatives. We will continue the migration of our production capacity to Southeast Asia from China and expanding our production footprint in lower-cost production areas to enhance our long-term cost structure. The Group will invest in a new factory in Indonesia in the second half of the year and expects to complete the integration of our handbag business as we continue to pursue lateral growth and capitalise on the synergies emerging from our broad and high-end customer base.

Mr. Chi Lo-Jen, Chief Executive Officer of the Group said, “2020 has so far been an extremely challenging year for our customers and our Group. The entire footwear manufacturing industry has been severely impacted and we are no exception. We have focused on reducing the impact by improving our credit risk and cash flow management, as well as through rigorous cost reduction and controls. This has enabled us to maintain our solid balance sheet with a net cash position, which has given us the confidence to push forward our long-term margin-accretive strategies in the second half of the year.”

Mr. Lawrence Chen, Chairman of the Group, said, “Looking forward, we will continue to focus on our ongoing efforts to increase our operational efficiency and enhance our product mix and customer mix. This will include, among others, growing our sportswear and high-fashion brand customer base by leveraging our competitive advantages such as our unparalleled product design and commercialisation capabilities, best-in-class craftsmanship and high speed-to-market. These long-term strategic initiatives are essential for our future competitiveness, as well as our ability to grow our margins and to continue creating value and generating sustainable returns for our shareholders.”

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