Stella Posts Profit for 2020
with Focus on Expanding Margins in 2021

Highlights:

- Revenue decreased by 26.5% year-on-year due to widespread disruption to global retail caused by COVID-19
- Reported net profit of US$1.1 million and adjusted net profit of US$52.4 million
- Net cash inflow increased to US$47.3 million from US$5.8 million in 2019 due to active credit risk controls and working capital management
- Solid balance sheet with cash position of US$108.7 million and over US$270 million undrawn bank facilities

Hong Kong, 18 March 2021 – **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 2020.

The unprecedented COVID-19 pandemic impacted the Group's financial performance during the year under review. Nevertheless, we will continue to execute our long-term growth and margin-accretive strategies.

Business Performance

The Group's consolidated revenue for the year ended 31 December 2020 declined by 26.5% to US$1,135.9 million, while shipment volumes for the year declined 26.9% to 43.4 million pairs. The decline in revenue and shipment volumes was attributable to decreased demand from our brand customers due to the COVID-19 pandemic, with retail stores around the world being forced to temporarily shut down on government lockdown orders. However, the situation gradually improved in the third and fourth quarters of the year, as the business of our customers started to recover and as some sought to replenish their inventory levels after experiencing understocking ahead of the holiday season.

Our manufacturing operations were also impacted by local COVID-19 related shutdowns at the beginning of the year, which had some negative impact on our production schedule and profitability. Our operating profit for the year ended 31 December 2020 declined to US$2.1 million, which was mostly attributed to the lower shipment volumes, operating deleverage and an increase in one-off costs.

The one-off costs mainly comprised of severance payments and other factory closure costs, as well as overhead costs related to the factory suspensions resulting from COVID-19. These were partially offset by PRC Government subsidies related to COVID-19 and one-off compensation resulting from a land sale. If excluding the net one-off expenses of US$51.3 million, the non-GAAP adjusted operating profit for 2020 would be US$53.4 million and adjusted net profit would be US$52.4 million.

Strong focus on credit risk and cash flow management to reinforce financial position

During the year under review, we implemented stringent cost reduction and control measures, conducted a credit risk re-assessment of all our customers and adopted a cautious approach to our cashflow management. As a result, net cash inflow increased to US$47.3 million from US$5.8 million in 2019. We had a solid balance sheet with US$108.7 million cash as of 31 December 2020.

Given the COVID-19 pandemic and the consequential very challenging business circumstances in which the Group found itself in 2020, the Board resolved not to declare an annual dividend for the year under review. Nevertheless, we have taken advantage of the price volatility in equity markets in 2020 and repurchased 0.6 million outstanding shares at the weighted average price of HK$9.0 per share during 2020.

<u>Outlook</u>

In 2021, steady volume growth and margin improvement will be our main priorities. We are confident with our production in the first half of 2021. We expect our product mix, which was more heavily weighted towards the Sports category during 2020, will start to normalise as the Fashion, Luxury and Casual categories rebound. However, order visibility for the second half of 2021 remains low with our customers currently adopting a 'wait-and-see' approach following new COVID-19 driven lockdowns in January and February 2021.

However, we will continue to push forward with our long-term strategies. With a net cash position and total undrawn bank facilities of over US$270 million – a solid financial position that is more than sufficient to meet our current business needs – we are comfortable about investing in the future. This includes bringing our new factory in Indonesia online later in 2021 and further realising the second phase expansion of our manufacturing facility dedicated to sports footwear in Vietnam. Both of these measures will improve our cost efficiency and competitiveness in the long-term. We have also completed the integration of our handbag manufacturing business, which will facilitate lateral growth for the Group in the long term by capitalising on the synergies with our footwear customer base.

Mr. Chi Lo-Jen, Chief Executive Officer of the Group said, "The COVID-19 pandemic made 2020 a challenging year for everyone. However, we took several steps to mitigate the impact that also strengthened our operations over the long-term. This included bolstering our credit risk and cash flow management, consolidating our R&D centres, accelerating our migration of production to South East Asia and tightening cost controls. We are now in a more robust position to attract new high-quality customers and expand our margins going forward."

Mr. Lawrence Chen, Chairman of the Group, said, "The pandemic has strengthened the long-term trends facing the industry. More and more brands will seek shorter lead times and smaller batches that better cater to their growing online sales. Both of these are areas in which Stella excels. Luxury and fashion brands are also keen to emulate the success that major sports brands have enjoyed in developing athleisure and crossover ranges. We are one of the few manufacturing partners with the know-how, speed-to-market and proven R&D and commercialisation capabilities to assist them in achieving this. We will endeavour to capture these opportunities to grow our business and generate sustainable returns and value to our shareholders."

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