Stella Sees Profit Turnaround in First Half of 2021

Highlights:
- Revenue increased by 36% to US$695.5 million year-on-year due to a recovery of orders and a low base last year, which was heavily impacted by the COVID-19 pandemic
- Net profit recovered to US$32.2 million, a turnaround from a net loss of US$5.2 million for the same period of last year
- Enhancing customer portfolio with addition of new customers in the Luxury category, which resulted in higher product development costs
- Continued investment in Indonesia as part of long-term margin expansion and diversification strategy
- Declared interim dividend of HK21 cents, representing a payout of about 70%

Hong Kong, 19 August 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 unaudited interim results for the six months ended 30 June 2021.

The Group returned to profit during the period under review as our customers increased order volume to meet pent-up consumer demand.

As a result, the Group continues to implement its margin-accretive strategy. The capacity expansion in Southeast Asia remains on track. The new factory in Solo, Indonesia will commence operations in the third quarter of 2021.

Business Performance

The Group's consolidated revenue for the six months ended 30 June 2021 increased by 36.0% to US$695.5 million, compared to US$511.5 million in the same period of last year. This comparison is mainly attributable to the low base in the first six months of 2020, which was heavily impacted by the COVID-19 pandemic, as well as a recovery of orders in the first half of 2021.

Our reported operating profit for the period under review was US$36.3 million, compared to a reported operating loss of US$3.4 million in the same period of last year. The return to profit was supported by the recovery in revenue and shipment volumes, better operating leverage and increased production efficiency at some divisions. This was partially offset by higher product development costs related to our new Luxury customers (who are seeking new styles and complex products) and costs associated with enhancing our customer portfolio, and one-off costs that amount to US$4.8 million (mainly severance payments related to factory closures).

Excluding the one-off costs of US$4.8 million, the non-GAAP adjusted operating profit[1] for the Group during the period under review was US$41.1 million, compared to an adjusted operating profit of US$10.9 million in the same period of last year. The adjusted recurring operating margin would be 5.9%, compared to 2.1% in the same period of last year.

Due to the factors outlined above, we recorded a net profit of US$32.2 million for the period under review, compared to a net loss of US$5.2 million in the same period of last year. The adjusted net profit during the period under review was US$37.0 million, compared to an adjusted net profit of US$9.1 million in the same period of

[1] Adjusted operating profit is a non-GAAP measure that refers to operating profit excluding one-off items, which mainly comprised of severance payments booked in the six months ended 30 June 2021 following the completion of the Group's migration of production capacity to Southeast Asia.

last year.

Continued focus on credit risk and cash flow management to safeguard financial position
We continuously assess the credit risk of our customer portfolio to reduce our risk exposure. As a result of our dedicated efforts in managing credit risk and cash flow, the Group posted a net cash position of US$68.8 million as of 30 June 2021, compared to a net cash position of US$3.1 million as of 30 June 2020. Therefore, the Group's net gearing ratio was -7.2%, as of 30 June 2021, compared to -0.3% as of 30 June 2020.

Cash return to shareholders
After considering the Group's free cash flow situation, the Board has resolved to declare an interim dividend of HK21 cents per ordinary share for the six months ended 30 June 2021.

In addition, we have continued to take advantage of the price volatility in the equity markets to repurchase 1,064,500 outstanding shares at the weighted average price of HK$9.49 per share during the six months ended 30 June 2021.

Outlook
We expect our volume to continue rebounding in the second half of 2021, although the pace of volume and revenue recovery is likely to moderate due to the higher base in the second half of 2020. A year-on-year comparison of quarterly shipment volumes for the rest of 2021 may also be uneven due to the significant impact the COVID-19 pandemic had on the normal seasonality of our shipment volumes and product mix in 2020.

Our product mix will continue to normalise further as demand for our Casual and Fashion footwear products recover. Nevertheless, our Sports footwear category will remain our main growth driver, in addition to the high-potential Luxury footwear category. As we add new Luxury category customers to enhance our customer portfolio, we will incur higher product development costs for more complicated designs.

Some risks to this outlook remain, particularly from the recent wave of new infections in Southeast Asia that could potentially impact our production and supply chain.

Our primary focus, however, remains on achieving profitable and sustainable long-term growth. We are continuing to prioritise margin improvement and steady volume growth by capitalising on promising opportunities that match our business model and proven R&D and commercialisation capabilities, particularly those in the Sports and Luxury product categories. Our new factory in Indonesia will commence operations in the third quarter of 2021 and is expected to contribute to overall sales in 2022.

Mr. Chi Lo-Jen, Chief Executive Officer of the Group said, "The outlook for the second half of 2021 looks fairly bright, although the pace of volume and revenue recovery is likely to moderate due to a higher base. This will not stop us from making progress in expanding our margins by enhancing our customer portfolio, and we will continue to push forward with our other margin-accretive strategies to deliver profitable and sustainable long-term growth to our shareholders."

Mr. Lawrence Chen, Chairman of the Group, said, "We continued to lay the foundation for bringing on more high-quality customers, particularly in the Sports and Luxury categories, which will bear fruit in terms of profitability and shareholder returns in the coming years. These include those seeking to enter the fast-growing athleisure market and we are currently in the early stages of serving a number of new customers in this area. Our combined experience and commercialisation capabilities in the Fashion, Luxury and Sports segments continues to offer a truly unique proposition that is highly attractive to leading and high-end brands."

####

For further information, please contact:

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