

[For immediate release]



## Stella Delivers Satisfactory Performance in Difficult Environment

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*Revenue of retail business up 49%; expands retail brand portfolio*

Hong Kong, 21 March, 2012 – **Stella International Holdings Limited** (“Stella” or the “Group”; SEHK: 1836), a leading developer, manufacturer and retailer of quality footwear products, today announced its audited annual results for the year ended 31 December 2011.

### **Financial & Operational Highlights:**

	For the year ended 31 December		Change (%)
	2011	2010	
<b>(US\$'000)</b>			
Turnover	1,494,531	1,293,521	15.5
Gross profit	352,465	282,968	24.6
Profit before taxation	156,914	129,460	21.2
Profit attributable to equity holders of the Company	142,988	121,408	17.8
Basic earnings per share (US\$)	0.181	0.154	17.5
GP margin (%)	23.6	21.9	1.7 ppt
NP margin (%)	9.6	9.4	0.2 ppt
Average selling price (“ASP”) per pair (US\$)	27.1	23.2	16.8
Total shipment during the year (mn pairs)	52.6	53.3	-1.3
No. of retail stores	416	324	92 stores

### **Results Summary**

The Group witnessed a steady slowdown in the global economy in 2011, as a combination of the natural disasters, European debt crisis and slow economic recovery in the United States reversed some of the global economic gains of 2010. However, the Group’s proactive moves to optimise its manufacturing operations to include lower-cost

production centres, together with its strong relationships with its brand name clients, ensured it was well positioned to deliver a satisfactory performance.

For the year ended 31 December 2011, the Group's consolidated total revenue was US\$1494.5 million, a year-on-year increase of 15.5%, while the profit attributable to equity holders of the Company rose 17.8% year-on-year to US\$143.0 million. Basic earnings per share rose 17.5% year-on-year to US\$0.181.

The current global economic uncertainty contributed to a 1.3% fall in total shipments for the year, to 52.6 million pairs. However, the average selling price ("ASP") of the Group's footwear products rose 16.8% to US\$27.1 per pair, due to further recognition of the quality of the Group's products, as well as inflation of input costs.

Total gross profit for the consolidated business in the year ended 31 December 2011 was US\$352.5 million, an increase of 24.6% compared to the previous year. This increase in profit was mostly attributable to the Group's continuous efforts to optimise product mix and its value-adding production process. Gross profit margins for the year rose to 23.6%, compared to 21.9% last year, while net profit margins rose 0.2 percentage points to 9.6%.

The Board is pleased to announce a final dividend of HK68 cents per share. Together with the interim dividend of HK30 cents per share paid, the Group's total dividend payout ratio for 2011 was 69.8%.

Mr. Lawrence Chen, Chief Executive Officer of the Group said, "2011 was an extremely challenging year for the global economy. However, our long preserving mission to 'make the best shoes' meant that we have always placed quality as our first priority, helping us protect our margins and better weather the economic downturn, compared to other manufacturers. "

### **Manufacturing Business**

All segments of Stella's manufacturing business continued to perform well, with the women's fashion footwear business remaining the largest segment, contributing 36.3% of total revenue. Contribution from the Group's women's and men's casual footwear businesses was 24.5% and 25.6% of overall revenue respectively, while the contribution from the men's fashion footwear business was 5.9%.

Geographically, North America and Europe continued to be the Group's two largest markets, accounting for 50.7% and 27.7% of the Group's total revenue during the year respectively. This was followed by Greater China at 10.9%, Asia (ex. Greater China) at 8.9%, and other geographical regions at 1.8%.

### **Application of Measures to Support Cost Control and Design Capabilities**

The Group is well advanced in meeting its medium term goal of shifting labour-intensive operations away from coastal regions and increasing overall capacity to 70 million pairs. With its new low-cost facilities in Guangxi and Hunan now operating at an initial capacity, the Group is well placed to secure a stable labour supply with less capacity constraints. The Group also completed the acquisition of a production operation in Indonesia to further reduce future labour and inflationary pressures.

The Group also opened a design studio in Italy in 2011 to further boost its design capabilities, become better in sync with emerging global fashion trends and changing

consumer tastes, and remain a strong partner of the world's top footwear brands. Working closely with the Stella's established design studio in Dongguan, the new team in Europe will ensure that the Group continues to develop cutting-edge and value-adding products which meet the specific needs and specifications of its clients.

### **Retail Business**

The Group's retail business recorded another profitable year, with its home-grown *Stella Luna* and *What For* brands continuing to attract a strong following in China and other developing markets during the year.

Revenue from the Group's retail business in 2011 grew 49.3% to US\$99.0 million, up from US\$66.3 million in the previous year, while same store sales grew 35.2% to US\$51.9 million. Gross profit for the retail business grew a significant 53.1% to US\$68.6 million, with a retail gross margin of 69.32%.

As of 31 December 2011, the Group had 416 retail stores globally, including 37 stores operated by distributors, an increase of 28.4% over the preceding year. The Group's ongoing joint venture with Deckers Asia Pacific Limited operated 11 stores in China as of the end of the year.

Mr. Stephen Chi, CEO of the Group's retail business said, "China's growing consumer market continued to provide us with a solid platform to expand the reach of our retail brands. As *Stella Luna* and *What For* become firmly established in China's affordable luxury women's footwear market, we look forward to developing new products which further our reach in the Chinese consumer market."

### **Expansion of Retail Offering**

The Group recently announced the upcoming launch of *JKJY*, a new in-house retail label for men's footwear which crossovers fashion footwear and sportswear. The launch of *JKJY* is part of the Group's overall strategy to tap China's vast demand for different types of footwear products by leveraging on the strong design capabilities of its retail team. The Group expects to open its first two *JKJY* stores in Shanghai and Beijing in 2012.

Furthermore, the Group also announced plans to sell and distribute PIERRE BALMAIN branded footwear in China and other countries after entering into joint-venture agreements with Balmain Asia (a subsidiary of Balmain S.A. (Paris)) in the first half of 2011. The Group plans to open its first PIERRE BALMAIN retail store in the second half of 2012.

### **Future Plans & Prospects**

The Group expects demand for its customised footwear products to remain stable throughout the coming year, in spite of ongoing economic uncertainty in Europe and the US.

With wage and input inflation likely to remain long-term challenges, the Group will work to secure a stable labour force by further rationalising its manufacturing operations in order to expand its low-cost manufacturing capacity and cater for future demand. This will include upgrading its manufacturing capacity and capabilities in Indonesia, while also shifting and expanding manufacturing capacity to our new Guangxi and Hunan facilities.

On the retail side of the business, China will remain the primary focus as more and more

citizens continue to join the ranks of mid-to-upper class consumers, ensuring that there is room for our established and new brands to grow.

The Group will also continue to prudently capture opportunities, including joint-ventures, to introduce more brand names to its retail portfolio. These efforts will culminate later in the year when the Group opens its first *Stella Luna* store in Paris, where it will seek to introduce the Group's unique footwear to a new group of fashion lovers.

"We will vigilantly monitor the effects that further global downturns may have on our operations, as we continue to optimise our manufacturing operations, introduce new retail brands and increase the value of our products. We look forward to further growing our business and delivering sustainable returns to our shareholders," said Mr. Jack Chiang, Chairman of the Group.

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**Consolidated Income Statement***For the year ended 31 December, 2011*

	For the year ended 31 December	
	2011 US\$'000	2010 US\$'000
<b>Revenue</b>	1,494,531	1,293,521
Cost of sales	(1,142,066)	(1,010,553)
<b>Gross profit</b>	352,465	282,968
Other income	14,467	9,223
Other gain and loss	(3,894)	(1,920)
Distribution and selling expenses	(100,675)	(66,664)
Administrative expenses	(61,221)	(56,512)
Research and development costs	(44,753)	(39,621)
Share of results of an associate	525	1,986
<b>Profit before tax</b>	156,914	129,460
Income tax expense	(14,130)	(8,132)
<b>Profit for the year</b>	142,784	121,328
Attributable to:		
Equity holders of the Company	142,988	121,408
Minority interests	(204)	(80)
	142,784	121,328
Earnings per share - Basic (US\$)	0.181	0.154