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Challenging Operating Environment Impacts Stella's 2Q Performance

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Decline in casual footwear orders was a leading contributor to lower shipments and revenue

Hong Kong, July 13, 2016 – Stella International Holdings Limited (“Stella”, or together with its subsidiaries, the “Group”; SEHK: 1836), a leading designer, manufacturer and retailer of quality footwear and leather goods products, today announced its unaudited second quarter business update for the three months and six months ended 30 June 2016.

Financial & Operational Highlights:

	For the three months ended 30 June (Unaudited)		For the six months ended 30 June (Unaudited)	
	2016	2015	2016	2015
Revenue (US\$ million)				
- Manufacturing	422.0	472.6	689.6	758.8
- Retail business in China	17.7	21.0	32.7	38.5
Average selling price per pair (manufacturing) (US\$)	28.5	30.5	27.1	28.5
Total shipment during the period (mil pairs)	14.8	15.5	25.4	26.6
No. of retail stores in China (As at 30 June)				
- <i>Stella Luna</i>			175	179
- <i>What For</i>			57	69
- <i>JKJY by Stella</i>			1	5
- <i>Pierre Balmain</i>			0	2

The Group recorded an unaudited consolidated revenue (including the Group's manufacturing business, China retail business, inter-segment sales eliminations and other businesses not covered hereof) of approximately US\$437.2 million (2015: US\$499.2 million) and US\$717.5 million (2015: US\$797.2 million) for the three months and six months ended

30 June 2016. This represented a fall of approximately 12.4% and 10.0% respectively as compared to the unaudited consolidated revenue of the corresponding periods for last year.

Revenue from our manufacturing operations fell 10.7% and 9.1% respectively to US\$422.0 million and US\$689.6 million in the three months and six months ended 30 June 2016. Shipment volumes declined 4.5% and 4.5% over the same periods to 14.8 million pairs and 25.4 million pairs respectively.

The fall in revenue and shipment volumes was mostly attributable to fewer orders for our footwear products during the periods under review, particularly in the casual footwear segment. Our manufacturing operations also suffered from lower efficiencies and margins caused by the lower utilisation of our non-sports footwear factories.

The average selling price (“ASP”) of our footwear products fell 6.6% to US\$28.5 per pair in the three months ended 30 June 2016, which was attributable to falling raw material costs, particularly for leather, change in product mix, as well as greater pricing competition.

We oversaw a slight improvement in the performance of our retail business in China in the three months ended 30 June 2016. However, on a year-on-year basis, sales of our *Stella Luna*, *What For*, *JKJY by Stella* and *Pierre Balmain* branded footwear products (in China only) fell 15.7% to US\$17.7 million, compared to the three months ended 30 June 2015. Same-store sales declined 14.1% over the same period.

As of 30 June 2016, the Group operated a total of 175 *Stella Luna* stores, 57 *What For* stores and 1 *JKJY by Stella* store. It no longer operates *Pierre Balmain* stores in China.

Looking forward, we expect the operating environment in the second half of the year to be challenging, with shipment volumes likely to be impacted by the recent ‘Brexit’ vote and the effect it has on consumer confidence and economic growth in Europe. An increasingly vitriolic presidential election campaign in the United States, coupled with a slowing global economy, may also affect demand for the Group’s footwear products. However, the expected fall in shipment volumes will be partially cushioned by rising demand for sports fashion footwear.

In order to deal with these challenges, we will continue to enforce strict cost controls and other improvement measures to regain lost efficiencies. The implementation of many of these measures is already well advanced and is expected to alleviate the decline in the Group’s margins in the second half of the year.

We will also continue to focus on building the long-term competitiveness of our retail business by selectively opening new standalone stores in high-potential locations in China and by expanding our presence in Europe. We are also continuing to work with leading retailers around the world on new initiatives that will boost the global visibility of our brands.

Mr. Lawrence Chen, Chief Executive Officer of the Group, commented on the Group’s performance, “The decline in revenue and shipment volumes in the first half of the year has been disappointing. Our focus now is to further improve our manufacturing processes and the quality of our products as we further emphasize our production outside of China, ensuring a smooth transition.”

Commenting on the outlook for the Group’s businesses, Mr. Jack Chiang, Chairman of the Group, said, “Innovation and quality will continue to be key differentiators for footwear brands looking to maintain sales and market share in the current competitive environment.

They are both areas where Stella excels. We will continue to work closely with our customers to deliver more value, while also positioning ourselves to provide long-term growth and returns to our shareholders.”

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