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Higher Shipment Volumes Supports Stella's 2015 Interim Performance

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Revenue and profit rise 10.4% and 2.7% respectively in the first half of 2015; Sustained demand and greater capacity utilisation to support performance in second half

Hong Kong, 28 August 2015 – **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 2015.

Financial & Operational Highlights:

	For the six months ended 30 June		**Change (%)**
(US$'000)	**2015**	**2014**	
Revenue	**798,052**	722,612	10.4
Gross profit	**161,918**	154,619	4.7
Profit before tax	**57,335**	56,398	1.7
Profit attributable to equity holders of the Company	**54,018**	52,582	2.7
Basic earnings per share (US$)	**0.0682**	0.0663	2.9
GP margin (%)	**20.3**	21.4	-1.1ppt
NP margin (%)	**6.8**	7.3	-0.5ppt
Average selling price ("ASP") per pair (US$)	**28.6**	28.4	0.7
Total shipment during the period (mn pairs)	**26.6**	23.7	12.2
No. of retail stores	**333**	355	-22 stores

Results Summary

The Group's consolidated revenue for the six months ended 30 June 2015 rose 10.4% to

US$798.1 million, as a number of our U.S.-based customers ramped up orders for our footwear products. Many of our European customers also started to restock their depleted inventories during the period under review. Shipment volumes rose 12.2% to 26.6 million pairs, compared to 23.7 million pairs in the corresponding period of last year.

Gross profit across all of our business segments rose 4.7% to US$161.9 million during the six months ended 30 June 2015, compared to US$154.6 million in the corresponding period of last year. Profit attributable to shareholders of the Company during the period under review was US$54.0 million, up 2.7% compared to the same period last year.

The average selling price ('ASP') of our footwear products rose a slight 0.7% to US$28.6 per pair as falling raw material prices (particularly for leather) restricted unit price growth.

We are pleased to announce an interim dividend of HK30 cents per share.

Mr. Lawrence Chen, Chief Executive Officer of the Group said, "Sustained economic growth and stabilisation in our two primary export markets boosted shipments and revenue as customers restocked and expanded their operations. This trend should also translate into more orders in the second half of the year, with volumes also likely to be supported by greater capacity utilisation at our manufacturing facilities."

Expanding Global Market Share While Adding New Value-Adding Products

We continued to grow our share in the high-end and premium footwear markets as rising costs and aging workforces led more footwear brands to outsource production. We also picked up a number of new brand customers during the period, while some other customers expanded the scope of their existing relationship with us.

Our global competitiveness is built on our reputation for quality, flexibility, as well as research and development capability, which has enabled us to attract a higher ASP than the industry average. This competitiveness will be further heightened as we continue to add more value-adding products, including fashion sneakers – a fashionable take on the traditional comfort of sports shoes – that are proving increasingly popular with our customers. We are also continuing to explore the manufacture of quality leather goods and fashion accessories, such as handbags, in order to cater for the increasing number of brands looking to outsource the manufacturing of these products.

During the six months under review, women's fashion footwear continued to be the biggest contributor to overall revenue, at around 35% of total revenue. The contribution from the women's and men's casual footwear segments was 26% and 23% respectively, while the men's fashion footwear segment contributed around 10% of overall revenue.

Geographically, North America and Europe remained our two largest markets, accounting for 50.1% and 27.5% of the Group's total revenue respectively in the six months under review. This was followed by the PRC (including Hong Kong) accounting for 13.8%, Asia (other than the PRC) accounting for 5.5% and other geographic regions, which accounted for 3.1%.

Higher Capacity Utilisation Driving Volume Growth

Improving quality and efficiency standards at our manufacturing facilities in inland China and South-East Asia saw us increase the utilisation of our capacity at these locations during the six months ended 30 June 2015. This is a result of our ongoing strategy to diversify and optimise our manufacturing base away from coastal China in order to better control labour costs and labour supply.

In addition to our traditional manufacturing base in Dongguan, China, we now operate facilities in Hunan, Guangxi and Hebei provinces of China, as well as Vietnam, Indonesia and Bangladesh. We have also recently established footholds in Myanmar and the Philippines, where we plan to add further manufacturing capacity.

Continued Implementation of New Retail Strategy

Slowing economic growth and weakening consumer sentiment in China continued to hamper our retail business and are likely to remain present in the short to medium term. We have implemented a number of strategies to offset these challenges, including changing parts of our merchandising and operational strategy, ramping up our presence on online platforms and closing some underperforming counters at department stores.

One of the biggest changes we are implementing is shifting the retail of off-season merchandise from department stores to our new official online stores located on Chinese online platforms such as TMall. This will enable us to clear our inventories in a more cost-efficient manner.

At a store-network level, we are continuing to focus on improving the positioning of our standalone stores and shop-in-shops. We are also cautiously opening up new stores at quality locations where conditions are favourable. We are also expanding the number of points of sale for our retail products in Europe in order to increase the value of our brands.

Revenue from the retail business fell 14.8% to US$44.2 million during the six months under review, compared to the previous corresponding period. Same-stores sales (in China only) fell 15.6% to US32.9 million during the period under review. As of 30 June 2015, we operated a total 212 *Stella Luna* stores, 110 *What For* stores, 9 *JKJY by Stella* stores and 2 *Pierre Balmain* stores globally.

Mr. Stephen Chi, CEO of the Group's retail business said, "We are beginning to see some bright spots emerging from our ongoing store optimisation strategy. We will continue to focus on selectively opening new standalone stores in quality locations, while also seeking to counter challenges arising from slowing economic growth in Mainland China."

Future Plans & Prospects

We expect to see a further pick up in orders in the second half of 2015 as our brand customers continue to restock and expand. This is despite some customers adopting a more cautious approach to orders as they consider the impact of a possible interest rate hike by the U.S. Federal Reserve and persistent low inflation in the developed countries.

In addition to higher demand, orders in the second half of 2015 will also be supported by better efficiency and improved utilisation at our manufacturing facilities in inland China and South-East Asia. We will continue to ramp-up production at these facilities as the capabilities of our workforce there meet more of our technical and quality standards. We will also continue to explore potential facilities in Myanmar and the Philippines that may allow us to maintain and expand lower-cost capacity in the future.

We remain on track towards achieving a targeted expansion of manufacturing capacity by the end of the year.

We will also continue to strictly uphold current cost control and efficiency measures at all of our facilities in order to safeguard margins and meet the short lead times expected by many of our customers. We will also work to further improve the quality of our products and develop our competitive strengths in emerging product segments, including sports fashion footwear and leather goods and accessories.

We remain committed to building a competitive retail business that can be profitable in the long-term. We expect to modestly increase our store network on a net basis in the second half of the year as we open new standalone stores and shop-in-shops in high potential locations, while closing underperforming stores. We will also continue to invest in opening more points-of-sales in Europe, as well as in other initiatives, to grow the value of our brands in the eyes of China's upwardly mobile consumers.

Mr. Jack Chiang, Chairman of the Group, concluded, "We remain mindful of the fragility of global economic growth as Europe continues to deal with the ongoing Greek debt crisis and as the U.S. enters a new presidential election cycle. Slowing economic growth in China and the recent weakness of its stock and property markets may also weigh on demand for the Group's footwear products in the second half of the year. We will continue to work closely with our customers to provide more value, while further investing in our ability to 'make the best shoes' in order to safeguard profitability and returns to shareholders."

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Consolidated Income Statement

For the six months ended 30 June 2015

	For the six months ended 30 June	
	2015	2014
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Revenue	**798,052**	722,612
Cost of sales	**(636,134)**	(567,993)
Gross profit	**161,918**	154,619
Other income	**11,060**	8,549
Other gains and losses	**411**	(2,181)
Distribution and selling expenses	**(44,186)**	(41,383)
Administrative expenses	**(44,743)**	(38,882)
Research and development costs	**(27,074)**	(24,270)
Share of profit of associates	**63**	32
Interest on bank borrowing wholly repayable within 5 years	**(114)**	(86)
Profit before tax	**57,335**	56,398
Income tax expense	**(3,898)**	(4,020)
Profit for the period	**53,437**	52,378
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operation	**(246)**	(1,893)
Total comprehensive income for the period	**53,191**	50,485
Profit (loss) for the period attributable to:		
Owners of the Company	**54,018**	52,582
Non-controlling interests	**(581)**	(204)
	53,437	52,378
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**53,744**	50,701
Non-controlling interests	**(553)**	(216)
	53,191	50,485

Earnings per share - Basic and diluted (US$)	**0.0682**	0.0663