[For immediate release]

Lower Demand Impacts Stella's Performance in First Half of 2016

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Lower demand for casual footwear products pushes down revenue and profit; 'athleisure' products remain a growth driver

Hong Kong, 26 August 2016 – **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 2016.

Financial & Operational Highlights:

	For the six months ended 30 June		**Change (%)**
(US$'000)	**2016**	**2015**	
Revenue	**721,388**	798,052	-9.6
Gross profit	**133,224**	161,918	-17.7
Profit before tax	**32,882**	57,335	-42.6
Profit attributable to Owners of the Company	**30,380**	54,018	-43.7
Basic earnings per share (US$)	**0.0383**	0.0682	-43.8
GP margin (%)	**18.5**	20.3	-1.8 ppt
NP margin (%)	**4.2**	6.8	-2.5 ppt
Average selling price ("ASP") per pair (US$)	**27.1**	28.6	-5.2
Total shipment during the period (mn pairs)	**25.4**	26.6	-4.5
No. of retail stores	**324**	333	-9 stores

Results Summary

The Group's consolidated revenue for the six months ended 30 June 2016 fell 9.6% to US$721.4 million following a slowing of demand for our footwear products – particularly in the casual footwear segment – as a result of the weak retail environment in North America and Europe, as well as other factors. Shipment volumes fell 4.5% to 25.4 million pairs, compared to 26.6 million pairs in the corresponding period of last year.

The lower shipment volumes lowered the utilisation of our non-sports footwear factories, leading to a drop in efficiency and margins. Gross profit across all of our business segments fell 17.7% to US$133.2 million during the Interim Period, compared to US$161.9 million in the corresponding period of last year. Profit attributable to shareholders of the Company during the Interim Period was US$30.4 million, down 43.7% compared to the same period last year.

The average selling price ('ASP') of our footwear products fell to US$27.1 per pair, compared to US$28.6 per pair in the corresponding period of last year, which was attributable to falling raw material costs (particularly for leather), changes in product mix, as well as greater pricing competition.

We are pleased to announce an interim period of HK 30 cents per share.

Mr. Lawrence Chen, Chief Executive Officer of the Group said, "The first half of the year brought a fresh set of challenges and opportunities to our business. This included weaker than expected demand in our main export markets, as well as changing consumer tastes in favour of new trends such as athleisure. All of these impacted our shipment volumes, revenue and margins."

Adjusting to Meet Rising 'Athleisure' Trend

The performance of our manufacturing operations in the six months under review was marked by the growing popularity of 'athleisure' footwear products – a fashionable take on the traditional sports shoe. As a result, athleisure products continued to be one of our major growth drivers. However, growing demand for these products also cannibalised overall demand for our casual footwear products, resulting in an overall fall in shipment volumes during the six months under review.

Casual footwear continued to be the biggest contributor to overall revenue during the Interim Period, at around 45.7% of total revenue. Meanwhile, orders for sports footwear continued to accelerate, accounting for 22.9% of overall revenue. Dress and fashion footwear maintained its contribution at 31.4% of overall revenue.

Geographically, North America and Europe remained our two largest markets, accounting for 49.2% and 26.9% of the Group's total revenue respectively in the six months under review. This was followed by the PRC (including Hong Kong) accounting for 13.9%, Asia (other than the PRC) accounting for 8.0% and other geographic regions, which accounted for 2.0%.

ASP Affected by Lower Input Costs, Product Mix and Competition

Falling raw material costs was one of the main factors that put downward pressure on our ASP during the Interim Period, with leather prices continuing to reflect lower slaughterhouse prices that were seen towards the end of 2015.

Changing product mix was another factor that affected our ASP, as many footwear brands broadened their product ranges and widened the number of price points we needed to cater for. Increasing competition, particularly in the causal footwear segment also impacted the ASP of some of our footwear products.

Bright Spots and Challenges for Retail Business

The recent introduction of a new retail management team and the continued implementation of our retail optimisation strategy delivered some benefits to our retail business during the Interim Period. However, slowing economic growth in China and an unseasonably wet start to the Spring/Summer season posed challenges to these efforts.

Revenue from the retail business fell 9.7% to US$39.9 million during the six months under review, compared to the previous corresponding period. Same-stores sales (in China only) fell 17.6% to US$24.7 million during the Interim Period.

We further reduced our store network in China as we continued to close underperforming stores and counters. However, the expanding presence of our *Stella Luna*, *What For* and *JKJY by Stella* brands in Europe continued to support the value of our retail brands in China. As of 30 June 2016, we operated a total 202 *Stella Luna* stores, 118 *What For* stores and 4 *JKJY by Stella* stores globally.

In April 2016, we closed our last *Pierre Balmain* branded store in China, although *Pierre Balmain*-branded footwear remain available at our other retail stores in China.

Mr. Stephen Chi, CEO of the Group's retail business said, "By leveraging our new retail management team, we aim to increase the competitiveness of our retail business and help it overcome slowing economic growth in China. This includes boosting the global visibility of our brands in Europe, as well as in other new markets, to increase our brand equity in China."

Future Plans & Prospects

We expect that the current challenging environment will continue into the second half of 2016, with shipment volumes likely to be impacted by lower consumer confidence, particularly in Europe. We also expect more customers to not confirm the details of their orders until the last minute, which may affect our production planning and efficiency. However, the effect of both of these factors may be partially cushioned by rising demand for our sports fashion footwear products.

As the athleisure footwear category becomes an increasingly significant part of our business going forward, we will continue to make adjustments to our manufacturing business in order to increase efficiency and reduce pressure on margins. We will also continue to implement strict cost controls and other efficiency improvement measures, while safeguarding our ability to cater for short lead times and narrow shipment windows, in order to deliver value to our customers.

We will also continue to focus on restoring 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. This included working with leading retailers around the world on new initiatives that will boost the global visibility of our brands. This may include the introduction of our *Stella Luna* brand shoes in globally renowned department stores, such as *Lane Crawford* and *Barneys New York*, bringing our retail brands to new markets such as Hong Kong and the United States for the first time, while also making them available on their ecommerce channels.

Mr. Jack Chiang, Chairman of the Group, concluded, "The level of change and uncertainty is unlikely to diminish in the second half of the year. But our ability to respond to them is improving. We will continue to focus on delivering quality by making ongoing investments in research and development, while also better allocating production, reducing working hours and managing headcounts at our manufacturing facilities. This will enable us to more quickly meet the changing needs of our customers and deliver long-term returns to our shareholders."

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Consolidated Income Statement
For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Revenue	**721,388**	798,052
Cost of sales	**(588,164)**	(636,134)
Gross profit	**133,224**	161,918
Other income	**11,380**	11,060
Other gains and losses	**1,979**	411
Distribution and selling expenses	**(43,303)**	(44,186)
Administrative expenses	**(39,948)**	(44,743)
Research and development costs	**(30,720)**	(27,074)
Share of result of a joint venture	**540**	-
Share of results of associates	**(76)**	63
Finance costs	**(194)**	(114)
Profit before tax	**32,882**	57,335
Income tax expense	**(2,438)**	(3,898)
Profit for the period	**30,444**	53,437
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operation	**(207)**	(271)
Share of exchange differences of associates and a joint venture	**(11)**	25
Other comprehensive expense for the period net of income tax	**(218)**	(246)
Total comprehensive income for the period	**30,226**	53,191
Profit (loss) for the period attributable to:		
Owners of the Company	**30,380**	54,018
Non-controlling interests	**64**	(581)
	30,444	53,437
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**30,189**	53,744

Non-controlling interests	**37**	(553)
	30,226	53,191
Earnings per share - Basic and diluted (US$)	**0.0383**	0.0682