Bounce Back in Shipment Volumes Support Stella's 2017 Annual Results

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Continued growth of fashion athletic segment and recovering demand for fashion footwear products positions Group well for the future

Hong Kong, 15 March, 2018 – **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 audited annual results for the year ended 31 December 2017.

Financial & Operational Highlights:

	For the year ended 31 December		**Change (%)**
(US$'000)	**2017**	**2016**	
Turnover	**1,577,270**	1,550,864	1.7
Gross profit	**270,204**	290,544	-7.0
Gross profit margin (%)	**17.1**	18.7	-1.6 ppt
Profit before tax	**63,237**	88,258	-28.4
Operating profit	**64,902**	83,670	-22.4
Operating profit margin (%)	**4.1**	5.4	-1.3 ppt
Profit attributable to Owners of the Company	**61,955**	81,577	-24.1
Basic earnings per share (US cents)	**7.8**	10.3	-24.1
Excluding one-off non-recurring items:			
Adjusted operating profit	**82,110**	80,579	1.9
Adjusted net profit	**79,163**	78,487	0.9
Average selling price ("ASP") per pair (US$)	**26.7**	28.1	-5.0
Total shipment during the year (mn pairs)	**56.6**	52.9	7.0

Results Summary

Our consolidated revenue for the year ended 31 December 2017 was US$1,577.3 million, an increase of 1.7% compared to the previous year. We saw a moderate bounce back in shipments compared to the previous year, which rose 7.0% to 56.6 million pairs. The higher shipment volume is attributable to continued growth in our fashion athletic segment, as well as a recovery in demand for our fashion footwear products.

The average selling price ('ASP') of our footwear products fell 5.0% to US$26.7 per pair due to changes to the Group's product mix and the product mix of our customers.

The full year net profit attributable to shareholders of the Company declined 24.1% to US$62.0 million, which was primarily due to one-off costs amounting to $17.2 million that resulted from air freight charges in the first half of the year, as well as additional expenditures incurred and provisions made this year in anticipation of factory closures in the year ahead.

Excluding the one-off items of US$17.2 million in aggregate, our adjusted operating profit increased by 1.9% to $82.1 million, while our adjusted net profit was US$79.2 million, an increase of 0.9% compared to the previous year.

We are pleased to announce a final dividend of HK30 cents per share. Together with the interim dividend of HK 30 cents per share paid, our total dividend pay-out ratio for 2017 was 98.2%.

Mr. Lawrence Chen, Chief Executive Officer of the Group, said, "It is pleasing to see the moderate recovery in shipment volumes in the second half of the year. While our fashion athletic segment will continue to increase in importance and becomes our main growth driver, our fashion and casual products remain highly important."

Continued Growth of Fashion Athletic Footwear Business

Fashion athletic footwear remained our main growth driver throughout the year under review, with the growth rate steadily normalising as the year progressed due to a diminishing base effect. We further grew our customer base in this segment, which now includes world-famous athletic brands, as well as premium and luxury fashion brands that are seeking to enter into the fashion athletic arena.

Our ability to quickly grow our market share in this segment is a significant accomplishment and is an attestation of our ongoing effort to build a competitive and high-quality fashion athletic manufacturing operation. Leveraging on our long-established reputation for design, research and development, quality, and our unique skill base for developing compelling footwear products, we are uniquely positioned to become a partner of choice to brands in this segment in the years to come.

Renewed Demand for Fashion Products in Second Half

Demand for our fashion footwear products recovered reasonably well in the second half of the year, with volumes being supported by recent large mergers and acquisitions in the fashion industry, some of which involved our customers. This trend is accelerating many of our customers' plans to expand their product portfolio into the fashion athletic category, providing us with new business opportunities.

Fashion footwear remained our largest segment, contributing 38.6% of total revenue (2016: 42.0%) during the year ended 31 December 2017. The contributions from casual footwear and fashion athletic products were 28.9% and 28.0% respectively (2016: 29.0% and 24.0%), while the Group's own retail brands accounted for 4.5% of total revenue (2016: 5.0%).

Geographically, North America and Europe remain our two largest markets, accounting for 50.4% and 28.1% of our total revenue for the year under review. This was followed by the PRC (including Hong Kong), which accounted for 12.1%, Asia (other than the PRC), which accounted for 7.2% and other geographic regions, which accounted for 2.2%.

Global Manufacturing Footprint Aligning with Changing Product Mix

We are continuing to diversify our manufacturing footprint outside of China, particularly in South-East Asia. A recent milestone of this was the opening of a new manufacturing factory in Vietnam during the fourth quarter of the year under review, which is expected to catalyse further growth from our fashion athletic business.

Our diverse manufacturing base – which includes facilities in China's Guangdong, Hunan, Guangxi and Hebei provinces, as well as Vietnam, Indonesia and Bangladesh – has enabled us to overcome persistent labour supply and labour cost problems in China's coastal regions, while taking advantage of the shift within China's workforce away from transient migrant labour towards a more resident and career-focused workforce.

Safeguarding and Growing the Value of Our Retail Brands

Over the last few years, our China retail management team made significant progress in turning around our retail business in China, implementing the tough changes needed to reverse financial losses, despite strong competition and digital disruption in the China retail market.

In order to incentivise this good performance, and to allow us to concentrate on our core competencies – craftsmanship, innovation and branding – we granted an option to Max Group to acquire a 60% stake in our China retail business. On 19 July 2017, Max Group completed the acquisition of the 60% stake, after which the China retail business ceased to be a wholly-owned subsidiary of the Group.

We continue to maintain control over our three retail brands, *Stella Luna*, *What For* and *JKJY by Stella*, as well as our retail operations in Europe. The retail brands and remaining retail operations are now structured as the Group's branding business. We also remain the exclusive manufacturer of all of our brands worldwide.

Mr. Stephen Chi, CEO of the Group's Fashion Footwear Division and the Branding Business Division, said, "We are excited to be focusing exclusively on building the global profile and value of our brands, which showcase the high-level of design and quality that we incorporate into all of our manufactured footwear products. We will also continue to reap the benefits of the turnaround of the China retail business, under the capable leadership of Max Group, through our 40% stake."

Future Plans & Prospects

Fashion athletic products will continue to be our main growth driver as we leverage on the additional capacity bought on at our new Vietnam factory. We will continue to selectively reduce capacity in some locations in order to improve utilisation and deliver margin recovery over the medium term.

We also expect demand for our fashion products to recover further, supported by buoyant consumer sentiment in the United States and most parts of Europe.

Our cautious optimism, however, is caveated by continued risks within the industry and the external environment, including ongoing consolidation among footwear brands, the shift of end-sales to online platforms, as well as political risks associated with tensions on the Korean Peninsula, and growing calls for trade protectionism in a number of markets. We will continue to work closely with our customers to manage these risks if they arise.

We will continue to make use of our excellent R&D capabilities to further improve and extend our range of innovative footwear products, while also taking advantage of our unique capabilities to support existing customers seeking to crossover into new product categories. This includes creating new footwear products for fashion brands that are exploring how to include sporting elements into their ranges – products that we are uniquely positioned to create.

In terms of our branding business, having found the right partner to manage the day-to-day operations of our China retail business, we will focus exclusively on building the global profile and value of our brands by marketing and showcasing our unique design and fashion capabilities. We will also continue to expand our retail store network in Europe and our presence in famous department stores around the world.

Mr. Jack Chiang, Chairman of the Group, concluded, "Although risks remain in the external environment, we look forward to taking advantage of our enhanced fashion athletic footwear manufacturing capacity to deliver further value to our customers. We will also make further improvements to our manufacturing processes, production allocation, research and development, and efficiency to control costs and enhance our margins. We look forward to continuing our mission to 'make the best shoes' while delivering long-term returns to our shareholders."

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Consolidated Income Statement
For the year ended 31 December, 2017

	For the year ended 31 December	
	2017	2016
	US$'000	US$'000
Revenue	**1,577,270**	1,550,864
Cost of sales	**(1,307,066)**	(1,260,320)
Gross profit	**270,204**	290,544
Other income	**26,510**	19,352
Other gains and losses	**(5,486)**	18,760
Distribution and selling expenses	**(85,459)**	(92,614)
Administrative expenses	**(85,593)**	(86,618)
Research and development costs	**(56,679)**	(62,048)
Share of result of a joint venture	**1,380**	1,370
Share of results of associates	**(2,844)**	43
Gain on the disposal of subsidiaries	**2,185**	-
Finance costs	**(981)**	(531)
Profit before tax	**63,237**	88,258
Income tax expense	**(3,547)**	(7,044)
Profit for the year	**59,690**	81,214
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operation	**3,120**	(1,166)
Reclassification of translation reserve upon disposals of subsidiaries	**(2,180)**	-
Share of exchange differences of associates and a joint venture	**(240)**	481
Other comprehensive expense for the year, net of income tax	**700**	(685)
Total comprehensive income for the year	**60,390**	80,529
Profit (loss) for the year attributable to:		
Owners of the Company	**61,955**	81,577
Non-controlling interests	**(2,265)**	(363)
	59,690	81,214
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**62,946**	80,815
Non-controlling interests	**(2,556)**	(286)
	60,390	80,529
Earnings per share (US$)		
- basic	**0.078**	0.103
- diluted	**0.078**	N/A