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Stella International Holdings Limited
九興控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

PROFIT WARNING
AND
BUSINESS UPDATE OF THE GROUP
FOR THE FOURTH QUARTER OF 2020

PROFIT WARNING

This announcement is made by Stella International Holdings Limited (the “Company”) pursuant to Rule 13.09 (2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board (the “Board”) of directors (the “Directors”) of the Company wishes to inform the shareholders of the Company (the “Shareholders”) and potential investors that, based on the preliminary review of the unaudited consolidated management accounts of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2020, and information currently available to the Board, the Group expects to record a net profit within the range of US\$0 million to US\$5 million for the year, which will be well below the net profit of US\$95.9 million for the year ended 31 December 2019. The expected breakeven in net profit is mainly attributable to:

- (a) a significant decrease in shipment volumes during the year ended 31 December 2020 due to customers’ delay in or cancellation of orders and shipments as a result of the COVID-19 pandemic;

* For identification purpose only

- (b) the higher one-off costs incurred from:
- i. severance payments and impairment of property, plant and equipment made and incurred in connection with the permanent closure of factories in Mainland China, as the Group accelerated its planned migration of production capacity to Southeast Asia;
 - ii. a temporary scale-down of the Group's operations in Southeast Asia to seek improvement in cost efficiency as a result of the reduced number of orders received due to the COVID-19 pandemic; and
 - iii. overhead costs relating to temporary factory closures in Mainland China, the Philippines and Bangladesh, which was incurred in order to comply with local government measures to curb the spread of COVID-19; and
- (c) operating deleverage resulting from the reduction in orders which led to lower utilisation of the Group's production facilities.

The information contained in this announcement is only based on a preliminary assessment by the management of the Company of the unaudited consolidated management accounts of the Group for the year ended 31 December 2020 and the currently available information, and such information has not been audited or reviewed by the Company's auditors and may be subject to adjustments.

The consolidated annual results of the Group for the year ended 31 December 2020 are expected to be announced in March 2021. Shareholders and potential investors are advised to read the Company's annual results announcement with care when it is published.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

BUSINESS UPDATE OF THE GROUP FOR THE FOURTH QUARTER OF 2020

In addition, the Board would like to provide an update on the business development of the Group for the fourth quarter of 2020.

Total Consolidated Revenue

Shipment volume for the three months ended 31 December 2020 declined by 21.7% on a year-on-year basis. It was the second consecutive quarter in which the Group saw the decline of its year-on-year quarterly shipment volume narrow compared to the previous quarter, as the business of its customers began to recover with some seeking to replenish their inventory levels after experiencing understocking ahead of the holiday season.

For the three months ended 31 December 2020, the Group's unaudited consolidated revenue¹ decreased by 18.9% to approximately US\$280.1 million (2019: US\$345.4 million). For the year ended 31 December 2020, the Group's unaudited consolidated revenue decreased by 26.5% to approximately US\$1,135.8 million (2019: US\$1,544.8 million).

Manufacturing Business

An analysis of the revenue, quantity and ASP in relation to the manufacturing business of the Group for the three months and year ended 31 December 2020 is shown in the table below:

	For the three months ended 31 December			For the year ended 31 December		
	(Unaudited) 2020	2019	Change (%)	(Unaudited) 2020	2019	Change (%)
Revenue (US\$ million)	275.9	339.9	-18.8	1,117.1	1,530.3	-27.0
Shipment Volume (million pairs)	10.8	13.8	-21.7	43.4	59.4	-26.9
Average Selling Price (US\$/pair)	25.6	24.7	3.6	25.7	25.8	-0.4

The year-on-year fall in revenue and shipment volume for the three months ended 31 December 2020 was attributable to decreased demand from the Group's brand customers due to the COVID-19 pandemic.

The increase in ASP for the three months ended 31 December 2020 was mostly driven by changes to the Group's product mix and customer mix.

¹ Including the Group's manufacturing business, branding business and other businesses not covered herein, and after the elimination of inter-segment sales.

Outlook

While the Group is cautiously optimistic about order levels for the upcoming Spring and Summer 2021 seasons, the Group still has low visibility for the second half of 2021 due to the recent COVID-19 driven lockdowns in many countries around the world.

Despite the global roll-out of COVID-19 vaccines, the pandemic remains a concern in 2021. As of 31 December 2020, the Group's financial position remained solid with sufficient cash on hand and total undrawn bank facilities of over US\$180 million – more than enough to meet its current business needs. It will continue to prioritise and improve the management of its risk and cash flow, while safeguarding its strong balance sheet.

By order of the Board
Stella International Holdings Limited
Chen Li-Ming, Lawrence
Chairman

Hong Kong, 14 January 2021

As at the date of this announcement, the executive Directors are Mr. Chen Li-Ming, Lawrence and Mr. Chi Lo-Jen; the non-executive Directors are Mr. Chiang Jeh-Chung, Jack and Mr. Chao Ming-Cheng, Eric; and the independent non-executive Directors are Mr. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, BBS, Mr. Yue Chao-Tang, Thomas, Mr. Lian Jie and Ms. Shi Nan Sun.