Interim Report 2019

Stella International Holdings Limited

Stock Code: 1836

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CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my great pleasure and honour to write my first statement as the Chairman of Stella International Holdings Limited.

The first half of 2019 confirmed that we are well on track to achieving margin recovery and long-term sustainable earnings growth. Despite flat revenue growth and tepid volume growth, as well as a deteriorating business environment, we saw a stellar improvement in our operating profit and net profit.

This outcome is no accident but instead the result of the hard work and tenacity of our management team, led by our new CEO, Mr. Chi Lo-Jen. It is also the result of our ability to trust in our capabilities and our heritage, recognising our niche and where we can provide our customers with the most value. This has always been in the areas of craftsmanship; commitment to quality; research, product development and commercialisation capabilities; and our unique industry reputation.

Most importantly, we realised that the best customers are those who can become our genuine partners, facilitating a level of collaboration and trust that is required for footwear brands to navigate the changing global footwear market. The best example of this has been the development of our newest footwear product category: fashion sports. Our history, going back to our founding days, has revolved around serving the high-fashion footwear segment, which today includes fashion-focused and collectable sports shoe lines. As more and more luxury brands seek to enter this space, we are one of the very few manufacturers that can offer the quality and design capabilities these products require.

Despite this advantage, we are not immune to the challenges facing all manufacturers that "grew up" in China, particularly rising wages and labour availability, and more recently, rising trade tensions with the United States – our biggest market by revenue. This is why we moved early to develop our capabilities in South East Asia, knowing that time and investment was needed to bring a new workforce up to the high quality and efficiency standards our customers require. We have never thought of cutting corners or competing based purely on cost.

The result of this strategy is now starting to speak for itself and we will continue to stay the course in progressively ramping-up our operations in South East Asia only when we are able. As such, we expect shipment volumes for the full-year of 2019 to be broadly in line with that in 2018 as we continue to prioritise margin expansion by further improving our production efficiency.

We will also continue to implement differentiated strategies for improving the performance of our fashion and casual footwear businesses, as well as our branding business in Europe, all of which target margin expansion, rather than merely volume growth. This remains the optimal path for greater profitability and achieving our mission to "make the best shoes".

On behalf of the Board, I would like to take this opportunity to thank our customers, business partners and shareholders for their unwavering support during this period. I will also like to express our gratitude to our colleagues for their hard work and service during the interim period.

Chen Li-Ming, Lawrence
Chairman
Hong Kong, 22 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019.

BUSINESS MODEL AND STRATEGY

Stella is a leading developer and manufacturer of quality footwear and leather goods products. Our manufacturing business was founded in 1982 with a simple mission of "making the best shoes". We provide a one-stop shop for the design, development and manufacturing of fashion footwear, fashion sports footwear, casual footwear and leather goods.

Our business is positioned at the high-end of the value chain, offering craftsmanship, creative design, speed to market, and small batch agility. Our commitment to quality has enabled us to attract a growing client base: from premium to high-end, and from fashion to fashion sports and casual brands.

We launched our branding business in 2006, which led to the creation of our two contemporary brands – *Stella Luna* and *What For*. These brands are designed and manufactured in-house and have quickly developed a global following.

FINANCIAL HIGHLIGHTS

Stable Overall Revenue and Shipment Volumes on Robust Fashion Sports Footwear Orders

Our revenue growth in the six months under review, was relatively flat, supported by robust ordering for our fashion sports footwear. Meanwhile, the revenue contribution from our fashion and casual footwear segments remained in line with our expectations and our current margin expansion strategy.

The key financial performance indicators of the Company are revenue growth, operating margin and return on invested capital. An analysis of these indicators are as below:

Our consolidated revenue for the six months ended 30 June 2019 increased by 1.5% to US$750.6 million, compared to US$739.3 million in the corresponding period of last year. Shipment volumes rose 1.7% to 29.5 million pairs, compared to 29.0 million pairs in the corresponding period of last year. The average selling price ("ASP") of our footwear products rose 1.2% to US$25.2 per pair, compared to US$24.9 per pair in the corresponding period of last year, due to changes in our product mix and customer mix.

Fashion footwear was the biggest contributor to our overall revenue during the six months ended 30 June 2019, contributing 34.9% of total revenue. The contributions from casual footwear and fashion sports products were 28.4% and 34.5% respectively, while the Group's own retail brands accounted for 2.2% of total revenue.

Geographically, North America and Europe remain our two largest markets, accounting for 48.8% and 30.1% of our total revenue during the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 11.3%, Asia (other than the PRC), which accounted for 6.7% and other geographic regions, which accounted for 3.1%.

Branding Business Impacted by French Protests

Our branding business, which is anchored by our retail business in Europe saw revenue decline by 35.9% to US$5.9 million during the six months ended 30 June 2019. Same-store sales during the period declined by 43.8%. As our current store network is primarily focused around the Paris area, retail sales during the period were impacted by the "Yellow Vest" protests, the consolidation of our retail network, and a continued focus on clearance events aimed to manage inventory.

Profitability Supported by Enhanced Customer and Product Mix, Ramp-Up of New Factory and Efficiency Improvements

Our gross profit and operating profit improved significantly during the six months under review, which was mostly attributed to a moderate year-on-year improvement in the production efficiency and the continued ramp-up of its new manufacturing facility in Vietnam; further re-allocation of its production capacity from China to South East Asia; and a much-enhanced product mix and customer mix.

Our gross profit for the period under review rose 10.8% to US$135.0 million compared to the corresponding period of last year. Our operating profit rose 61.5% to US$45.9 million, with an operating margin improving to 6.1% from 3.8%. Our adjusted recurring operating margin increased to 7.1%. Our net profit for the period under review rose 76.8% to US$38.9 million, with the growth being mostly attributed to the reasons outlined above in addition to a low base.

Our cash generated from operations increased to US$17.4 million for the six months ended 30 June 2019, from US$43.2 million used in operations for the corresponding period of last year.

Our return on invested capital was at 12.5% in the six months ended 30 June 2019. Return on invested capital means operating profit for the period under review divided by the average of total assets excluding cash and cash equivalents.

BUSINESS REVIEW

Accelerating Demand for Fashion Sports Products

Demand for our fashion sports products has continued to grow strongly, with increased orders from our major customer supporting the utilisation rate at our new manufacturing facility in Vietnam.

As a result of our long history of serving fashion brands, Stella is uniquely positioned to cater to the current convergence between fashion and sports. As major sportswear brands increasingly seek shorter lead-times and smaller batch order for their limited edition, fashion-focused/collectable product lines, we are one of the very few manufacturers who can deliver the responsiveness, premium quality and flexibility needed to meet their requirements.

We are also progressively growing our customer base in this segment, particularly premium and luxury fashion brands that are seeking to enter into the fashion sports market. Our long-established reputation for craftsmanship, design, adaptability and commercialisation ability will ensure that we remain the partner of choice for all brands entering this segment.

Customised Strategies for Fashion and Casual Footwear Segments

We are implementing different strategies to improve the performance of our fashion and casual footwear segments as we become more active in managing orders and our customer mix in order to progressively enhance margins. This resulted in a decrease in shipment volume for our fashion and casual footwear products during the six months under review although the ASP for both segments increased.

Ongoing Efficiency Gains and Refinement of Manufacturing Footprint

We closed one factory in Mainland China during the first six months of the year as we continued to ramp-up activity and production efficiency at our manufacturing facilities in South East Asia.

We also continued to diversify our manufacturing base as we move closer to our medium-to-long-term goal of achieving a footprint where a majority of our production capacity will be outside of Mainland China. This will allow us to overcome persistent labour supply and labour cost issues in China while making solid quality and efficiency gains.

In addition to our research and development centres in Dongguan, China and Venice, Italy, our global manufacturing footprint as of 30 June 2019 included facilities in Guangdong, Hunan, Guangxi and Hebei provinces in Mainland China, as well as in Vietnam, Indonesia, the Philippines and Bangladesh.

Impact of External Events

Ordering activity in the six months ended 30 June 2019 was not materially affected by the current trade tensions between the United States and China and we are continuing to actively monitor the situation.

Development of Branding Business in Europe

We continued to focus on building the global profile and value of our two contemporary retail brands – *Stella Luna* and *What For*, each of which showcases our unique design and fashion capabilities.

During the six months under review, we continued to adjust the size of our retail store network in France, explore distributorships in other European countries and invest in e-commerce channels, while enhancing our visibility and presence in famous department stores around the world.

OUTLOOK

Stable Shipment Volumes Still Expected in 2019 With Continued Focus on Margin Expansion

Despite the prevailing external headwinds, we still expect shipment volumes for the full-year 2019 to be around the same level as for the full-year 2018, with further volume growth and increased demand of our fashion sports footwear products. We also expect that ASP will remain broadly stable which depends on our product mix and our customers' product mix.

We will continue to prioritise margin expansion in the second half of 2019 by increasing our production efficiency. We will focus on improving the performance of our fashion and casual footwear businesses, while also continuing to ramp-up our new manufacturing facility in Vietnam, which is specifically geared towards fashion sports products, to increasing production efficiency and growing margins. We will also aim to adjust the price for some products while actively managing orders for some product categories.

Further Strategic Refinement of Manufacturing Footprint and Focus on R&D

By the end of 2019, we expect that we will have further scaled down our production facilities in Mainland China, including closure of one factory while repurposing another as part of our supply chain re-engineering. This is part of our ongoing strategy of increasing our capacity in South East Asia in order to improve utilisation and margins.

We will also continue to maintain strict cost control measures, such as closely managing headcounts and working hours to deliver value to our customers.

We will also continue to invest in our research and development capabilities to further improve and extend our range of innovative footwear products, including 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.

Continued Brand Development in Europe

Building on the good level of recognition our retail brands have developed in France and other markets, we will invest further in our branding business including product development and distribution, to enrich the product portfolio and build stronger fundamentals for *Stella Luna* and *What For*.

Proactive Monitoring of External Risks

The United States' plans to implement a 10% tariff on US$300 billion of exports from Mainland China on 1 September 2019 may be the first to directly include finished footwear products that we manufacture. At this stage, we do not expect these tariffs to have a materially-adverse impact on our financial performance in the second half of 2019.

We will also continue to monitor other potential risks to our operations, such as ongoing consolidation among footwear brands, further development of trade tensions imposed by the United States and the continued penetration of e-commerce and its impact on our brand customers. We will continue to work closely with our customers to manage these risks if they arise.

Outreach to Investors

We will continue to strengthen our communication with investors about our margin-expansion strategies. We are also pleased to announce that Stella's 2018 Annual Report was awarded the Silver Award in the "Manufacturing: Consumer & Commercial Product" category at the 2019 ARC Awards, recognising our improving outreach to the investment community.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2019, the Group had cash and cash equivalents of approximately US$67.9 million (31 December 2018: US$61.3 million).

As at 30 June 2019, the Group had current assets of approximately US$778.0 million (31 December 2018: US$702.5 million) and current liabilities of approximately US$305.0 million (31 December 2018: US$216.8 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.6 as at 30 June 2019 (31 December 2018: 3.2), an indication of the Group's high liquidity and healthy financial position.

BANK BORROWINGS

The Group had bank borrowings of US$136.9 million as at 30 June 2019 (31 December 2018: US$65.4 million), a reduction of US$23.0 million compared to 30 June 2018, (30 June 2018: US$159.9 million).

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2019, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars and RMB. Currency exposures were mostly in RMB and Hong Kong dollars against US dollars, the functional currency of the Group.

CAPITAL EXPENDITURE

Net cash outflows used in investing activities were US$34.8 million during the period under review (for the six months ended 30 June 2018: US$30.3 million), representing an increase of 14.9%. Capital expenditure amounted to approximately US$37.0 million during the period (for the six months ended 30 June 2018: US$28.8 million).

PLEDGE OF ASSETS

As at 30 June 2019, the Group had pledged US$5.5 million of its assets (31 December 2018: US$5.6 million).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no contingent liabilities (31 December 2018: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

Customers and suppliers are our core stakeholders. We believe their successes are indispensable to our growth. Also, an effective alignment between them is the key to high performing supply chain competitiveness. Our brand customers evaluate supply chain performance on product commercialisation, efficiency, quality and on time delivery. The Company has been consistently placed within the top 10 percentile of these vendors' evaluations.

We treasure our partnership with these long-term customers and suppliers and we will continue to build strategic and fruitful relationships with them to enable continuous improvements in quality craftsmanship, innovation, speed to market, and small batch production.

EMPLOYEES

As at 30 June 2019, the Group had approximately 64,000 employees (31 December 2018: approximately 63,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets to the Group's development and expansion. We actively seek to attract, develop and retain individuals who are proactive, positive, committed to and passionate about our business.

The Group has continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership Program" to identify potential high calibre employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures. With a view of recognising and rewarding the contribution of employees, as well as providing incentives to employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme and a share award plan.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK40 cents per ordinary share for the six months ended 30 June 2019. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 20 September 2019. It is expected that the interim dividend will be paid on or about 18 October 2019. In order to qualify for the interim dividend for the six months ended 30 June 2019, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 20 September 2019.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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To the board of directors of Stella International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 10 to 37, which comprises the condensed consolidated statement of financial position of Stella International Holdings Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
22 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 US$'000 (Unaudited)	2018 US$'000 (Unaudited)
REVENUE	3	**750,577**	739,253
Cost of sales		**(615,537)**	(617,416)
Gross profit		**135,040**	121,837
Other income		**9,253**	8,957
Other gains and losses, net		**(1,097)**	(1,633)
Selling and distribution expenses		**(29,879)**	(30,879)
Administrative expenses		**(71,240)**	(69,708)
Impairment losses on financial assets		**(183)**	(1,415)
Finance costs		**(918)**	(1,278)
Share of profit of a joint venture		**6,040**	2,508
Share of profits and losses of associates		**(2,239)**	(1,840)
PROFIT BEFORE TAX	4	**44,777**	26,549
Income tax expense	5	**(5,846)**	(4,537)
PROFIT FOR THE PERIOD		**38,931**	22,012
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(7)**	(514)
Share of other comprehensive gains/(losses) of a joint venture and associates		**222**	(266)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**215**	(780)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**39,146**	21,232
Profit attributable to:			
Owners of the parent		**38,937**	22,946
Non-controlling interests		**(6)**	(934)
		38,931	22,012
Total comprehensive income attributable to:			
Owners of the parent		**39,218**	22,040
Non-controlling interests		**(72)**	(808)
		39,146	21,232
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
– Basic (US$)		**0.0491**	0.0290
– Diluted (US$)		**0.0491**	0.0290

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 US$'000 (Unaudited)	31 December 2018 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**393,275**	395,142
Investment properties		**5,612**	5,980
Right-of-use assets		**34,276**	–
Prepaid land lease payments		**–**	22,377
Investment in a joint venture		**26,464**	20,424
Investments in associates		**5,662**	7,679
Deposit for acquisition of property, plant and equipment		**8,978**	12,414
Total non-current assets		**474,267**	464,016
CURRENT ASSETS			
Inventories		**199,796**	170,522
Trade and bills receivables	*9*	**392,203**	345,318
Prepayments, deposits and other receivables		**117,841**	122,975
Prepaid land lease payments		**–**	652
Financial assets at fair value through profit or loss	*10*	**217**	1,669
Derivative financial instruments		**102**	–
Cash and cash equivalents		**67,890**	61,328
Total current assets		**778,049**	702,464
CURRENT LIABILITIES			
Trade payables	*11*	**62,927**	58,697
Other payables and accruals	*12*	**58,225**	49,341
Interest-bearing bank borrowings	*13*	**134,082**	62,483
Lease liabilities		**1,884**	–
Derivative financial instruments		**541**	–
Tax payable		**47,316**	46,252
Total current liabilities		**304,975**	216,773
NET CURRENT ASSETS		**473,074**	485,691
TOTAL ASSETS LESS CURRENT LIABILITIES		**947,341**	949,707
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*13*	**2,775**	2,916
Lease liabilities		**4,131**	–
Total non-current liabilities		**6,906**	2,916
Net assets		**940,435**	946,791

	Note	30 June 2019 US$'000 (Unaudited)	31 December 2018 US$'000 (Audited)
EQUITY			
Equity attributable to owners of the parent			
Share capital	*14*	**10,161**	10,160
Share premium and reserves		**930,773**	943,191
		940,934	953,351
Non-controlling interests		**(499)**	(6,560)
Total equity		**940,435**	946,791

Chen Li-Ming, Lawrence
Director

Chi Lo-Jen
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

		Attributable to owners of the parent											
	Notes	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Capital reserve US$'000	Exchange reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000	Share option reserve US$'000	Retained profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2019 (audited)		10,160	154,503	45,427	1,146	(4,491)	(2,722)	190	1,151	747,987	953,351	(6,560)	946,791
Profit/(loss) for the period		–	–	–	–	–	–	–	–	38,937	38,937	(6)	38,931
Other comprehensive income/(loss) for the period:													
Exchange differences on translation of foreign operations		–	–	–	–	59	–	–	–	–	59	(66)	(7)
Share of other comprehensive gains of a joint venture and associates		–	–	–	–	222	–	–	–	–	222	–	222
Total comprehensive income/(loss) for the period		–	–	–	–	281	–	–	–	38,937	39,218	(72)	39,146
Acquisition of non-controlling interests		–	–	(6,586)	–	–	–	–	–	–	(6,586)	6,133	(453)
Equity-settled share option arrangements		1	52	–	–	–	–	–	477	–	530	–	530
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	–	(594)	594	–	–	–
Final 2018 dividend	*6*	–	–	–	–	–	–	–	–	(45,579)	(45,579)	–	(45,579)
At 30 June 2019 (unaudited)		10,161	154,555	38,841	1,146	(4,210)	(2,722)	190	1,034	741,939	940,934	(499)	940,435
At 31 December 2017		10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	766,185	971,581	(3,619)	967,962
Effect of adoption of HKFRS 9		–	–	–	–	–	–	–	–	(23,871)	(23,871)	–	(23,871)
At 1 January 2018 (restated)		10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	742,314	947,710	(3,619)	944,091
Profit/(loss) for the period		–	–	–	–	–	–	–	–	22,946	22,946	(934)	22,012
Other comprehensive (loss)/income for the period:													
Exchange differences on translation of foreign operations		–	–	–	–	(640)	–	–	–	–	(640)	126	(514)
Share of other comprehensive losses of a joint venture and associates		–	–	–	–	(266)	–	–	–	–	(266)	–	(266)
Total comprehensive (loss)/income for the period		–	–	–	–	(906)	–	–	–	22,946	22,040	(808)	21,232
Equity-settled share option arrangements		–	–	–	–	–	–	–	612	–	612	–	612
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	–	(76)	76	–	–	–
Final 2017 dividend	*6*	–	–	–	–	–	–	–	–	(30,361)	(30,361)	–	(30,361)
At 30 June 2018 (unaudited)		10,160	154,503	45,427	1,146	(5,191)	(2,722)	190	1,513	734,975	940,001	(4,427)	935,574

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash flows from/(used in) operating activities	**17,398**	(43,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**552**	758
Purchases of items of property, plant and equipment	**(30,858)**	(24,975)
Acquisition of right-of-use assets	**(5,645)**	–
Deposit paid for acquisition of items of property, plant and equipment	**(534)**	(3,788)
Proceeds from disposal of property, plant and equipment	**1,233**	306
Decrease/(increase) in derivative financial instruments	**439**	(404)
Increase in prepaid land lease payments	**–**	(2,216)
Net cash flows used in investing activities	**(34,813)**	(30,319)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**47**	–
New bank loans	**338,212**	1,926,217
Repayment of bank loans	**(266,802)**	(1,829,536)
Dividends paid	**(45,579)**	(30,361)
Interest paid	**(918)**	(1,278)
Acquisition of non-controlling interests	**(453)**	–
Principal portion of lease payments	**(770)**	–
Net cash flows from financing activities	**23,737**	65,042
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**6,322**	(8,514)
Cash and cash equivalents at beginning of period	**61,328**	74,894
Effect of foreign exchange rate changes, net	**240**	(195)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**67,890**	66,185
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**54,711**	59,426
Time deposits with original maturity of less than three months when acquired	**13,179**	6,759
Cash and cash equivalents	**67,890**	66,185

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Accounting Standard 34 Interim Financial Reporting ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

(a) (continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) US$'000 (Unaudited)
Assets	
Increase in right-of-use assets	30,150
Decrease in prepaid land lease payments	(23,029)
Decrease in prepayments, deposits and other receivables	(336)
Increase in total assets	6,785
Liabilities	
Increase in lease liabilities	6,785
Increase in total liabilities	6,785

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	US$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	**9,767**
Weighted average incremental borrowing rate as at 1 January 2019	4.1%
Discounted operating lease commitments as at 1 January 2019	7,543
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(635)
Commitments relating to leases of low-value assets	(123)
Lease liabilities as at 1 January 2019	**6,785**

(a) (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movements during the period are as follows:

	Right-of-use assets			
	Land US$'000	Buildings US$'000	Sub-total US$'000	Lease liabilities US$'000
As at 1 January 2019	23,029	7,121	30,150	6,785
Additions	5,646	–	5,646	–
Depreciation charge	(435)	(1,085)	(1,520)	–
Interest expense	–	–	–	130
Payments	–	–	–	(900)
As at 30 June 2019	28,240	6,036	34,276	6,015

The Group recognised rental expenses from short-term leases of US$341,000 and leases of low-value assets of US$41,000 for the six months ended 30 June 2019.

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

3. REVENUE AND OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- the men's footwear segment engages in the manufacture and sale of men's footwear
- the women's footwear segment engages in the manufacture and sale of women's footwear
- the footwear retailing and wholeselling segment engages in the sale of house brands

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, rental income, income from sales of scrap, fair value gains/(losses) from the Group's financial instruments, research and development costs, depreciation of investment properties, finance costs, share of profits/(losses) of a joint venture and associates as well as unallocated corporate income, expenses, gains and losses are excluded from such measurement.

Segment assets exclude investment properties, investments in a joint venture and associates, financial assets at fair value through profit or loss, cash and cash equivalents and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2019

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Segment revenue				
Sales to external customers	**294,074**	**439,921**	**16,582**	**750,577**
Intersegment sales	**–**	**10,149**	**–**	**10,149**
	294,074	**450,070**	**16,582**	**760,726**
Reconciliation:				
Elimination of intersegment sales				**(10,149)**
Revenue				**750,577**
Segment results	**37,254**	**68,736**	**(3,961)**	**102,029**
Reconciliation:				
Interest income				**162**
Corporate and other unallocated income and gains				**8,368**
Corporate and other unallocated expenses and losses				**(68,665)**
Finance costs				**(918)**
Share of result of a joint venture				**6,040**
Share of results of associates				**(2,239)**
Profit before tax				**44,777**

Six months ended 30 June 2018

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Segment revenue				
Sales to external customers	290,314	427,125	21,814	739,253
Intersegment sales	47	14,191	–	14,238
	290,361	441,316	21,814	753,491
Reconciliation:				
Elimination of intersegment sales				(14,238)
Revenue				739,253
Segment results	31,216	59,238	561	91,015
Reconciliation:				
Interest income				440
Corporate and other unallocated income and gains				6,709
Corporate and other unallocated expenses and losses				(71,005)
Finance costs				(1,278)
Share of result of a joint venture				2,508
Share of results of associates				(1,840)
Profit before tax				26,549

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2019 and 31 December 2018, respectively.

	Men's footwear US$'000 (Unaudited)	Women's footwear US$'000 (Unaudited)	Footwear retailing and wholeselling US$'000 (Unaudited)	Other US$'000 (Unaudited)	Total US$'000 (Unaudited)
Segment assets					
30 June 2019	**533,898**	**413,715**	**47,742**	**256,961**	**1,252,316**
31 December 2018	**528,582**	**383,718**	**49,211**	**204,969**	**1,166,480**
Segment liabilities					
30 June 2019	**83,033**	**27,994**	**50,843**	**150,011**	**311,881**
31 December 2018	**72,349**	**32,204**	**5,634**	**109,502**	**219,689**

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019 US$'000 (Unaudited)	2018 US$'000 (Unaudited)
Revenue from contracts with customers		
Sales of men's footwear	**294,074**	290,314
Sales of women's footwear	**456,503**	448,939
	750,577	739,253

Disaggregate revenue information for revenue from contracts with customers

For the six months ended 30 June 2019

Segments

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Type of goods				
Sales of men's footwear	**294,074**	**–**	**–**	**294,074**
Sales of women's footwear	**–**	**439,921**	**16,582**	**456,503**
Total revenue from contracts with customers	**294,074**	**439,921**	**16,582**	**750,577**

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

Disaggregate revenue information for revenue from contracts with customers (continued)

Segments

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Geographical markets				
USA	**150,071**	**193,152**	**156**	**343,379**
UK	**10,256**	**37,249**	**14**	**47,519**
Netherlands	**18,938**	**31,003**	**–**	**49,941**
The PRC	**32,088**	**43,080**	**9,777**	**84,945**
Canada	**6,124**	**13,076**	**–**	**19,200**
Belgium	**15,053**	**17,207**	**–**	**32,260**
Japan	**9,391**	**12,221**	**43**	**21,655**
Germany	**1,886**	**4,239**	**936**	**7,061**
Other countries	**50,267**	**88,694**	**5,656**	**144,617**
Total revenue from contracts with customers	**294,074**	**439,921**	**16,582**	**750,577**
Timing of revenue recognition				
Goods transferred at a point of time	**294,074**	**439,921**	**16,582**	**750,577**
Total revenue from contracts with customers	**294,074**	**439,921**	**16,582**	**750,577**

For the six months ended 30 June 2018

Segments

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Type of goods				
Sales of men's footwear	290,314	–	–	290,314
Sales of women's footwear	–	427,125	21,814	448,939
Total revenue from contracts with customers	290,314	427,125	21,814	739,253
Geographical markets				
USA	134,656	195,042	62	329,760
UK	14,730	43,789	96	58,615
Netherlands	29,286	33,694	–	62,980
The PRC	30,293	39,318	11,544	81,155
Canada	6,413	11,243	–	17,656
Belgium	18,069	12,983	–	31,052
Japan	8,734	10,049	44	18,827
Germany	4,685	7,490	13	12,188
Other countries	43,448	73,517	10,055	127,020
Total revenue from contracts with customers	290,314	427,125	21,814	739,253
Timing of revenue recognition				
Goods transferred at a point of time	290,314	427,125	21,814	739,253
Total revenue from contracts with customers	290,314	427,125	21,814	739,253

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**615,537**	617,416
Depreciation of property, plant and equipment	**20,052**	19,674
Depreciation of investment properties	**365**	453
Depreciation of right-of-use assets	**1,520**	–
Amortisation of prepaid land lease payments	**–**	485
Net fair value (gain)/loss on financial assets at fair value through profit or loss	**(41)**	927
Net fair value loss/(gain) on derivative financial instruments	**485**	(30)
Severance pay and other related costs	**4,758**	5,863
Impairment of financial assets:		
Impairment of trade receivables	**142**	1,415
Impairment of other receivables	**41**	–
	183	1,415
(Reversal of)/write-down of inventories	**(1,103)**	48
Bank interest income	**(124)**	(142)
Interest income from financial assets at fair value through profit or loss	**(38)**	(270)
Interest income from derivative financial instruments	**–**	(28)
Loss on disposal of items of property, plant and equipment	**300**	376
Foreign exchange differences, net	**353**	360

5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (six months ended 30 June 2018: 25%) during the period. Macau profits tax has been provided at the rate of 12% (six months ended 30 June 2018:12%) on the estimated assessable profits arising in Macau during the period. Pursuant to the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Stella International Trading (Macao Commercial Offshore) Limited ("SIT (MCO)"), a wholly-owned subsidiary of the Group, is entitled to the exemption of Macao Complementary Tax. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Current – PRC		
Charge for the period	**9,558**	6,245
Overprovision in prior years	**(5,440)**	(2,361)
Current – Hong Kong	**–**	61
Current – Elsewhere	**1,728**	592
	5,846	4,537

6. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Final declared and paid – HK45 cents (2018:HK30 cents) per ordinary share	**45,579**	30,361
Interim – HK40 cents (2018: HK30 cents) per ordinary share	**40,512**	30,358
	86,091	60,719

On 22 August 2019, the board of directors declared an interim dividend of HK40 cents (six months ended 30 June 2018: HK30 cents) per ordinary share, amounting to a total of approximately US$40,512,000 (six months ended 30 June 2018: US$30,358,000).

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent of US$38,937,000 (2018: US$22,946,000), and the weighted average number of ordinary shares of 792,615,000 (six months ended 30 June 2018: 792,601,500) in issue during the period.

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2018 in respect of a dilution as the impact of the share option outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculation of the diluted earnings per share amount for the period ended 30 June 2019 was based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent, used in basic and diluted earnings per share	**38,937**	22,946

	Six months ended 30 June Number of shares	
	2019	2018
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**792,615**	792,602
Effect of dilution – weighted average number of ordinary shares:		
Share options	**219**	–
	792,834	792,602

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired items of property, plant and equipment of US$31,053,000 (six months ended 30 June 2018: US$29,166,000). In addition, the Group has disposed of certain items of property, plant and equipment with an aggregate carrying amount of US$1,533,000 (six months ended 30 June 2018: US$682,000) for cash proceeds of US$1,233,000 (six months ended 30 June 2018: US$306,000), resulting in a loss on disposal of US$300,000 (six months ended 30 June 2018: US$376,000).

9. TRADE AND BILLS RECEIVABLES

An ageing analysis of the trade and bills receivables as at the end of each reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June	31 December
	2019	2018
	US$'000	US$'000
	(Unaudited)	(Audited)
Within 1 month	**217,177**	192,332
1 to 2 months	**118,077**	90,612
2 to 3 months	**36,006**	39,312
Over 3 months	**20,943**	23,062
	392,203	345,318

The Group's trading terms with its customers are mainly on credit. The credit periods are ranging from 60 to 120 days.

Included in the Group's trade receivables are amounts due from the Group's associates of US$55,600,000 (31 December 2018: US$63,535,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 US$'000 (Unaudited)	31 December 2018 US$'000 (Audited)
Listed debt investments, at fair value	**217**	1,669

The above debt investments at 30 June 2019 were classified as financial assets at fair value through profit or loss ("FVTPL") as they were held for trading.

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the reporting period, based on the invoice date, is as follows:

	30 June 2019 US$'000 (Unaudited)	31 December 2018 US$'000 (Audited)
Within 1 months	**46,022**	42,297
1 to 2 months	**11,982**	10,094
Over 2 months	**4,923**	6,306
	62,927	58,697

Included in the trade payables are trade payables of US$9,987,000 (31 December 2018: US$1,185,000) due to a joint venture which are repayable within 90 days, and have credit terms similar to those offered by the joint venture to its major customers.

Trade payables are non-interest-bearing and are normally settled on a credit term of 60 days.

12. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2019 US$'000 (Unaudited)	31 December 2018 US$'000 (Audited)
Refund liabilities		**5,187**	3,585
Other payables	*(a)*	**4,361**	7,272
Accruals		**48,285**	38,092
Financial guarantee contracts	*(b)*	**392**	392
		58,225	49,341

Notes:

(a) Other payables are non-interest-bearing and have an average credit term of three months.

(b) The financial guarantee contracts represent guarantees given to banks in connection with facilities granted to an associate. The associate's banking facilities granted by the banks were US$15,000,000 (31 December 2018: US$15,000,000), of which US$10,000,000 (31 December 2018: US$10,000,000) was utilised by the associate. The Group does not hold any collateral or other credit enhancements over the guarantees.

The Group does not provide financial guarantees except for limited circumstances. All guarantees are approved by the Head of Credit Control and the Chief Executive.

13. INTEREST-BEARING BANK BORROWINGS

	(Unaudited) 30 June 2019			(Audited) 31 December 2018		
	Effective interest rate %	**Maturity**	**US$'000**	Effective interest rate %	Maturity	US$'000
Current						
Bank loans – unsecured	**0.30-3.19**	**On demand**	**133,846**	3.75-4.90	On demand	62,245
Bank loans – secured	**1.12**	**2020**	**236**	1.12	2019	238
			134,082			62,483
Non-current						
Bank loans – secured	**1.12**	**2022**	**2,775**	1.12	2022	2,916
			136,857			65,399

Notes:

(a) Except for the secured bank loan which has an effective interest rate of 1.12% and is denominated in New Taiwan dollars, all other borrowings are denominated in US$.

(b) The Group's bank borrowings are secured by mortgages over the Group's freehold land and buildings, which had aggregate carrying values at the end of the reporting period of approximately US$3,569,000 and US$1,912,000 (2018: US$3,597,000 and US$1,983,000), respectively.

14. SHARE CAPITAL

	30 June 2019 US$'000 (Unaudited)	31 December 2018 US$'000 (Audited)
Authorised: 5,000,000,000 ordinary shares of HK$0.1 each	**63,975**	63,975
Issued and fully paid: 794,411,500 (2018: 794,379,500) ordinary shares of HK$0.1 each	**10,161**	10,160

15. SHARE OPTION SCHEME

Long term incentive scheme

The Company operates a share option scheme (the "Old Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, other employees of the Group, the Company's shareholders, any non-controlling shareholder in the Company's subsidiaries, and other eligible participants. The Old Share Option Scheme became effective on 15 June 2007 and expired on 5 July 2017.

Pursuant to the Old Share Option Scheme, the Company appointed a trustee, Teeroy Limited (the "Trustee"), for the purpose of administering the Old Share Option Scheme and holding the awarded shares before they vest. As at 30 June 2019, the Trustee maintained a pool of 1,778,000 shares (31 December 2018: 1,778,000 shares) (the "Entrusted Shares") on trust for the Company and it will, at the direction of the Company, transfer, assign or otherwise deal with the Entrusted Shares, provided that no Entrusted Shares may be transferred to the Company unless in compliance with the applicable laws and regulations (including the Code of Share Repurchase) and that the Trustee is not required to exercise the voting rights attaching to the Entrusted Shares.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by all the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at the date of offer or with an aggregate value (based on the price of the Company's shares at the date of offer) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than six years from the date of offer of the share options or the expiry date of the Old Share Option Scheme, if earlier.

The vesting of the share options on a particular vesting date is conditional upon satisfaction of certain conditions, including (1) the net profit ratio and the revenue growth ratio of the Group for the financial year immediately preceding the relevant vesting date shall meet the targets as prescribed by the board of directors for the relevant financial year; and (2) the relevant grantee shall obtain the grade prescribed in the performance appraisal to be conducted and completed by the management before the relevant vesting date in respect of the work performance of the relevant grantee in the financial year immediately preceding that vesting date.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

15. SHARE OPTION SCHEME (continued)

Long term incentive scheme (continued)

Details of the share options granted and outstanding under the Old Share Option Scheme during the period were as follows:

Category of participants	Share options	Date of grant	Exercise price HK$	Vesting date	Exercise period	Outstanding as at 1.1.2018 (Audited)	Forfeited/ lapsed during the year (Audited)	Outstanding as at 31.12.2018 (Audited)	Exercised during the period (Unaudited)	Forfeited/ lapsed during the period (Unaudited)	Outstanding as at 30.6.2019 (Unaudited)
Director											
Mr. Chi Lo-Jen	2017-A	17.3.2017	11.48	16.3.2018	16.3.2018 to 16.3.2023	683,500	(683,500)	–	–	–	–
	2017-B	17.3.2017	11.48	22.3.2019	22.3.2019 to 16.3.2023	683,500	–	683,500	–	(341,750)	341,750
	2017-C	17.3.2017	11.48	2020 vesting date	2020 vesting date to 16.3.2023	683,500	–	683,500	–	–	683,500
	2017-D	17.3.2017	11.48	2021 vesting date	2021 vesting date to 16.3.2023	683,500	–	683,500	–	–	683,500
	2017-E	17.3.2017	11.48	2022 vesting date	2022 vesting date to 16.3.2023	683,500	–	683,500	–	–	683,500
						3,417,500	(683,500)	2,734,000	–	(341,750)	2,392,250
Employees and other eligible participants:											
In aggregate	2017-A	17.3.2017	11.48	16.3.2018	16.3.2018 to 16.3.2023	4,897,000	(4,897,000)	–	–	–	–
	2017-B	17.3.2017	11.48	22.3.2019	22.3.2019 to 16.3.2023	4,897,000	(415,000)	4,482,000	(32,000)	(2,362,250)	2,087,750
	2017-C	17.3.2017	11.48	2020 vesting date	2020 vesting date to 16.3.2023	4,897,000	(415,000)	4,482,000	–	(112,000)	4,370,000
	2017-D	17.3.2017	11.48	2021 vesting date	2021 vesting date to 16.3.2023	4,897,000	(415,000)	4,482,000	–	(112,000)	4,370,000
	2017-E	17.3.2017	11.48	2022 vesting date	2022 vesting date to 16.3.2023	4,897,000	(415,000)	4,482,000	–	(112,000)	4,370,000
						24,485,000	(6,557,000)	17,928,000	(32,000)	(2,698,250)	15,197,750
Total						27,902,500	(7,240,500)	20,662,000	(32,000)	(3,040,000)	17,590,000
Exercisable at the end of the year								20,662,000			17,590,000
Weighted average exercise price (HK$ per share)*						11.48	11.48	11.48	11.48	11.48	11.48

* The exercise price of the share options is subject to adjustment in the case of changes in the Company's share capital.

The weighted average share price at the date of exercise for share options exercised during the period was HK$11.48 (31 December 2018: HK$11.48) per share.

15. SHARE OPTION SCHEME (continued)

Long term incentive scheme (continued)

No share options were granted during the period ended 30 June 2019. During the year ended 31 December 2017, the fair value of the share options granted was HK$37,045,000 (equivalent to US$4,780,000) at HK$1.32 each (equivalent to US$0.17 each). The Group recognised a share option expense of US$477,000 (31 December 2018: US$1,234,000) during the period ended 30 June 2019.

The fair value of equity-settled share options granted during the year ended 31 December 2017 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2017
Dividend yield (%)	4.98%
Expected volatility (%)	28.32%
Risk-free interest rate (%)	1.60%
Life of options (year)	6 years
Weighted average share price (HK$ per share)	11.48

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 17,590,000 share options outstanding under the Old Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 17,590,000 additional ordinary shares of the Company and additional share capital of US$225,000 (before issue expenses).

Share award plan

On 16 March 2017, the Company adopted a new share award plan (the "Share Award Plan") pursuant to which shares of the Company may be awarded to selected eligible participants, including, among others, any employee of, non-executive director of, supplier of goods or services to, customer of, person or entity providing design, research, development or other technological support to, shareholder of, holder of any security issued by, and adviser or consultant in respect of any area of business or business development of any member of the Group or any entity in which any member of the Group holds any equity interest, and any other groups or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. The Share Award Plan became effective immediately on 16 March 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

In any given financial year of the Company, the maximum number of shares to be subscribed for and/or purchased by the trustee by utilising the funds to be allocated by the board out of the Company's resources for the purpose of the Share Award Plan shall not exceed 2.5% of the total number of issued shares as at the beginning of such financial year. Details of the Share Award Plan are set out in the announcement of the Company dated 16 March 2017.

During the period ended 30 June 2019, no shares were granted under the Share Award Plan.

15. SHARE OPTION SCHEME (continued)

Share option scheme

On 19 May 2017, the Company adopted a new share option scheme (the "New Share Option Scheme") pursuant to which shares of the Company may be awarded to selected participants, including, among others, any employee of, non-executive director of, supplier of goods or services to, customer of, person or entity providing design, research, development or other technological support to, shareholder of, holder of any security issued by, and adviser or consultant in respect of any area of business or business development of any member of the Group or any entity in which any member of the Group holds any equity interest, and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. The New Share Option Scheme became effective immediately on 19 May 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

At the end of the reporting period, no share option was outstanding under the New Share Option Scheme.

16. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019 US$'000 (Unaudited)	31 December 2018 US$'000 (Audited)
Contracted, but not provided for:		
Plant and equipment	**5,914**	8,423

17. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	Notes	**Six months ended 30 June 2019 US$'000 (Unaudited)**	2018 US$'000 (Unaudited)
Associates:			
Sales of products	*(i)*	**9,748**	6,137
Purchases of products	*(ii)*	**21,606**	32,532
Joint venture:			
Purchases of products	*(ii)*	**49,326**	39,006

Notes:

(i) The sales to the associates were made according to the published prices and conditions offered to the major customers of the Group. The sales to Couture Accessories Holdings Limited, an associate, also constitute continuing connected transactions, as defined in Chapter 14A of the Listing Rules, amounting to US$9,748,000 (six months ended 30 June 2018: US$6,137,000).

(ii) The purchases from the associates and the joint venture were made according to the published prices and conditions offered by the associates and the joint venture to their major customers.

17. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties

The Group has guaranteed banking facilities granted to an associate amounting to US$15,000,000 (31 December 2018: US$15,000,000) as at the end of the reporting period.

(c) Outstanding balances with related parties:

Details of the Group's trade balances with its joint ventures and associates as at the end of the reporting period are disclosed in notes 9 and 12 to the financial statements.

(d) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	**614**	418
Equity-settled share option expense	**58**	74
Total compensation paid to key management personnel	**672**	492

18. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

30 June 2019 (Unaudited)

Financial assets

	Financial assets at FVTPL US$'000	**Financial assets at amortised cost US$'000**	**Total US$'000**
Trade and bills receivables	**–**	**392,203**	**392,203**
Financial assets included in prepayments, deposits and other receivables	**–**	**117,011**	**117,011**
Financial assets at FVTPL	**217**	**–**	**217**
Cash and cash equivalents	**–**	**67,890**	**67,890**
	217	**577,104**	**577,321**

Financial liabilities

	Financial liabilities at amortised cost US$'000
Trade payables	**62,927**
Financial liabilities included in other payables and accruals	**4,321**
Interest-bearing bank borrowings	**136,857**
	204,105

18. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2018 (Audited)

Financial assets

	Financial assets at FVTPL US$'000	Financial assets at amortised cost US$'000	Total US$'000
Trade and bills receivables	–	345,318	345,318
Financial assets included in prepayments, deposits and other receivables	–	121,903	121,903
Financial assets at FVTPL	1,669	–	1,669
Cash and cash equivalents	–	61,328	61,328
	1,669	528,549	530,218

Financial liabilities

	Financial liabilities at amortised cost US$'000
Trade payables	58,697
Financial liabilities included in other payables and accruals	7,232
Interest-bearing bank borrowings	65,399
	131,328

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019 US$'000 (Unaudited)	31 December 2018 US$'000 (Audited)	**30 June 2019 US$'000 (Unaudited)**	31 December 2018 US$'000 (Audited)
Financial assets				
Financial assets at FVTPL	**217**	1,669	**217**	1,669
Financial liabilities				
Interest-bearing bank borrowings *(note 13)*	**136,857**	65,399	**136,843**	65,381

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the executive directors and the Audit Committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2019 was assessed to be insignificant.

The fair values of listed debt investments are based on quoted market prices.

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019 (Unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Derivative financial instruments	–	102	–	102
Financial assets at FVTPL	217	–	–	217
	217	102	–	319

As at 31 December 2018 (Audited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Financial assets at FVTPL	1,669	–	–	1,669

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 30 June 2019 (Unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Derivative financial instruments	–	541	–	541
Interest-bearing bank borrowings	–	136,843	–	136,843
	–	137,384	–	137,384

As at 31 December 2018 (Audited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Interest-bearing bank borrowings	–	65,381	–	65,381

20. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 22 August 2019.

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Aggregate long positions in shares and underlying shares of the Company

		Number of Shares		Number of		Approximate
	Capacity/Nature of	Personal	Corporate	Underlying		Percentage of
Director	Interests	Interest	Interest	Shares	Total	Shareholding
Bolliger Peter	Beneficial owner	150,000	–	–	150,000	0.02%
Chao Ming-Cheng, Eric	Beneficial owner and interest of controlled corporation	238,500	30,364,612 *(Note 1)*	–	30,603,112	3.85%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	777,000	27,228,227 *(Note 2)*	–	28,005,227	3.53%
Chi Lo-Jen	Beneficial owner	1,783,500	–	2,392,250 *(Note 3)*	4,175,750	0.53%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	331,500	39,597,418 *(Note 4)*	–	39,928,918	5.03%

Notes:

1. These interests were held by a company, the entire issued share capital of which was held by Mr. Chao Ming-Cheng, Eric. Mr. Chao Ming-Cheng, Eric was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

2. These interests were held by a company, the entire issued share capital of which was held by Mr. Chen Li-Ming, Lawrence. Mr. Chen Li-Ming, Lawrence was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

3. These interests are Options (as defined in the paragraphs headed "The 2007 Scheme" in the section headed "Other Information" below) granted under the 2007 Scheme (as defined in the paragraphs headed "The 2007 Scheme" in the section headed "Other Information" below, out of which 341,750 Options were vested but not yet exercised).

4. These interests were held by a company, the entire issued share capital of which was held by Mr. Chiang Jeh-Chung, Jack. Mr. Chiang Jeh-Chung, Jack was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2019, the interests and short positions of the then shareholders of the Company (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:–

Long position in the shares of the Company

Name	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Cordwalner Bonaventure Inc.	Beneficial owner	262,112,214	33.00%
Invesco Hong Kong Limited	Investment manager	40,005,000	5.04%

Save as disclosed above, as at 30 June 2019, no person (other than a Director or chief executive of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above), had an interest or short position in the shares and underlying shares of the Company that were required to be recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders"). The Company has applied the principles and complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019, except for code provision B.1.5 of the CG Code. The Company had not disclosed the details of remuneration payable to members of senior management by band in the annual report of 2018 for observing competitive market practices and respecting individual privacy.

Governance Model

The Company advocates a governance model which combines both corporate governance and business governance in order to build long-term interests for the Group. Corporate governance emphasises on conformance to relevant laws and regulations while business governance focuses on business performance. We believe the combination of both will enhance accountability and assurance to the Shareholders which are the key drivers for value creation for the Group.

Model Code for Securities Transactions by Directors (the "Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2019.

Board Practices

The Board assumes the responsibility for leadership and control of the Company, and is collectively responsible for the success of the Company by directing and supervising the Company's affairs. The respective responsibility of the Board and the management of the Company have been formalised and set out in writing.

There is a clear division of responsibilities between the chairman of the Board and the chief executive officer of the Group, which have been formalised and set out in writing.

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, the policy of selection and nomination of Directors has been established and set out in writing. Directors are selected and nominated based on their experience, competencies, skills, geographical network capabilities and cross-border experiences in pursuit of maintaining a Board of diversified background and competencies, in order to contribute to more effective Board deliberations and business directions of the Group.

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Directors have been provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable them to make an informed decision and to discharge their duties and responsibilities as Directors.

Risk Management and Internal Control

The effectiveness of the risk management and internal control systems and the progress of internal audit are reviewed, and their respective aspects that can be strengthened are identified, at the regular Audit Committee (as defined below) meetings. The findings at such meetings are reported subsequently at Board meetings. This enables the Directors to assess the effectiveness of the risk management and internal control systems of the Group, which helps managing enterprise risks and improving its risk mitigation. The internal control functions are vested in the internal audit team which reports directly to the Audit Committee and the chief executive officer of the Company.

Audit Committee

Pursuant to the requirements of the CG Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising four independent non-executive Directors, Mr. Yue Chao-Tang, Thomas, Mr. Chen Johnny, Mr. Chan Fu Keung, William, *BBS* and Mr. Lian Jie. The chairman of the Audit Committee is Mr. Yue Chao-Tang, Thomas. The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations. The Audit Committee has reviewed the Group's interim report for the six months ended 30 June 2019.

Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") pursuant to the requirements of the Listing Rules. The Remuneration Committee has three members comprising all independent non-executive Directors, Mr. Chan Fu Keung, William, *BBS*, Mr. Chen Johnny and Mr. Yue Chao-Tang, Thomas. The chairman of the Remuneration Committee is Mr. Chan Fu Keung, William, *BBS*. The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration, reviewing and making recommendations to the Board and the management's remuneration proposals for Directors and reviewing the Group's overall human resources strategy.

Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") in compliance with the CG Code. The Nomination Committee has six members comprising all independent non-executive Directors, Mr. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, *BBS*, Mr. Yue Chao-Tang, Thomas, Mr. Lian Jie and Ms. Shi Nan Shun. The chairman of the Nomination Committee is Mr. Chen Johnny. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

Corporate Governance Committee

To facilitate more effective implementation of corporate governance practices, the Company has established a corporate governance committee (the "Corporate Governance Committee"). The Corporate Governance Committee has three members comprising three independent non-executive Directors, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, *BBS* and Mr. Yue Chao-Tang, Thomas. The chairman of the Corporate Governance Committee is Mr. Bolliger Peter. The principal duties of the Corporate Governance Committee include developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, reviewing the Company's compliance with the CG Code and the relevant disclosure in the Company's annual and interim reports, reviewing and monitoring the Company's communication policy and practices with its Shareholders and investor communities and reviewing and monitoring the training and continuous professional development of Directors and senior management. The Corporate Governance Committee advocates upholding the principles of "4Rs" – regulatory compliance, risk management, investor relations and corporate social responsibility, believing that the fulfillment of which will translate into long-term returns to the Shareholders.

Executive Committee

To facilitate more efficient day-to-day operations of the Group and to handle such matters as delegated by the Board from time to time, the Company has established an executive committee (the "Executive Committee") in July 2015. The Executive Committee has two members comprising all executive Directors, Mr. Chen Li-Ming, Lawrence and Mr. Chi Lo-Jen. The chairman of the Executive Committee is Mr. Chi Lo-Jen. The principal duties of the Executive Committee include monitoring and reviewing the implementation of business plans or projects approved by and policies laid down by the Board, discussing and making decisions on matters relating to the management and operations of the Group including but not limited to corporate matters, financial/treasury planning and business and operating strategies and considering and making recommendations to the Board on acquisition, disposals or investments in business or any other projects.

OTHER INFORMATION

Update on Directors' Information

Mr. CHAN Fu Keung, William, *BBS*, aged 70, is an independent non-executive Director of the Company, and the chairman of the Remuneration Committee and a member of the Audit Committee, the Corporate Governance Committee and the Nomination Committee of the Board. Mr. Chan was a member of the Executive Directorate and the Human Resources Director of the MTR Corporation Limited (Stock Code: 66) (the "MTR Corporation"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1996 and 1998 respectively until July 2012 when he retired from the MTR Corporation after 23 years of service. As Human Resources Director of the MTR Corporation, he was responsible for overseeing human resources management, succession planning, organisation development, operations and management training, administration and security management of the MTR Corporation. Prior to joining the MTR Corporation, Mr. Chan held senior management positions in the commercial, utility and public sectors in Hong Kong, including the Hong Kong Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. Mr. Chan is a fellow member of the Hong Kong Institute of Human Resource Management since 1985. He is a member of the Remuneration Committee of the West Kowloon Cultural District Authority and a member of Human Resources and Remuneration Committee of Urban Renewal Authority. He was a member of the Hospital Authority Board from December 2012 to November 2018. Currently he is also the trustee of the Hospital Authority Provident Fund Scheme. In addition, he is also the chairman of the Hospital Governing Committee of the Tuen Mun Hospital. Since August 2015, Mr. Chan has been appointed as an independent non-executive director of Analogue Holdings Ltd (Stock Code: 1977), which is a company listed on the Main Board of The Stock Exchange of Hong Kong Limited since July 2019. Mr. Chan received a Bachelor of Social Science degree from the University of Hong Kong in 1971. Mr. Chan has been appointed as an independent non-executive Director of the Company since September 2012.

Mr. YUE Chao-Tang, Thomas, aged 64, is an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee of the Board. Mr. Yue was a partner and director of the Global Advisory Council of Ernst & Young from 1998 to 2001, and became the deputy chairman and chairman of Ernst & Young from 2001 to 2004 and from 2004 to 2007 respectively. Currently he is the president of Tien-Yeh Accounting Firm. He has been in the accounting profession for over 38 years. Mr. Yue also holds various positions in the academic field. He is a visiting professor of both the Accounting Faculty of the National Chung Hsing University and the Accounting and Information Research Institute of the Asia University. From June 2008 to June 2014, Mr. Yue was an independent director of WPG Holdings Limited (Stock Code: 3702), the shares of which are listed on the Taiwan Stock Exchange. Mr. Yue is currently an independent director of Industrial Bank of Taiwan (Stock Code: 2897), which is registered on Taiwan's Emerging Stock Market (also known as GreTai Securities Market). Mr. Yue is also currently an independent director of Uni-President Enterprises Corp. (Stock Code: 1216), Johnson Health Tech. Co., Ltd. (Stock Code: 1736) and Feng Hsin Steel Co., Ltd. (Stock Code: 2015) respectively, companies listed on the Taiwan Stock Exchange. In addition, he is a director of Taiwan Corporate Governance Association. Mr. Yue received a master's degree and a bachelor's degree in accounting from the National Cheng-Chi University and the National Cheng-Kung University respectively. In addition, Mr. Yue received a master's degree in business administration from China Europe International Business School. Mr. Yue has been a certified public accountant of Taiwan since 1983. Mr. Yue has been appointed as an independent non-executive Director of the Company since January 2013.

Mr. LIAN Jie, aged 45, is an independent non-executive Director of the Company, and a member of the Audit Committee and the Nomination Committee of the Board. Mr. Lian is currently Co-CEO of Perfect World Co., Ltd. (stock code: 2624), a leading Chinese entertainment company listed on the Shenzhen Stock Exchange principally engaged in the game, movie and TV drama businesses. From 2010 to 2016, Mr. Lian was the founding partner of Primavera Capital Group, which is a private equity firm focusing on the Chinese market. He currently serves as Senior Advisor to Primavera Capital Group. From 2009 to 2010, Mr. Lian served as the Managing Director in the Investment Banking Division of China International Capital Corporation ("CICC"), which was based in Hong Kong. Prior to joining CICC, Mr. Lian had been the Managing Director of the Investment Banking Division of Goldman Sachs in Hong Kong for more than eight years. From 2011 to 2016, Mr. Lian was an independent director of Bona Film Group Limited which was a company listed on the NASDAQ Stock Market and privatised in May 2016. From 2011 to 2018, Mr. Lian was a non-executive director of China XLX Fertiliser Ltd. (Stock Code: 1866), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). From 2013 to 2018, Mr. Lian was an independent non-executive director of Bosideng International Holdings Limited (Stock Code: 3998), a company listed on the Main Board of the Stock Exchange. Mr. Lian graduated with a MBA degree from the Tuck School of Management, Dartmouth Col-lege in Hanover, New Hampshire, United States. Mr. Lian has been appointed as an independent non-executive Director of the Company since February 2017.

Ms. SHI Nan Sun, aged 68, is an independent non-executive Director of the Company and a member of the Nomination Committee of the Board. Ms. Shi is the founder and the executive director of Film Workshop Co., Ltd. She has over 30 years of experience in the film industry and has produced or co-produced numerous Chinese-language movies, including serving as the executive producer of Infernal Affairs (which was remade into the Hollywood film, The Departed). In addition, Ms. Shi has held senior positions in several entertainment and media companies in Hong Kong, including Cinema City Company Ltd. from 1981 to 1987 as controller with overall responsibility for production, distribution and administration. From 1991 to 1996 she was with the CIM Group, where her responsibilities included the establishment of joint ventures in the PRC and the launch of Chinese Television Network. From 2006 to 2012, Ms. Shi served as a director of Bona Film Group Limited (a company listed on the NASDAQ Stock Market and privatised in May 2016). From 2001 to 2003, she served as an executive director of eSun Holdings Limited (Stock Code: 571), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Ms. Shi was a member of the Hong Kong Tourism Board from April 2013 to March 2019. Ms. Shi is a vice chairman of the End Child Sexual Abuse Foundation. Ms. Shi holds a Bachelor's degree in Statistics and Computing from the Polytechnic of North London. Ms. Shi has been appointed as an independent non-executive Director of the Company since January 2019.

The 2007 Scheme

A long term incentive scheme (the "2007 Scheme") was conditionally approved by a written resolution of the Shareholders passed on 15 June 2007 and was adopted by a resolution of the Board on 15 June 2007 and as amended by a resolution of the duly authorised committee of the Board on 18 June 2007 and further amended by a resolution of the Shareholders passed on 6 May 2011. The 2007 Scheme had expired on 5 July 2017.

The purpose of the 2007 Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, directors, shareholders of any member of the Group or any holder of any securities issued by any member of the Group, and to reward any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group who are potential contributors to the success, development and/or growth of the Group.

The eligible participants under the 2007 Scheme include employees, directors, shareholders of any member of the Group or holders of any securities issued by any member of the Group and advisers (professional or otherwise) or consultants to any area of business development of any member of the Group. The Board may, at its discretion and on such terms as it may think fit, grant to any eligible participant an award, either in the form of or a combination of (1) an option ("Option(s)") to subscribe for shares of the Company ("Shares"), (2) an award of Shares held in the name of or for the benefit of a grantee in accordance with the restricted share award agreement to be entered into by such grantee and the Company or (3) a grant of a conditional right to acquire Shares ("Restricted Unit Award(s)") as the Board may determine in accordance with the terms of the Scheme.

On 17 March 2017 (the "Date of Grant"), a total of 27,970,000 Options were granted to a total of 107 eligible participants (each of the eligible participants, the "Grantee"). Details are set out as below:

Subscription price of Options granted

HK$11.48 to subscribe for one Share

Closing price of the Shares immediately before the Date of Grant

HK$11.48 per Share

Vesting date and validity period of Options

The Options shall be valid for a term of six years from the Date of Grant, which shall be vested on the following date and shall be exercisable as follows:

(a) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options will be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2017 ("2018 Vesting Date"), which will be exercisable during the period commencing on the 2018 Vesting Date and expiring on 16 March 2023;

(b) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options will be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2018 ("2019 Vesting Date"), which will be exercisable during the period commencing on the 2019 Vesting Date and expiring on 16 March 2023;

(c) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options shall be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2019 ("2020 Vesting Date"), which is exercisable during the period commencing on the 2020 Vesting Date and expiring on 16 March 2023;

(d) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options shall be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2020 ("2021 Vesting Date"), which is exercisable during the period commencing on the 2021 Vesting Date and expiring on 16 March 2023; and

(e) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options shall be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2021 ("2022 Vesting Date"), which is exercisable during the period commencing on the 2022 Vesting Date and expiring on 16 March 2023.

Vesting of the Options on a particular vesting date is conditional upon both of the following conditions being satisfied:

(1) Both the net profit ratio and the revenue growth ratio of the Group for the financial year immediately preceding the relevant vesting date shall meet the targets as prescribed by the Board for the relevant financial year. If either the net profit ratio or the revenue growth ratio of the Company for the relevant financial year fails to meet the prescribed target, 50% of the Options granted which are expected to vest in the relevant Grantee(s) on the relevant vesting date shall become vested in the relevant Grantee(s) on that date. If both the net profit ratio and the revenue growth ratio of the Company for the relevant financial year meet the prescribed targets, 100% of the Options granted which are expected to vest in the relevant Grantee(s) on the relevant vesting date shall become vested accordingly. However, if both the net profit ratio and the revenue growth ratio of the Company for the relevant financial year fall below the prescribed targets, all the Options granted which are expected to vest in the relevant Grantee(s) on the relevant vesting date shall automatically lapse on that date.

(2) The relevant Grantee(s) shall obtain grade C or above in the appraisal conducted and completed by the management of the Company before the relevant vesting date in respect of the work performance of the relevant Grantee(s) in the financial year immediately preceding that vesting date. If the relevant Grantee(s) fails to achieve the results as described, all the Options granted which are expected to vest in the relevant Grantee(s) on the relevant vesting date shall automatically lapse on that date.

Out of these 27,970,000 Options, 3,417,500 Options were granted to Mr. Chi Lo-Jen, an executive director of the Company, and an aggregate of 24,552,500 Options were granted to the employees and other eligible participants of the Group.

As at 1 January 2019, 20,662,000 Options were outstanding. During the period under review, a total of 32,000 Options were exercised and a total of 3,040,000 Options were lapsed. As at 30 June 2019, 17,590,000 Options were outstanding. Details are set out as below:

Category of participants	Outstanding as at 1 January 2019	Date of grant	Number of Options granted	Exercise period	Exercise price	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2019
Director									
Chi Lo-Jen	–	17 March 2017	683,500	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	–
	683,500	17 March 2017	683,500	2019 Vesting Date to 16 March 2023	HK$11.48	–	–	341,750	341,750
	683,500	17 March 2017	683,500	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
	683,500	17 March 2017	683,500	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
	683,500	17 March 2017	683,500	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
Employees	–	17 March 2017	4,592,000	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	–
	4,220,500	17 March 2017	4,592,000	2019 Vesting Date to 16 March 2023	HK$11.48	(32,000)	–	(2,231,500)	1,957,000
	4,220,500	17 March 2017	4,592,000	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	(112,000)	4,108,500
	4,220,500	17 March 2017	4,592,000	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	(112,000)	4,108,500
	4,220,500	17 March 2017	4,592,000	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	(112,000)	4,108,500
Other eligible participants	–	17 March 2017	305,000	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	–
	261,500	17 March 2017	305,000	2019 Vesting Date to 16 March 2023	HK$11.48	–	–	(130,750)	130,750
	261,500	17 March 2017	305,000	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	–	261,500
	261,500	17 March 2017	305,000	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	–	261,500
	261,500	17 March 2017	305,000	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	–	261,500

Pursuant to the terms of the 2007 Scheme, the Company has entered into an engagement agreement (the "Engagement Agreement") and a deed of settlement (the "Deed") dated 2 June 2008 and 27 August 2008 respectively with a trustee (the "Trustee") for the administration by the Trustee of the awards of Restricted Unit Awards under the Scheme. The Engagement Agreement and the Deed were subsequently terminated with effect from 15 July 2013.

As at 30 June 2019, the Trustee maintained a pool of 1,778,000 shares (the "Entrusted Shares") (31 December 2018: 1,778,000 shares) on trust for the Company and it will, at the direction of the Company, (i) transfer, assign or otherwise deal with the Entrusted Shares (other than the Company); and (ii) account for all other incomes and sales proceeds to the Company.

The 2017 Scheme

A new share option scheme (the "2017 Scheme") was approved by an ordinary resolution of the shareholders of the Company on 19 May 2017. The terms of the 2017 Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

Purpose

The purpose of the 2017 Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the New Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

Participants

The Directors (which expression shall, for the purpose of this paragraph, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares: (a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest ("Eligible Employee"); (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of any member of the Group or any Invested Entity; (e) any person or entity that provides design, research, development or other technological support to any member of the Group or any Invested Entity; (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (g) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, and, for the purposes of the 2017 Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. The eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of the Group.

Maximum number of Shares

The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2007 Scheme, the 2017 Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time (i.e. 238,330,950 Shares as at the date of this interim report) (the "Overriding Limit").

The total number of Shares which may be issued upon exercise of all options to be granted under the 2017 Scheme and any other share option scheme of the Group must not in aggregate exceed 79,437,950 Shares, representing 10% of the Shares in issue as at the effective date of the 2017 Scheme and the date of this interim report ("General Scheme Limit").

Subject to the Overriding Limit, the Company may issue a circular to its shareholders and seek approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the 2017 Scheme and any other share option scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit.

Subject to the Overriding Limit, the Company may also seek separate shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to above to participants specifically identified by the Company before such approval is sought.

The maximum number of Shares which may fall to be issued upon exercise of the options to be granted under the 2017 Scheme and the options granted under any other share option scheme of the Group (including both exercised and outstanding options) to be granted by the Company or any other member of the Group in any given financial year of the Company shall not exceed 2.5% of the Shares in issue as at the beginning of such financial year.

Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the 2017 Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the Shares in issue for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to separate Shareholders' approval in general meeting of the Company with such participant and his close associates (or his associates if the participant is a connected person of the Company) abstaining from voting.

Grant of options to connected persons

Any grant of options under the 2017 Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive Directors of the Company (excluding any independent non-executive Director who or whose associate is the proposed grantee of the options). Where any grant of options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% of the Shares in issue; and (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million; such further grant of options must be approved by the Shareholders in general meeting. The Company must send a circular to the Shareholders. The proposed grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting, except that any such person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates must be approved by the Shareholders in general meeting.

Subscription price for Shares and consideration for the option

The subscription price for Shares under the 2017 Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. A nominal consideration of HK$1 is payable on acceptance of the grant of an option and shall be received by the Company within such time as may be specified in the offer of grant of the option, which shall not be later than 21 days from the offer date.

Period

The 2017 Scheme will remain in force for a period of 10 years commencing on 19 May 2017.

During the period under review, no Options were granted, exercised or cancelled or lapsed under the 2017 Scheme and there were no outstanding Options under the 2017 Scheme as at 30 June 2019.

Share Award Plan

On 16 March 2017, the Company adopted a share award plan (the "Plan") pursuant to which shares of the Company (each a "Share") may be awarded to selected participants, including, among others, any employee of, non-executive director of, supplier of goods or services to, customer of, person or entity providing design, research, development or other technological support to, shareholder of, holder of any security issued by, and adviser or consultant in respect of any area of business or business development of any member of the Group or any entity in which any member of the Group holds any equity interest, and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group (collectively, the "Eligible Participants"). The Plan became effective on 16 March 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

A trustee (the "Trustee") shall from time to time be appointed by the Company for the purpose of implementation of the Plan pursuant to and in accordance with the terms of the trust deed entered into between the Company as settler and the Trustee as trustee. In order to satisfy any award of Shares to be granted under the Plan from time to time, the Trustee shall maintain a pool of Shares (the "Shares Pool") which shall comprise the following: (a) such Shares as may be purchased by the Trustee on the Stock Exchange or off the market by utilising the funds allocated by the Board out of the Company's resources; (b) such Shares as may be subscribed for by the Trustee by utilising the funds allocated by the Board out of the Company's resources, subject to the Company having obtained the requisite Shareholders' approval for the allotment and issue of new Shares, the grant of listing of and permission to deal in such Shares by the Stock Exchange, and compliance with the applicable requirements under the Listing Rules; (c) such Shares as may be (i) transferred to the Trustee from any person (other than the Group) by way of gift, or (ii) purchased by the Trustee on the Stock Exchange or off the market by utilising the funds received by the Trustee from any person (other than the Group) by way of gift; and (d) such Shares which remain unvested and revert to the Trustee due to the lapse of any award of Shares under the Plan. In any given financial year of the Company, the maximum number of Shares to be subscribed for and/or purchased by the Trustee by utilising the funds to be allocated by the Board out of the Company's resources for the purpose of the Plan shall not exceed 2.5% of the total number of issued Shares as at the beginning of such financial year. The Board shall not instruct the Trustee to subscribe for and/or purchase any Shares for the purpose of the Plan when such purchase and/or subscription will result in such threshold being exceeded.

The Board will make award of Shares only to the extent that there are unallocated Shares available in the Shares Pool. The Board shall notify the Trustee in writing upon the making of an award under the Plan by giving the Trustee an award notice. The Trustee shall then set aside such number of Shares awarded from the Shares Pool and hold the same on trust pending the vesting of the same to the Eligible Participant to whom Shares have been awarded in accordance with the Plan (the "Selected Participant"). The Board may from time to time, at its discretion, determine (i) the earliest date (the "Vesting Date") on which the legal and beneficial ownership of any awarded Shares are to be transferred to and vested in any Selected Participant, and (ii) any condition(s) or performance target(s) to be attained by the relevant Selected Participant subject to and upon which the awarded Shares held by the Trustee on trust referable to a Selected Participant shall vest in that Selected Participant.

During the period under review, no award of shares had been made under the Plan.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the reporting period.

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

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Hong Kong, 22 August 2019

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHEN Li-Ming, Lawrence, *Chairman*
CHI Lo-Jen, *Chief Executive Officer*

Non-Executive Directors

CHIANG Jeh-Chung, Jack
CHAO Ming-Cheng, Eric

Independent Non-Executive Directors

CHEN Johnny
BOLLIGER Peter
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas
LIAN Jie
SHI Nan Sun

AUDIT COMMITTEE

YUE Chao-Tang, Thomas, *Chairman*
CHEN Johnny
CHAN Fu Keung, William, *BBS*
LIAN Jie

CORPORATE GOVERNANCE COMMITTEE

BOLLIGER Peter, *Chairman*
CHAN Fu Keung, William
YUE Chao-Tang, Thomas

EXECUTIVE COMMITTEE

CHI Lo-Jen, Chairman
CHEN Li-Ming, Lawrence

NOMINATION COMMITTEE

CHEN Johnny, *Chairman*
BOLLIGER Peter
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas
LIAN Jie
SHI Nan Sun

REMUNERATION COMMITTEE

CHAN Fu Keung, William, *BBS, Chairman*
CHEN Johnny
YUE Chao-Tang, Thomas

AUTHORISED REPRESENTATIVES

CHI Lo-Jen
KAN Siu Yim, Katie

CHIEF FINANCIAL OFFICER

LEE Kwok Ming, Don

COMPANY SECRETARY

KAN Siu Yim, Katie

LEGAL ADVISER

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1 Connaught Place, Hong Kong

AUDITORS

Ernst & Young
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Central, Hong Kong

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Chinatrust Commercial Bank, Ltd.
The Hongkong and Shanghai Banking Corporation Limited
Citibank Taiwan Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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1836

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In the event of inconsistency, the English version shall prevail over the Chinese version

This Interim Report is printed on environmentally friendly paper from
sustainably managed forests and controlled sources

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

Incorporated in the Cayman Islands with limited liability
於開曼群島註冊成立之有限公司

** for identification purpose only*