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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2013

The board (the “Board”) of directors (the “Directors”) of Stella International Holdings Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2013, together with the comparative figures for the previous financial year.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	<i>Note</i>	2013 US\$'000	2012 US\$'000
Revenue	3	1,541,471	1,550,003
Cost of sales		(1,188,329)	(1,174,756)
Gross profit		353,142	375,247
Other income		19,285	16,297
Other gains and losses		2,388	15,799
Distribution and selling expenses		(116,885)	(118,755)
Administrative expenses		(71,862)	(72,680)
Research and development costs		(48,693)	(49,504)
Share of results of associates		206	763
Interest on bank borrowing wholly repayable within 5 years		(237)	(124)

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the year ended 31 December 2013

	<i>Notes</i>	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Profit before tax		137,344	167,043
Income tax expense	4	<u>(14,528)</u>	<u>(14,455)</u>
Profit for the year	5	122,816	152,588
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		<u>1,497</u>	<u>780</u>
Total comprehensive income for the year		<u>124,313</u>	<u>153,368</u>
Profit (loss) for the year attributable to:			
Owners of the Company		122,656	153,403
Non-controlling interests		<u>160</u>	<u>(815)</u>
		<u>122,816</u>	<u>152,588</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		124,092	154,189
Non-controlling interests		<u>221</u>	<u>(821)</u>
		<u>124,313</u>	<u>153,368</u>
Earnings per share <i>(US\$)</i>	7		
– basic and diluted		<u>0.155</u>	<u>0.194</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	<i>Notes</i>	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		313,004	247,863
Prepaid lease payments		18,716	18,776
Interests in associates		7,858	7,619
Deposit paid for acquisition of property, plant and equipment		20,406	27,316
		359,984	301,574
CURRENT ASSETS			
Inventories		177,750	179,183
Trade and other receivables	<i>8</i>	324,132	304,038
Bills receivables	<i>8</i>	2,238	–
Prepaid lease payments		571	477
Amounts due from associates		43,872	62,854
Derivative financial instruments		–	231
Held for trading investments		29,299	51,557
Tax recoverable		–	6,996
Cash and cash equivalents		248,705	252,039
		826,567	857,375
CURRENT LIABILITIES			
Trade and other payables	<i>9</i>	201,934	201,197
Amount due to an associate		1,283	–
Tax liabilities		49,784	41,000
		253,001	242,197
NET CURRENT ASSETS		573,566	615,178
		933,550	916,752
CAPITAL AND RESERVES			
Share capital		10,160	10,160
Share premium and reserves		922,635	906,058
Equity attributable to owners of the Company		932,795	916,218
Non-controlling interests		755	534
		933,550	916,752

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company											
	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000 (Note 1)	Capital reserve US\$'000 (Note 2)	Exchange reserve US\$'000	Shares held for award scheme US\$'000	Capital redemption reserve US\$'000 (Note 3)	Share award reserve US\$'000	Accumulated profits US\$'000	Sub-total US\$'000	Non-controlling interests US\$'000	Total US\$'000
As at 1 January 2012	10,160	154,503	45,427	1,146	(1,674)	(3,350)	190	1,420	654,455	862,277	(277)	862,000
Other comprehensive income (expense) for the year	-	-	-	-	786	-	-	-	-	786	(6)	780
Profit for the year	-	-	-	-	-	-	-	-	153,403	153,403	(815)	152,588
Total comprehensive income (expense) for the year	-	-	-	-	786	-	-	-	153,403	154,189	(821)	153,368
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	1,632	1,632
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	87	-	87	-	87
Shares vested under long term incentive scheme	-	-	-	-	-	621	-	(67)	(554)	-	-	-
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(100,335)	(100,335)	-	(100,335)
As at 31 December 2012	10,160	154,503	45,427	1,146	(888)	(2,729)	190	1,440	706,969	916,218	534	916,752
Other comprehensive income for the year	-	-	-	-	1,436	-	-	-	-	1,436	61	1,497
Profit for the year	-	-	-	-	-	-	-	-	122,656	122,656	160	122,816
Total comprehensive income for the year	-	-	-	-	1,436	-	-	-	122,656	124,092	221	124,313
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	14	-	14	-	14
Shares vested under long term incentive scheme	-	-	-	-	-	7	-	(4)	(3)	-	-	-
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(107,529)	(107,529)	-	(107,529)
As at 31 December 2013	10,160	154,503	45,427	1,146	548	(2,722)	190	1,450	722,093	932,795	755	933,550

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(Continued)*

For the year ended 31 December 2013

Notes:

- (1) The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of (i) Stella International Limited (“Stella International”), (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company in 2007.
- (2) The capital reserve arises from the following transactions:
 - (i) During the year ended 31 December 2007, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International to an employee of the Group by way of gift as an incentive to attract and retain the employee in the Group prior to the group reorganisation.
 - (ii) During the year ended 31 December 2007, Cordwalner Bonaventure Inc. (“Cordwalner”) issued and allotted 1.17% preferred shares in Cordwalner with subscription price US\$3,150,000 to Eagle Mate Capital Limited, a company owned by an employee, which will hold these shares on behalf of the employees as an incentive to attract and retain the employee in the Group after the listing of the Company’s shares.

These transactions were accounted for as an equity-settled share-based payment transactions in equity, over the vesting period, based on the fair value of the relevant shares at the grant date.

- (3) During the year ended 31 December 2008, the Company repurchased an aggregate of 14,870,500 own ordinary shares on the Stock Exchange (as defined in Note 1 to the consolidated financial statements) and these repurchased shares were cancelled prior to 31 December 2008. The issued share capital of the Company was reduced by the nominal value of these repurchased shares in the amount of HK\$1,487,000 (US\$190,000) and the equivalent amount was transferred from accumulated profits to the capital redemption reserve pursuant to 37(4) of the Companies Law (2007 Revision) of the Cayman Islands. The premium paid on the repurchase of these shares in the amount of US\$12,795,000 was charged to share premium. The aggregate consideration to repurchase these shares in the amount of US\$12,985,000 was deducted from shareholders’ equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
OPERATING ACTIVITIES		
Profit before tax	137,344	167,043
Adjustments for:		
Depreciation of property, plant and equipment	35,438	27,343
Write down of inventories	1,928	3,615
Share of results of associates	(206)	(763)
Net loss on changes in fair value of derivative financial instruments	231	62
Net loss (gain) on changes in fair value of held for trading investments	667	(3,211)
Release of prepaid lease payments	611	429
Finance cost	237	124
Interest income	(4,635)	(6,186)
Share-based payment expenses	14	87
Gain on disposal of an associate	–	(11,828)
Loss on disposal of property, plant and equipment	–	106
Impairment loss of interests in associates	–	828
	<hr/>	<hr/>
Operating cash flows before movements in working capital	171,629	177,649
Increase in trade and other receivables	(22,332)	(36,983)
Increase in inventories	(1,333)	(1,139)
Decrease (increase) in amounts due from associates	20,265	(6,506)
Decrease in held for trading investments	21,591	3,559
(Decrease) increase in trade and other payables	(1,201)	16,221
	<hr/>	<hr/>
Cash generated from operations	188,619	152,801
Income tax paid	(5,933)	(8,808)
Refund of tax reserve certificate	6,996	–
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	189,682	143,993

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2013

	2013 US\$'000	2012 US\$'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(82,074)	(53,261)
Deposit paid for acquisition of property, plant and equipment	(14,682)	(27,195)
Prepaid lease payment of land use rights	(445)	(4,787)
Interest received	4,635	6,186
Proceeds from disposal of property, plant and equipment	6,420	4,959
Acquisition of subsidiaries	–	(4,100)
Dividend received from an associate	–	718
Proceeds from disposal of an associate, less of transaction costs	–	19,653
	<u>(86,146)</u>	<u>(57,827)</u>
FINANCING ACTIVITIES		
Interest paid	(237)	(124)
Dividend paid	(107,529)	(100,335)
Capital injection from non-controlling interest	–	1,632
	<u>(107,766)</u>	<u>(98,827)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(86,146)</u>	<u>(57,827)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(107,766)</u>	<u>(98,827)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,230)	(12,661)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	252,039	264,233
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	896	467
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by	248,705	252,039
Bank balances and cash	197,052	193,389
Deposits placed in financial institutions	51,653	58,650
	<u>248,705</u>	<u>252,039</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
Amendments to HKAS 1	Presentation of items of other comprehensive income
HK (IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 “Consolidated financial statements”, HKFRS 11 “Joint arrangements”, HKFRS 12 “Disclosure of interests in other entities”, HKAS 27 (as revised in 2011) “Separate financial statements” and HKAS 28 (as revised in 2011) “Investments in associates and joint ventures”, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The application of HKFRS 10 and HKFRS 11 has had no material impact on the Group’s financial performance and positions for the current and prior years.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

HKFRS 13 Fair value measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements. HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The Group has applied the amendments to HKAS 1 “Presentation of items of other comprehensive income”. Upon the adoption of the amendments to HKAS 1, the Group’s ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments ³
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities ¹
HKFRS14	Regulatory Deferral Accounts ⁵
Amendments to HKAS 19	Defined benefit plans: Employee contributions ²
Amendments to HKAS 32	Offsetting financial assets and financial liabilities ¹
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets ¹
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle ⁴
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle ²
HK(IFRIC) – INT 21	Levies ¹

¹ *Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.*

² *Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.*

³ *Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.*

⁴ *Effective for annual periods beginning on or after 1 July 2014, with limited exceptions*

⁵ *Effective for annual periods beginning on or after 1 January 2016*

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors do not anticipate that the adoption of HKFRS 9 in the future will have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment entities

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 19 Defined benefit plans: Employee contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Amendments to HKAS 32 Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to HKAS 36 Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

Amendments to HKAS 39 Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK (IFRIC) – INT 21 Levies

HK (IFRIC) – INT 21 “Levies” addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – INT 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

Annual improvements to HKFRSs 2010-2012 cycle

The “Annual improvements to HKFRSs 2010-2012 cycle” include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of ‘vesting condition’ and ‘market condition’; and (ii) add definitions for ‘performance condition’ and ‘service condition’ which were previously included within the definition of ‘vesting condition’. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have ‘similar economic characteristics’; and (ii) clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the “Annual improvements to HKFRSs 2010-2012 cycle” will have a material effect on the Group’s consolidated financial statements.

Annual improvements to HKFRSs 2011-2013 cycle

The “Annual improvements to HKFRSs 2011-2013 cycle” include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the “Annual improvements to HKFRSs 2011-2013 cycle” will have a material effect on the Group’s consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. SEGMENT INFORMATION

Information reported to the chief executive of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of footwear manufactured and on footwear retailing and wholesaling. This is also the basis upon which the Group is organised and managed. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable segments under HKFRS 8 are as follows:

- 1) Men’s footwear – the manufacturing and sales of men’s footwear
- 2) Women’s footwear – the manufacturing and sales of women’s footwear
- 3) Footwear retailing and wholesaling

(a) **Operating segments**

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2013

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Segment total <i>US\$'000</i>	Eliminations <i>US\$'000</i>	Consolidated <i>US\$'000</i>
REVENUE						
External sales	464,158	956,085	121,228	1,541,471	-	1,541,471
Inter-segment sales	<u>1,160</u>	<u>28,164</u>	<u>-</u>	<u>29,324</u>	<u>(29,324)</u>	<u>-</u>
Total	<u>465,318</u>	<u>984,249</u>	<u>121,228</u>	<u>1,570,795</u>	<u>(29,324)</u>	<u>1,541,471</u>
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	<u>68,001</u>	<u>156,220</u>	<u>1,035</u>	<u>225,256</u>	<u>-</u>	225,256
Unallocated income						
- Interest income on bank balances						4,630
- Rental income						1,351
- Sale of scrap						1,088
- Net loss on change in fair value of held for trading investments						(667)
- Others						14,977
Unallocated expenses						
- Research and development costs						(48,693)
- Central administrative costs						(60,336)
- Net loss on changes in fair value of derivative financial instruments						(231)
- Interest expense						(237)
Share of results of associates						<u>206</u>
Profit before tax						<u>137,344</u>

For the year ended 31 December 2012

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Segment total <i>US\$'000</i>	Eliminations <i>US\$'000</i>	Consolidated <i>US\$'000</i>
REVENUE						
External sales	486,370	944,233	119,400	1,550,003	–	1,550,003
Inter-segment sales	<u>752</u>	<u>32,424</u>	<u>–</u>	<u>33,176</u>	<u>(33,176)</u>	<u>–</u>
Total	<u><u>487,122</u></u>	<u><u>976,657</u></u>	<u><u>119,400</u></u>	<u><u>1,583,179</u></u>	<u><u>(33,176)</u></u>	<u><u>1,550,003</u></u>
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	<u><u>72,406</u></u>	<u><u>176,814</u></u>	<u><u>(441)</u></u>	<u><u>248,779</u></u>	<u><u>–</u></u>	248,779
Unallocated income						
– Interest income on bank balances						6,003
– Rental income						3,197
– Sale of scrap						2,794
– Gain on disposal of an associate						11,828
– Net gain on change in fair value of held for trading investments						3,211
– Others						3,367
Unallocated expenses						
– Research and development costs						(49,504)
– Central administrative costs						(62,381)
– Net loss on changes in fair value of derivative financial instruments						(62)
– Impairment loss on interests in associates						(828)
– Interest expense						(124)
Share of results of associates						<u>763</u>
Profit before tax						<u><u>167,043</u></u>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profit represents the profit earned by each segment without allocation of corporate income and expenses, interest income on bank balances, net loss on changes in fair value of derivative financial instruments, rental income, sale of scrap, research and development costs, gain on disposal of an associate, impairment loss on interests in associates, share of results of associates, net (loss) gain on changes in fair value of held for trading investments and central administration costs. This is the measure reported to the Group's chief executives for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Segment assets		
Men's footwear	376,187	341,913
Women's footwear	437,026	431,255
Footwear retailing and wholesaling	92,725	73,094
	<hr/>	<hr/>
Total segment assets	905,938	846,262
Other assets	280,613	312,687
	<hr/>	<hr/>
Consolidated assets	1,186,551	1,158,949
	<hr/> <hr/>	<hr/> <hr/>
	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Segment liabilities		
Men's footwear	90,481	79,274
Women's footwear	86,095	94,955
Footwear retailing and wholesaling	15,682	16,929
	<hr/>	<hr/>
Total segment liabilities	192,258	191,158
Other liabilities	60,743	51,039
	<hr/>	<hr/>
Consolidated liabilities	253,001	242,197
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than tax recoverable, held for trading investments, cash and cash equivalents and unallocated corporate assets; and
- all liabilities are allocated to reportable segments other than tax liabilities and unallocated corporate liabilities not belonging to any operating segments.

Other segment information

2013

	Men's Footwear US\$'000	Women's Footwear US\$'000	Footwear retailing and wholesaling US\$'000	Total US\$'000
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	22,380	74,877	6,680	103,937
Depreciation	12,112	21,373	1,953	35,438
Write-down of inventories	280	365	1,283	1,928
Interest in associates	–	7,002	856	7,858
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Share of profit of associates	–	10	196	206
Income tax expense	6,484	6,408	1,636	14,528

2012

	Men's Footwear <i>US\$'000</i>	Women's Footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	28,283	53,775	6,055	88,113
Depreciation	12,742	10,874	3,727	27,343
Loss on disposal of property, plant and equipment	1	105	–	106
Write-down of inventories	58	815	2,742	3,615
Interest in associates	–	7,000	619	7,619
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Share of profit of associates	–	53	710	763
Income tax expense	6,076	6,632	1,747	14,455

(b) Revenue from major products and services

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Men's footwear	464,159	486,136
Women's footwear	1,077,312	1,063,867
	<u>1,541,471</u>	<u>1,550,003</u>

(c) **Geographical information**

The Group's revenue from external customers is presented based on location of the customers. Information about the Group's non-current assets is presented based on geographical locations of the assets:

	Revenue from external customers		Non-current assets As at 31 December	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
United States of America	722,816	778,501	–	–
The PRC	266,382	259,711	346,062	290,942
United Kingdom	149,407	121,890	–	–
Netherlands	73,817	84,291	–	–
Thailand	2,429	4,381	200	143
Italy	55,352	51,367	130	10
Canada	33,765	37,883	–	–
Spain	23,536	24,223	–	–
Japan	34,944	28,601	–	–
Belgium	30,342	21,145	–	–
South Korea	13,267	13,311	–	–
Germany	17,009	15,755	–	–
Singapore	3,412	13,054	–	–
Switzerland	7,549	6,862	–	–
Australia	12,695	9,577	–	–
Panama	6,325	9,303	–	–
Portugal	148	376	–	–
Others	88,276	69,772	13,592	10,479
	<u>1,541,471</u>	<u>1,550,003</u>	<u>359,984</u>	<u>301,574</u>

(d) **Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2013 US\$'000	2012 US\$'000
Customer A ¹	247,422	270,125
Customer B ¹	222,162	222,864

¹ Revenue from both men's and women's footwear operating segments in aggregate

4. INCOME TAX EXPENSE

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Current tax:		
PRC Enterprise Income Tax ("EIT")	14,416	14,205
Hong Kong Profits Tax	6	4
Other jurisdictions	106	246
	<u>14,528</u>	<u>14,455</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the law of the PRC on EIT and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25%.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Stella International Trading (Macao Commercial Offshore) Limited ("SIT (MCO)") (formerly known as Bestsource Technology (Macao Commercial Offshore) Limited), a subsidiary acquired in year 2011 is exempted from Macao Complementary Tax.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to US\$2,498,000 (31 December 2012: US\$2,681,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Taxation arising in other jurisdictions including Thailand, Malaysia, Indonesia and Italy is calculated at the rate prevailing in the relevant jurisdictions.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Profit before tax	<u>137,344</u>	<u>167,043</u>
Tax at the applicable PRC EIT rate of 25% (2012: 25%)	34,336	41,761
Tax effect of expenses not deductible for tax purposes	8,580	4,997
Tax effect of income not taxable for tax purposes	(4,180)	(7,309)
Tax effect of share of results of associates	(19)	(191)
Effect of tax exemptions granted to SIT (MCO)	(23,976)	(24,767)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(213)</u>	<u>(36)</u>
Income tax expense	<u>14,528</u>	<u>14,455</u>

In October 2011, the Inland Revenue Department (“IRD”) initiated a tax audit on the Hong Kong tax affairs of certain subsidiaries of the Company for the years of assessment from 2004/05 to 2005/06.

From March 2012 to March 2013, the IRD issued estimated profits tax assessments relating to the years of assessment 2004/05 and 2005/06, that is, for the financial years ended 31 December 2004 and 2005, against certain subsidiaries of the Company. The Group lodged objections with the IRD against these estimated assessments. The IRD agreed to hold over the tax claimed subject to the purchasing of tax reserve certificates (“TRCs”). As at 31 December 2012, the Group purchased TRCs amounted to HK\$54,280,000 (equivalent to approximately US\$6,996,000) for the year of assessment 2004/05 and 2005/06, which has been recorded as tax recoverable in the consolidated statement of financial position.

During the current year, a settlement proposal was accepted by the IRD, no Hong Kong Profits Tax is payable by the Group in respect of the tax audit. Therefore, the TRCs previously purchased by the Group for the years of assessment 2004/05 and 2005/06 totalling HK\$54,280,000 (equivalent to approximately US\$6,996,000) was refunded to the Group.

5. PROFIT FOR THE YEAR

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' emoluments	2,149	2,976
Other staff costs	306,767	261,680
Share-based payment expenses, excluding directors	14	40
Retirement benefit scheme contributions, excluding directors	280	215
	<hr/>	<hr/>
Total staff costs	309,210	264,911
	<hr/>	<hr/>
Auditor's remuneration	458	359
Cost of inventories recognised as an expense (including write down of inventories of US\$1,928,000 (2012: US\$3,615,000))	1,188,329	1,174,756
Depreciation of property, plant and equipment	35,438	27,343
Release of prepaid lease payments	611	429
Share of taxation of associates (included in share of results of associates)	96	42
	<hr/> <hr/>	<hr/> <hr/>

6. DIVIDENDS

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
2012 final dividend of HK75 cents per share (2012: 2011 final dividend of HK68 cents per share) paid	76,797	69,611
2013 interim dividend of HK30 cents per share (2012: HK30 cents per share) paid	30,732	30,724
	<hr/>	<hr/>
	107,529	100,335
	<hr/> <hr/>	<hr/> <hr/>

The final dividend of HK55 cents per share in total of US\$56,350,000 and special dividend of HK10 cents per share in total of US\$10,245,000 for the year ended 31 December 2013 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

The calculation of the basic earnings and diluted per share attributable to the owners of the Company is based on the following data:

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u><u>122,656</u></u>	<u><u>153,403</u></u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	792,188,378	792,492,017
Effect of dilutive potential ordinary shares:		
Unvested shares awarded	<u>1,208</u>	<u>105,025</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>792,189,586</u></u>	<u><u>792,597,042</u></u>

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share have been arrived at after deducting the shares held in trust for the Company by Teeroy Limited.

8. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade and bills receivables net of allowance for bad debts presented based on invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Trade and bills receivables:		
0 – 30 days	139,204	134,923
31 – 60 days	54,440	70,099
61 – 90 days	14,648	11,719
Over 90 days	<u>4,308</u>	<u>7,058</u>
	212,600	223,799
Other receivables	<u>113,770</u>	<u>80,239</u>
	<u><u>326,370</u></u>	<u><u>304,038</u></u>

Other receivables include prepayment to suppliers of US\$65,585,000 (2012: US\$43,475,000).

Included in the Group's trade, bills and other receivables balance are debtors with aggregate amount of US\$7,829,000, US\$94,000, US\$342,000, US\$2,296,000, US\$731,000 and US\$1,575,000 (2012: US\$9,805,000, US\$89,000, US\$1,788,000, US\$7,000, US\$Nil and US\$1,077,000) which are denominated in RMB, HKD, EUR, MOP, IDR and other currencies other than the functional currency of the respective group entities and are exposed to currency risk.

Before accepting a new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. The majority of the trade and bills receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade and bills receivable balance are debtors with aggregate carrying amount of US\$13,187,000 (31 December 2012: US\$7,640,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade and bills receivables based on the invoice date which are past due but not impaired:

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
31-60 days	9,065	5,278
61-90 days	671	187
Over 90 days	3,451	2,175
	13,187	7,640

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables presented based on invoice date at the end of the reporting period:

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Trade payables:		
0 – 30 days	56,983	47,622
31 – 60 days	8,302	13,885
Over 60 days	36,448	36,511
	101,733	98,018
Other payables	100,201	103,179
	201,934	201,197

The average credit period on purchase of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Included in the Group's trade and other payables balance are creditors with aggregate amount of US\$19,290,000, US\$1,000, US\$422,000, US\$4,091,000, US\$1,204,000 and US\$157,000 (2012: US\$26,250,000, US\$2,000, US\$574,000, US\$5,567,000, US\$1,639,000 and US\$213,000) which are denominated in RMB, HKD, EUR, MOP, IDR and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

CHAIRMAN'S STATEMENT

2013 saw a rebalancing of the global economy, with economic recovery firmly taking root in developed markets, such as United States and Europe, after years of recession and stagnation. In contrast, many emerging economies, including China, experienced slower economic growth as central banks around the world started to ease their ultra-expansive monetary policies.

These changing economic conditions had a mixed impact on Stella's operations. While the return of growth and consumer confidence in our key export markets was a welcome development, it has so far only had a limited effect on the global demand for our footwear products. Many of our customers adopted a cautious approach to orders throughout the year, while many mid-income class consumers in our key export markets opted to direct much of their discretionary spending towards 'big ticket' items, such as housing and automobiles, rather than to smaller purchases such as footwear.

Meanwhile, slowing economic growth and slightly weaker consumer confidence in China meant 2013 was an opportune time to commence a gradual restructure of our retail business. This resulted in a consolidation of our store network – particularly points of sales within traditional department stores – in favour of standalone stores or shop-in-shops in quality locations, as well as a refocusing of our retail brands to better capture different segments of China's growing 'affordable luxury' market.

The restructure also included a revamp of *What For's* store layout and design, as well as an upgrade of the brand's young and modern look to one that is more in step with a truly global brand. This coincided with the opening of *What For's* first European store in Paris in December 2013, our second retail store in the world's fashion capital after the opening of our first *Stella Luna* store in 2012.

Over the last few years, we have taken proactive steps to contain costs and stabilise our work force, allowing us to negate some of the above challenges, without sacrificing Stella's key virtues of quality and flexibility that has allowed us to amass a growing customer base of premium, luxury and casual footwear brands. This includes the further ramp-up of capacity at our new manufacturing facilities in Indonesia, Vietnam and China's Guangxi and Hunan provinces.

This growing lower-cost capacity also provides us with the financial flexibility and stable workforce to keep our core value-adding production process in Dongguan, where we can source the most highly-skilled workers that can deliver a standard of craftsmanship unsurpassed by other footwear manufacturers.

Looking forward to the next few years, we plan to further expand the competitiveness of our manufacturing business by offering new products, such as high-quality leather goods and accessories, and open up new streams of revenue. We will also strengthen the desirability of our retail offering in China by opening an additional number of stores and points of sales in Europe's leading fashion centres.

We will also continue to invest in our people – the cornerstone of our business – through further training and mentoring, while also seeking ways to attract more talent to support Stella's long-term success.

In the nearer term, we expect some of the above challenges will persist in 2014, with customer orders likely to remain on the conservative side due to weaker demand caused by unseasonal weather, and uncertainty arising from the Federal Reserve and European Central Bank's plans to taper quantitative easing measures. We will also closely monitor the effects of any prolonged crisis in Ukraine, particularly potential risks posed by trade sanctions and higher global energy prices.

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers and business partners for their unwavering support throughout the year. I would also like to take this opportunity to thank all my colleagues for their valued contribution and unyielding commitment to Stella.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Model and Strategy

Stella is a leading developer, manufacturer and retailer 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 premium and luxury footwear and leather goods.

Our business is positioned at the high-end of the value chain, offering craftsmanship, innovation, short lead times and small batch production. Our commitment to quality has enabled us to attract a growing client base of premium fashion and casual brands.

We launched our retail business in 2006 in order to diversify our business and tap growing demand for affordable luxury footwear in China and across the region. All our retail products are designed and manufactured in-house and have quickly attracted a strong following among China’s upwardly mobile consumers.

Our retail business currently consists of three self-developed brands – *Stella Luna*, *What For and JKJY by Stella* – and joint-venture brand *Pierre Balmain*. Our network of retail stores is primarily focused in Mainland China, with additional stores in France, Thailand, Taiwan, Philippines, Lebanon, United Arab Emirates and Kuwait.

Financial Highlights

Stable Business Performance in a Challenging Operational Environment

Stella’s manufacturing business faced some challenges in 2013, with customers adopting a cautious approach towards orders. Although consumer sentiment in the Group’s key export markets – North America and Europe – improved in line with the broader global economic recovery, many middle-income consumers sacrificed discretionary spending on items such as footwear in favour of durable goods, such as automobiles and housing.

Meanwhile, the Group’s retail business in China continued to face an increasingly competitive operating environment.

The Group’s consolidated revenue for the year ended 31 December 2013 fell 0.6% to US\$1,541.5 million (2012: US\$1,550.0 million), while shipments remained steady at 50.8 million pairs (2012: 50.8 million pairs). The average selling price (‘ASP’) of our footwear products fell 1.0% to US\$28.3 per pair (2012: US\$28.6) following the relocation of some manufacturing capacity to our new facilities in inland China and Indonesia, as well as lower raw material costs during the first nine months of the year. This downward pressure on ASP was partially counteracted by further recognition of the quality of our footwear products and continuous improvements made to our product mix throughout the year.

Women's fashion footwear continued to be our largest segment, contributing 37.5% to the Group's total revenue (2012: 37.8%). The contribution from our women's and men's casual footwear segments was 24.5% (2012: 22.7%) and 20.0% (2012: 23.3%) of the Group's overall revenue respectively, while the contribution from the men's fashion footwear segment grew to 10.1% (2012: 8.2%).

Higher Retail Revenue despite Restructure

We undertook a gradual restructure of our retail business in 2013 in response to intensifying competition in the China footwear sector and to more effectively position our retail brands in the 'affordable luxury' segment of the market. This included an overhaul of our inventory controls and the closing of some underperforming stores.

Revenue from the retail business rose 1.5% to US\$121.2 million (2012: US\$119.4 million) and contributed 7.9% to the Group's total revenue (2012: 7.7%). Same-store sales (in China only) remained flat at US\$81.7 million (2012: US\$81.5 million). The slower growth was mostly due to weaker economic growth and consumer confidence in China, as well as the restructure. The gross profit of the retail business rose 0.6% to US\$81.0 million (2012: US\$80.5 million).

Steady Profitability while Ready for the Future

Gross profit across all business segments in 2013 was US\$353.1 million (2012: US\$375.2 million), representing a decline of 5.9%. Full year net profit attributable to equity holders of the Company declined 20.0% to US\$122.7 million (2012: US\$153.4 million). This was primarily attributable to a combination of weaker demand due to unseasonable weather, higher labour costs, inefficiencies arising from the relocation of manufacturing capacity and the weak global economy. The higher level of decline in net profit was also attributable to the one-off non-operating gain of US\$11.2 million made on the disposal of 49% interest in StellaDeck Fashion Limited that was recorded in 2012.

The above factors also resulted in lower profit margins for the year, with gross profit margin declined to 22.9% (2012: 24.2%), while net profit margin declined to 8.0% (2012: 9.9%).

During the year under review, the Group's cash flow remained stable, with cash generated from operations amounting to US\$188.6 million (2012: US\$152.8 million). We invested US\$100.9 million in CAPEX for capacity expansion and the retail business in 2013, and paid out US\$107.5 as dividends.

Geographically, North America and Europe remained our two largest markets, accounting for 49.5% and 25.6% of the Group's total revenue in 2013. This was followed by the PRC (including Hong Kong) accounting for 17.2%, Asia (other than the PRC) accounting for 4.6% and other geographic regions which accounted for 3.1%.

Business Review

Continued Diversification of Production Base

We continued to progressively expand capacity at our production facilities in inland China, Vietnam and Indonesia throughout the year, as part of our long-term resource optimization strategy. This strategy involves shifting labour intensive processes away from coastal areas of China, where the supply of workers is unstable and labour cost is high, while keeping high-skilled processes in Dongguan, where we continue to retain a highly-skilled and trained workforce.

This diversified production base is helping us maintain margins as costs rise, improve operational efficiency through a more stable labour force, while still producing high-quality and value-adding products for our valued customers.

As of 31 December 2013, the process of relocating manufacturing capacity to our new inland and overseas facilities was proceeding well. This allowed shipment volumes over the full year under review to remain at a steady level, compared to the previous year.

Ongoing Commitment to Quality Attracts Growing Client Base

Over the years, Stella has developed a reputation for quality, flexibility and its capability to meet the bespoke needs of its clients. The challenging operating environment in 2013 did not prevent us from meeting the promises we made to our clients and, where possible, helped them overcome any challenges they are facing.

We also continued to invest in our cutting-edge design, research and development centres in Dongguan and Venice to deliver more innovative and value-adding products to our clients.

Stella's strong reputation also helped us further diversify our client base by attracting more quality brands in 2013. This helped Stella mitigate the weak sentiment among branded customers and maintain annual shipment volumes.

Exploration of New Products and Business Streams

Our commitment to consistently exceeding the expectations of our clients saw us expand our product range to include fashion sneakers – a fashionable take on the traditional sports shoe that is currently being retailed by a number of fashion brands.

We also took preliminary steps to commence the manufacture of quality leather goods and fashion accessories, such as handbags, in response to growing demand from premium and high-end fashion brands – including some of Stella’s existing clients – for quality OEM non-apparel leather products and accessories.

Progressive Restructure of Retail Business

Our retail business suffered from weaker consumer confidence in China in 2013, as the result of the PRC Government’s efforts to curb the housing market and shadow banking industry, the downward revisions of China’s economic growth targets and credit crunches in the financial market. Furthermore, the PRC Government’s move to crack down on extravagant gift-giving and to implement austerity measures created further pain in the retail segment. Our retail brands also faced pressure such as the rise of e-commerce and the changing demands of China’s increasingly sophisticated and discerning consumers.

Despite these recent challenges, we remain highly optimistic about the potential of China’s retail sector, a sentiment that is supported by the PRC Government’s recent efforts to rebalance the Chinese economy by lifting wages and increasing consumption. As such, the prevailing conditions this year provided an opportune time for a gradual restructure of our retail business.

In the year ended 31 December 2013, we closed a net 15 *Stella Luna* stores and 68 *What For* stores in China, mostly in sub-optimal locations such as traditional department stores, in favour of new standalone stores or shop-in-shops in quality locations. We also introduced new inventory control measures during the year. We have already seen some positive effects from these measures, with our retail business seeing an increased turnover of in-season products in the final quarter of 2013.

The following table shows the geographic distribution of our stores, by brand, as of 31 December 2013.

	Stella Luna	What For	JKJY by Stella	Pierre Balmain
Greater China				
Eastern China	45	18	5	1
Southern China	33	18	1	0
Northern China	38	35	3	1
North-East China	25	11	1	0
South-West China	37	22	2	0
Central China	18	12	1	0
Taiwan	3	0	0	0
Sub-total	199	116	13	2
Thailand				
Bangkok	7	2	1	0
Nonthaburi	0	1	0	0
Phuket	1	0	1	0
Samuth Prakarm	1	0	0	0
Sub-total	9	3	2	0
Philippines	3	1	1	0
Kuwait	2	2	0	0
Lebanon	9	9	0	0
United Arab Emirates	2	1	0	0
France	1	1	0	0
Total	225	133	16	2

Increasing Global Recognition of Retail Brands Reinforces Prestige

Our retail brands – *Stella Luna*, *What For* and *JKJY by Stella* – are not merely local Chinese retail brands: they are global brands based in China. We supported this position with the opening of our first European *What For* store in Paris’ Le Marais district in December 2013, a year after the opening of the first Parisian store under our flagship brand *Stella Luna*. We also continued to invest in our joint-venture brand, *Pierre Balmain* during the year under review.

Our two retail stores in Paris have provided a boost to the international credentials of our brands in China, while allowing greater interaction with global designers and fashion figures. This included *Stella Luna's* recent tie-up with Belgian designer Anthony Vaccarello to create the *Stella Luna pour Anthony Vaccarello* shoe collections, which have been featured in a number of international media and seen worn by celebrities including Jennifer Lawrence, Gisele Bündchen and Blake Lively.

The opening of *What For's* Paris store also coincided with the global roll-out of the brand's revamped store layout and design, as well as an upgrade of its young and modern look to encompass the energy and creativity needed to become an international brand.

Closer to home, we continued to expand the footprint of *JKJY by Stella*, the Group's male-focused footwear brand and of its unique crossover fashion and sportswear collection. We have also started to adopt a multi-brand store concept that will see the introduction of *JKJY by Stella and Pierre Balmain* products in some of our *Stella Luna* stores.

As of 31 December 2013, *Stella Luna* footwear was priced between RMB1,700 and RMB6,000 a pair in China, while *What For* and *JKJY by Stella* products retailed for RMB1,100-RMB2,800 and RMB2,000-RMB4,000 respectively.

Business Outlook

Unsteady Order Pipeline to Persist in First Half 2014

We expect our clients to maintain a conservative approach towards orders in the first half of 2014, a condition that could be exacerbated by the unseasonably cold spring and abnormal snowstorm experienced in the Northeast of the United States.

Labour costs and supply will remain a key challenge for the Group, with other key risks including a reversal of consumer sentiment improvements in our key export markets following the tapering of quantitative easing measures and interest rate hikes by central banks. We will also monitor the effects of any new industrial and economic policies introduced by the PRC Government in 2014.

Investing in people

People are the core of any manufacturing and retail business. We will continue to invest in the training and mentoring of our workforce to further boost their skills and capabilities and improve productivity, particularly at our inland China and Indonesian manufacturing facilities. We will also seek out and invest in new talent, including at management levels, to support the growth of our business.

We will continue to ensure that our industrial relations practices conform to the Group's strict Corporate Social Responsibility standards to uphold employee morale and to reduce labour turnover.

Further Implementation of Cost Control Measures

We will continue to minimise the impact of unstable customer orders by maintaining and expanding strict cost controls. We will also adopt further measures to improve productivity and efficiency, especially at our new inland China and Indonesian manufacturing facilities.

Continued Exploration of New Business Streams

As more premium and luxury brands seek to outsource the production of high-end accessories, we will prudently develop the best strategy for entering this promising business stream.

Positioning Retail for the Future

We plan to further optimise our retail business in 2014 to further improve its profitability and competitiveness. We will also refine and broaden the marketing of our retail brands – particularly in Europe – to further expand their global visibility and increase their desirability in the competitive Chinese retail market.

Part of this strategy will be the progressive introduction of additional retail points for *Stella Luna* and *What For* products in Europe, including the opening of corners in the famous Galeries Lafayette and Le Printemps in France.

Liquidity, Financial Resources and Capital Structure

The Group remained in a stable financial position throughout 2013, with cash and cash equivalents of about US\$278.0 million (2012: US\$303.6 million) as at 31 December 2013, representing a decrease of 8.4% as compared to the position as at 31 December 2012. The Group's net cash inflows from operating activities amounted to US\$168.1 million (2012: US\$140.4 million) for the year, representing an increase of 19.7%. Net cash outflows from investing and financing activities grew to US\$64.6 million and US\$107.7 million, respectively.

As at 31 December 2013, the Group had current assets of US\$826.5 million (2012: US\$857.4 million) and current liabilities of about US\$253.0 million (2012: 242.2 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.3 as at 31 December 2013, an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

Net cash outflows from financing activities was US\$107.7 million (2012: US\$98.8 million) in the year ended 31 December 2013. The Group had no bank borrowings as of 31 December 2013.

Foreign Currency Exposure

During the year ended 31 December 2013, 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 or RMB. Currency exposures were mostly denominated in RMB and Hong Kong dollars against the functional currency of the relevant Group company. The Group has not adopted any formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year under review.

Capital Expenditure

Net cash outflows from investing activities was US\$64.6 million (2012: US\$54.2 million) during the year under review, representing an increase of 19.2%. This was mostly attributable to higher capital expenditure, which amounted to approximately US\$97.2 million (2012: US\$89.3 million), of which approximately US\$90.5 million was used in production capacity expansion and approximately US\$6.7 million was used for the optimisation of our retail store network.

Pledge of Assets

As of 31 December 2013, the Group had not pledged any of its assets (2012: Nil).

Contingent Liabilities

As of 31 December 2013, the Group had no material contingent liabilities (2012: Nil).

Employees

As at 31 December 2013, the Group had approximately 77,000 employees (2012: approximately 77,000). 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 attain, train 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.

As of 31 December 2013, our recruitment efforts remained satisfactory, despite the labour shortages in our primary manufacturing locations in China.

DIVIDEND

The Board recommended the payment of a final dividend of HK55 cents per ordinary share to shareholders of the Company (the “Shareholders”) for the year ended 31 December 2013. In addition to the payment of a final dividend, the Board recommended the payment of a special dividend of HK10 cents per ordinary share to the Shareholders for the year ended 31 December 2013 in recognition of the continual support of the Shareholders. The proposed final dividend and special dividend, amounting to approximately US\$56.4 million and US\$10.2 million respectively, will be paid to Shareholders whose names appear on the register of members of the Company on 28 May 2014, if the proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company (the “AGM”) to be held on 23 May 2014. It is expected that the final dividend and the special dividend, if approved, will be paid on or about 27 June 2014 and 28 August 2014 respectively.

In order to qualify for the proposed final dividend to be approved at the AGM, 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 28 May 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 May 2014 to 23 May 2014 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the forthcoming AGM of the Company, 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 May 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules (“Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2013 except for code provisions B.1.5 and E.1.2 as follows:–

For code provision B.1.5 of the CG Code, the Company decided not to disclose details of remuneration payable to members of senior management by band in the annual report of 2013. The reason for not making such disclosure is that the Board would like to observe the competitive market practices and to respect individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (“Chairman”) of the Board, had not attended the annual general meeting of the company held on 10 May, 2013 (“2013 AGM”). Instead, Mr. Shih Takuen, Daniel, the then deputy chairman of the Board (the “Deputy Chairman”), took the chair at the 2013 AGM, and the chairman or member of the audit committee, corporate governance committee, remuneration committee and nomination committee attended the 2013 AGM to answer Shareholders’ questions. The reason for such arrangement is that the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman is mainly responsible for managing major customers’ relationship and overseeing strategies of the Group, while the Deputy Chairman is responsible for providing leadership and management to the Board. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the stakeholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group’s prevailing circumstances.

Save for the said deviations from the CG Code, the Group has been in compliance with the CG Code in all material respects and has upheld a high standard of corporate governance which, the Directors believe, are of higher standard than that required under the CG Code in various aspects.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 Directors regarding any non-compliance with the Model Code. All Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2013 except that Mr. Shih Takuen, Daniel, a former executive Director, had sold 408,000 shares of the Company on 25 June 2013 without first notifying in writing to any of the chairman of the Board or Mr. Chen Li-Ming, Lawrence (being the Director designated by the Board for the purpose of the Model Code) and obtaining a dated written acknowledgement prior to such dealing in shares of the Company, thereby breaching Rule B.8 of the Model Code.

The Company will reiterate and remind the Directors from time to time the relevant rules and requirements in relation to Directors’ dealing in securities to ensure the compliance of the Model Code.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year.

By order of the Board
Stella International Holdings Limited
Chiang Jeh-Chung, Jack
Chairman

Hong Kong, 21 March 2014

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