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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 2014

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 2014, 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 2014

	<i>Note</i>	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Revenue	3	1,663,091	1,541,471
Cost of sales		(1,314,333)	(1,188,329)
Gross profit		348,758	353,142
Other income		12,265	19,285
Other gains and losses		(4,754)	2,388
Distribution and selling expenses		(92,691)	(116,885)
Administrative expenses		(75,133)	(71,862)
Research and development costs		(52,644)	(48,693)
Share of results of associates		351	206
Interest on bank borrowing wholly repayable within 5 years		(341)	(237)

* *For identification purpose only*

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

For the year ended 31 December 2014

	<i>Notes</i>	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Profit before tax		135,811	137,344
Income tax expense	4	<u>(15,566)</u>	<u>(14,528)</u>
Profit for the year	5	120,245	122,816
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		<u>(4,379)</u>	<u>1,497</u>
Total comprehensive income for the year		<u>115,866</u>	<u>124,313</u>
Profit (loss) for the year attributable to:			
Owners of the Company		120,701	122,656
Non-controlling interests		<u>(456)</u>	<u>160</u>
		<u>120,245</u>	<u>122,816</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		116,362	124,092
Non-controlling interests		<u>(496)</u>	<u>221</u>
		<u>115,866</u>	<u>124,313</u>
Earnings per share <i>(US\$)</i>	7		
– basic and diluted		<u>0.152</u>	<u>0.155</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	<i>Notes</i>	2014	2013
		US\$'000	US\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		356,556	313,004
Prepaid lease payments		20,201	18,716
Interests in associates		7,556	7,858
Deposit paid for acquisition of property, plant and equipment		9,325	20,406
		393,638	359,984
CURRENT ASSETS			
Inventories		215,688	177,750
Trade and other receivables	<i>8</i>	363,378	324,132
Bills receivables	<i>8</i>	1,833	2,238
Prepaid lease payments		624	571
Amounts due from associates		36,840	43,872
Held for trading investments		42,876	29,299
Cash and cash equivalents		131,601	248,705
		792,840	826,567
CURRENT LIABILITIES			
Trade and other payables	<i>9</i>	176,626	201,934
Amount due to an associate		–	1,283
Tax liabilities		56,775	49,784
Derivative financial instruments		368	–
		233,769	253,001
NET CURRENT ASSETS		559,071	573,566
		952,709	933,550
CAPITAL AND RESERVES			
Share capital		10,160	10,160
Share premium and reserves		941,693	922,635
Equity attributable to owners of the Company		951,853	932,795
Non-controlling interests		856	755
		952,709	933,550

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2014

	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 share 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 2013	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
Other comprehensive expense for the year	-	-	-	-	(4,339)	-	-	-	-	(4,339)	(40)	(4,379)
Profit for the year	-	-	-	-	-	-	-	-	120,701	120,701	(456)	120,245
Total comprehensive (expense) income for the year	-	-	-	-	(4,339)	-	-	-	120,701	116,362	(496)	115,866
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	597	597
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(97,304)	(97,304)	-	(97,304)
As at 31 December 2014	10,160	154,503	45,427	1,146	(3,791)	(2,722)	190	1,450	745,490	951,853	856	952,709

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(Continued)*

For the year ended 31 December 2014

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 2014

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
OPERATING ACTIVITIES		
Profit before tax	135,811	137,344
Adjustments for:		
Depreciation of property, plant and equipment	39,638	35,438
Write down of inventories	3,794	1,928
Share of results of associates	(351)	(206)
Net loss on changes in fair value of derivative financial instruments	463	231
Net loss on changes in fair value of held for trading investments	427	667
Release of prepaid lease payments	629	611
Loss on disposal of property, plant and equipment	3,392	–
Finance cost	341	237
Interest income	(3,519)	(4,749)
Share-based payment expenses	–	14
	<hr/>	<hr/>
Operating cash flows before movements in working capital	180,625	171,515
Increase in inventories	(41,988)	(1,333)
Increase in trade, bills and other receivables	(38,841)	(22,332)
Decrease in trade and other payables	(24,370)	(1,201)
(Increase) decrease in held for trading investments	(14,004)	21,591
Decrease in amounts due from associates	5,749	20,265
	<hr/>	<hr/>
Cash generated from operations	67,171	188,505
Income tax paid	(8,386)	(5,933)
Refund of tax reserve certificate	–	6,996
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	58,785	189,568

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2014

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(77,393)	(82,074)
Prepaid lease payment of land use rights	(2,540)	(445)
Deposit paid for acquisition of property, plant and equipment	(1,816)	(14,682)
Proceeds from disposal of property, plant and equipment	282	6,420
Dividend received from an associate	609	–
Interest received	3,519	4,749
	<u>(77,339)</u>	<u>(86,032)</u>
FINANCING ACTIVITIES		
Interest paid	(341)	(237)
Dividend paid	(97,304)	(107,529)
	<u>(97,645)</u>	<u>(107,766)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(77,339)</u>	<u>(86,032)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(97,645)</u>	<u>(107,766)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(116,199)	(4,230)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	248,705	252,039
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(905)</u>	<u>896</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	<u>131,601</u>	<u>248,705</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

The Group has applied, for the first time in the current year the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and a new interpretation:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK (IFRIC) – INT 21	Levies

The application of the above 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 the consolidated financial statement.

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 ¹
HKFRS 14	Regulatory deferral accounts ²
HKFRS 15	Revenue from contracts with customers ³
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ⁵
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ⁵
Amendments to HKAS 19	Defined benefit plans: Employee contributions ⁴
Amendments to HKAS 27	Equity method in separate financial statements ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁵
Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 Cycle ⁶
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 Cycle ⁴
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 Cycle ⁵
Amendments to HKAS 1	Disclosure initiative ⁵
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ⁵

- ¹ *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*
- ² *Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.*
- ³ *Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.*
- ⁴ *Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.*
- ⁵ *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*
- ⁶ *Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.*

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. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value, through other comprehensive income’ (“FVTOCI”) measurement category for certain simple debt instruments.

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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. 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.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- 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 HKAS 27 "Equity method in separate financial statements"

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with HKFRS 9 Financial Instruments (or HKAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

The directors of the Company do not anticipate that the application of the other new and revised HKFRSs issued but not yet effective will have a material impact 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 2014

	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	529,685	1,033,609	99,797	1,663,091	-	1,663,091
Inter-segment sales	679	21,568	-	22,247	(22,247)	-
Total	<u>530,364</u>	<u>1,055,177</u>	<u>99,797</u>	<u>1,685,338</u>	<u>(22,247)</u>	<u>1,663,091</u>
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	<u>72,984</u>	<u>177,123</u>	<u>(4,587)</u>	<u>245,520</u>	<u>-</u>	245,520
Unallocated income						
- Interest income on bank balances						3,359
- Rental income						1,265
- Sale of scrap						1,557
- Others						4,234
Unallocated expenses						
- Research and development costs						(52,644)
- Central administrative costs						(66,600)
- Net loss on change in fair value of held for trading investments						(427)
- Net loss on changes in fair value of derivative financial instruments						(463)
- Interest expense						(341)
Share of results of associates						<u>351</u>
Profit before tax						<u>135,811</u>

For the year ended 31 December 2013

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing and wholesaling US\$'000	Segment total US\$'000	Eliminations US\$'000	Consolidated US\$'000
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><u>465,318</u></u>	<u><u>984,249</u></u>	<u><u>121,228</u></u>	<u><u>1,570,795</u></u>	<u><u>(29,324)</u></u>	<u><u>1,541,471</u></u>
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	<u><u>68,001</u></u>	<u><u>156,220</u></u>	<u><u>1,035</u></u>	<u><u>225,256</u></u>	<u><u>–</u></u>	225,256
Unallocated income						
– Interest income on bank balances						4,630
– Rental income						1,226
– Sale of scrap						1,088
– Others						10,222
Unallocated expenses						
– Research and development costs						(48,693)
– Central administrative costs						(55,456)
– Net loss on change in fair value of held for trading investments						(667)
– 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><u>137,344</u></u>

Segment profit represents the profit earned by each segment without allocation of 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, share of results of associates, net loss on changes in fair value of held for trading investments and central administrative 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:

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Segment assets		
Men's footwear	377,124	376,187
Women's footwear	437,139	437,026
Footwear retailing and wholesaling	<u>90,893</u>	<u>92,725</u>
Total segment assets	905,156	905,938
Other assets	<u>281,322</u>	<u>280,613</u>
Consolidated assets	<u>1,186,478</u>	<u>1,186,551</u>
	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Segment liabilities		
Men's footwear	83,492	90,481
Women's footwear	73,799	86,095
Footwear retailing and wholesaling	<u>15,912</u>	<u>15,682</u>
Total segment liabilities	173,203	192,258
Other liabilities	<u>60,566</u>	<u>60,743</u>
Consolidated liabilities	<u>233,769</u>	<u>253,001</u>

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

- all assets are allocated to reportable segments other than 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

2014

	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	28,614	54,829	6,479	89,922
Depreciation	14,185	22,385	3,068	39,638
Write-down of inventories	128	381	3,285	3,794
Interest in associates	–	7,069	487	7,556
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	–	67	284	351
Income tax expense	7,262	6,910	1,394	15,566

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

(b) Revenue from major products and services

	2014 US\$'000	2013 US\$'000
Men's footwear	528,869	464,159
Women's footwear	1,134,222	1,077,312
	<u>1,663,091</u>	<u>1,541,471</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	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
United States of America	799,690	722,816	–	–
The PRC	239,678	266,382	377,970	346,062
United Kingdom	149,193	149,407	–	–
Netherlands	58,725	73,817	–	–
Thailand	2,691	2,429	200	200
Italy	54,967	55,352	90	130
Canada	45,583	33,765	–	–
Spain	31,460	23,536	–	–
Japan	45,507	34,944	–	–
Belgium	33,483	30,342	–	–
South Korea	19,102	13,267	–	–
Germany	37,557	17,009	–	–
Singapore	2,161	3,412	–	–
Switzerland	7,805	7,549	–	–
Australia	20,652	12,695	–	–
Panama	5,657	6,325	–	–
Portugal	152	148	–	–
France	3,969	–	–	–
Others	105,059	88,276	15,378	13,592
	1,663,091	1,541,471	393,638	359,984

(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:

	2014 US\$'000	2013 US\$'000
Customer A ¹	304,464	250,817
Customer B ¹	226,826	222,162

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

4. INCOME TAX EXPENSE

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Current tax:		
PRC Enterprise Income Tax ("EIT")	15,457	14,416
Hong Kong Profits Tax	5	25
Other jurisdictions	104	87
	<u>15,566</u>	<u>14,528</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 as at 31 December 2013 (2014:Nil) 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 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:

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Profit before tax	<u>135,811</u>	<u>137,344</u>
Tax at the applicable PRC EIT rate of 25% (2013: 25%)	33,953	34,336
Tax effect of expenses not deductible for tax purposes	17,037	8,926
Tax effect of income not taxable for tax purposes	(2,443)	(4,493)
Tax effect of share of results of associates	(88)	(52)
Effect of tax exemptions granted to SIT (MCO)	(32,497)	(23,976)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(396)</u>	<u>(213)</u>
Income tax expense	<u>15,566</u>	<u>14,528</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 year ended 31 December 2013, 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

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' emoluments	2,437	2,509
Other staff costs	337,051	306,975
Share-based payment expenses, excluding directors	–	14
Retirement benefit scheme contributions, excluding directors	315	280
	<hr/>	<hr/>
Total staff costs	339,803	309,778
	<hr/>	<hr/>
Auditor's remuneration	497	458
Cost of inventories recognised as an expense (including write down of inventories of US\$3,794,000 (2013: US\$1,928,000))	1,314,333	1,188,329
Depreciation of property, plant and equipment	39,638	35,438
Release of prepaid lease payments	629	611
Share of taxation of associates (included in share of results of associates)	196	96
	<hr/> <hr/>	<hr/> <hr/>

6. DIVIDENDS

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
2013 final dividend of HK55 cents per share and special dividend of HK10 cents per share (2013: 2012 final dividend of HK75 cents per share) paid	66,609	76,797
2014 interim dividend of HK30 cents per share (2013: HK30 cents per share) paid	30,695	30,732
	<hr/>	<hr/>
	97,304	107,529
	<hr/> <hr/>	<hr/> <hr/>

The final dividend of HK55 cents per share in total of US\$56,321,000 for the year ended 31 December 2014 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 and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2014 <i>US\$'000</i>	2013 <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>120,701</u>	<u>122,656</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	792,601,500	792,188,378
Effect of dilutive potential ordinary shares:		
Unvested shares awarded	<u>–</u>	<u>1,208</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>792,601,500</u>	<u>792,189,586</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:

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Trade and bills receivables:		
0 – 30 days	148,038	139,204
31 – 60 days	60,150	54,440
61 – 90 days	17,673	14,648
Over 90 days	<u>24,753</u>	<u>4,308</u>
	250,614	212,600
Other receivables	<u>114,597</u>	<u>113,770</u>
	<u>365,211</u>	<u>326,370</u>

Other receivables include prepayment to suppliers of US\$44,683,000 (2013: US\$65,585,000).

Included in the Group's trade, bills and other receivables balance are debtors with aggregate amount of US\$7,771,000, US\$75,000, US\$1,241,000, US\$17,876,000, US\$1,433,000 and US\$1,630,000 (2013: US\$7,829,000, US\$94,000, US\$342,000, US\$2,296,000, US\$731,000 and US\$1,575,000) 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\$1,937,000 (31 December 2013: US\$13,187,000) 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:

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
31-60 days	91	9,065
61-90 days	21	671
Over 90 days	1,825	3,451
	1,937	13,187

Movement in the allowance for doubtful debts

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Balance at beginning of the year	–	–
Recognition of impairment loss on trade receivables	2,636	–
Balance at end of the year	2,636	–

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:

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Trade payables:		
0 – 30 days	60,865	56,983
31 – 60 days	6,561	8,302
Over 60 days	<u>24,374</u>	<u>36,448</u>
	91,800	101,733
Other payables	<u>84,826</u>	<u>100,201</u>
	<u><u>176,626</u></u>	<u><u>201,934</u></u>

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\$38,478,000, US\$3,000, US\$1,742,000, US\$747,000, US\$2,077,000 and US\$113,000 (2013: US\$19,290,000, US\$1,000, US\$422,000, US\$4,091,000, US\$1,204,000 and US\$157,000) 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

2014 saw the focus of the global economy shift back towards the United States after years of being led by developing economies, especially China. In fact, the United States was one of the only bright spots of the year, with Europe continuing to be mired by high unemployment and weak growth and China missing its official GDP growth target.

With almost half of our revenue coming from the United States, strengthening economic growth and employment figures there is obviously good news for Stella, as well as for many of our brand name customers. Yet despite years of quantitative easing by the Federal Reserve, the threat of global deflation due in part to lower fuel prices has emerged as a key question mark for 2015, an event that would have a significant impact on our business, as well as on our customers' businesses.

Deflation is also a prevalent threat in Europe, another key export market, with the European Central Bank finally moving ahead with quantitative easing in a last-minute effort to combat the problem. The risk of deflation is also a factor in China, the home of our retail business, leading the People's Bank of China to recently cut interest rate and banks' reserve requirement ratios for the first time in more than two years.

As a trusted partner of our customers – for more than twenty years in some cases – we will continue to work closely with them to navigate this uncertain operational environment and maintain our commitment to “making the best shoes”.

This is not to say that 2014 was a poor year for Stella. Shipment volumes for the year returned to more normal levels as improving consumer sentiment incentivised customers to restock their inventories. We are also approaching the finish line for our long running manufacturing optimisation strategy, with our new facilities in inland China and Indonesia now fully up and running and making great strides in terms of capability, efficiency and manufacturing throughput.

This has given us room to scale-back our physical manufacturing presence in coastal China where labour conditions remain extremely tight and costly. We are confident that this scale-back can be achieved alongside an increase in overall production capacity in 2015 as a result of increased efficiency and improved production processes. In addition, our Dongguan sites will become our hub for high-end products with skilled development teams and workforce.

The imminent completion of our manufacturing optimisation strategy will also reduce our future capital expenditure needs, enabling us to return more funds to shareholders.

Looking forward, we will continue to leverage our existing competitive advantages to tentatively venture into new business streams, such as the manufacture of handbags and leather goods, which are increasingly being demanded by our brand name customers. We will also continue to invest in our people through further training and mentoring to support the long-term sustainability of our business.

The outlook for our retail business remains challenging, with consumer sentiment likely to be constrained by slowing economic growth in China for some time. We will continue to make progress in overcoming these challenges by closing underperforming stores to concentrate our resources on standalone stores in high-end locations. We have also continued to expand our presence in Europe in order to broaden and strengthen our global recognition, which has further added to the brand equity that we have built with our customers over the years.

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 customers.

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 are primarily focused in Mainland China, with additional stores in France, the Philippines, Thailand, Taiwan, Kuwait, Lebanon and the United Arab Emirates.

Financial Highlights

Restocking Supports Stable Earnings

Improving economic growth in some of our export markets, particularly the United States, incentivised many of our brand customers to restock throughout 2014. This saw shipments of our quality footwear products return to more normal levels, although the upside was constrained as customers continued to maintain a conservative outlook.

The Group’s consolidated revenue for the year ended 31 December 2014 rose 7.9% to US\$1,663.1 million (2013: US\$1,541.5 million) with shipment volumes rising 4.5% to 53.1 million pairs (2013: 50.8 million pairs). The average selling price (‘ASP’) of our footwear products rose 4.6% to US\$29.6 per pair (2013: US\$28.3 per pair) due to higher raw material costs, particularly for leather.

Women's fashion footwear continues to be our largest segment, contributing 40.0% of total revenue (2013: 37.5%), while contributions from our women's and men's casual footwear segments were 22.2% (2013: 24.5%) and 21.5% (2013: 20.0%) respectively. The contribution from our men's fashion footwear segment was 10.3% (2013: 10.1%).

Geographically, North America and Europe remained our two largest markets in 2014, accounting for 51.7% and 25.5% of the Group's total revenue. This was followed by the PRC (including Hong Kong), which accounted for 14.0%, Asia (other than the PRC), which accounted for 6.5% and other geographic regions, which accounted for 2.3%.

Restructure of Retail Business Nears Completion

During the year under review, we continue to see results from our ongoing strategy of growing the value of our brands by concentrating on standalone stores in prime locations, as well as expanding the number of points-of-sales in France. We also continued to close underperforming stores and make adjustments to our sales and operational strategy.

Revenue from our retail business fell 17.7% to US\$99.8 million (2013: US\$121.2 million) and contributed 6% to the Group's overall revenue during the year under review. Same-store sales (in China only) fell 15.7% to US\$71.7 million (2013: US\$85.1 million). The fall in retail revenue and same-store sales was mostly attributable to slowing economic growth in China, weaker consumer confidence, the heavy promotional retail environment as well as adjustments to our sales strategy in department stores. The gross profit of the retail business fell 28.1% to US\$58.2 million (2013: US\$81.0 million). Net profit declined to a loss of US\$5.1 million, which was mostly attributable to a write-down on inventory.

Stable Profitability in Uncertain Operating Environment

Gross profit across all business segments for the year ended 31 December 2014 declined 1.2% to US\$348.8 million (2013: US\$353.1 million) due to the impact of inventory clearance from our retail segment. Gross profit margin for the year declined to 21.0% (2013: 22.9%). Full year net profit attributable to equity holders of the Company decreased 1.6% to US\$120.7 million (2013: US\$122.7 million).

We invested substantially in working capital during the year under review, with cash generated from operations falling to US\$72.8 million (2013: US\$168.1 million). We invested US\$81.7 million in CAPEX for capacity expansion during the year and paid out US\$97.3 million as dividends.

Business Review

Growing share of highly competitive global footwear market

Stella continued to steadily grow our global market share for the manufacture of high-end and luxury footwear products in the year ended 31 December 2014, with year-on-year shipment volumes growing 4.6%. Our global premium footwear market share was around 10.3% in the year ended 31 December 2013, compared to the combined 74.4% global market share of Italian, Spanish and Portuguese manufacturers – Europe’s main high-end producers. Our market share was expected to grow further in the year 2014 alongside solid growth of shipment volumes, as well as declining shoe production volumes in countries such as Italy where shoe production fell 2.5% to 197.1 million pairs in 2014.

High labour costs and aging labour force will continue to contribute to the declining market share of European manufacturers – a trend that will further strengthen our competitiveness in the market. Our competitiveness will also be supported by the future ratification of the Trans-Pacific Partnership, which will greatly reduce entry barriers to the United States market, particularly for our footwear products manufactured in Vietnam. Our ASP and flexibility such as short lead times and smaller batch size continues to position favourably with European producers.

The price of leather continued to rise in the year ended 31 December 2014 due to higher demand for high-end leather goods, as well as the reduced supply of raw hides due to record feed costs and drought in the United States.

The following table shows a summary of production and export price data for major footwear producing countries as of 31 December 2013.

	Production (mil pairs)	Export price – all shoes (USD/pair)	Export price – leather shoes only (USD/pair)
Italy	202	49	66
France	25	31	71
Spain	92	22	41
Portugal	75	31	36
Germany	28	24	42
Great Britain	5	13	39
Brazil (leather export)	18	NA	29

Source: 2014 Yearbook, Portuguese Footwear, components and leather goods manufacturers' association

Consolidation of Manufacturing Base in Coastal China

Since 2007, we have steadily diversified and optimised our manufacturing base away from coastal China to inland provinces such as Hunan and Guangxi, as well as locations in South-East Asia such as Vietnam, Indonesia and Bangladesh. We have also established footholds in the Philippines and Myanmar during the year under review ahead of a potential expansion of manufacturing capacity to these locations in the near future. These steps have given us better control over labour costs and labour supply, which are both now significant challenges at our long-standing manufacturing base in Dongguan, China.

As we move into the final stages of this optimisation process – in particular, gaining the ability to manage more complex processes and more pairs per hour using labour forces located outside of coastal China – we made the decision to consolidate our manufacturing capacity in Dongguan in order to reduce costs and preserve our profitability. This will allow us concentrate our resources on expanding the Group's production capacity in inland China and SouthEast Asia. We are pleased to say that this has been achieved without any compromise in the quality and value-adding attributes of our footwear products.

Continued Expansion into new Value-adding Products

We have continued to expand our offering of fashion sneakers – a fashionable take on the traditional sports shoe – that have proven to be an extremely popular new business stream with our brand name customers. We have also continued to explore the manufacture of quality leather goods and fashion accessories, such as handbags, as an increasing number of fashion houses seek to outsource the production of accessories, as they did with footwear products in the past.

We also continued to add more famous and niche customers during the year under review as we invested further in our state-of-the-art design, research and development centres in Dongguan, China and Venice, Italy. This capability is one of the many differences that separate us from other OEM manufacturers, allowing us to create value-adding footwear products in a cost-effective manner without sacrificing quality. At the same time, we further cultivated our research and development capability for other leather accessories, such as handbags, as part of our long term plan to become a total solution provider to offer our branded customers fashionable, quality leather products.

Multi-Strategy Approach to Retail Business

We have undertaken a number of different strategies to offset the impact of slowing economic growth and waning consumer confidence on our retail business in China. This included closing a number of underperforming counters at some weaker department stores, changes to our merchandising and operational strategy and scaling-back our participation in department stores discounts in order to reduce unprofitable sales.

We have focused our energy on improving the positioning of our standalone stores and shop-in-shops in quality locations in order to increase the value of our brands. We also proceeded with the roll-out of the revamped store layout for *What For* – reflecting its recent emergence as a global brand. We have also embarked on a multi-brand store strategy that has seen many of our high-volume *Stella Luna* stores also act as flagships for *JKJY by Stella*, our leading men's affordable luxury brand.

In the year ended 31 December 2014, the Group has closed a net 17 *Stella Luna* stores, 16 *What For* stores, 10 *JKJY by Stella* stores and 1 joint-venture *Pierre Balmain* store.

The following table shows the geographic distribution of our stores, by brand, as of 31 December 2014.

	Stella Luna	What For	JKJY by Stella	Pierre Balmain
Greater China				
Eastern China	44	8	0	0
Southern China	28	12	0	0
Northern China	34	30	2	1
North-East China	21	8	0	0
South-West China	33	14	2	0
Central China	16	7	0	0
Taiwan	4	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	180	79	4	1
	<hr/>	<hr/>	<hr/>	<hr/>
France	4	24	0	0
Philippines	2	1	1	0
Thailand	7	4	1	0
Kuwait	2	2	0	0
Lebanon	9	6	0	0
United Arab Emirates	4	1	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
Total	208	117	6	1
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Continued Investment in Brand Value

Our retail brands – *Stella Luna*, *What For* and *JKJY by Stella* – are truly premium global brands that fashion-forward women and men anywhere can connect with, not just consumers in China. The response to our brands in France continues to be highly encouraging, with our products now available at 28 points of sales across the country, including flagship stores on Boulevard Saint-Germain and Rue Saint-Honoré in Paris as well as counters at famous department stores such as Galeries Lafayette and Le Printemps. Many fashion celebrities in the US and Europe show constant interest in *Stella Luna*'s new season collections with talented European designer Anthony Vaccarello, which have been featured in a number of international media and worn by celebrities including Charlotte Gainsbourg, Ciara Harris and Rosie Huntington-Whiteley. Our contemporary and modern brand *What For* continued to see better traffic, sales conversions as well as profitability at store level.

We also launched an online store – <http://www.stellalunafashion.eu/>– based in France, to boost the visibility and availability of the Group’s retail products in Europe during the year under review.

This ongoing investment in Europe has continued to broaden and strengthen the global recognition and desirability of our brands, particularly in China.

As of 31 December 2014, *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 RMB900 – RMB2,300 and RMB1,700 – RMB3,300 respectively.

E-commerce Platform in China

We recently launched a number of official online stores in China: online flagship stores for *Stella Luna*, *JKJY by Stella* and *Pierre Balmain* on VIPLUX – a Chinese luxury online retail platform – and online flagship stores for *Stella Luna* and *What For* on Tmall. These stores will mostly retail off-season merchandise in a cost-efficient manner, enabling us to reduce our reliance on department stores for the clearance of off-season products, which normally negatively affected our margins. These online flagship stores will also provide our retail customers with official channels to buy Stella products online and will go some way towards combating the presence of pirated products online.

Business Outlook

Order Pickup in First-half 2015

We are cautiously optimistic about the demand for our footwear products as economic recovery in the United States and Europe appears increasingly sustainable. However, we expect some customers, particularly in Europe, to continue to maintain a conservative outlook in the first quarter of 2015 as they digest the European Central Bank’s decision to start quantitative easing and the impact of the recent Greek financing gap. With that being said, we expect a good pick up in orders in 2015 as we strive to fulfill customer demand.

In addition to lingering conservatism among some customers, key risks and challenges for the Group remain labour costs and supply, despite the early success we have had with our manufacturing capacity optimisation and relocation strategy.

Expansion of Manufacturing Capacity

We are targeting an expansion of our overall manufacturing capacity by the end of 2015. We believe this can be achieved without increasing the size of our workforce due to improving utilisation rates at our inland facilities and through the re-energising of our production process, which includes reducing our reliance on indirect labour and increasing efficiency.

Continued Focus on Cost-control and Product Quality

We will continue to strictly uphold current cost control measures and initiatives to improve productivity, flexibility and efficiency at our manufacturing facilities in order to safeguard margins and meet narrower shipping windows for some customer orders.

We will also continue to invest in R&D to increase the quality and value-adding attributes of our products to ensure that we remain the partner of choice for leading premium and luxury footwear brands worldwide. We will also further explore the feasibility and growth potential of new business streams, including the manufacture of quality leather goods, which will help us deepen our relationships with customers.

Ongoing Investment in People

We will continue to seek out and invest in new talent, particularly at the management level, to support the future growth of our business. We will also continue to invest in the training and mentoring of our workforce to further boost their skills and capabilities and improve productivity.

We will also 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.

Continued Investment in Retail Business

We remain highly focused on improving the long-term profitability and competitiveness of our retail business. While we will continue to close underperforming stores in some regions, we expect to modestly expand our store network on a net-basis in 2015 as we open more standalone doors in high-end shopping malls and quality locations.

Our priority now is to grow the brand equity we have built with China's upwardly mobile consumers over the past few years in order to stay differentiated from our competitors and to preserve our price premium. We will also continue to expand the footprint of our *Stella Luna* and *What For* brands in Europe to boost their credentials as international brands.

Returning More Money to Investors

We expect our capital expenditure requirements will decline in the coming years as our new manufacturing facilities in inland China and South-East Asia come fully online. This will enable us to progressively return more cash to shareholders, with a dividend payout ratio of around 70%.

Liquidity, Financial Resources and Capital Structure

The Group remained in a stable financial position throughout 2014, with cash and cash equivalents of about US\$174.5 million (2013: US\$278.0 million) as at 31 December 2014, representing a decrease of 37.2% as compared to the position as at 31 December 2013. The Group's net cash inflows from operating activities fell to US\$72.8 million (2013: US\$168.1 million) for the year, representing an decrease of 56.7%. Net cash outflows from investing and financing activities grew to US\$91.3 million and US\$97.6 million, respectively.

As at 31 December 2014, the Group had current assets of US\$792.8 million (2013: US\$826.5 million) and current liabilities of about US\$233.8 million (2013: US\$253.0 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.4 as at 31 December 2014, an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

Net cash outflows from financing activities was US\$97.6 million (2013: US\$107.7 million) in the year ended 31 December 2014. The Group had no bank borrowings as of 31 December 2014.

Foreign Currency Exposure

During the year ended 31 December 2014, 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 entered into various foreign currency forward contracts to minimise the Group's exchange rate exposure.

Capital Expenditure

Net cash outflows from investing activities was US\$91.3 million (2013: US\$64.6 million) during the year under review, representing an increase of 41.3%. This was mostly attributable to higher capital expenditure, which amounted to approximately US\$81.7 million (2013: US\$97.2 million), of which approximately US\$77.1 million was used in production capacity expansion and approximately US\$4.6 million was used for the optimisation of our retail store network.

Pledge of Assets

As of 31 December 2014, the Group had not pledged any of its assets (2013: Nil).

Contingent Liabilities

As of 31 December 2014, the Group had no material contingent liabilities (2013: Nil).

Employees

As at 31 December 2014, the Group had approximately 83,000 employees (2013: approximately 77,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets for 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 2014, 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 2014. The proposed final dividend, amounting to approximately US\$56.3 million, will be paid to Shareholders whose names appear on the register of members of the Company on 28 May 2015, if the proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on 22 May 2015. It is expected that the final dividend, if approved, will be paid on or about 26 June 2015.

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 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 May 2015 to 22 May 2015 (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 19 May 2015.

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 2014 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 2014. 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 23 May, 2014 ("2014 AGM"). Instead, Mr. Chen Li-Ming, Lawrence, the Chief Executive Officer, took the chair at the 2014 AGM (on behalf of Mr. Chao Ming-Cheng, Eric, the Deputy Chairman), and the chairman or member of the Audit Committee, Corporate Governance Committee, Remuneration Committee and Nomination Committee attended the 2014 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 2014.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2014.

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 year.

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

Hong Kong, 20 March 2015

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, BBS and Mr. Yue Chao-Tang, Thomas.