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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 2016

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 2016, 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 2016

	Note	**2016** *US$'000*	2015 *US$'000*
Revenue	*3*	**1,550,864**	1,769,852
Cost of sales		**(1,260,320)**	(1,398,222)
Gross profit		**290,544**	371,630
Other income		**19,352**	17,670
Other gains and losses		**18,760**	(2,319)
Distribution and selling expenses		**(92,614)**	(99,863)
Administrative expenses		**(86,618)**	(98,194)
Research and development costs		**(62,048)**	(59,888)
Share of result of a joint venture		**1,370**	90
Share of results of associates		**43**	247
Finance costs		**(531)**	(628)

* *For identification purpose only*

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

For the year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Profit before tax		**88,258**	128,745
Income tax expense	4	**(7,044)**	(8,594)
Profit for the year	5	**81,214**	120,151
OTHER COMPREHENSIVE (EXPENSE) INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**(1,136)**	(961)
Share of exchange differences of associates and a joint venture		**451**	332
Other comprehensive expense for the year, net of income tax		**(685)**	(629)
Total comprehensive income for the year		**80,529**	119,522
Profit (loss) for the year attributable to:			
Owners of the Company		**81,577**	121,047
Non-controlling interests		**(363)**	(896)
		81,214	120,151
Total comprehensive income (expense) attributable to:			
Owners of the Company		**80,815**	120,322
Non-controlling interests		**(286)**	(800)
		80,529	119,522
Earnings per share *(US$)*			
– basic and diluted		**0.103**	0.153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**378,080**	375,339
Prepaid lease payments		**17,271**	18,044
Interests in associates		**7,635**	8,141
Interest in a joint venture		**8,031**	5,631
Deposit paid for acquisition of property, plant and equipment		**48,661**	27,893
		459,678	435,048
CURRENT ASSETS			
Inventories		**210,412**	208,482
Trade and other receivables	*8*	**359,337**	362,295
Bills receivables	*8*	**336**	317
Loan receivable		**–**	840
Prepaid lease payments		**591**	593
Amounts due from associates		**24,407**	37,544
Amount due from a joint venture		**11,410**	11,897
Held for trading investments		**23,892**	41,084
Cash and cash equivalents		**82,453**	145,126
		712,838	808,178
CURRENT LIABILITIES			
Trade and other payables	*9*	**139,412**	186,169
Bank borrowings – due within one year		**114**	15,140
Tax liabilities		**51,884**	53,626
Derivative financial instruments		**5**	788
		191,415	255,723
NET CURRENT ASSETS		**521,423**	552,455
		981,101	987,503
CAPITAL AND RESERVES			
Share capital		**10,160**	10,160
Share premium and reserves		**968,760**	974,909
Equity attributable to owners of the Company		**978,920**	985,069
Non-controlling interests		**(1,063)**	(777)
TOTAL EQUITY		**977,857**	984,292
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year		**3,244**	3,211
		981,101	987,503

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	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 2015	10,160	154,503	45,427	1,146	(3,791)	(2,722)	190	1,450	745,490	951,853	856	952,709
Profit (loss) for the year	–	–	–	–	–	–	–	–	121,047	121,047	(896)	120,151
Other comprehensive (expense) income for the year	–	–	–	–	(725)	–	–	–	–	(725)	96	(629)
Total comprehensive (expense) income for the year	–	–	–	–	(725)	–	–	–	121,047	120,322	(800)	119,522
Acquisition of additional interest in a subsidiary	–	–	–	–	2	–	–	–	–	2	(833)	(831)
Dividend recognised as distribution *(note 6)*	–	–	–	–	–	–	–	–	(87,108)	(87,108)	–	(87,108)
As at 31 December 2015	10,160	154,503	45,427	1,146	(4,514)	(2,722)	190	1,450	779,429	985,069	(777)	984,292
Profit (loss) for the year	–	–	–	–	–	–	–	–	81,577	81,577	(363)	81,214
Other comprehensive (expense) income for the year	–	–	–	–	(762)	–	–	–	–	(762)	77	(685)
Total comprehensive (expense) income for the year	–	–	–	–	(762)	–	–	–	81,577	80,815	(286)	80,529
Dividend recognised as distribution *(note 6)*	–	–	–	–	–	–	–	–	(86,964)	(86,964)	–	(86,964)
As at 31 December 2016	10,160	154,503	45,427	1,146	(5,276)	(2,722)	190	1,450	774,042	978,920	(1,063)	977,857

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the year ended 31 December 2016

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 2016

	2016	2015
	US$'000	*US$'000*
OPERATING ACTIVITIES		
Profit before tax	**88,258**	128,745
Adjustments for:		
Depreciation of property, plant and equipment	**42,218**	40,298
(Reversal of) write-down of inventories	**(968)**	1,444
Share of result of a joint venture	**(1,370)**	(90)
Share of results of associates	**(43)**	(247)
Net gain on changes in fair value of derivative financial instruments	**(116)**	(425)
Net (gain) loss on changes in fair value of held for trading investments	**(1,110)**	816
Bad debt expenses	**–**	1,288
Impairment loss recognised on trade receivables	**–**	1,000
Impairment loss recognised on other receivables	**1,650**	–
Gain on disposal of prepaid lease payments	**(19,188)**	–
Release of prepaid lease payments	**958**	509
Loss on disposal of property, plant and equipment	**3,376**	2,762
Finance costs	**531**	628
Interest income	**(2,619)**	(3,092)
Operating cash flows before movements in working capital	**111,577**	173,636
(Increase) decrease in inventories	**(7,112)**	5,187
Decrease in trade, bills and other receivables	**7,070**	311
Decrease (increase) in loan receivable	**840**	(840)
(Decrease) increase in trade and other payables	**(33,450)**	15,538
Decrease in held for trading investments	**18,302**	976
Decrease (increase) in amount due from a joint venture	**487**	(704)
Decrease (increase) in amounts due from associates	**13,137**	(11,897)
Cash generated from operations	**110,851**	182,207
Income taxes paid	**(8,697)**	(11,356)
NET CASH FROM OPERATING ACTIVITIES	**102,154**	170,851

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2016

	2016	2015
	US$'000	*US$'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(48,013)**	(48,087)
Decrease in derivative financial instruments	**(667)**	–
Acquisition of prepaid lease payments	**(1,806)**	–
Acquisition of additional interest in a subsidiary	**–**	(831)
Deposit paid for acquisition of property, plant and equipment	**(26,973)**	(36,440)
Investment in a joint venture	**–**	(5,547)
Proceeds from the disposal of prepaid lease payments	**12,726**	–
Interest received	**2,619**	3,092
NET CASH USED IN INVESTING ACTIVITIES	**(62,114)**	(87,813)
FINANCING ACTIVITIES		
Interest paid	**(531)**	(628)
New short-term bank borrowing raised	**–**	15,000
New long-term bank borrowings raised	**3,358**	3,351
Repayment of short-term bank borrowing	**(15,000)**	–
Repayment of long-term bank borrowing	**(3,351)**	–
Dividend paid	**(86,964)**	(87,108)
NET CASH USED IN FINANCING ACTIVITIES	**(102,488)**	(69,385)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(62,448)**	13,653
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**145,126**	131,601
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(225)**	(128)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, represented by bank balances and cash	**82,453**	145,126

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for acquisitions of interest in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

The application of the above amendments to 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 amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instrument[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

[1] *Effective for annual periods beginning on or after 1 January 2018.*

[2] *Effective for annual periods beginning on or after 1 January 2019.*

[3] *Effective for annual periods beginning on or after a date to be determined.*

[4] *Effective for annual periods beginning on or after 1 January 2017.*

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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 attributable to a financial liability's 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 is 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 mechanisms currently available in HKAS 39. Under HKFRS 9, 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 retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of US$24,117,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the consolidated financial statements of the Group.

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 2016

	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	**507,669**	**965,427**	**77,768**	**1,550,864**	**–**	**1,550,864**
Inter-segment sales	**1,694**	**30,746**	**–**	**32,440**	**(32,440)**	**–**
Total	**509,363**	**996,173**	**77,768**	**1,583,304**	**(32,440)**	**1,550,864**
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	**58,019**	**134,850**	**(1,852)**	**191,017**	**–**	**191,017**
Unallocated income						
– Interest income on bank balances						**494**
– Interest income from held for trading investments						**1,424**
– Interest income from derivative financial instruments						**701**
– Rental income						**1,206**
– Sale of scrap						**513**
– Net gain on changes in fair value of derivative financial instruments						**116**
– Net gain on changes in fair value of held for trading investments						**1,110**
– Others						**20,650**
Unallocated expenses						
– Research and development costs						**(62,048)**
– Central administrative costs						**(67,807)**
– Finance costs						**(531)**
Share of result of a joint venture						**1,370**
Share of results of associates						**43**
Profit before tax						**88,258**

For the year ended 31 December 2015

	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	559,265	1,130,266	80,321	1,769,852	–	1,769,852
Inter-segment sales	1,743	25,632	–	27,375	(27,375)	–
Total	561,008	1,155,898	80,321	1,797,227	(27,375)	1,769,852
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	78,213	190,459	(4,672)	264,000	–	264,000
Unallocated income						
– Interest income on bank balances						587
– Interest income from held for trading investments						2,306
– Rental income						1,325
– Sale of scrap						671
– Net gain on changes in fair value of derivative financial instruments						425
– Others						946
Unallocated expenses						
– Research and development costs						(59,888)
– Central administrative costs						(80,520)
– Net loss on changes in fair value of held for trading investments						(816)
– Finance costs						(628)
Share of result of a joint venture						90
Share of results of associates						247
Profit before tax						128,745

Segment profit represents the profit earned by each segment without allocation of interest income on bank balances, interest income from held for trading investments, interest income from derivative financial instruments, rental income, sale of scrap, net gain on changes in fair value of derivative financial instruments, net gain (loss) on changes in fair value of held for trading investments. research and development costs, central administrative costs, finance costs, share of result of a joint venture and share of results of associates. 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:

	2016	2015
	US$'000	*US$'000*
Segment assets		
Men's footwear	**439,743**	437,068
Women's footwear	**464,836**	447,952
Footwear retailing and wholesaling	**56,433**	60,198
Total segment assets	**961,012**	945,218
Other assets	**211,504**	298,008
Consolidated assets	**1,172,516**	1,243,226

	2016	2015
	US$'000	US$'000
Segment liabilities		
Men's footwear	**77,001**	81,167
Women's footwear	**46,672**	73,475
Footwear retailing and wholesaling	**15,744**	15,367
Total segment liabilities	**139,417**	170,009
Other liabilities	**55,242**	88,925
Consolidated liabilities	**194,659**	258,934

For the purposes of monitoring segment performance 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 bank borrowings, tax liabilities and unallocated corporate liabilities not belonging to any operating segments.

Other segment information

2016

	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	**16,225**	**30,620**	**7,227**	**54,072**
Release of prepaid lease payments	**414**	**544**	**–**	**958**
Depreciation	**15,858**	**22,820**	**3,540**	**42,218**
Write-down (reversal of write-down) of inventories	**2,293**	**1,713**	**(4,974)**	**(968)**
Interests in associates	**–**	**6,901**	**734**	**7,635**
Interest in a joint venture	**8,031**	**–**	**–**	**8,031**
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 result of a joint venture	**1,370**	**–**	**–**	**1,370**
Share of results of associates	**–**	**(6)**	**49**	**43**
Income tax expense	**3,042**	**3,404**	**598**	**7,044**

2015

	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	16,665	44,222	5,072	65,959
Release of prepaid lease payments	211	298	–	509
Depreciation	16,185	21,178	2,935	40,298
(Reversal of) write-down of inventories	(469)	2,115	(202)	1,444
Interests in associates	–	7,398	743	8,141
Interest in a joint venture	5,631	–	–	5,631
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 result of a joint venture	90	–	–	90
Share of results of associates	–	(38)	285	247
Income tax expense	3,373	5,107	114	8,594

(b) Revenue from major products and services

	2016 ***US$'000***	2015 *US$'000*
Men's footwear	**509,625**	561,222
Women's footwear	**1,041,239**	1,208,630
	1,550,864	1,769,852

(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 the geographical location of the assets:

	Revenue from external customers		Non-current assets As at 31 December	
	2016	2015	**2016**	2015
	US$'000	*US$'000*	***US$'000***	*US$'000*
United States of America	**761,096**	878,800	**–**	–
The PRC	**202,603**	222,363	**298,637**	322,297
United Kingdom	**134,263**	172,978	**–**	–
Netherlands	**54,203**	64,026	**–**	–
Italy	**24,134**	31,609	**100**	71
Canada	**40,354**	45,534	**–**	–
Japan	**41,546**	43,069	**–**	–
Germany	**35,027**	58,273	**–**	–
Belgium	**49,100**	35,452	**–**	–
Spain	**21,194**	28,411	**–**	–
Others	**187,344**	189,337	**160,941**	112,680
	1,550,864	1,769,852	**459,678**	435,048

(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:

	2016	2015
	US$'000	*US$'000*
Customer A[1]	**312,965**	389,121
Customer B[1]	**286,571**	296,901
Customer C[1]	**152,317**	231,165

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

4. INCOME TAX EXPENSE

	2016	2015
	US$'000	*US$'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**17,838**	15,884
Hong Kong Profits Tax	**279**	–
Other jurisdictions	**334**	132
	18,451	16,016
Overprovision in prior years:		
PRC EIT	**(11,407)**	(7,422)
	7,044	8,594

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% for both years.

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)"), a subsidiary acquired in year 2011 is exempted from Macao Complementary Tax.

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

5. PROFIT FOR THE YEAR

	2016	2015
	US$'000	*US$'000*
Profit for the year has been arrived at after charging:		
Directors' emoluments	**1,687**	2,437
Other staff costs	**341,852**	354,931
Termination benefits	**16,151**	12,721
Retirement benefit scheme contributions, excluding directors	**3,891**	4,165
Total staff costs	**363,581**	374,254
Auditor's remuneration	**489**	533
Cost of inventories recognised as an expense (including reversal of write-down on inventories of US$968,000 (2015: write-down on inventories of US$1,444,000))	**1,260,320**	1,398,222
Depreciation of property, plant and equipment	**42,218**	40,298
Release of prepaid lease payments	**958**	509
Share of taxation of associates (included in share of results of associates)	**225**	473
Share of taxation of a joint venture (included in share of result of a joint venture)	**110**	36

6. DIVIDENDS

	2016	2015
	US$'000	*US$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2015 final dividend of HK55 cents per share (2015: 2014 final dividend of HK55 cents per share) paid	**56,290**	56,360
2016 interim dividend of HK30 cents per share (2015: HK30 cents per share) paid	**30,674**	30,748
	86,964	87,108

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK30 cents (2015: final dividend in respect of the year ended 31 December 2015 of HK55 cents) per ordinary shares has been proposed by the directors of the Company. Moreover, a special dividend of HK10 cents per ordinary share for the year ended 31 December 2016 (31 December 2015: Nil) has been proposed by the directors of the Company. Both of the final dividend and special dividend are 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:

	2016	2015
	US$'000	*US$'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**81,577**	121,047
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**792,601,500**	792,601,500

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:

	2016	2015
	US$'000	*US$'000*
Trade and bills receivables:		
0 – 30 days	**137,100**	142,420
31 – 60 days	**74,404**	66,190
61 – 90 days	**14,660**	11,224
Over 90 days	**10,927**	18,846
	237,091	238,680
Other receivables	**122,582**	123,932
	359,673	362,612

Other receivables include prepayment to suppliers of US$79,442,000 (2015: US$79,412,000).

The movement in the allowance for doubtful debts on other receivables were as follows:

	2016	2015
	US$'000	*US$'000*
Balance at the beginning of year	**–**	–
Impairment loss recognised on other receivables	**1,650**	–
Balance at the end of year	**1,650**	–

Included in the allowance for doubtful debts on other receivables above with an aggregate balance of US$1,650,000 (2015: Nil) were individual impaired other receivables. The individually impaired other receivables related to other debtors that were past due or in default of payments and the Group assessed that these other receivables are generally not recoverable. The Group does not hold any collateral over these balances.

The carrying amounts of the remaining other receivables that were neither past due nor impaired relate to other debtors for whom there were no recent history of default.

Included in the Group's trade, bills and other receivables balance are debtors with aggregate amount of US$36,287,000, US$4,000, US$217,000, US$196,980,000, Nil, US$3,035,000 and US$281,000 (2015: US$7,715,000, US$74,000, US$3,297,000, US$3,645,000, US$523,000, Nil and US$396,000) which are denominated in RMB, HKD, EUR, MOP, IDR, VND 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$8,850,000 (2015: US$4,105,000) 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:

	2016	2015
	US$'000	*US$'000*
31 – 60 days	**3,248**	1,815
61 – 90 days	**1,510**	692
Over 90 days	**4,092**	1,598
	8,850	4,105

The movement in the allowance for doubtful debts on trade receivables were as follows:

	2016	2015
	US$'000	*US$'000*
Balance at the beginning of year	**1,500**	2,636
Impairment loss recognised on trade receivables	**–**	1,000
Amounts written off as uncollectible	**(1,013)**	(2,136)
Balance at the end of year	**487**	1,500

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:

	2016	2015
	US$'000	*US$'000*
Trade payables:		
0 – 30 days	**63,902**	67,535
31 – 60 days	**7,171**	7,050
Over 60 days	**19,972**	14,276
	91,045	88,861
Other payables	**48,367**	97,308
	139,412	186,169

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$12,115,000, US$3,000, Nil, US$22,798,000, US$1,625,000 and US$2,654,000 (2015: US$26,599,000, US$3,000, US$1,680,000, US$10,259,000, US$5,420,000 and US$316,000) 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

2016 may be remembered more for its politics than for anything else. Disruptive events, such as the United Kingdom’s decision to leave the European Union, led many companies, including footwear brands, to become increasingly conservative with their business decisions.

In addition, rapidly changing consumer tastes – which increasingly favour products that incorporate fashion with lifestyle, such as ‘athleisure’ – is continuing to transform the footwear retail space.

Both of these factors affected our financial performance during the year under review, as well as efficiency and production allocation in some parts of our operations. However, thanks to the hard work of our management team, our ability to cope with these changes stabilised throughout the year.

Looking forward, we remain committed to further improving our processes to take advantage of these trends. And most importantly, we will not back down from incorporating the high level of quality and research and development that we are famous for. This will continue to set Stella apart from the rest of the industry.

2016 may also prove to have been a watershed year for the future of global trade – particularly with the apparent rise of protectionism in some markets, as epitomised by the withdrawal of the United States from the Trans-Pacific Partnership and renewed discussion about withdrawing from or renegotiation about North American Free Trade Agreement. Similar protectionist rhetoric is also starting to appear in Europe following the Brexit decision in the United Kingdom, recent terrorism attacks and the ongoing refugee crisis.

Whether this proves just to be a blip in the steady march towards global free trade, or represents a true reversal of this, remains to be seen.

Despite these potential dark clouds on the horizon, any future change to global trade policies in developed markets is also unlikely to change the fundamental business case for footwear manufacturing in Asia. As a result, the future development strategy for our manufacturing business is unlikely to change. This includes further expanding our athleisure footwear manufacturing capacity in places such as Vietnam, while also making strategic changes to our production allocation to align with changing market demand.

Our retail business will also continue to play an important role in showcasing our footwear products on the global stage.

Heading into 2017, demand from our customers should stabilise despite the above risks, with the Federal Reserve's decision to start raising interest rates in December being just the latest sign that the U.S. economy – our largest market – is back on track. We will continue to invest in our ability to deliver value, quality and craftsmanship to achieve our mission of "making the best shoes", in order to position our business strongly for the future.

I would like to take this opportunity to express my thanks to our customers, business partners and shareholders for the hard work and unwavering support throughout the year. On behalf of the Board, I would also like to thank my colleagues for their dedication and service throughout the year.

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, athleisure 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: from premium to high-end, and from fashion to sports 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. Our network of retail stores is primarily focused in Mainland China, with additional stores in France, the Philippines, Taiwan, Kuwait, Lebanon and the United Arab Emirates.

Financial Highlights

Better Production Allocation Supports Second Half Performance

We experienced a marked slowdown in demand for our casual footwear products during the year under review as a result of the weak retail environment in North America and Europe, as well as changing consumer trends. This resulted in the lower utilisation of our non-sports footwear factories, and in turn, a drop in efficiency and margins, particularly in the first half of the year.

However, we continued to record solid and sustainable growth for our athleisure footwear products, which partially offset the impact of the slowdown in the casual segment. We have also been proactive in reassigning some of the spare capacity in our non-sports footwear factories, which helped return us to a firmer financial footing in the second half of the year.

Our consolidated revenue for the year ended 31 December 2016 fell 12.4% to US$1,550.9 million (2015: US$1,769.9 million). Shipment volumes fell 9.1% to 52.9 million pairs (2015: 58.2 million pairs). The average selling price (‘ASP’) of our footwear products fell 4.1% to US$28.1 per pair (2015: US$29.3 per pair) due to changes to our product mix.

Fashion footwear is our largest segment, contributing 42.0% of total revenue (2015: 46.0%) during the year ended 31 December 2016. The contributions from casual footwear and athleisure were 29.0% and 24.0% respectively (2015: 32.5% and 16.9%).

Geographically, North America and Europe remain our two largest markets, accounting for 52.3% and 25.1% of our total revenue for the year under review. This was followed by the PRC (including Hong Kong), which accounted for 13.1%, Asia (other than the PRC), which accounted for 7.4% and other geographic regions, which accounted for 2.1%.

Retail Business Benefiting from Enhanced Operational Strategies

The retail optimisation strategy being implemented by our retail management team contributed to improved sales during the year under review. This strategy involves the ongoing closure of underperforming stores and counters; the launch of multi-brand stores; the opening of new standalone stores in high-potential shopping malls in China; the refurbishment of older stores; as well as the use of online platforms for effective marketing strategies and to clear off-season merchandise.

Our retail business contributed around 5.0% to the Group’s overall revenue. The segment experienced a slight decline in revenue by 3.1% to US$77.8 million (2015: US$80.3 million) for the year under review despite a turnaround in the fourth quarter. Similarly, despite the notable recovery of same-store sales towards the end of the year, same-store sales (in China only) for the year fell slightly by 6.2% to US$50.2 million (2015: US$70.9 million).

Our retail business recorded a gross profit of US$53.0 million (2015: US$53.4 million), a net loss of US$1.6 million was recorded for 2016 (2015: net loss of US$3.6 million).

Profitability Under Challenges

The decline in revenue and shipment volume during the year ended 31 December 2016 had an impact on our overall financial performance. Our gross profit across fell 21.8% to US$290.5 million (2015: US$371.6 million) as a result of the overall decline in revenue and shipment volumes. While we had more than abundant labour particularly in the first half of 2016, our gross profit margin for the year was 18.7% (2015: 21.0%).

Full year net profit attributable to equity holders of the Company fell 32.6% to US$81.6 million (2015: US$121.0 million).

Our cash generated from operations remained healthy at US$102.2 million from US$170.9 in the same period last year.

Business Review

Athleisure Trend a Natural Fit for Stella's Skill Base and Reputation

During the year under review, the popularity of 'athleisure' footwear products – a fashionable take on the traditional sports shoe – continued to grow at a pronounced pace. The shift in demand is being driven by a number of factors, including changing fashion and lifestyles that favour comfortable and casual wear. This trend presented us with an opportunity to grow in the new category.

We were proactive in leveraging on our reputation for high-quality design and R&D, as well as on our skill base for developing compelling footwear products, in order to win new customers in the athleisure space and expand our relationship with existing customers.

We also continued to gain the trust of our customers and added new athleisure footwear products in our product offerings during the year under review. This bodes well for us to ride on current trends and further develop as a partner of choice in the athleisure segment in the years ahead.

However, the growing popularity of athleisure also cannibalised demand for casual footwear products – another key product segment – as the result of the convergence between sports, casual and fashion in the retail market. This was one of the main contributors to the overall decline in shipment volumes during the year under review.

Proactive Consolidation and Adjustment to Manufacturing Capacity to Meet Changing Market Conditions

Over the past few years, we have been steadily diversifying and optimising our manufacturing base to continue delivering on our longstanding reputation for 'Italian shoes made in China by Stella'. Our manufacturing footprint now includes China's Guangdong, Hunan, Guangxi and Hebei provinces, as well as in a number of South-East Asian countries, including Vietnam, Indonesia and Bangladesh.

The Group has also established footholds in the Philippines and Myanmar, which may lead to the establishment of new manufacturing facilities in these countries sometime in the future.

This diverse manufacturing base has enabled us to overcome persistent labour supply and labour cost problems in China's coastal regions, while taking advantage of the shift within China's workforce away from transient migrant labour towards a more resident and career-focused workforce.

During the year under review, the fall in demand for casual footwear propelled us to make further adjustments to our manufacturing base. This included substituting some of our previous casual footwear capacity to meet rising orders for athleisure footwear, particularly in the second half of the year. Our ability to achieve this in a short period of time helps us reduce inefficiencies and under-utilisation at our factories, restoring some of our margins. We also reduced headcounts at a greater pace than expected to better control capacity and costs.

Commitment to 'Italian Quality' Supports Further Expansion of Market Share at the Premium-end

In 2016, our share of the global premium footwear market had grown to around 10.6%, compared to the combined 75% global market share of Italian, Spanish and Portuguese manufacturers – Europe's main high-end producers. This growth was mainly attributable to the further expansion of our brand portfolio as we added new customers during the year under review, as well as the continued decline of shoe production volumes in some locations such as Italy.

The following table shows a summary of production and export price data for major footwear producing countries for the year ended 31 December 2015.

	Production (million pairs)	**Export price – leather shoes only (USD/pair)**
Italy	191	62
France	42	60
Spain	105	38
Portugal	79	31
Germany	33	35
Great Britain	6	36
Brazil (leather export)	17	26

Source: 2016 Yearbook, Portuguese Footwear, components and leather goods manufacturers' association

Our strong positioning in the premium footwear market is the result of the unparalleled reputation we have built in delivering 'Italian quality', flexibility and research and development capabilities. These capabilities are underpinned by our state-of-the-art design, research and development centers in Dongguan, China and Venice, Italy, allowing us to attract a higher ASP than the industry average.

We are also continuing to explore the manufacture of quality leather goods and accessories, including handbags, in order to meet growing demand from brands looking to outsource the production of these products.

Signs of Turnaround for Retail Business

The strategies and initiatives being implemented by our new retail management team started to see positive impact towards the end of the year, during which we saw some turnaround in revenue and same-store sales.

One of the main strategies has been the ongoing optimisation of our store network. This included further reducing our store network in China as we closed more underperforming stores and counters, while at the same time opening new standalone stores in selective locations. We also continued to expand the presence of our *Stella Luna* and *What For* brands in Europe to support the value of our retail brands in China.

In the year ended 31 December 2016, the Group opened a net 8 *Stella Luna* stores worldwide and closed a net 4 *What For* stores and 2 *JKJY by Stella* stores. In April 2016, we closed our last Pierre Balmain branded store in China, although *Pierre Balmain*-branded footwear remains available at our other retail stores in China.

The following table shows the geographic distribution of our stores, by brand, as of 31 December 2016.

	Stella Luna	***What For***	***JKJY by Stella***
Greater China			
Eastern China	47	6	0
Southern China	34	11	0
Northern China	34	16	0
North-East China	20	7	0
South-West China	32	9	1
Central China	18	8	0
Taiwan	1	0	1
Subtotal	186	57	2
France	4	48	3
Philippines	1	1	1
Bahrain	1	1	0
Kuwait	2	2	0
Lebanon	9	8	0
United Arab Emirates	4	1	0
Total	207	118	6

Expanding Global Reach of Retail Business

During the year under review, we expanded our work with leading retailers around the world, such as *Lane Crawford* and *Barneys New York*, to bring our retail brands to new markets, including Hong Kong and the United States, for the first time, while also making them available on their ecommerce channels.

These collaborations complemented our other strategy of expanding the presence of *Stella Luna*, *What For* and *JKJY by Stella* in Europe in order to increase the overall value of these brands in the Chinese market.

As of 31 December 2016, *Stella Luna* footwear was priced between RMB1,780 and RMB9,180 a pair in China, while *What For* and *JKJY by Stella* products retailed for RMB980 – RMB2,980 and RMB2,380 – RMB3,980 respectively.

Grant of Option to Sell 60% of Stella's China Retail Business

In October 2016, the Group granted to Max Group Holdings Limited ("Max Group") an option to acquire a 60% stake in its China retail business.

Despite the grants of option and (if exercised) sales of our majority stake in our China retail business, we will continue to maintain control over our retail brands, as well as our retail operations in Europe. We are excited to have found the right partner for securing the ongoing turnaround of our retail business.

Outlook

Orders Expected to Stabilise in First Half of 2017

We see demand for our footwear products stabilising in the first half of 2017, due to continued economic recovery in the United States. However, numerous risks remain – both political and economic. This includes the ongoing Brexit negotiations, potentially contentious elections in France, the rise of trade protectionism in the United States, slowing economic growth in China and the ongoing Syrian refugee crisis and the declining security situation in Europe.

We also continue to expect more demand for athleisure products in 2017, which will continue to partially cushion for the weakness in casual footwear products.

Continuation of Manufacturing Strategy Despite Suspension of TPP Ratification

While the U.S. Government decision not to ratify the Trans-Pacific Partnership (TPP) is disappointing, we do not expect the event to drastically affect the strategy of our manufacturing business going forward.

We will continue to expand our athleisure footwear manufacturing capacity, particularly in locations such as Vietnam, in order to increase our competitiveness in this sector. We will also convert more of our manufacturing capacity in other areas into additional capacity for athleisure footwear products.

We will also continue to invest in our research and development capabilities in order to improve and extend our range of innovative footwear products to deepen our customer relationships and remain the partner of choice for leading footwear brands around the world.

We will also remain committed to strict cost controls and ongoing efficiency improvement measures, while also better managing headcounts and work hours. We will continue to meet narrow shipment windows and deliver short lead times to meet the expectations of our customers and deliver value.

Focused Investment in People

The training and development of new talent remains a core focus at both our manufacturing and retail businesses. We will continue to invest heavily in the training and mentoring of our workforce to further boost their skills and capabilities and improve productivity.

We will also 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.

Securing the Long-term Competitiveness of Retail Business

Our retail management team will continue to implement their strategies to turnaround the retail business in China. This will include the closure of more non-performing stores and counters, as well as the selective opening of standalone stores and shop-in-shops in high-potential locations.

We will also continue to expand our retail presence in Europe and other global markets to further grow the value of our retail brands and to bring back this brand equity to China.

Continued Commitment to Shareholders

We expect our capital requirements to remain modest in the coming year, despite ongoing investment in our research and development capabilities and in some manufacturing facilities in South-East Asia. We remain committed to returning profit to shareholders and maintaining our current dividend policy.

Liquidity, Financial Resources and Capital Structure

The Group remained in a stable financial position throughout 2016, with cash and cash equivalents of about US$106.3 million (2015: US$186.2 million) as at 31 December 2016, representing an decrease of 42.9% as compared to the position as at 31 December 2016.

The Group's net cash inflows from operating activities fell to US$102.2 million (2015: US$170.9 million) for the year, representing an decrease of 40.2%.

Net cash outflows used in investing and financing activities fell to US$62.1 million and US$102.5 million, respectively.

As at 31 December 2016, the Group had current assets of US$712.8 million (2015: US$808.2 million) and current liabilities of about US$191.4 million (2015: US$255.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.7 as at 31 December 2016, an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$3.3 million as of 31 December 2016 (2015: US$18.3 million).

Foreign Currency Exposure

During the year ended 31 December 2016, 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$62.1 million (2015: US$87.8 million) during the year under review, representing an decrease of 29.3%. Capital expenditure amounted to approximately US$77.5 million (2015: US$85.3 million), of which approximately US$70.0 million was used in production capacity expansion and approximately US$7.5 million was used for the optimisation of our retail store network.

Pledge of Assets

As of 31 December 2016, the Group had pledged US$5.5 million of its assets (2015: US$5.5 million).

Contingent Liabilities

As of 31 December 2016, the Group had no material contingent liabilities (2015: Nil).

Employees

As at 31 December 2016, the Group had approximately 71,000 employees (2015: approximately 83,000). 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. With a view to recognising and rewarding the contribution of the employees, giving incentives to the employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for further development of the Group, the Company has adopted a long term incentive scheme and a share award plan.

As of 31 December 2016, 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 HK30 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2016. 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 2016 in recognition of the continual support of the Shareholders. The proposed final dividend and the special dividend, amounting to approximately US$30.7 million and US$10.2 million respectively, will be paid to Shareholders whose names appear on the register of members of the Company on 25 May 2017, if the proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on 19 May 2017. It is expected that the final dividend and the special dividend, if approved, will be paid on or about 28 June 2017.

In order to qualify for the proposed final dividend and the special 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 25 May 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2017 to 19 May 2017 (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 15 May 2017.

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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2016 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 2016. 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 27 May 2016 ("2016 AGM"). Instead, Mr. Chao Ming Cheng, Eric, the Deputy Chairman, took the chair at the 2016 AGM and the chairman or member of the Audit Committee, Corporate Governance Committee, Remuneration Committee and Nomination Committee attended the 2016 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 2016.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2016.

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, 16 March 2017

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, Mr. Yue Chao-Tang, Thomas and Mr. Lian Jie.