

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

**INTERIM RESULTS FOR THE SIX MONTHS
 ENDED 30 JUNE 2017**

The board (the “Board”) of directors (the “Directors”) of Stella International Holdings Limited (“Stella” or the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016 as follows:–

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 AND OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	<i>NOTES</i>	<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	762,433	721,388
Cost of sales		(621,505)	(588,164)
Gross profit		140,928	133,224
Other income		12,944	12,878
Other gains and losses		(2,389)	481
Distribution and selling expenses		(51,330)	(43,303)
Administrative expenses		(40,149)	(39,948)
Research and development costs		(29,089)	(30,720)
Share of result of a joint venture		1,040	540
Share of results of associates		15	(76)
Finance costs		(219)	(194)
Profit before tax		31,751	32,882
Income tax expense	4	(3,520)	(2,438)

* *For identification purpose only*

		Six months ended 30 June	
		2017	2016
	<i>NOTES</i>	US\$'000	<i>US\$'000</i>
		(Unaudited)	(Unaudited)
Profit for the period	5	28,231	30,444
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		117	(207)
Share of exchange differences of associates and a joint venture		16	(11)
Other comprehensive income (expense) for the period, net of income tax		133	(218)
Total comprehensive income for the period		28,364	30,226
Profit (loss) for the period attributable to:			
Owners of the Company		28,505	30,380
Non-controlling interests		(274)	64
		28,231	30,444
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		28,767	30,189
Non-controlling interests		(403)	37
		28,364	30,226
Earnings per share	7		
– Basic (US\$)		0.0360	0.0383
– Diluted (US\$)		0.0359	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	<i>NOTES</i>	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	396,772	378,080
Prepaid lease payments		17,210	17,271
Interests in associates		7,643	7,635
Interest in a joint venture		9,093	8,031
Deposit paid for acquisition of property, plant and equipment	8	43,558	48,661
		474,276	459,678
CURRENT ASSETS			
Inventories		227,052	210,412
Trade and other receivables	9	427,665	359,337
Bills receivables	9	–	336
Prepaid lease payments		605	591
Amounts due from associates	10	25,980	24,407
Amount due from a joint venture	11	11,174	11,410
Derivative financial assets		2,228	–
Held for trading investments	12	14,197	23,892
Cash and cash equivalents		89,572	82,453
		798,473	712,838
CURRENT LIABILITIES			
Trade and other payables	13	132,623	139,412
Bank borrowings – due within one year	14	117,905	114
Tax liabilities		52,853	51,884
Derivative financial liabilities		5	5
		303,386	191,415
NET CURRENT ASSETS		495,087	521,423
		969,363	981,101

		30 June 2017	31 December 2016
	<i>NOTES</i>	<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Audited)
CAPITAL AND RESERVES			
Share capital	<i>15</i>	10,160	10,160
Share premium and reserves		957,351	968,760
		<hr/>	<hr/>
Equity attributable to owners of the Company		967,511	978,920
Non-controlling interests		(1,466)	(1,063)
		<hr/>	<hr/>
TOTAL EQUITY		966,045	977,857
		<hr/> <hr/>	<hr/> <hr/>
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	<i>14</i>	3,318	3,244
		<hr/>	<hr/>
		969,363	981,101
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company											
	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Merger reserve <i>US\$'000</i>	Capital reserve <i>US\$'000</i>	Exchange reserve <i>US\$'000</i>	Shares held for share award scheme <i>US\$'000</i>	Capital redemption reserve <i>US\$'000</i>	Share award reserve <i>US\$'000</i>	Accumulated profits <i>US\$'000</i>	Sub-total <i>US\$'000</i>	Non- controlling interests <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2017 (audited)	10,160	154,503	45,427	1,146	(5,276)	(2,722)	190	1,450	774,042	978,920	(1,063)	977,857
Profit (loss) for the period	-	-	-	-	-	-	-	-	28,505	28,505	(274)	28,231
Other comprehensive income (expense) for the period	-	-	-	-	262	-	-	-	-	262	(129)	133
Total comprehensive income (expense) for the period	-	-	-	-	262	-	-	-	28,505	28,767	(403)	28,364
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	623	-	623	-	623
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(40,799)	(40,799)	-	(40,799)
At 30 June 2017 (unaudited)	<u>10,160</u>	<u>154,503</u>	<u>45,427</u>	<u>1,146</u>	<u>(5,014)</u>	<u>(2,722)</u>	<u>190</u>	<u>2,073</u>	<u>761,748</u>	<u>967,511</u>	<u>(1,466)</u>	<u>966,045</u>
At 1 January 2016 (audited)	10,160	154,503	45,427	1,146	(4,514)	(2,722)	190	1,450	779,429	985,069	(777)	984,292
Profit for the period	-	-	-	-	-	-	-	-	30,380	30,380	64	30,444
Other comprehensive expense for the period	-	-	-	-	(191)	-	-	-	-	(191)	(27)	(218)
Total comprehensive (expense) income for the period	-	-	-	-	(191)	-	-	-	30,380	30,189	37	30,226
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(56,290)	(56,290)	-	(56,290)
At 30 June 2016 (unaudited)	<u>10,160</u>	<u>154,503</u>	<u>45,427</u>	<u>1,146</u>	<u>(4,705)</u>	<u>(2,722)</u>	<u>190</u>	<u>1,450</u>	<u>753,519</u>	<u>958,968</u>	<u>(740)</u>	<u>958,228</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES:		
Decrease in held for trading investments	10,486	9,394
Increase in trade and other receivables	(73,876)	(64,173)
Other operating cash flows	17,522	(7,967)
	<u>(45,868)</u>	<u>(62,746)</u>
NET CASH USED IN INVESTING ACTIVITIES:		
Deposit paid for acquisition of property, plant and equipment	(4,069)	(13,163)
Increase in derivative financial instruments	(1,084)	(25,000)
Purchase of property, plant and equipment	(19,468)	(36,117)
Other investing cash flows	934	2,087
	<u>(23,687)</u>	<u>(72,193)</u>
NET CASH FROM FINANCING ACTIVITIES:		
New short-term bank borrowings raised	464,957	409,129
Repayment of short-term bank borrowings	(347,294)	(268,134)
New long-term bank borrowing raised	–	3,351
Repayment of long-term bank borrowing	–	(3,211)
Dividend paid	(40,799)	(56,290)
Other financing cash flows	(219)	(194)
	<u>76,645</u>	<u>84,651</u>
Net increase (decrease) in cash and cash equivalents	7,090	(50,288)
Cash and cash equivalents at the beginning of period	82,453	145,126
Effect of foreign exchange rate changes	29	(64)
Cash and cash equivalents at the end of period, represented by bank balances and cash	<u>89,572</u>	<u>94,774</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2016.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the Annual improvements to HKFRSs 2014 – 2016 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In addition, the Group has applied the following accounting policy in the current interim period:

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to director and eligible participants

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share award reserve.

When share options are exercised, the amount previously recognised in share award reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share award reserve will be transferred to accumulated profits.

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 operating and 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 of self-developed brands

3. SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by reportable and operating segments for the periods under review:

Six months ended 30 June 2017

	Men's footwear US\$'000 (Unaudited)	Women's footwear US\$'000 (Unaudited)	Footwear retailing and wholesaling US\$'000 (Unaudited)	Segment total US\$'000 (Unaudited)	Eliminations US\$'000 (Unaudited)	Consolidated US\$'000 (Unaudited)
Revenue						
External sales	304,103	413,254	45,076	762,433	-	762,433
Inter-segment sales	68	10,120	-	10,188	(10,188)	-
Total	<u>304,171</u>	<u>423,374</u>	<u>45,076</u>	<u>772,621</u>	<u>(10,188)</u>	<u>762,433</u>
Results						
- Segment results	<u>28,523</u>	<u>56,925</u>	<u>669</u>	<u>86,117</u>	<u>-</u>	<u>86,117</u>
Unallocated income						
- Interest income on bank balances						216
- Interest income from held for trading investments						107
- Interest income from derivative financial instruments						685
- Rental income						1,021
- Sale of scrap materials						171
- Net gain on changes in fair value of derivative financial instruments						1,144
- Net gain on changes in fair value of held for trading investments						791
- Others						7,547
Unallocated expenses						
- Research and development costs						(29,089)
- Central administrative costs						(37,795)
- Finance costs						(219)
Share of result of a joint venture						1,040
Share of results of associates						15
Profit before tax						<u>31,751</u>

3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2016

	Men's footwear US\$'000 (Unaudited)	Women's footwear US\$'000 (Unaudited)	Footwear retailing and wholesaling US\$'000 (Unaudited)	Segment total US\$'000 (Unaudited)	Eliminations US\$'000 (Unaudited)	Consolidated US\$'000 (Unaudited)
Revenue						
External sales	222,167	459,362	39,859	721,388	–	721,388
Inter-segment sales	476	16,162	–	16,638	(16,638)	–
Total	<u>222,643</u>	<u>475,524</u>	<u>39,859</u>	<u>738,026</u>	<u>(16,638)</u>	<u>721,388</u>
Results						
– Segment results	<u>25,260</u>	<u>57,656</u>	<u>1,948</u>	<u>84,864</u>	<u>–</u>	<u>84,864</u>
Unallocated income						
– Interest income on bank balances						454
– Interest income from held for trading investments						1,633
– Rental income						581
– Sale of scrap materials						470
– Net gain on changes in fair value of derivative financial instruments						542
– Net gain on changes in fair value of held for trading investments						1,132
– Others						8,444
Unallocated expenses						
– Research and development costs						(30,720)
– Central administrative costs						(34,788)
– Finance costs						(194)
Share of result of a joint venture						540
Share of results of associates						<u>(76)</u>
Profit before tax						<u>32,882</u>

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 materials, net gain on changes in fair value of derivative financial instruments, net gain 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 executive for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Enterprise Income Tax (“EIT”) in the People’s Republic of China (“PRC”)	8,438	6,388
Hong Kong Profits Tax	14	–
Other jurisdictions	69	65
	<u>8,521</u>	<u>6,453</u>
Overprovision in prior years:		
PRC EIT	(5,001)	(4,015)
	<u>3,520</u>	<u>2,438</u>

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

EIT in the PRC is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, a subsidiary, Stella International Trading (Macao Commercial Offshore) Limited, which was acquired in 2011, is exempted from Macao Complementary Tax.

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

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Allowance for doubtful debts	–	(402)
Reversal of write-down of inventories (included in cost of sales)	(422)	(1,220)
Loss on disposal of property, plant and equipment	1,175	1,498
Depreciation of property, plant and equipment	18,971	21,937
Release of prepaid lease payments	456	469
Net fair value gain on held for trading investments (included in other gains and losses)	(791)	(1,132)
Net fair value gain on derivative financial instruments (included in other gains and losses)	(1,144)	(542)
Interest income on bank balances	(216)	(454)
Interest income from held for trading investments	(107)	(1,633)
Interest income from derivative financial instruments	(685)	–
	=====	=====

6. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Final dividend declared and paid for 2016 – HK30 cents (2015: HK55 cents) per share	30,599	56,290
Special dividend declared and paid for 2016 – HK10 cents (2015: Nil) per share	10,200	–
Interim dividend declared subsequent to period end – HK30 cents (2016: HK30 cents) per share	30,463	30,674
	=====	=====
	71,262	86,964

The board has determined the payment of an interim dividend in respect of the six months ended 30 June 2017 of HK30 cents (for the six months ended 30 June 2016: HK30 cents) per ordinary share to owners of the Company whose names appeared in the register of members of the Company at the close of business on 15 September 2017.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	28,505	30,380
	2017	2016
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	792,602	792,602
Effect of dilutive potential ordinary shares:		
Adjustment in relation to share options outstanding	774	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	793,376	792,602

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period after deducting the shares held in trust for the Company by Teeroy Limited (see note 17).

Diluted earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by weighted average number of ordinary shares in issue after deducting the shares held in trust for the Company by Teeroy Limited (see note 17) and adjusting the potential dilutive effect of the outstanding options during the six months ended 30 June 2017.

Diluted earnings per share was not presented for the six months ended 30 June 2016 as there was no dilutive ordinary shares in existence during the period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately US\$29,526,000 (for the six months ended 30 June 2016: US\$37,967,000) for business expansion.

In addition, during the current interim period, the Group paid approximately US\$4,069,000 (for the six months ended 30 June 2016: US\$13,163,000) in deposits for acquisition of property, plant and equipment to expand its manufacturing capacities in the PRC and Vietnam, and the amount of deposits of approximately US\$9,231,000 (for the six months ended 30 June 2016: US\$1,850,000) for acquiring the property, plant and equipment were completed and transferred to the property, plant and equipment.

The Group has pledged freehold land and buildings with net book values of approximately US\$3,647,000 (31 December 2016: US\$3,441,000) and US\$2,176,000 (31 December 2016: US\$2,107,000), respectively to secure a bank loan granted to the Group.

9. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. The extension of credit period to customers may be granted by considering the credit worthiness, the customers' financial condition and the payment history with the Group.

The following is an analysis of the Group's trade and bills receivables by age, presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Trade and bills receivables:		
0 – 30 days	176,066	137,100
31 – 60 days	105,331	74,404
61 – 90 days	16,628	14,660
Over 90 days	5,381	10,927
	303,406	237,091
Other receivables	124,259	122,582
	427,665	359,673

Other receivables include prepayment to suppliers of US\$70,487,000 (31 December 2016: US\$79,442,000).

9. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

Movements in the allowance for doubtful debts

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Balance at beginning of the period/year	487	1,500
Amounts written off as uncollectible	—	(1,013)
	<hr/>	<hr/>
Balance at end of the period/year	487	487

10. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are trading balances, representing prepayments to associates for purchase of goods. The amounts are unsecured and interest-free.

11. AMOUNT DUE FROM A JOINT VENTURE

The amount due from a joint venture is a trading balance, representing prepayments to a joint venture for purchase of goods. The amount is unsecured and interest-free.

12. HELD FOR TRADING INVESTMENTS

	30 June 2017 US\$'000	31 December 2016 US\$'000
Bonds:		
– listed in Hong Kong	2,588	8,030
– listed overseas	11,609	15,862
	<hr/>	<hr/>
	14,197	23,892

The fair values of the above investments were measured with reference to quoted market price provided by the financial institution managing the funds.

13. TRADE AND OTHER PAYABLES

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

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Trade payables:		
0 – 30 days	65,949	63,902
31 – 60 days	12,729	7,171
Over 60 days	10,220	19,972
	88,898	91,045
Other payables	43,725	48,367
	132,623	139,412

14. BANK BORROWINGS

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Bank borrowings comprised of:		
Bank loan – secured	3,559	3,358
Bank loans – unsecured	117,664	–
	121,223	3,358

14. BANK BORROWINGS (Continued)

Secured bank loan

As at 30 June 2017, included in bank borrowings was a secured bank loan denominated in New Taiwan dollars amounting to US\$3,559,000 (31 December 2016: US\$3,358,000), which was repayable by instalments within 5 years and carrying at benchmark interest rate per month. The effective interest rate during the period (which is equal to contractual interest rate) of this bank borrowing is 1.09% (31 December 2016: 1.09%) per annum. It was secured by the Group's freehold land and building with carrying amounts of US\$3,647,000 (31 December 2016: US\$3,441,000) and US\$2,176,000 (31 December 2016: US\$2,107,000) respectively. The proceeds were used mainly for general working capital purposes. This balance was shown under current and non-current liabilities as at 30 June 2017 and 31 December 2016.

Unsecured bank loans

During the six months ended 30 June 2017, the Group also obtained new bank loans denominated in United States dollars amounting to approximately US\$464,957,000 and repaid these bank loans of approximately US\$347,294,000. These loans contained a repayment on demand clause and were carrying interest at variable rate ranging from 0.65% to 1.86% per annum. The proceeds were used mainly for general working capital purposes. This balance was shown under current liabilities.

15. SHARE CAPITAL

	Number of shares	Nominal value	
		HK\$'000	US\$'000
Ordinary share of HK\$0.10 each			
Authorised:			
As at 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	<u>5,000,000,000</u>	<u>500,000</u>	<u>63,975</u>
Issued and fully paid:			
As at 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	<u>794,379,500</u>	<u>79,438</u>	<u>10,160</u>

16. CAPITAL COMMITMENTS

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>11,631</u>	<u>12,615</u>

17. SHARE-BASED PAYMENTS TRANSACTIONS

The Company's former long term incentive scheme (the "Old Scheme") was adopted pursuant to a resolution passed on 15 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and had expired on 5 July 2017. Under the Old Scheme, the board of directors of the Company may grant an award either by way of option, to subscribe shares of the Company, an award of shares or a grant of a conditional right to acquire shares, to eligible employees, including directors of the Company and its subsidiaries. Pursuant to the Old Scheme, the Company appointed a trustee, Teeroy Limited (the "Trustee"), for the purpose of administering the Scheme and holding the awarded shares before they vest. As at 30 June 2017, the Trustee maintained a pool of 1,778,000 shares (the "Entrusted Shares") on trust for the Company and it will, at the direction of the Company, transfer, assign or otherwise deal with the Entrusted Shares, provided that no Entrusted Shares may be transferred to the Company unless in compliance with the applicable laws and regulations (including the Code of Share Repurchase) and that the Trustee is not required to exercise the voting rights attaching to the Entrusted Shares.

During the six months ended 30 June 2016, no share options of the Company were granted, exercised or cancelled by the Company under the Old Scheme.

On 17 March 2017, the Company granted an aggregate of 27,970,000 share options under the Old Scheme, by 5 equal tranches of 5,594,000 share options. The share options are valid for a term of six years from the date of grant, and the vesting of the share options on a particular vesting date is conditional upon satisfaction of certain conditions, including (1) the net profit ratio and the revenue growth ratio of the Group for the financial year immediately preceding the relevant vesting date shall meet the targets as prescribed by the Board of Directors for the relevant financial year; and (2) the relevant grantee shall obtain the grade prescribed in the performance appraisal to be conducted and completed by the management before the relevant vesting date in respect of the work performance of the relevant grantee in the financial year immediately preceding that vesting date. Details of the share options granted are set out in the Company's announcement dated 17 March 2017.

The share options are vested on the following estimated date of results announcement of the Company for the relevant financial years ending and shall be exercisable as follows:

Share options	Date of grant	Vesting period	Exercise period	Exercise price
2017-A	17 March 2017	17 March 2017 to 21 March 2018	22 March 2018 to 16 March 2023	HK\$11.48
2017-B	17 March 2017	17 March 2017 to 21 March 2019	22 March 2019 to 16 March 2023	HK\$11.48
2017-C	17 March 2017	17 March 2017 to 21 March 2020	22 March 2020 to 16 March 2023	HK\$11.48
2017-D	17 March 2017	17 March 2017 to 21 March 2021	22 March 2021 to 16 March 2023	HK\$11.48
2017-E	17 March 2017	17 March 2017 to 21 March 2022	22 March 2022 to 16 March 2023	HK\$11.48

17. SHARE-BASED PAYMENTS TRANSACTIONS (Continued)

Details of the movements of the share options granted are as follows:

For the six months ended 30 June 2017

Category of participants	Share options	Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Forfeited/ lapsed during the period	Outstanding as at 30 June 2017
Director						
Lo-Jen, Chi	2017-A	–	683,500	–	–	683,500
	2017-B	–	683,500	–	–	683,500
	2017-C	–	683,500	–	–	683,500
	2017-D	–	683,500	–	–	683,500
	2017-E	–	683,500	–	–	683,500
Employees and other eligible participants in aggregate	2017-A	–	4,910,500	–	–	4,910,500
	2017-B	–	4,910,500	–	–	4,910,500
	2017-C	–	4,910,500	–	–	4,910,500
	2017-D	–	4,910,500	–	–	4,910,500
	2017-E	–	4,910,500	–	–	4,910,500
		–	27,970,000	–	–	27,970,000
Exercisable at the end of the period						–
Weighted average exercise price		N/A	HK\$11.48	–	–	HK\$11.48

The valuation of share options was carried out by Ascent Partners Valuation Service Limited, an independent professional valuer not connected by the Group. The fair value was determined using a binomial option pricing model. The following table lists the significant inputs to the model used at the date of grant.

Grant date share price	HK\$11.48
Exercise price	HK\$11.48
Expected volatility	28.32%
Share options life	6 years
Expected dividend yield	28.32%
Risk-free interest rate	1.60%

17. SHARE-BASED PAYMENTS TRANSACTIONS (Continued)

The variables and assumptions used in computing the fair values of the share options are based on the directors' best estimates. Expected volatility is based on the historical share price volatility of the Company over the most recent period commensurate with the contractual life of the share options. Expected dividend yield is based on the historical dividend payment of the Company. The risk-free interest rate is assumed with reference to Hong Kong government bond yield with maturity matching the contractual life of the share options as at the date of grant.

At 30 June 2017, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 27,970,000, representing 3.5% (31 December 2016: Nil) of the shares of the Company in issue at that date.

The estimated fair values of the options granted on that date is HK\$37,045,000 (equivalent to US\$4,780,000). The Group recognised share-based payments expense of approximately HK\$4,826,000 (equivalent to approximately US\$623,000 (for the six months ended 30 June 2016: Nil) for the six months ended 30 June 2017 in relation to share options granted by the Company.

Share award plan

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

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

During the six months ended 30 June 2017, no shares had been granted under the Share Award Plan.

Share option scheme

On 19 May 2017, the Company adopted a new share option scheme (the "Share Option Scheme") pursuant to which shares of the Company may be awarded to selected eligible participants. The Share Option Scheme became effective immediately on 19 May 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

During the six months ended 30 June 2017, no shares of the Company were granted, exercised or cancelled by the Company under the Share Option Scheme.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Financial assets/ financial liabilities	Fair value as at		Fair value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)				
1) Held for trading non-derivative financial assets classified as held for trading investments in the condensed consolidated statement of financial position	Listed bonds in Hong Kong – 2,588	Listed bonds in Hong Kong – 8,030	Level 1	Quoted bid prices in an active market	N/A	N/A
	Listed bonds in elsewhere – 11,609	Listed bonds in elsewhere – 15,862				
2) Dual currency deposits classified as derivative financial instruments in the condensed consolidated statement of financial position	Assets – 2,228	Assets – Nil	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchanges rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A
3) Call option granted by the Group classified as derivative financial instruments in the condensed consolidated statement of financial position	Liabilities – 5	Liabilities – 5	Level 3	Binomial option pricing model The fair value is estimated based on risk free rate for the life of the option and expected volatility of the share price of a set of comparable companies with similar business nature with the relevant group of subsidiaries, and expected dividend yield	Expected volatility of the share price of a set of comparable companies with similar business nature with the relevant group of subsidiaries, determined by reference to the historical share price of those companies	The higher the volatility, the higher the fair value

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurements and valuation process

The board of directors of the Company has closely monitored and determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

19. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June	
		2017 US\$'000 (Unaudited)	2016 US\$'000 (Unaudited)
辛集市寶得福皮業有限公司 (Xinji Baodefufu Leather Co. Ltd.) ⁽¹⁾	Purchase of footwear products	32,294	35,322
Couture Accessories Limited ⁽¹⁾	Purchase of footwear products	–	262
Bay Footwear Company Limited ⁽²⁾	Sales of footwear products	8	–
	Purchase of footwear products	<u>30,620</u>	<u>27,656</u>

Notes:

(1) Associates of the Company.

(2) A joint venture of the Company.

(II) Related party balances

Details of balances with related parties are set out in notes 10 and 11.

19. RELATED PARTY DISCLOSURES (Continued)

(III) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2017 US\$'000 (Unaudited)	2016 US\$'000 (Unaudited)
Short-term benefits	417	374
Equity-settled share-based payments	76	–
	<u>493</u>	<u>374</u>

The remuneration of directors and key executives is determined with reference to the financial performance of the Group and are first reviewed by the remuneration committee of the Board and then approved by the Board.

20. EVENTS AFTER THE REPORTING PERIOD

- (a) On 13 July 2017, the Group entered into a supplemental investment agreement (the “Supplemental Agreement”) with Max Group Holdings Limited (the “Max Group”), indirectly owned as to approximately 64.75% by the brother of Mr. Chiang, an executive Director and chairman of the Group, to amend certain terms of the original investment agreement dated 18 October 2016 (the “Investment Agreement”) previously entered into, of which under the Investment Agreement, a restructuring of the Group’s PRC retail business shall take place pursuant to which (1) the Group shall procure, among others, that all of the Group’s PRC retail business shall be injected into a special purpose vehicle (the “SPV”) and/or its wholly-owned subsidiary in Hong Kong (the “Restructuring”) within six months from the date of the Investment Agreement; and (2) all amounts owed by members of the SPV and its subsidiaries to the Group shall be repaid in full. During the current interim period, the required Restructuring was yet completed. Pursuant to the Supplemental Agreement, both contracting parties have further agreed to exclude repayment of all amounts owed by members of the SPV to the Group from the scope of the Restructuring and to extend the period of the Restructuring to be completed from six months to nine months from the date of the Investment Agreement, and both parties agreed to procure the SPV to enter into two bank loan agreements with aggregate principal amounts of RMB180 million for drawdown within three months after the date of completion of the sale and purchase of 60% interests in the SPV and capable of being used by the SPV and its subsidiaries for repaying the amounts owed by any member of the SPV to any member of the Group. On the same date, the Restructuring was completed in accordance with the terms and conditions of the Supplement Agreement. Accordingly, the Group sent a completion notice of Restructuring to Max Group and it entitled that the call option granted to Max Group became exercisable for a period of 12 months commencing from the date of completion of the Restructuring (i.e. from 13 July 2017 to 12 July 2018). On 13 July 2017, Max Group exercised such call option to acquire 60% interests in the SPV at a cash consideration of approximately US\$10,577,000 (equivalent to approximately HK\$82,498,000) in accordance with the terms of the Supplemental Agreement. The transaction was completed on 19 July 2017.

20. EVENTS AFTER THE REPORTING PERIOD (Continued)

Details of the transaction are set out in the announcements of the Company dated 18 October 2016, 13 July 2017 and 19 July 2017.

- (b) On 19 July 2017, a wholly-owned subsidiary of the Group, as a supplier, and Max Group, as a purchaser, entered into the master manufacturing agreement in relation to the manufacture and supply of footwear products bearing specified trademarks owned by Max Group and the grant of the non-exclusive right to manufacture such footwear products under such specified trademarks owned by Max Group in various specified locations to the Group for a term commencing from the date thereof and ending on 31 December 2019. Pursuant to the master manufacturing agreement, the total consideration which will be payable by Max Group to the Group for the manufacture and supply of footwear products will not exceed US\$3 million, US\$6 million and US\$9 million for the years ending 31 December 2017, 2018 and 2019, respectively.

In addition, another wholly-owned subsidiary of the Group, as a supplier, and a non-wholly owned subsidiary held as to 60% by Max Group, as a distributor, entered into the exclusive distribution agreement in relation to the supply of footwear products, leather goods and accessories bearing specified trademarks owned by the Group and the grant of the exclusive right to distribute the products under the specified trademarks owned by the Group in the PRC for a term commencing from the date thereof and ending on 31 December 2019. Pursuant to the exclusive distribution agreement, the total consideration which will be payable by Max Group to the Group for the supply of footwear products will not exceed RMB100 million, RMB250 million and RMB320 million for the years ending 31 December 2017, 2018 and 2019, respectively.

These arrangements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details of the arrangements were set out in the announcements of the Company dated 19 July 2017 and 28 July 2017.

CHAIRMAN'S STATEMENT

In the first half of 2017, we saw a continuation of the same political and economic forces and changing retail dynamics that shaped 2016.

Political uncertainties in the United States and Europe remained prevalent and no closer to resolution, as was the ongoing risk of a slide into trade protectionism. This, combined with low wage growth and low inflation in most of our export markets, continued to dampen consumer sentiment and the confidence of our customers, and in turn our ability to plan for future demand.

The faster than foreseen growth of the fashion athletic footwear market – which is currently transforming the global footwear retail space – continued to compel us to further realign our manufacturing capabilities with changing consumer tastes. However, despite some non-recurring expenses that affected our profitability in the first six months of the year, it is pleasing to see this part of our business growing at a brisk pace as we continue to win the trust of our customers.

We remain focused on incorporating a high level of research and development, as well as quality craftsmanship into our fashion athletic products, as we have always done for all of our products, that further enhances our competitive edge. This will remain the case in the second half of the year as we further expand our fashion athletic manufacturing capacity, or convert existing capacity, even as demand growth for this sector moderates slightly as our low-base benefit arising from the secure of a new customer in the previous year was reflected in the first six months of this year.

Looking forward to the second half of the year, the current external environment is unlikely to change. Fortunately, the proactive steps we have taken over the last one and a half years to improve our manufacturing processes, production allocation, research and development, and efficiency has put us in a better place to tackle challenges as they arise. We also remain committed to controlling working hours and headcounts to control costs, without compromising on our mission to “make the best shoes”.

In a similar vein, we are taking proactive steps to secure the future competitiveness of our retail business in China. We recently sold a majority stake in the China retail business to Max Group Holdings Limited on 19 July 2017, the company that secured the recent turnaround of our China retail business. This will enable us to concentrate on brand building and product development while transferring the day-to-day management of the retail store network to this highly experienced retail operator. We will continue to maintain control over our retail brands and retail operations in Europe.

During this time of high activity, I would like to take this opportunity on behalf of the Board to thank our customers, business partners and shareholders for their support and dedication during this period. I would also like to express my gratitude to my colleagues for their service and hard work during the interim period.

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, fashion athletic 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*. The retail store network of these brands is primarily focused in Mainland China (in which the Group maintains a minority interest from 19 July 2017 onwards), and with stores in France, the Philippines, Taiwan, Kuwait, Bahrain, Lebanon and the United Arab Emirates.

Financial Highlights

Demand for Fashion Athletic Products Supports Financial Performance

We continued to experience growing demand for our fashion athletic products during the six months under review, which supported higher revenue and shipment volumes compared to the same period last year. Demand for our casual and fashion footwear products stabilised during the period. However, our profitability was impacted by some one-off non-recurring items incurred during the period.

Our consolidated revenue for the six months ended 30 June 2017 increased 5.7% to US\$762.4 million, compared to US\$721.4 million in the corresponding period of last year. Shipment volumes rose 6.3% to 27.0 million pairs, compared to 25.4 million pairs in the corresponding period of last year. The average selling price (“ASP”) of our footwear products fell 1.9% to US\$26.6 per pair due to changes to our customers’ product mix, compared to US\$27.1 per pair in the corresponding period of last year.

Fashion footwear was the biggest contributor to our overall revenue during the six months ended 30 June 2017, contributing 36.0% of total revenue. The contributions from casual footwear and fashion athletics were 29.3% and 28.8% respectively.

Geographically, North America and Europe remain our two largest markets, accounting for 47.1% and 29.7% of our total revenue during the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 13.5%, Asia (other than the PRC), which accounted for 7.6% and other geographic regions, which accounted for 2.1%.

Retail Optimisation Strategy Delivers Positive Outcomes

The performance of our retail business continued to improve during the period under review as a result of the retail optimisation strategy being implemented by the retail management team. The strategy includes 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.

During the six months ended 30 June 2017, retail revenue grew 13.0% to US\$45.1 million, compared to US\$39.9 million during the corresponding period of last year. Same store sales (in China only) rose 6.9% to US\$26.3 million during the period, compared to US\$24.6 million during the corresponding period of last year. The retail business recorded a profit of US\$0.7 million during the period under review.

On 19 July 2017, Max Group Holdings Limited (“Max Group”) completed the acquisition of the 60% stake in our China retail business (see “Exercise of Option to Sell 60% of Stella’s China Retail Business” in the Business Review below).

Higher Profitability Despite Margin Pressure

Despite the pressure on our margins, gross profit across our business segments rose 5.8% to US\$140.9 million, compared to US\$133.2 million during the corresponding period of last year. However, affected primarily by the one-off impact from air freight charges, our net profit for the six months ended 30 June 2017 declined 6.2% to US\$28.5 million, compared to US\$30.4 million during the corresponding period of last year. If excluding the one-off items, our adjusted net profit was US\$33.9 million, an increase of 11.5% against the previous year.

Business Review

Continued Success in Leveraging on Fashion Athletic Trend

We continued to align our manufacturing business to take advantage of the growing popularity of ‘fashion athletic’ footwear products – a fashionable take on the traditional sports shoe – during the six months under review, a segment that is being driven by changing lifestyles and the convergence of fashion and fitness.

We continued to grow our customer base in this segment, as well as expand our relationship with existing customers, by proactively leveraging on our reputation for design, research and development, quality and unique skill base for developing compelling footwear products. We further enlarged the range of fashion athletic footwear products within our overall product portfolio including customised products during the period, which will enable us to remain a partner of choice to customers in this segment in the years to come.

The crossover between performance and fashion meant cannibalisation of demand for our non-sports footwear products, in particular, casual footwear products. Despite this, demand for our casual and fashion footwear products has seen signs of stabilisation compared to last year.

Adjustment of Manufacturing Capacity to Match New Market Conditions Progressing Well

We have continued to actively adjust our manufacturing operations to utilise some of our existing casual footwear manufacturing capacity to meet rising orders for fashion athletic footwear. We have been achieving this objective at a good pace, which enabled us to further enhance efficiencies and utilisation at our factories during the period. We also continued to reduce headcounts to better control capacity and costs.

We are further diversifying our manufacturing base into South-East Asia, with a new fashion athletic-focused manufacturing factory in Vietnam to become operational in the second half of 2017. Our manufacturing footprint currently includes facilities in China's Guangdong, Hunan, Guangxi and Hebei provinces, as well as 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.

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.

Retail Business Returns to Growth

We continued to see positive outcomes emerging from the retail optimisation strategy being implemented by our retail management team in China with the retail business delivering positive revenue and same-store sales growth during the period under review.

We continue to optimise our retail store network in China during the period, with the management team favouring new standalone stores in selective locations. We 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.

As of 30 June 2017, *Stella Luna* footwear was priced between RMB1,580 and RMB9,180 a pair in China, while *What For* and *JKJY by Stella* products retailed for RMB1,080 – RMB2,980 and RMB1,480 – RMB3,980 respectively.

The following table shows the geographic distribution of our stores, by brand, as of 30 June 2017.

	Stella Luna	What For	JKJY by Stella
Greater China			
Eastern China	65	15	0
Southern China	53	14	1
Northern China	64	31	0
Taiwan	1	0	0
	<hr/>	<hr/>	<hr/>
Subtotal	183	60	1
	<hr/>	<hr/>	<hr/>
France	4	42	0
Philippines	1	1	1
Bahrain	1	1	0
Kuwait	2	2	0
Lebanon	9	8	0
United Arab Emirates	5	1	0
	<hr/>	<hr/>	<hr/>
Total	205	115	2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

In October 2016, we granted an option to Max Group to acquire a 60% stake in our China retail business. On 19 July 2017, Max Group completed the acquisition of the 60% stake, after which the China retail business ceased to be a wholly-owned subsidiary of the Group.

We continue to maintain control over our three retail brands – *Stella Luna*, *What For* and *JKJY by Stella* as well as our retail operations in Europe and other markets. We are excited to have found the right partner for continuing the ongoing turnaround of our retail business.

Outlook

Growth of Fashion Athletic Orders to Normalise in Second Half of 2017

We see the current rate of growth in demand for our fashion athletic products as a one-off that will normalise in the second half of the year. However, the segment will remain a key growth area for us and we will continue to grow our fashion athletic footwear manufacturing capacity, particularly in Vietnam, in order to increase our competitiveness.

Meanwhile, recent terrorist attacks around the world, increasing protectionist rhetoric in the United States and the initiation of official Brexit negotiations may potentially diminish confidence among some of our manufacturing and retail customers in the second half of 2017. We will continue to work closely with our customers to manage these risks if they arise.

Ongoing Focus on R&D and Efficiency Enhancements

We will continue to make proactive adjustments to our manufacturing business to further boost efficiencies and protect our margins. This includes maintaining strict cost control measures, such as closely managing headcounts and working hours, as well as meeting narrow shipment windows and short lead times to deliver value to our customers and remain their partner of choice.

We will further invest in our R&D capabilities in order to improve and extend our range of innovative footwear products to deepen our customer relationships.

Continued Commitment to Developing Global Retail Brands

We are highly committed to further developing the profile and desirability of our global retail brands. Apart from *Stella Luna*, *What For* and *JKJY by Stella*. The Group maintains a minority interest in the retail stores in China and we remain the exclusive manufacturer of all our brands worldwide. We expect that the growing profile of our brands will continue to showcase our unique design and fashion capabilities.

We will continue to expand our directly owned retail store network in Europe and other markets in the periods going forward.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2017, the Group had cash and cash equivalents of approximately US\$106.0 million (31 December 2016: US\$106.3 million).

As at 30 June 2017, the Group had current assets of approximately US\$798.5 million (31 December 2016: US\$712.8 million) and current liabilities of approximately US\$303.4 million (31 December 2016: US\$191.4 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.6 as at 30 June 2017 (31 December 2016: 3.7), and the Group's gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus bank balances and cash divided by (ii) total equity) was 1.5% (31 December 2016: Nil), an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US\$121.2 million as at 30 June 2017 (31 December 2016: US\$3.3 million).

Foreign Currency Exposure

During the six months ended 30 June 2017, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars and RMB. Currency exposures were mostly in RMB and Hong Kong dollars against 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 were US\$22.6 million during the period under review (for the six months ended 30 June 2016: US\$47.2 million), representing a decrease of 52.1%. Capital expenditure amounted to approximately US\$23.5 million during the period (for the six months ended 30 June 2016: US\$49.3 million), of which approximately US\$12.0 million was used in production capacity expansion in Vietnam.

Pledge of Assets

As at 30 June 2017, the Group had pledged US\$5.8 million of its assets (31 December 2016: US\$5.5 million).

Contingent Liabilities

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

Employees

As at 30 June 2017, the Group had approximately 67,000 employees (31 December 2016: approximately 71,000). 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 recruit, 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 employees, as well as providing incentives to employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme, a share option scheme and a share award plan.

As of 30 June 2017, our recruitment efforts remained satisfactory, despite the labour shortages in our primary manufacturing locations in China.

REVIEW OF ACCOUNTS BY AUDIT COMMITTEE

The audit committee of the Board has reviewed the interim results of the Group for the six months ended 30 June 2017.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2017. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 15 September 2017. It is expected that the interim dividend will be paid on or about 20 October 2017. In order to qualify for the interim dividend for the six months ended 30 June 2017, 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 September 2017.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the “Shareholders”). The Company has applied the principles and complied with all code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30 June 2017, except for code provisions B.1.5 and E.1.2 of the CG Code, details of which are disclosed below.

For code provision B.1.5 of the CG Code, the Company had not disclosed the details of remuneration payable to members of senior management by band in the annual report of 2016 for observing competitive market practices and respecting individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (the “Chairman”) of the Board, had not attended the annual general meeting of the Company held on 19 May 2017 (the “2017 AGM”). Instead, Mr. Chao Ming-Cheng, Eric, the Deputy Chairman of the Board, took the chair at the 2017 AGM, and the chairmans and members of the audit committee, corporate governance committee, remuneration committee and nomination committee attended the 2017 AGM to answer Shareholders’ questions. The reason for such arrangement was that the Board had allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, was mainly responsible for managing major customers’ relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Chao Ming-Cheng, Eric, was responsible for providing leadership and management to the Board. The Board considers that such allocation of responsibilities between the Chairman and the Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group’s prevailing circumstances.

Governance Model

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

Model Code for Securities Transactions by Directors (the “Model Code”)

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2017.

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

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

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

Hong Kong, 17 August 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.