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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 2017

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 2017, together with the comparative figures for the previous financial year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Note</i>	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Revenue	3	1,577,270	1,550,864
Cost of sales		(1,307,066)	(1,260,320)
Gross profit		270,204	290,544
Other income		26,510	19,352
Other gains and losses		(5,486)	18,760
Distribution and selling expenses		(89,107)	(92,614)
Administrative expenses		(81,945)	(86,618)
Research and development costs		(56,679)	(62,048)
Share of result of a joint venture		1,380	1,370
Share of results of associates		(2,844)	43
Gain on disposals of subsidiaries		2,185	–
Finance costs		(981)	(531)

* *For identification purpose only*

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

For the year ended 31 December 2017

	<i>Notes</i>	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Profit before tax		63,237	88,258
Income tax expense	4	<u>(3,547)</u>	<u>(7,044)</u>
Profit for the year	5	59,690	81,214
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		3,120	(1,166)
Reclassification of translation reserve upon disposals of subsidiaries		(2,180)	–
Share of exchange differences of associates and a joint venture		<u>(240)</u>	<u>481</u>
Other comprehensive income (expense) for the year, net of income tax		<u>700</u>	<u>(685)</u>
Total comprehensive income for the year		<u>60,390</u>	<u>80,529</u>
Profit (loss) for the year attributable to:			
Owners of the Company		61,955	81,577
Non-controlling interests		<u>(2,265)</u>	<u>(363)</u>
		<u>59,690</u>	<u>81,214</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		62,946	80,815
Non-controlling interests		<u>(2,556)</u>	<u>(286)</u>
		<u>60,390</u>	<u>80,529</u>
Earnings per share <i>(US\$)</i>			
– basic	7	<u>0.078</u>	<u>0.103</u>
– diluted		<u>0.078</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Non-current assets			
Property, plant and equipment		403,655	378,080
Prepaid lease payments		21,735	17,271
Investment properties		7,128	–
Interests in associates		12,308	7,635
Interest in a joint venture		9,504	8,031
Deposit paid for acquisition of property, plant and equipment		14,314	48,661
		468,644	459,678
Current assets			
Inventories		172,367	210,412
Trade, bills and other receivables	8	429,263	359,673
Prepaid lease payments		622	591
Amounts due from associates		63,778	24,407
Amount due from a joint venture		7,116	11,410
Held for trading investments		11,736	23,892
Cash and cash equivalents		74,894	82,453
		759,776	712,838
Current liabilities			
Trade and other payables	9	146,301	139,412
Bank borrowings – due within one year		60,006	114
Tax liabilities		50,086	51,884
Derivative financial instruments		–	5
Financial guarantee contract		800	–
		257,193	191,415
Net current assets		502,583	521,423
		971,227	981,101
Capital and reserves			
Share capital		10,160	10,160
Share premium and reserves		961,421	968,760
Equity attributable to owners of the Company		971,581	978,920
Non-controlling interests		(3,619)	(1,063)
Total equity		967,962	977,857
Non-current liabilities			
Bank borrowings – due after one year		3,265	3,244
		971,227	981,101

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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 2016	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
Profit (loss) for the year	-	-	-	-	-	-	-	-	61,955	61,955	(2,265)	59,690
Other comprehensive income (expense) for the year	-	-	-	-	991	-	-	-	-	991	(291)	700
Total comprehensive income (expense) for the year	-	-	-	-	991	-	-	-	61,955	62,946	(2,556)	60,390
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	977	-	977	-	977
Lapse of share award	-	-	-	-	-	-	-	(1,450)	1,450	-	-	-
Dividend recognised as distribution (note 6)	-	-	-	-	-	-	-	-	(71,262)	(71,262)	-	(71,262)
As at 31 December 2017	10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	766,185	971,581	(3,619)	967,962

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the year ended 31 December 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 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 HKFRS 2014 – 2016 cycle

Except as described below, the application of the 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.

Amendments to HKAS 7 “Disclosure initiative”

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

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 of Hong Kong Limited 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 operating 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

(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 2017

	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	624,894	882,293	70,083	1,577,270	-	1,577,270
Inter-segment sales	310	25,046	-	25,356	(25,356)	-
Total	<u>625,204</u>	<u>907,339</u>	<u>70,083</u>	<u>1,602,626</u>	<u>(25,356)</u>	<u>1,577,270</u>
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	<u>61,845</u>	<u>122,649</u>	<u>(4,914)</u>	<u>179,580</u>	<u>-</u>	179,580
Unallocated income						
- Interest income on bank balances						722
- Interest income from held for trading investments						581
- Interest income from derivative financial instruments						765
- Rental income						3,233
- Sale of scrap						1,616
Net gain on changes in fair value of derivative financial instruments						989
Net gain on changes in fair value of held for trading investments						863
- Others						14,196
Unallocated expenses						
- Research and development costs						(56,679)
- Central administrative costs						(79,515)
- Finance costs						(981)
- Depreciation of investment properties						(669)
Share of result of a joint venture						1,380
Share of results of associates						(2,844)
Profit before tax						<u>63,237</u>

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	<u>509,363</u>	<u>996,173</u>	<u>77,768</u>	<u>1,583,304</u>	<u>(32,440)</u>	<u>1,550,864</u>
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	<u>58,019</u>	<u>134,850</u>	<u>(1,852)</u>	<u>191,017</u>	<u>–</u>	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						33,371
Unallocated expenses						
– Research and development costs						(62,048)
– Central administrative costs						(80,528)
– Finance costs						(531)
Share of result of a joint venture						1,370
Share of results of associates						<u>43</u>
Profit before tax						<u><u>88,258</u></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, net gain on changes in fair value of derivative financial instruments, net gain on changes in fair value of held for trading investments, certain other income, 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:

	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
Segment assets		
Men's footwear	487,645	439,743
Women's footwear	477,494	464,836
Footwear retailing and wholesaling	48,599	56,433
	<hr/>	<hr/>
Total segment assets	1,013,738	961,012
Other assets	214,682	211,504
	<hr/>	<hr/>
Consolidated assets	1,228,420	1,172,516
	<hr/> <hr/>	<hr/> <hr/>
	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
Segment liabilities		
Men's footwear	84,036	77,001
Women's footwear	53,226	46,672
Footwear retailing and wholesaling	9,039	15,744
	<hr/>	<hr/>
Total segment liabilities	146,301	139,417
Other liabilities	114,157	55,242
	<hr/>	<hr/>
Consolidated liabilities	260,458	194,659
	<hr/> <hr/>	<hr/> <hr/>

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

- all assets are allocated to reportable segments other than investment properties, interests in associates, interest in a joint venture 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

2017

	Men's Footwear <i>US\$'000</i>	Women's Footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Unallocated <i>US\$'000</i>	Total <i>US\$'000</i>
Amounts included in the measure of segment profit or segment assets:					
Additions to non-current assets	38,402	34,666	10,054	7,326	90,448
Release of prepaid lease payments	460	460	-	-	920
Depreciation of property, plant and equipment	13,420	19,951	3,916	-	37,287
Write-down (reversal of write-down) of inventories	3,726	(1,666)	2,000	-	4,060
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Interests in associates	-	5,692	6,616	-	12,308
Interest in a joint venture	9,504	-	-	-	9,504
Share of result of a joint venture	1,380	-	-	-	1,380
Share of results of associates	-	(5)	(2,839)	-	(2,844)
Income tax expense	1,030	2,055	462	-	3,547

2016

	Men's Footwear <i>US\$'000</i>	Women's Footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Amounts included in the measure of segment profit or segment assets:				
Additions to non-current assets	16,225	30,622	7,227	54,074
Release of prepaid lease payments	414	544	–	958
Depreciation of non-current assets	15,858	22,820	3,540	42,218
Write-down (reversal of write-down) of inventories	2,293	1,713	(4,974)	(968)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	–	6,900	735	7,635
Interest in a joint venture	8,031	–	–	8,031
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

(b) Revenue from major products and services

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Men's footwear	625,204	509,625
Women's footwear	952,066	1,041,239
	<u>1,577,270</u>	<u>1,550,864</u>

(c) **Geographical information**

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

	Revenue from external customers		Non-current assets As at 31 December	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
United States of America	741,112	761,096	–	–
United Kingdom	125,976	134,263	–	–
Netherlands	126,396	54,203	–	–
Italy	30,003	24,134	85	100
The PRC (country of domicile)	190,474	202,603	299,171	298,637
Canada	42,402	40,354	–	–
Spain	22,494	21,194	–	–
Japan	38,420	41,546	–	–
Belgium	48,069	49,100	–	–
Germany	31,894	35,027	–	–
South Korea	23,729	22,612	–	–
Australia	16,497	17,123	–	–
Indonesia	–	–	16,125	15,359
Vietnam	–	–	34,403	5,235
Bangladesh	–	–	74,380	70,722
Others	139,804	147,609	44,480	69,625
	<u>1,577,270</u>	<u>1,550,864</u>	<u>468,644</u>	<u>459,678</u>

(d) **Information about major customers**

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

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Customer A ¹	316,486	312,965
Customer B ¹	274,303	286,571

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

4. INCOME TAX EXPENSE

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Current tax:		
PRC Enterprise Income Tax ("EIT")	11,783	17,838
Hong Kong Profits Tax	62	279
Other jurisdictions	446	334
	<u>12,291</u>	<u>18,451</u>
Overprovision in prior years:		
PRC EIT	(8,744)	(11,407)
	<u>3,547</u>	<u>7,044</u>

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

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

Deferred taxation has not been provided in respect of undistributed earnings of the Company's PRC subsidiaries arising after 1 January 2008, because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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 wholly owned subsidiary of the Group, 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

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' emoluments	1,517	1,687
Other staff costs	350,879	358,003
Equity-settled share-based payment (included in administrative expenses)	858	–
Retirement benefit scheme contributions, excluding directors	446	3,891
Total staff costs	353,700	363,581
Auditor's remuneration	484	489
Research and development costs	56,679	62,048
Cost of inventories recognised as an expense (including write-down of inventories of US\$4,060,000 (2016: reversal of write-down of inventories of US\$968,000))*	1,307,066	1,260,320
Depreciation of property, plant and equipment	37,287	42,218
Depreciation of investment properties	699	–
Release of prepaid lease payments	920	958

* *Cost of inventories recognised as an expense includes US\$265,356,000 and US\$22,249,000 (2016: US\$264,526,000 and US\$26,036,000) relating to staff costs and depreciation expenses respectively, which amount is also included in the respective total amounts disclosed separately above for each of these expenses.*

6. DIVIDENDS

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2016 final dividend of HK30 cents per share (2016: 2015 final dividend of HK55 cents per share) paid	30,599	56,290
2016 special dividend of HK10 cents per share (2015: Nil) paid	10,200	–
2017 interim dividend of HK30 cents per share (2016: HK30 cents per share) paid	30,463	30,674
Total	71,262	86,964

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK30 cents (2016: final dividend in respect of the year ended 31 December 2016 of HK30 cents) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

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

	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>61,955</u>	<u>81,577</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	792,601,500	792,601,500
Effect of dilutive potential ordinary shares:		
Adjustment in relation to share options outstanding	<u>781,762</u>	<u>–</u>
Weighted average number of ordinary share for the purpose of dilutive earnings per share	<u>793,383,262</u>	<u>792,601,500</u>

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

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 and adjusting the potential dilutive effect of the outstanding options during the year ended 31 December 2017.

Diluted earnings per share was not presented for the year ended 31 December 2016 as there was no dilutive ordinary shares in existence during the year.

8. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its general trade customers. For trade customers with long business relationship, the Group allows a credit period up to 120 days.

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

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Trade receivables:		
0 – 30 days	133,102	136,764
31 – 60 days	90,610	74,404
61 – 90 days	30,796	14,660
Over 90 days	25,741	10,927
	280,249	236,755
Bills receivables	526	336
Other receivables	50,088	43,140
Prepayments to suppliers	98,400	79,442
	429,263	359,673

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

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Balance at the beginning of year	1,650	–
Impairment loss recognised on other receivables	–	1,650
Balance at the end of year	1,650	1,650

Included in the allowance for doubtful debts on other receivables above with an aggregate balance of US\$1,650,000 (2016: US\$1,650,000) 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\$38,129,000, US\$7,000, US\$251,000, US\$267,000, US\$3,400,000 and US\$303,000 (2016: US\$36,287,000, US\$4,000, US\$217,000, US\$206,203, US\$3,035,000 and US\$281,000) which are denominated in RMB, HKD, EUR, 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 balances are debtors with aggregate carrying amount of US\$15,804,000 (2016: US\$8,850,000) 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 receivables based on the invoice dates which are past due but not impaired:

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
31-60 days	8,617	3,248
61-90 days	2,086	1,510
Over 90 days	5,101	4,092
	15,804	8,850

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

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Balance at the beginning of year	487	1,500
Amounts written off as uncollectible	-	(1,013)
Balance at the end of year	487	487

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:

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Trade payables:		
0 – 30 days	51,496	63,902
31 – 60 days	12,859	7,171
Over 60 days	5,182	19,972
	69,537	91,045
Other payables	76,764	48,367
	146,301	139,412

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\$12,947,000, US\$5,000, US\$23,141,000, US\$1,708,000 and US\$2,991,000 (2016: US\$12,150,000, US\$3,000, US\$22,798,000, US\$1,625,000 and US\$2,654,000) which are denominated in RMB, HKD, MOP, IDR and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

CHAIRMAN'S STATEMENT

2017 was a fruitful year for the Group, during which we made significant progress on implementing our strategies for securing our long-term development and growth.

The first of these was our decision to sell a majority stake in our China retail business to Max Group Holdings Limited, the management team and highly experienced retail operator that was responsible for securing that business' recent turnaround. This transaction puts the day-to-day operations of our retail business in a safe pair of hands, allowing us to focus on what we are best at – brand building and developing high-quality and stylish footwear products that showcase Stella International's unique capabilities.

Another strategy in which we made significant headway was further expanding our product portfolio and capabilities to create new types of footwear products that appeal and align with rapidly changing consumer tastes. At the forefront of this is fashion athletic footwear, a product segment that remained the main growth driver of our manufacturing business this year. We continued to realign our manufacturing operations to serve this rapidly growing market by adjusting our capacity, including opening a new factory in Vietnam that is exclusively dedicated to developing fashion athletic products.

Our unique research and development capabilities also remain at the core of our offering, an attribute that continued to enhance our uniqueness and differentiation throughout the year. We believe that this capability will be increasingly important to brand customers as cross-overs become more and more common – whether it be sports brands incorporating fashion elements into their products or fashion brands incorporating sports elements into their products, which we see as becoming a more common occurrence in the future.

Of course, the manufacture of casual and fashion footwear products will remain a core part of our business. It was heartening to see some recovery in demand for our fashion footwear products as the recent wave of consolidation in the fashion industry provides brands with resources to market a more diverse product portfolio.

And best of all, total shipment volumes for the year ticked up at a decent pace, compared to 2016, as consumer sentiment and economic growth remained buoyant in most of our export markets, despite ongoing political uncertainties.

We plan to further tighten our capacity to safeguard our ability to service premium markets in order to exhibit the determination to recover our profitability and margins in the longer term. As a result, we have decided to make additional provisions this year, in anticipation of the costs arising from closing more factories in Mainland China to an optimal level.

Looking forward to 2018, we expect most of the commercial and economic trends highlighted above to continue. This means that fashion athletic footwear will remain a major growth driver for our manufacturing business, while demand for our fashion footwear products may recover further. We remain confident in our ability to benefit from this as the result of the earlier proactive steps that we have taken to secure our future competitiveness, particularly in areas such as product and capacity allocation, as well as efficiency improvement.

Meanwhile, we will continue to further build the profile of our own brands – *Stella Luna*, *What For* and *JKJY by Stella* – by expanding our retail store network in Europe and in famous department stores around the world. This will also allow us to market and showcase the unique design and fashion attributes that characterise all of footwear products that we create for our customers.

I would like to take this opportunity to thank our customers, business partners and shareholders for their unwavering support this year, as well as my gratitude to the Board and my colleagues for their hard work and service in 2017.

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 a branding business in 2006, which led to the creation of our three contemporary brands – *Stella Luna*, *What For* and *JKJY by Stella*. These brands are designed and manufactured in-house and have quickly developed a global following, with a store and retail counter network encompassing China, France, the Philippines, Taiwan, Bahrain, Kuwait, Lebanon, the United Arab Emirates, Hong Kong and the United States.

Financial Highlights

Shipment Volumes Recover in 2017

We saw a moderate bounce back in shipment volumes in the year, which was led by continued growth in the fashion athletic segment, as well as a recovery in demand for our fashion footwear products, particularly in the second half of the year.

Our consolidated revenue for the year ended 31 December 2017 rose 1.7% to US\$1,577.3 million (2016: US\$1,550.9 million). Shipment volumes increased by 7.0% to 56.6 million pairs (2016: 52.9 million pairs). The average selling price (‘ASP’) of our footwear products fell 5.0% to US\$26.7 per pair (2016: US\$28.1 per pair) due to changes to our product mix and our customers’ product mix.

Fashion footwear is our largest segment, contributing 38.6% of total revenue (2016: 42.0%) during the year ended 31 December 2017. The contributions from casual footwear and fashion athletic products were 28.9% and 28.0% respectively (2016: 29.0% and 24.0%), while the Group’s own retail brands accounted for 4.5% of total revenue (2016: 5.0%).

Geographically, North America and Europe remain our two largest markets, accounting for 50.4% and 28.1% of our total revenue for the year under review. This was followed by the PRC (including Hong Kong), which accounted for 12.1%, Asia (other than the PRC), which accounted for 7.2% and other geographic regions, which accounted for 2.2%.

Impact of Acquisition of 60% of Retail Business in China

On 19 July 2017, Max Group Holdings Limited (“Max Group”), a leading footwear retail operator in the PRC, completed the acquisition of a 60% stake in our China retail business, after which it ceased to be a wholly-owned subsidiary of the Group. On the same date, we also entered into a Master Manufacturing Agreement and Exclusive Distribution Agreement with Max Group, ensuring that all self-branded footwear products in China under the labels *Stella Luna*, *What For* and *JKJY by Stella*, will continue to be manufactured by the Group on a wholesale basis.

These transactions and agreements allowed us to complete the turnaround of our retail business in China by leveraging on the proven local market experience and expertise of Max Group to manage the day-to-day operations of our China stores, while allowing us to focus on our core competencies: craftsmanship, innovation and branding.

Prior to the completion of the acquisition, from 1 January 2017 to 19 July 2017, our China retail business contributed revenue of US\$36.5 million. Following the conclusion of the Master Manufacturing Agreement and Exclusive Distribution Agreement with Max Group, wholesale sales to Max Group from 20 July 2017 to 31 December 2017 contributed US\$12.1 million.

Branding and Retail Business in Europe Growing Rapidly

During the year ended 31 December 2017, revenue from our retail business in Europe under our three retail brands, *Stella Luna*, *What For* and *JKJY by Stella* – rose by 26.8% to US\$15.6 million, while same-store sales rose by 21.4%.

Continued Profitability Despite One-off Non-Recurring Items

Our gross profit fell 7.0% to US\$270.2 million, while the full year net profit attributable to shareholders of the Company declined 24.1% to US\$62.0 million, which was primarily due to one-off costs amounting to \$17.2 million that resulted from air freight charges in the first half of the year, as well as additional expenditure incurred and provisions made this year in anticipation of factory closures in the year ahead.

Excluding the one-off items of \$17.2 million in aggregate, our adjusted operating profit increased by 1.9% to \$82.1 million, while our adjusted net profit was \$79.2 million, an increase of 0.9% compared to the previous year.

Our cash generated from operations remained healthy at US\$45.6 million for the year ended 31 December 2017, from US\$102.2 million for the year ended 31 December 2016.

Business Review

Renewed Demand for Fashion Products in Second Half

Demand for our fashion footwear products recovered reasonably well in the second half of the year with volumes being supported by recent large mergers and acquisitions in the fashion industry, some of which involved our customers. This trend is accelerating many of our customers' plans to expand their product portfolio into the fashion athletic category, providing us with new business opportunities.

Continued Growth of Fashion Athletic Footwear Business

On top of the recently improved performance of our fashion footwear business, fashion athletic footwear had been our main growth driver over the entire year (although the growth rate steadily normalised as the year progressed due to a diminishing base effect). Our ability to quickly grow our market share in this segment is a significant accomplishment and is an attestation of our ongoing effort to build a competitive and high-quality fashion athletic manufacturing operation.

During the year under review, we further grew our customer base in this segment, which now includes world-famous athletic brands, as well as premium and luxury fashion brands that are seeking to enter into the fashion athletic arena. Leveraging on our long-established reputation for design, research and development, quality, and our unique skill base for developing compelling footwear products, we are uniquely positioned to become a partner of choice to brands in this segment in the years to come.

Global Manufacturing Footprint Aligning with Changing Product Mix

We are continuing to diversify our manufacturing footprint outside of China, particularly in South-East Asia. A recent milestone of this was the opening of a new manufacturing factory in Vietnam during the fourth quarter of the year, which is expected to catalyse further growth from our fashion athletic business.

In addition to our research and development centres in Dongguan, China and Venice, Italy, our global 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.

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

Our share of the global premium footwear market had grown to around 11%, compared to the combined 74% 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 2016.

	Production (million pairs)	Export price – leather shoes only (USD/pair)
Italy	188	64
France	44	63
Spain	100	37
Portugal	82	31
Germany	37	36
Great Britain	5	29
Brazil (leather export)	20	23

Source: 2017 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 centres in Dongguan, China and Venice, Italy, allowing us to remain a preferred partner for our world-class customers.

Prudent Transactions for Safeguarding and Growing the Value of Our Retail Brands

Over the last few years, our China retail management team made significant progress in turning around our retail business in China, implementing the tough changes needed to reverse financial losses, despite strong competition and digital disruption in the China retail market.

In order to incentivise this good performance, and to allow us to concentrate on our core competencies – craftsmanship, innovation and branding – 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 relevant companies operating the China retail business ceased to be subsidiaries of the Company and part 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. The retail brands and remaining retail operations are now structured as the Group's branding business. We also remain the exclusive manufacturer of all of our brands worldwide.

Outlook

Fashion Athletic Products to Remain the Main Growth Driver

Fashion athletic products will continue to be our main growth driver as we leverage on the additional capacity bought on at our new Vietnam factory. We also expect demand for our fashion products to recover further, supported by buoyant consumer sentiment in the United States and most parts of Europe.

Our cautious optimism however is caveated by continued risks within the industry and the external environment, including ongoing consolidation among footwear brands, the shift of end-sales to online platforms, as well as political risks associated with tensions on the Korean Peninsula, and growing calls for trade protectionism in a number of markets. We will continue to work closely with our customers to manage these risks if they arise.

Utilising R&D to Expand Product Range

We will continue to make use of our excellent R&D capabilities to further improve and extend our range of innovative footwear products, while also taking advantage of our unique capabilities to support existing customers seeking to crossover into new product categories. This includes creating new footwear products for fashion brands that are exploring how to include sporting elements into their ranges – products that we are uniquely positioned to create.

We will also 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 to deliver value to our customers.

Determination to Further Reduce Capacity to Achieve Margin Recovery

We will continue to selectively reduce capacity in some locations in order to improve utilisation and deliver margin recovery in the medium term.

Further Developing and Growing Value of Branding Business

Having found the right partner to manage the day-to-day operations of our China retail business, we will focus exclusively on building the global profile and value of our brands by marketing and showcasing our unique design and fashion capabilities. We will also continue to expand our retail store network in Europe and our presence in famous department stores around the world.

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.

Continued Commitment to Shareholders

We expect our capital requirements to remain modest in the coming year. We remain committed to returning profit to shareholders and maintaining our current dividend policy. In the year, the Board has resolved to recommend a special dividend, to enhance shareholder return amidst a transition of our journey to margin recovery.

Liquidity, Financial Resources and Capital Structure

The Group remained in a stable financial position throughout 2017, with cash and cash equivalents of about US\$86.6 million (2016: US\$106.3 million) as at 31 December 2017, representing a decrease of 18.5% as compared to the position as at 31 December 2016.

The Group's net cash inflows from operating activities rose/fell to US\$45.6 million (2016: US\$102.2 million) for the year, representing decrease of 55.4%.

Net cash outflows used in investing and financing activities fell to US\$41.2 million and US\$12.6 million, respectively.

As at 31 December 2017, the Group had current assets of US\$759.8 million (2016: US\$712.8 million) and current liabilities of about US\$257.2 million (2016: US\$191.4 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.0 as at 31 December 2017, an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US\$63.3 million as of 31 December 2017 (2016: US\$3.3 million).

Foreign Currency Exposure

During the year ended 31 December 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 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\$41.2 million (2016: US\$62.1 million) during the year under review, representing a decrease of 33.7%. Capital expenditure amounted to approximately US\$43.7 million (2016: US\$77.5 million), of which approximately US\$41.3 million was used in production capacity expansion and approximately US\$2.4 million was used for the optimisation of our retail store network.

Pledge of Assets

As of 31 December 2017, the Group had pledged US\$3.7 million of its assets (2016: US\$5.5 million).

Contingent Liabilities

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

Employees

As at 31 December 2017, the Group had approximately 63,000 employees (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 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 recognise and reward the contribution of employees, provide incentives to employees in order to retain them for the continuous operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme and a share award plan. Please refer to the paragraphs headed "Long Term Incentive Scheme" and "Share Award Plan" in the Directors' Report in this annual report for details.

As of 31 December 2017, our recruitment efforts remained satisfactory, despite the labour shortages in our primary manufacturing locations in China. The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017.

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 2017. The proposed final dividend amounting to approximately US\$30.4 million, will be paid to Shareholders whose names appear on the register of members of the Company on 25 May 2018, if the proposals are approved by the Shareholders at the forthcoming annual general meeting of the Company (the “AGM”) to be held on 18 May 2018. It is expected that the final dividend, if approved, will be paid on or about 28 June 2018.

In order to qualify for the proposed final dividend to be approved at the AGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 25 May 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 May 2018 to 18 May 2018 (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 14 May 2018.

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 2017 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 2017. 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 19 May 2017 (“2017 AGM”). Instead, Mr. Chao Ming Cheng, Eric, the Deputy Chairman, took the chair at the 2017 AGM and the chairman or member 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 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 2017.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2017.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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, 15 March 2018

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.