# 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 2019

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 2019, together with the comparative figures for the corresponding period in 2018 as follows:–

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

*For the six months ended 30 June 2019*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *NOTES* | ***US$'000*** | *US$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | *3* | **750,577** | 739,253 |
| Cost of sales | | **(615,537)** | (617,416) |
| Gross profit | | **135,040** | 121,837 |
| Other income | | **9,253** | 8,957 |
| Other gains and losses, net | | **(1,097)** | (1,633) |
| Selling and distribution expenses | | **(29,879)** | (30,879) |
| Administrative expenses | | **(71,240)** | (69,708) |
| Impairment losses on financial assets | | **(183)** | (1,415) |
| Finance costs | | **(918)** | (1,278) |
| Share of profit of a joint venture | | **6,040** | 2,508 |
| Share of profits and losses of associates | | **(2,239)** | (1,840) |
| Profit before tax | *4* | **44,777** | 26,549 |
| Income tax expense | *5* | **(5,846)** | (4,537) |

* *For identification purpose only*

| | NOTE | Six months ended 30 June **2019** **US$'000** **(Unaudited)** | 2018 *US$'000* (Unaudited) |
|---|---|---|---|
| Profit for the period | | **38,931** | 22,012 |
| **Other comprehensive income/(loss)** | | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **(7)** | (514) |
| Share of other comprehensive gains/(losses) of a joint venture and associates | | **222** | (266) |
| Other comprehensive income/(loss) for the period, net of tax | | **215** | (780) |
| Total comprehensive income for the period | | **39,146** | 21,232 |
| Profit attributable to: | | | |
| Owners of the parent | | **38,937** | 22,946 |
| Non-controlling interests | | **(6)** | (934) |
| | | **38,931** | 22,012 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | **39,218** | 22,040 |
| Non-controlling interests | | **(72)** | (808) |
| | | **39,146** | 21,232 |
| Earnings per share attributable to ordinary equity holders of the parent | *7* | | |
| – Basic *(US$)* | | **0.0491** | 0.0290 |
| – Diluted *(US$)* | | **0.0491** | 0.0290 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2019*

| | NOTES | 30 June 2019 US$'000 (Unaudited) | 31 December 2018 US$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **393,275** | 395,142 |
| Investment properties | | **5,612** | 5,980 |
| Right-of-use assets | | **34,276** | – |
| Prepaid land lease payments | | **–** | 22,377 |
| Investment in a joint venture | | **26,464** | 20,424 |
| Investments in associates | | **5,662** | 7,679 |
| Deposit for acquisition of property, plant and equipment | | **8,978** | 12,414 |
| Total non-current assets | | **474,267** | 464,016 |
| **CURRENT ASSETS** | | | |
| Inventories | | **199,796** | 170,522 |
| Trade and bills receivables | *8* | **392,203** | 345,318 |
| Prepayment, deposits and other receivables | | **117,841** | 122,975 |
| Prepaid land lease payments | | **–** | 652 |
| Financial assets at fair value through profit or loss | *9* | **217** | 1,669 |
| Derivative financial instruments | | **102** | – |
| Cash and cash equivalents | | **67,890** | 61,328 |
| Total current assets | | **778,049** | 702,464 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *10* | **62,927** | 58,697 |
| Other payables and accruals | *11* | **58,225** | 49,341 |
| Interest-bearing bank borrowings | | **134,082** | 62,483 |
| Lease liabilities | | **1,884** | – |
| Derivative financial instruments | | **541** | – |
| Tax payable | | **47,316** | 46,252 |
| Total current liabilities | | **304,975** | 216,773 |
| **NET CURRENT ASSETS** | | **473,074** | 485,691 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **947,341** | 949,707 |

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| | *US$'000* | *US$'000* |
| | (Unaudited) | (Audited) |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank borrowings | **2,775** | 2,916 |
| Lease liabilities | **4,131** | – |
| Total non-current liabilities | **6,906** | 2,916 |
| Net assets | **940,435** | 946,791 |
| **EQUITY** | | |
| Equity attributable to owners of the parent | | |
| Share capital | **10,161** | 10,160 |
| Share premium and reserves | **930,773** | 943,191 |
| | **940,934** | 953,351 |
| Non-controlling interests | **(499)** | (6,560) |
| **TOTAL EQUITY** | **940,435** | 946,791 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*30 June 2019*

## 1. BASIS OF PREPARATION

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

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interest in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

**New definition of a lease**

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

**As a lessee – Leases previously classified as operating leases**

***Nature of the effect of adoption of HKFRS 16***

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

**As a lessee – Leases previously classified as operating leases (Continued)**

***Impacts on transition***

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

| | **Increase/ (decrease)** *US$'000* (Unaudited) |
|---|---|
| **Assets** | |
| Increase in right-of-use assets | 30,150 |
| Decrease in prepaid land lease payments | (23,029) |
| Decrease in prepayment, deposits and other receivables | (336) |
| Increase in total assets | 6,785 |
| **Liabilities** | |
| Increase in lease liabilities | 6,785 |
| Increase in total liabilities | 6,785 |

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

**As a lessee – Leases previously classified as operating leases (Continued)**

***Impacts on transition (Continued)***

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

| | *US$'000* (Unaudited) |
|---|---|
| **Operating lease commitments as at 31 December 2018** | **9,767** |
| Weighted average incremental borrowing rate as at 1 January 2019 | 4.1% |
| Discounted operating lease commitments as at 1 January 2019 | 7,543 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 | (635) |
| Commitments relating to leases of low-value assets | (123) |
| Lease liabilities as at 1 January 2019 | **6,785** |

**Summary of new accounting policies**

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

***Right-of-use assets***

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

**Summary of new accounting policies (Continued)**

***Lease liabilities***

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

| | **Right-of-use assets** | | | **Lease liabilities** |
|---|---|---|---|---|
| | **Land** | **Buildings** | **Sub-total** | |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| **As at 1 January 2019** | **23,029** | **7,121** | **30,150** | **6,785** |
| Additions | **5,646** | **–** | **5,646** | **–** |
| Depreciation charge | **(435)** | **(1,085)** | **(1,520)** | **–** |
| Interest expense | **–** | **–** | **–** | **130** |
| Payments | **–** | **–** | **–** | **(900)** |
| **As at 30 June 2019** | **28,240** | **6,036** | **34,276** | **6,015** |

2. **CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

(a) (Continued)

**Summary of new accounting policies (Continued)**

***Lease liabilities (Continued)***

The Group recognised rental expenses from short-term leases of US$341,000 and leases of low-value assets of US$41,000 for the six months ended 30 June 2019.

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

## 3. REVENUE AND OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- the men's footwear segment engages in the manufacture and sale of men's footwear

- the women's footwear segment engages in the manufacture and sale of women's footwear

- the footwear retailing and wholeselling segment engages in the sale of house brands

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, rental income, income from sales of scrap, fair value gains/(losses) from the Group's financial instruments, research and development costs, depreciation of investment properties, finance costs, share of profit/(losses) of a joint venture and associates as well as unallocated corporate income, expenses, gains and losses are excluded from such measurement.

Segment assets exclude investment properties, investments in a joint venture and associates, financial assets at fair value through profit or loss, cash and cash equivalents and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

3. **REVENUE AND OPERATING SEGMENT INFORMATION (Continued)**

**Six months ended 30 June 2019**

| | **Men's footwear** *US$'000* | **Women's footwear** *US$'000* | **Footwear retailing and wholeselling** *US$'000* | **Total** *US$'000* |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | **294,074** | **439,921** | **16,582** | **750,577** |
| Intersegment sales | **–** | **10,149** | **–** | **10,149** |
| | **294,074** | **450,070** | **16,582** | **760,726** |
| **Reconciliation:** | | | | |
| Elimination of intersegment sales | | | | **(10,149)** |
| Revenue | | | | **750,577** |
| **Segment results** | **37,254** | **68,736** | **(3,961)** | **102,029** |
| Reconciliation: | | | | |
| Interest income | | | | **162** |
| Corporate and other unallocated income and gains | | | | **8,368** |
| Corporate and other unallocated expenses and losses | | | | **(68,665)** |
| Finance costs | | | | **(918)** |
| Share of result of a joint venture | | | | **6,040** |
| Share of result of associates | | | | **(2,239)** |
| Profit before tax | | | | **44,777** |

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2018

| | Men's footwear *US$'000* | Women's footwear *US$'000* | Footwear retailing and wholeselling *US$'000* | Total *US$'000* |
|---|---|---|---|---|
| Segment revenue | | | | |
| Sales to external customers | 290,314 | 427,125 | 21,814 | 739,253 |
| Intersegment sales | 47 | 14,191 | – | 14,238 |
| | 290,361 | 441,316 | 21,814 | 753,491 |
| **Reconciliation:** | | | | |
| Elimination of intersegment sales | | | | (14,238) |
| Revenue | | | | 739,253 |
| **Segment results** | 31,216 | 59,238 | 561 | 91,015 |
| Reconciliation: | | | | |
| Interest income | | | | 440 |
| Corporate and other unallocated income and gains | | | | 6,709 |
| Corporate and other unallocated expenses and losses | | | | (71,005) |
| Finance costs | | | | (1,278) |
| Share of result of a joint venture | | | | 2,508 |
| Share of result of associates | | | | (1,840) |
| Profit before tax | | | | 26,549 |

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2019 and 31 December 2018, respectively.

| | Men's footwear *US$'000* (Unaudited) | Women's footwear *US$'000* (Unaudited) | Footwear retailing and wholeselling *US$'000* (Unaudited) | Other *US$'000* (Unaudited) | Total *US$'000* (Unaudited) |
|---|---|---|---|---|---|
| **Segment assets** | | | | | |
| 30 June 2019 | **533,898** | **413,715** | **47,742** | **256,961** | **1,252,316** |
| 31 December 2018 | **528,582** | **383,718** | **49,211** | **204,969** | **1,166,480** |
| **Segment liabilities** | | | | | |
| 30 June 2019 | **83,033** | **27,994** | **50,843** | **150,011** | **311,881** |
| 31 December 2018 | **72,349** | **32,204** | **5,634** | **109,502** | **219,689** |

An analysis of revenue is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Revenue from contracts with customers** | | |
| Sales of men's footwear | **294,074** | 290,314 |
| Sales of women's footwear | **456,503** | 448,939 |
| | **750,577** | 739,253 |

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

**Disaggregate revenue information for revenue from contracts with customers**

**For the six months ended 30 June 2019**

***Segments***

| | Men's footwear *US$'000* | Women's footwear *US$'000* | Footwear retailing and wholeselling *US$'000* | Total *US$'000* |
|---|---|---|---|---|
| **Type of goods** | | | | |
| Sales of men's footwear | **294,074** | **–** | **–** | **294,074** |
| Sales of women's footwear | **–** | **439,921** | **16,582** | **456,503** |
| **Total revenue from contracts with customers** | **294,074** | **439,921** | **16,582** | **750,577** |

***Segments***

| | Men's footwear *US$'000* | Women's footwear *US$'000* | Footwear retailing and wholeselling *US$'000* | Total *US$'000* |
|---|---|---|---|---|
| **Geographical markets** | | | | |
| USA | **150,071** | **193,152** | **156** | **343,379** |
| UK | **10,256** | **37,249** | **14** | **47,519** |
| Netherlands | **18,938** | **31,003** | **–** | **49,941** |
| The PRC | **32,088** | **43,080** | **9,777** | **84,945** |
| Canada | **6,124** | **13,076** | **–** | **19,200** |
| Belgium | **15,053** | **17,207** | **–** | **32,260** |
| Japan | **9,391** | **12,221** | **43** | **21,655** |
| Germany | **1,886** | **4,239** | **936** | **7,061** |
| Other countries | **50,267** | **88,694** | **5,656** | **144,617** |
| **Total revenue from contracts with customers** | **294,074** | **439,921** | **16,582** | **750,577** |
| **Timing of revenue recognition** | | | | |
| Goods transferred at a point of time | **294,074** | **439,921** | **16,582** | **750,577** |
| **Total revenue from contracts with customers** | **294,074** | **439,921** | **16,582** | **750,577** |

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

**Disaggregate revenue information for revenue from contracts with customers (Continued)**

For the six months ended 30 June 2018

***Segments***

| | Men's footwear *US$'000* | Women's footwear *US$'000* | Footwear retailing and wholeselling *US$'000* | Total *US$'000* |
|---|---|---|---|---|
| **Type of goods** | | | | |
| Sales of men's footwear | 290,314 | – | – | 290,314 |
| Sales of women's footwear | – | 427,125 | 21,814 | 448,939 |
| **Total revenue from contracts with customers** | 290,314 | 427,125 | 21,814 | 739,253 |
| **Geographical markets** | | | | |
| USA | 134,656 | 195,042 | 62 | 329,760 |
| UK | 14,730 | 43,789 | 96 | 58,615 |
| Netherlands | 29,286 | 33,694 | – | 62,980 |
| The PRC | 30,293 | 39,318 | 11,544 | 81,155 |
| Canada | 6,413 | 11,243 | – | 17,656 |
| Belgium | 18,069 | 12,983 | – | 31,052 |
| Japan | 8,734 | 10,049 | 44 | 18,827 |
| Germany | 4,685 | 7,490 | 13 | 12,188 |
| Other countries | 43,448 | 73,517 | 10,055 | 127,020 |
| **Total revenue from contracts with customers** | 290,314 | 427,125 | 21,814 | 739,253 |
| **Timing of revenue recognition** | | | | |
| Goods transferred at a point of time | 290,314 | 427,125 | 21,814 | 739,253 |
| **Total revenue from contracts with customers** | 290,314 | 427,125 | 21,814 | 739,253 |

## 4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **615,537** | 617,416 |
| Depreciation of property, plant and equipment | **20,052** | 19,674 |
| Depreciation of investment properties | **365** | 453 |
| Depreciation of right-of-use assets | **1,520** | – |
| Amortisation of prepaid land lease payments | **–** | 485 |
| Net fair value (gain)/loss on financial assets through profit or loss | **(41)** | 927 |
| Net fair value loss/(gain) on derivative financial instruments | **485** | (30) |
| Severance pay and other related costs | **4,758** | 5,863 |
| Impairment of financial assets: | | |
| Impairment of trade receivables | **142** | 1,415 |
| Impairment of other receivables | **41** | – |
| | **183** | 1,415 |
| (Reversal of)/write-down of inventories | **(1,103)** | 48 |
| Bank interest income | **(124)** | (142) |
| Interest income from financial assets through profit or loss | **(38)** | (270) |
| Interest income from derivative financial instruments | **–** | (28) |
| Loss on disposal of items of property, plant and equipment | **300** | 376 |
| Foreign exchange differences, net | **353** | 360 |

## 5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (six months ended 30 June 2018: 25%) during the period. Macau profits tax has been provided at the rate of 12% (six months ended 30 June 2018:12%) on the estimated assessable profits arising in Macau during the period. Pursuant to 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 entitled to the exemption of Macao Complementary Tax. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current – PRC | | |
| Charge for the period | **9,558** | 6,245 |
| Overprovision in prior years | **(5,440)** | (2,361) |
| Current – Hong Kong | **–** | 61 |
| Current – Elsewhere | **1,728** | 592 |
| | **5,846** | 4,537 |

## 6. DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Final declared and paid – HK45 cents (2018:HK30 cents) per ordinary share | **45,579** | 30,361 |
| Interim – HK40 cents (2018: HK30 cents) per ordinary share | **40,512** | 30,358 |
| | **86,091** | 60,719 |

On 22 August 2019, the board of directors declared an interim dividend of HK40 cents (six months ended 30 June 2018: HK30 cents) per ordinary share, amounting to a total of approximately US$40,512,000 (six months ended 30 June 2018: US$30,358,000).

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent of US$38,937,000 (2018: US$22,946,000), and the weighted average number of ordinary shares of 792,615,000 (six months ended 30 June 2018: 792,601,500) in issue during the period.

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2018 in respect of a dilution as the impact of the share option outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculation of the diluted earnings per share amount for the period ended 30 June 2019 was based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to ordinary equity holder of the parent, used in basic and diluted earnings per share | **38,937** | 22,946 |

| | **Six months ended 30 June** | |
|---|---|---|
| | **Number of shares** | |
| | **2019** | 2018 |
| | ***'000*** | *'000* |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | **792,615** | 792,602 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **219** | – |
| | **792,834** | 792,602 |

## 8. TRADE AND BILLS RECEIVABLES

An ageing analysis of the trade and bills receivables as at the end of each reporting period, based on the invoice date and net of loss allowance, is as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Audited) |
| Within 1 month | **217,177** | 192,332 |
| 1 to 2 months | **118,077** | 90,612 |
| 2 to 3 months | **36,006** | 39,312 |
| Over 3 months | **20,943** | 23,062 |
| | **392,203** | 345,318 |

The Group's trading terms with its customers are mainly on credit. The credit periods are ranging from 60 to 120 days.

Included in the Group's trade receivables are amounts due from the Group's associates of US$55,600,000 (31 December 2018: US$63,535,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Audited) |
| Listed debt investments, at fair value | **217** | 1,669 |

The above debt investments at 30 June 2019 were classified as financial assets at FVTPL as they were held for trading.

## 10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the reporting period, based on the invoice date, is as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Audited) |
| Within 1 months | **46,022** | 42,297 |
| 1 to 2 months | **11,982** | 10,094 |
| Over 2 months | **4,923** | 6,306 |
| | **62,927** | 58,697 |

Included in the trade payables are trade payables of US$9,987,000 (31 December 2018: US$1,185,000) due to a joint venture which are repayable within 90 days, and have credit terms similar to those offered by the joint venture to its major customers.

Trade payables are non-interest-bearing and are normally settled on a credit term of 60 days.

## 11. OTHER PAYABLES AND ACCRUALS

| | *Notes* | **30 June 2019** | 31 December 2018 |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| | | **(Unaudited)** | (Audited) |
| Refund liabilities | | **5,187** | 3,585 |
| Other payables | *(a)* | **4,361** | 7,272 |
| Accruals | | **48,285** | 38,092 |
| Financial guarantee contracts | *(b)* | **392** | 392 |
| | | **58,225** | 49,341 |

*Notes:*

(a) Other payables are non-interest-bearing and have an average credit term of three months.

(b) The financial guarantee contracts represent guarantees given to banks in connection with facilities granted to an associate. The associate's banking facilities granted by the banks were US$15,000,000 (31 December 2018: US$15,000,000), of which US$10,000,000 (31 December 2018: US$10,000,000) was utilised by the associate. The Group does not hold any collateral or other credit enhancements over the guarantees.

The Group does not provide financial guarantees except for limited circumstances. All guarantees are approved by the Head of Credit Control and the Chief Executive.

## 12. SHARE OPTION SCHEME

### Long term incentive scheme

The Company operates a share option scheme (the "Old Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, other employees of the Group, the Company's shareholders, any non-controlling shareholder in the Company's subsidiaries, and other eligible participants. The Old Share Option Scheme became effective on 15 June 2007 and was expired on 5 July 2017.

Pursuant to the Old Share Option Scheme, the Company appointed a trustee, Teeroy Limited (the "Trustee"), for the purpose of administering the Old Share Option Scheme and holding the awarded shares before they vest. As at 30 June 2019, the Trustee maintained a pool of 1,778,000 shares (31 December 2018: 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.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by all the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at the date of offer or with an aggregate value (based on the price of the Company's shares at the date of offer) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than six years from the date of offer of the share options or the expiry date of the Old Share Option Scheme, if earlier.

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.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 12. SHARE OPTION SCHEME (Continued)

### Long term incentive scheme (Continued)

Details of the share options granted and outstanding under the Old Share Option Scheme during the period were as follows:

| Category of participants | Share options | Date grant | Exercise price HK$ | Vesting date | Exercise period | Outstanding as at 1.1.2018 (Audited) | Forfeited/ lapsed during the year (Audited) | Outstanding as at 31.12.2018 (Audited) | Exercised during the period (Unaudited) | Forfeited/ lapsed during the period (Unaudited) | Outstanding as at 30.6.2019 (Unaudited) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | | | | | |
| Mr. Chi Lo-Jen | 2017-A | 17.3.2017 | 11.48 | 16.3.2018 | 16.3.2018 to 16.3.2023 | 683,500 | (683,500) | – | – | – | – |
| | 2017-B | 17.3.2017 | 11.48 | 22.3.2019 | 22.3.2019 to 16.3.2023 | 683,500 | – | 683,500 | – | (341,750) | 341,750 |
| | 2017-C | 17.3.2017 | 11.48 | 2020 vesting date | 2020 vesting date to 16.3.2023 | 683,500 | – | 683,500 | – | – | 683,500 |
| | 2017-D | 17.3.2017 | 11.48 | 2021 vesting date | 2021 vesting date to 16.3.2023 | 683,500 | – | 683,500 | – | – | 683,500 |
| | 2017-E | 17.3.2017 | 11.48 | 2022 vesting date | 2022 vesting date to 16.3.2023 | 683,500 | – | 683,500 | – | – | 683,500 |
| | | | | | | 3,417,500 | (683,500) | 2,734,000 | – | (341,750) | 2,392,250 |
| **Employees and other eligible participants:** | | | | | | | | | | | |
| In aggregate | 2017-A | 17.3.2017 | 11.48 | 16.3.2018 | 16.3.2018 to 16.3.2023 | 4,897,000 | (4,897,000) | – | – | – | – |
| | 2017-B | 17.3.2017 | 11.48 | 22.3.2019 | 22.3.2019 to 16.3.2023 | 4,897,000 | (415,000) | 4,482,000 | (32,000) | (2,362,250) | 2,087,750 |
| | 2017-C | 17.3.2017 | 11.48 | 2020 vesting date | 2020 vesting date to 16.3.2023 | 4,897,000 | (415,000) | 4,482,000 | – | (112,000) | 4,370,000 |
| | 2017-D | 17.3.2017 | 11.48 | 2021 vesting date | 2021 vesting date to 16.3.2023 | 4,897,000 | (415,000) | 4,482,000 | – | (112,000) | 4,370,000 |
| | 2017-E | 17.3.2017 | 11.48 | 2022 vesting date | 2022 vesting date to 16.3.2023 | 4,897,000 | (415,000) | 4,482,000 | – | (112,000) | 4,370,000 |
| | | | | | | 24,485,000 | (6,557,000) | 17,928,000 | (32,000) | (2,698,250) | 15,197,750 |
| Total | | | | | | 27,902,500 | (7,240,500) | 20,662,000 | (32,000) | (3,040,000) | 17,590,000 |
| Exercisable at the end of the year | | | | | | | | 20,662,000 | | | 17,590,000 |
| Weighted average exercise price (HK$ per share)* | | | | | | 11.48 | 11.48 | 11.48 | 11.48 | 11.48 | 11.48 |

* The exercise price of the share options is subject to adjustment in the case of changes in the Company's share capital.

The weighted average share price at the date of exercise for share options exercised during the period was HK$11.48 (31 December 2018: HK$11.48) per share.

## 12. SHARE OPTION SCHEME (Continued)

### Long term incentive scheme (Continued)

No share options were granted during the period ended 30 June 2019. During the year ended 31 December 2017, the fair value of the share options granted was HK$37,045,000 (equivalent to US$4,780,000) at HK$1.32 each (equivalent to US$0.17 each). The Group recognised a share option expense of US$477,000 (31 December 2018: US$1,234,000) during the period ended 30 June 2019.

The fair value of equity-settled share options granted during the year ended 31 December 2017 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | 2017 |
|---|---|
| Dividend yield (%) | 4.98% |
| Expected volatility (%) | 28.32% |
| Risk-free interest rate (%) | 1.60% |
| Life of options (year) | 6 years |
| Weighted average share price (HK$ per share) | 11.48 |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 17,590,000 share options outstanding under the Old Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 17,590,000 additional ordinary shares of the Company and additional share capital of US$225,000 (before issue expenses).

### 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 groups 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 period ended 30 June 2019, no shares were granted under the Share Award Plan.

## 12. SHARE OPTION SCHEME (Continued)

### Share option scheme

On 19 May 2017, the Company adopted a new share option scheme (the "New Share Option Scheme") pursuant to which shares of the Company may be awarded to selected 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 New 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.

At the end of the reporting period, no share option was outstanding under the New Share Option Scheme.

## CHAIRMAN'S STATEMENT

It is my great pleasure and honour to write my first statement as the Chairman of Stella International Holdings Limited.

The first half of 2019 confirmed that we are well on track to achieving margin recovery and long-term sustainable earnings growth. Despite flat revenue growth and tepid volume growth, as well as a deteriorating business environment, we saw a stellar improvement in our operating profit and net profit.

This outcome is no accident but instead the result of the hard work and tenacity of our management team, led by our new CEO, Mr. Chi Lo-Jen. It is also the result of our ability to trust in our capabilities and our heritage, recognising our niche and where we can provide our customers with the most value. This has always been in the areas of craftsmanship; commitment to quality; research, product development and commercialisation capabilities; and our unique industry reputation.

Most importantly, we realised that the best customers are those who can become our genuine partners, facilitating a level of collaboration and trust that is required for footwear brands to navigate the changing global footwear market. The best example of this has been the development of our newest footwear product category: fashion sports. Our history, going back to our founding days, has revolved around serving the high-fashion footwear segment, which today includes fashion-focused and collectable sports shoe lines. As more and more luxury brands seek to enter this space, we are one of the very few manufacturers that can offer the quality and design capabilities these products require.

Despite this advantage, we are not immune to the challenges facing all manufacturers that "grew up" in China, particularly rising wages and labour availability, and more recently, rising trade tensions with the United States – our biggest market by revenue. This is why we moved early to develop our capabilities in South East Asia, knowing that time and investment was needed to bring a new workforce up to the high quality and efficiency standards our customers require. We have never thought of cutting corners or competing based purely on cost.

The result of this strategy is now starting to speak for itself and we will continue to stay the course in progressively ramping-up our operations in South East Asia only when we are able. As such, we expect shipment volumes for the full-year of 2019 to be broadly in line with that in 2018 as we continue to prioritise margin expansion by further improving our production efficiency.

We will also continue to implement differentiated strategies for improving the performance of our fashion and casual footwear businesses, as well as our branding business in Europe, all of which target margin expansion, rather than merely volume growth. This remains the optimal path for greater profitability and achieving our mission to "make the best shoes".

On behalf of the Board, I would like to take this opportunity to thank our customers, business partners and shareholders for their unwavering support during this period. I will also like to express our gratitude to our colleagues for their hard work and service during the interim period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Model and Strategy

Stella is a leading developer and manufacturer 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 fashion footwear, fashion sports footwear, casual footwear and leather goods.

Our business is positioned at the high-end of the value chain, offering craftsmanship, creative design, speed to market, and small batch agility. Our commitment to quality has enabled us to attract a growing client base: from premium to high-end, and from fashion to fashion sports and casual brands.

We launched our branding business in 2006, which led to the creation of our two contemporary brands – *Stella Luna* and *What For*. These brands are designed and manufactured in-house and have quickly developed a global following.

## Financial Highlights

### *Stable Overall Revenue and Shipment Volumes on Robust Fashion Sports Footwear Orders*

Our revenue growth in the six months under review, was relatively flat, supported by robust ordering for our fashion sports footwear. Meanwhile, the revenue contribution from our fashion and casual footwear segments remained in line with our expectations and our current margin expansion strategy.

The key financial performance indicators of the Company are revenue growth, operating margin and return on invested capital. An analysis of these indicators are as below:

Our consolidated revenue for the six months ended 30 June 2019 increased by 1.5% to US$750.6 million, compared to US$739.3 million in the corresponding period of last year. Shipment volumes rose 1.7% to 29.5 million pairs, compared to 29.0 million pairs in the corresponding period of last year. The average selling price ("ASP") of our footwear products rose 1.2% to US$25.2 per pair, compared to US$24.9 per pair in the corresponding period of last year, due to changes in our product mix and customer mix.

Fashion footwear was the biggest contributor to our overall revenue during the six months ended 30 June 2019, contributing 34.9% of total revenue. The contributions from casual footwear and fashion sports products were 28.4% and 34.5% respectively, while the Group's own retail brands accounted for 2.2% of total revenue.

Geographically, North America and Europe remain our two largest markets, accounting for 48.8% and 30.1% of our total revenue during the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 11.3%, Asia (other than the PRC), which accounted for 6.7% and other geographic regions, which accounted for 3.1%.

### *Branding Business Impacted by French Protests*

Our branding business, which is anchored by our retail business in Europe saw revenue decline by 35.9% to US$5.9 million during the six months ended 30 June 2019. Same-store sales during the period declined by 43.8%. As our current store network is primarily focused around the Paris area, retail sales during the period were impacted by the "Yellow Vest" protests, the consolidation of our retail network, and a continued focus on clearance events aimed to manage inventory.

**Profitability Supported by Enhanced Customer and Product Mix, Ramp-Up of New Factory and Efficiency Improvements**

Our gross profit and operating profit improved significantly during the six months under review, which was mostly attributed to a moderate year-on-year improvement in the production efficiency and the continued ramp-up of its new manufacturing facility in Vietnam; further re-allocation of its production capacity from China to South East Asia; and a much-enhanced product mix and customer mix.

Our gross profit for the period under review rose 10.8% to US$135.0 million compared to the corresponding period of last year. Our operating profit rose 61.5% to US$45.9 million, with an operating margin improving to 6.1% from 3.8%. Our adjusted recurring operating margin increased to 7.1%. Our net profit for the period under review rose 76.8% to US$38.9 million, with the growth being mostly attributed to the reasons outlined above in addition to a low base.

Our cash generated from operations increased to US$17.4 million for the six months ended 30 June 2019, from US$43.2 million used in operations for the corresponding period of last year.

Our return on invested capital was at 12.5% in the six months ended 30 June 2019. Return on invested capital means operating profit for the period under review divided by the average of total assets excluding cash and cash equivalents.

**Business Review**

***Accelerating Demand for Fashion Sports Products***

Demand for our fashion sports products has continued to grow strongly, with increased orders from our major customer supporting the utilisation rate at our new manufacturing facility in Vietnam.

As a result of our long history of serving fashion brands, Stella is uniquely positioned to cater to the current convergence between fashion and sports. As major sportswear brands increasingly seek shorter lead-times and smaller batch order for their limited edition, fashion-focused/collectable product lines, we are one of the very few manufacturers who can deliver the responsiveness, premium quality and flexibility needed to meet their requirements.

We are also progressively growing our customer base in this segment, particularly premium and luxury fashion brands that are seeking to enter into the fashion sports market. Our long-established reputation for craftsmanship, design, adaptability and commercialisation ability will ensure that we remain the partner of choice for all brands entering this segment.

### *Customised Strategies for Fashion and Casual Footwear Segments*

We are implementing different strategies to improve the performance of our fashion and casual footwear segments as we become more active in managing orders and our customer mix in order to progressively enhance margins. This resulted in a decrease in shipment volume for our fashion and casual footwear products during the six months under review although the ASP for both segments increased.

### *Ongoing Efficiency Gains and Refinement of Manufacturing Footprint*

We closed one factory in Mainland China during the first six months of the year as we continued to ramp-up activity and production efficiency at our manufacturing facilities in South East Asia.

We also continued to diversify our manufacturing base as we move closer to our medium-to-long-term goal of achieving a footprint where a majority of our production capacity will be outside of Mainland China. This will allow us to overcome persistent labour supply and labour cost issues in China while making solid quality and efficiency gains.

In addition to our research and development centres in Dongguan, China and Venice, Italy, our global manufacturing footprint as of 30 June 2019 included facilities in Guangdong, Hunan, Guangxi and Hebei provinces in Mainland China, as well as in Vietnam, Indonesia, the Philippines and Bangladesh.

### *Impact of External Events*

Ordering activity in the six months ended 30 June 2019 was not materially affected by the current trade tensions between the United States and China and we are continuing to actively monitor the situation.

### *Development of Branding Business in Europe*

We continued to focus on building the global profile and value of our two contemporary retail brands – *Stella Luna* and *What For*, each of which showcases our unique design and fashion capabilities.

During the six months under review, we continued to adjust the size of our retail store network in France, explore distributorships in other European countries and invest in e-commerce channels, while enhancing our visibility and presence in famous department stores around the world.

**Outlook**

***Stable Shipment Volumes Still Expected in 2019 With Continued Focus on Margin Expansion***

Despite the prevailing external headwinds, we still expect shipment volumes for the full-year 2019 to be around the same level as for the full-year 2018, with further volume growth and increased demand of our fashion sports footwear products. We also expect that ASP will remain broadly stable which depends on our product mix and our customers' product mix.

We will continue to prioritise margin expansion in the second half of 2019 by increasing our production efficiency. We will focus on improving the performance of our fashion and casual footwear businesses, while also continuing to ramp-up our new manufacturing facility in Vietnam, which is specifically geared towards fashion sports products, increasing production efficiency and growing margins. We will also aim to adjust the price for some products while actively managing orders for some product categories.

***Further Strategic Refinement of Manufacturing Footprint and Focus on R&D***

By the end of 2019, we expect that we will have further scaled down our production facilities in Mainland China, including closure of one factory while repurposing another as part of our supply chain re-engineering. This is part of our ongoing strategy of increasing our capacity in South East Asia in order to improve utilisation and margins.

We will also continue to maintain strict cost control measures, such as closely managing headcounts and working hours to deliver value to our customers.

We will also continue to invest in our research and development capabilities to further improve and extend our range of innovative footwear products, including 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.

***Continued Brand Development in Europe***

Building on the good level of recognition our retail brands have developed in France and other markets, we will invest further in our branding business including product development and distribution, to enrich the product portfolio and build stronger fundamentals for *Stella Luna* and *What For*.

***Proactive Monitoring of External Risks***

The United States' plans to implement a 10% tariff on US$300 billion of exports from Mainland China on 1 September 2019 may be the first to directly include finished footwear products that we manufacture. At this stage, we do not expect these tariffs to have a materially-adverse impact on our financial performance in the second half of 2019.

We will also continue to monitor other potential risks to our operations, such as ongoing consolidation among footwear brands, further development of trade tensions imposed by the United States and the continued penetration of e-commerce and its impact on our brand customers. We will continue to work closely with our customers to manage these risks if they arise.

**Outreach to Investors**

We will continue to strengthen our communication with investors about our margin-expansion strategies. We are also pleased to announce that Stella's 2018 Annual Report was awarded the Silver Award in the "Manufacturing: Consumer & Commercial Product" category at the 2019 ARC Awards, recognising our improving outreach to the investment community.

**Liquidity, Financial Resources and Capital Structure**

As at 30 June 2019, the Group had cash and cash equivalents of approximately US$67.9 million (31 December 2018: US$61.3 million).

As at 30 June 2019, the Group had current assets of approximately US$778.0 million (31 December 2018: US$702.5 million) and current liabilities of approximately US$305.0 million (31 December 2018: US$216.8 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.6 as at 30 June 2019 (31 December 2018: 3.2), an indication of the Group's high liquidity and healthy financial position.

**Bank Borrowings**

The Group had bank borrowings of US$136.9 million as at 30 June 2019 (31 December 2018: US$65.4 million), a reduction of US$23.0 million compared to 30 June 2018 (30 June 2018: US$159.9 million).

**Foreign Currency Exposure**

During the six months ended 30 June 2019, 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 US dollars, the functional currency of the Group.

**Capital Expenditure**

Net cash outflows used in investing activities were US$34.8 million during the period under review (for the six months ended 30 June 2018: US$30.3 million), representing an increase of 14.9%. Capital expenditure amounted to approximately US$37.0 million during the period (for the six months ended 30 June 2018: US$28.8 million).

**Pledge Of Assets**

As at 30 June 2019, the Group had pledged US$5.5 million of its assets (31 December 2018: US$5.6 million).

**Contingent Liabilities**

As at 30 June 2019, the Group had no contingent liabilities (31 December 2018: Nil).

**Major Customers and Suppliers**

Customers and suppliers are our core stakeholders. We believe their successes are indispensable to our growth. Also, an effective alignment between them is the key to high performing supply chain competitiveness. Our brand customers evaluate supply chain performance on product commercialisation, efficiency, quality and on time delivery. The Company has been consistently placed within the top 10 percentile of these vendors' evaluations.

We treasure our partnership with these long-term customers and suppliers and we will continue to build strategic and fruitful relationships with them to enable continuous improvements in quality craftsmanship, innovation, speed to market, and small batch production.

**Employees**

As at 30 June 2019, the Group had approximately 64,000 employees (31 December 2018: approximately 63,000). 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 attract, develop 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 of 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 and a share award plan.

## 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 2019.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK40 cents per ordinary share for the six months ended 30 June 2019. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 20 September 2019. It is expected that the interim dividend will be paid on or about 18 October 2019. In order to qualify for the interim dividend for the six months ended 30 June 2019, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 20 September 2019.

## 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 Listing Rules throughout the six months ended 30 June 2019, except 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 2018 for observing competitive market practices and respecting individual privacy.

### 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 to 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 2019.

## 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**
**Chen Li-Ming, Lawrence**
*Chairman*

Hong Kong, 22 August 2019

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