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 2019

Highlights:

– Total revenue for the year declined to US$1,544.8 million from US$1,588.6 million last year

– Gross profit increased by 6.0% to US$293.6 million from US$277.1 million last year

– Net profit for the year increased by 54.2% to US$95.9 million

– Adjusted operating profit# increased by 14.3% to US$126.6 million from US$110.8 million last year

– Adjusted operating margin improved to 8.2%, compared to 7.0% last year

– Adjusted net profit rose to US$117.0 million, up from US$105.1 million last year, representing an increase of 11.3%

– Final dividend was proposed to be HK45 cents, making the total dividend for the year HK85 cents, an increase of 13.3% compared to that of last year

Adjusted operating profit refers to operating profit excluding finance costs, tax expenses and one-off items which are mainly comprised of severance, closure and impairment costs.

* *For identification purpose only*

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 2019, 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 2019

	Notes	**2019** **US$'000**	2018 US$'000
Revenue	*4*	**1,544,830**	1,588,583
Cost of sales		**(1,251,221)**	(1,311,461)
Gross profit		**293,609**	277,122
Other income	*5*	**25,022**	19,284
Other losses, net	*5*	**(2,658)**	(754)
Selling and distribution expenses		**(63,739)**	(60,572)
Administrative expenses		**(154,010)**	(167,247)
Impairment losses on financial assets, net	*6*	**(1,179)**	(5,196)
Finance costs		**(1,882)**	(2,945)
Share of profit of a joint venture		**6,977**	10,920
Share of losses of associates		**(2,099)**	(4,305)
Profit before tax	*6*	**100,041**	66,307
Income tax expense	*7*	**(4,123)**	(4,081)
Profit for the year		**95,918**	62,226

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

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,719**	612
Share of other comprehensive losses of a joint venture and associates		**(156)**	(530)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,563**	82
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**97,481**	62,308
Profit attributable to:			
Owners of the parent		**95,925**	65,455
Non-controlling interests		**(7)**	(3,229)
		95,918	62,226
Total comprehensive income attributable to:			
Owners of the parent		**97,557**	65,249
Non-controlling interests		**(76)**	(2,941)
		97,481	62,308
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
– Basic *(US$)*		**0.121**	0.083
– Diluted *(US$)*		**0.121**	0.083

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**400,293**	395,142
Investment properties		**5,178**	5,980
Right-of-use assets		**35,558**	–
Prepaid land lease payments		**–**	22,377
Investment in a joint venture		**26,479**	20,424
Investments in associates		**1,843**	7,679
Deposit for acquisition of property, plant and equipment		**4,147**	12,414
Total non-current assets		**473,498**	464,016
CURRENT ASSETS			
Inventories		**173,088**	170,522
Trade and bills receivables	*10*	**306,329**	345,318
Prepayments, deposits and other receivables		**112,204**	122,975
Prepaid land lease payments		**–**	652
Financial assets at fair value through profit or loss		**189**	1,669
Cash and cash equivalents		**68,061**	61,328
Total current assets		**659,871**	702,464
CURRENT LIABILITIES			
Trade payables	*11*	**59,675**	58,697
Other payables and accruals		**63,132**	49,341
Interest-bearing bank borrowings		**245**	62,483
Lease liabilities		**1,851**	–
Tax payable		**41,829**	46,252
Total current liabilities		**166,732**	216,773

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 31 December 2019

	2019	2018
	US$'000	*US$'000*
NET CURRENT ASSETS	**493,139**	485,691
TOTAL ASSETS LESS CURRENT LIABILITIES	**966,637**	949,707
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**2,750**	2,916
Lease liabilities	**4,721**	–
Total non-current liabilities	**7,471**	2,916
Net assets	**959,166**	946,791
EQUITY		
Equity attributable to owners of the parent		
Share capital	**10,165**	10,160
Share premium and reserves	**949,504**	943,191
	959,669	953,351
Non-controlling interests	**(503)**	(6,560)
Total equity	**959,166**	946,791

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Attributable to owners of the parent											
	Notes	**Share capital** *US$'000*	**Share premium** *US$'000*	**Merger reserve** *US$'000*	**Capital reserve** *US$'000*	**Exchange reserve** *US$'000*	**Shares held for share award scheme** *US$'000*	**Capital redemption reserve** *US$'000*	**Share option reserve** *US$'000*	**Retained profits** *US$'000*	**Sub-total** *US$'000*	**Non-controlling interests** *US$'000*	**Total equity** *US$'000*
At 1 January 2019		10,160	154,503*	45,427*	1,146*	(4,491)*	(2,722)*	190*	1,151*	747,987*	953,351	(6,560)	946,791
Profit/(loss) for the year		–	–	–	–	–	–	–	–	95,925	95,925	(7)	95,918
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	1,788	–	–	–	–	1,788	(69)	1,719
Share of other comprehensive losses of a joint venture and associates		–	–	–	–	(156)	–	–	–	–	(156)	–	(156)
Total comprehensive income for the year		–	–	–	–	1,632	–	–	–	95,925	97,557	(76)	97,481
Acquisition of non-controlling interest		–	–	(6,586)	–	–	–	–	–	–	(6,586)	6,133	(453)
Issue of shares		5	653	–	–	–	–	–	(70)	–	588	–	588
Equity settled share option arrangements		–	–	–	–	–	–	–	855	–	855	–	855
Final 2018 dividend	*8*	–	–	–	–	–	–	–	–	(45,579)	(45,579)	–	(45,579)
Interim 2019 dividend	*8*	–	–	–	–	–	–	–	–	(40,517)	(40,517)	–	(40,517)
At 31 December 2019		10,165	155,156*	38,841*	1,146*	(2,859)*	(2,722)*	190*	1,936*	757,816*	959,669	(503)	959,166
At 1 January 2018		10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	742,314	947,710	(3,619)	944,091
Profit/(loss) for the year		–	–	–	–	–	–	–	–	65,455	65,455	(3,229)	62,226
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	324	–	–	–	–	324	288	612
Share of other comprehensive losses of a joint venture and associates		–	–	–	–	(530)	–	–	–	–	(530)	–	(530)
Total comprehensive income for the year		–	–	–	–	(206)	–	–	–	65,455	65,249	(2,941)	62,308
Equity-settled share option arrangements		–	–	–	–	–	–	–	1,234	–	1,234	–	1,234
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	–	(1,060)	1,060	–	–	–
Final 2017 dividend	*8*	–	–	–	–	–	–	–	–	(30,361)	(30,361)	–	(30,361)
Interim 2018 dividend	*8*	–	–	–	–	–	–	–	–	(30,481)	(30,481)	–	(30,481)
At 31 December 2018		10,160	154,503*	45,427*	1,146*	(4,491)*	(2,722)*	190*	1,151*	747,987*	953,351	(6,560)	946,791

* *These reserve accounts comprise the consolidated share premium and reserves of US$949,504,000 (2018: US$943,191,000) in the consolidated statement of financial position.*

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These consolidated financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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 Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and Annual Improvements to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

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.

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for variance items of properties. As a lessee, the Group previously classified leases as either finance leases or 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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 separately disclosed in the consolidated statements of financial position. The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019.

For the other leases, the right-of-use assets amounting to US$23,029,000 in respect of the prepaid land lease payments were recognised based on the carrying amount as if the standard had always been applied.

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 consolidated statement of financial position.

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

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

Financial impact at 1 January 2019

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

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

	Increase/ (decrease) *US$'000*
Liabilities	
Increase in lease liabilities	6,785
Increase in total liabilities	6,785

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

	US$'000
Operating lease commitment as at 31 December 2018	**9,767**
Less: Commitments relating to short term leases and those leases with a remaining lease term ended on or before 31 December 2019	(272)
Commitments relating to leases of low-value assets	(127)
	9,368
Weighted average incremental borrowing rate as at 1 January 2019	4.1%
Discounted operating lease commitments as at 1 January 2019	6,785
Lease liabilities as at 1 January 2019	6,785

(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 continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(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 impact on the financial position or performance of the Group.

3. 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 sale and manufacture of men's footwear

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

– the footwear retailing and wholeselling segment engages in the sale of self-developed 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, non-lease-related 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.

Year ended 31 December 2019

	Men's footwear *US$'000*	**Women's footwear** *US$'000*	**Footwear retailing and wholeselling** *US$'000*	**Total** *US$'000*
Segment revenue *(note 4)*				
Sales to external customers	**588,647**	**925,322**	**30,861**	**1,544,830**
Intersegment sales	**–**	**19,376**	**–**	**19,376**
	588,647	**944,698**	**30,861**	**1,564,206**
Reconciliation:				
Elimination of intersegment sales				**(19,376)**
Revenue				**1,544,830**
Segment results	**82,951**	**150,929**	**(9,544)**	**224,336**
Reconciliation:				
Interest income				**832**
Corporate and other unallocated income and gains				**20,385**
Corporate and other unallocated expenses and losses				**(143,903)**
Finance costs (other than interest on lease liabilities)				**(1,609)**
Profit before tax				**100,041**
Segment assets	**469,918**	**261,874**	**54,702**	**786,494**
Reconciliation:				
Corporate and other unallocated assets				**346,875**
Total assets				**1,133,369**

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing and wholeselling *US$'000*	Total *US$'000*
Segment liabilities	**106,907**	**11,778**	**8,107**	**126,792**
Reconciliation:				
Corporate and other unallocated liabilities				**47,411**
Total liabilities				**174,203**
Other segment information				
Share of profit of a joint venture	**6,977**	**–**	**–**	**6,977**
Share of losses of associates	**(747)**	**–**	**(1,352)**	**(2,099)**
Impairment on trade receivables, net	**(86)**	**(1,389)**	**14**	**(1,461)**
Impairment losses on other receivables	**2,025**	**609**	**6**	**2,640**
Depreciation of property, plant and equipment	**19,102**	**21,360**	**651**	**41,113**
Depreciation of right-of-use assets	**2,255**	**618**	**266**	**3,139**
Write-down of inventories, net	**(3,148)**	**(897)**	**2,130**	**(1,915)**
Income tax expense	**1,291**	**2,080**	**752**	**4,123**
Investment in a joint venture	**26,479**	**–**	**–**	**26,479**
Investments in associates	**1,247**	**–**	**596**	**1,843**
Capital expenditure*	**66,712**	**6,222**	**109**	**73,043**

* *Capital expenditure consists of additions to property, plant and equipment, right-of-use assets and deposits for acquisition of property, plant and equipment.*

Year ended 31 December 2018

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing and wholeselling *US$'000*	Total *US$'000*
Segment revenue *(note 4)*				
Sales to external customers	604,142	925,078	59,363	1,588,583
Intersegment sales	106	27,329	–	27,435
	604,248	952,407	59,363	1,616,018
Reconciliation:				
Elimination of intersegment sales				(27,435)
Revenue				1,588,583
Segment results	69,912	144,582	(6,089)	208,405
Reconciliation:				
Interest income				1,148
Corporate and other unallocated income and gains				28,901
Corporate and other unallocated expenses and losses				(169,202)
Finance costs				(2,945)
Profit before tax				66,307
Segment assets	528,582	383,718	49,211	961,511
Reconciliation:				
Corporate and other unallocated assets				204,969
Total assets				1,166,480
Segment liabilities	72,349	32,204	5,634	110,187
Reconciliation:				
Corporate and other unallocated liabilities				109,502
Total liabilities				219,689

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Other segment information				
Share of profit of a joint venture	10,920	–	–	10,920
Share of losses of associates	–	–	(4,305)	(4,305)
Impairment losses on trade receivables	910	1,891	464	3,265
Impairment losses on other receivables	–	1,931	–	1,931
Depreciation of property, plant and equipment	18,709	20,223	1,329	40,261
Recognition of prepaid land lease payments	447	448	–	895
Write-down of inventories, net	(725)	(275)	2,551	1,551
Impairment of property, plant and equipment	–	–	2,298	2,298
Income tax expense	1,137	2,364	580	4,081
Investment in a joint venture	20,424	–	–	20,424
Investments in associates	5,692	–	1,987	7,679
Capital expenditure*	38,929	16,795	30	55,754

* *Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and deposits for acquisition of property, plant and equipment.*

Geographical information

(a) Revenue from external customers

	2019 US$'000	2018 US$'000
United States of America ("USA")	**748,525**	766,000
The PRC	**186,455**	157,553
United Kingdom ("UK")	**86,162**	112,992
Netherlands	**99,413**	122,993
Canada	**35,591**	37,223
Belgium	**62,754**	59,976
Japan	**40,794**	39,032
Switzerland	**53,928**	48,513
Other countries	**231,208**	244,301
	1,544,830	1,588,583

The revenue information above is based on the location of the customers.

(b) ***Non-current assets***

	2019	2018
	US$'000	*US$'000*
The PRC	**236,625**	285,009
Bangladesh	**15,311**	14,609
Vietnam	**132,079**	87,689
Indonesia	**24,289**	18,168
Other countries	**65,194**	58,541
	473,498	464,016

The non-current assets information above is based on the location of the assets.

Information about major customers

Revenue derived from sales of footwear to customers, which accounted for 10% or more of the Group's revenue is set out below:

	2019	2018
	US$'000	*US$'000*
Derived from sales by men's footwear and women's footwear segments:		
Customer A	**381,420**	348,054
Customer B	**250,685**	225,382

4. REVENUE

An analysis of revenue is as follows:

	2019	2018
	US$'000	*US$'000*
Revenue from contracts with customers		
Sales of men's footwear	**588,647**	604,142
Sales of women's footwear	**956,183**	984,441
	1,544,830	1,588,583

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 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	588,647	–	–	588,647
Sales of women's footwear	–	925,322	30,861	956,183
Total revenue from contracts with customers	588,647	925,322	30,861	1,544,830
Geographical markets				
USA	312,625	435,693	207	748,525
UK	20,049	66,061	52	86,162
Netherlands	38,245	61,168	–	99,413
The PRC	65,510	100,549	20,396	186,455
Canada	12,296	23,295	–	35,591
Belgium	28,603	34,151	–	62,754
Japan	16,713	23,957	124	40,794
Switzerland	30	53,891	7	53,928
Other countries	94,576	126,557	10,075	231,208
Total revenue from contracts with customers	588,647	925,322	30,861	1,544,830
Timing of revenue recognition				
Goods transferred at a point in time	588,647	925,322	30,861	1,544,830
Total revenue from contracts with customers	588,647	925,322	30,861	1,544,830

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing and wholeselling *US$'000*	Total *US$'000*
Revenue from contracts with customers				
External customers	588,647	925,322	30,861	1,544,830
Intersegment sales	–	19,376	–	19,376
	588,647	944,698	30,861	1,564,206
Intersegment adjustments and eliminations	–	(19,376)	–	(19,376)
Total revenue from contracts with customers	588,647	925,322	30,861	1,544,830

For the year ended 31 December 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	604,142	–	–	604,142
Sales of women's footwear	–	925,078	59,363	984,441
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583
Geographical markets				
USA	308,379	445,810	11,811	766,000
UK	27,476	85,181	335	112,992
Netherlands	56,047	66,946	–	122,993
The PRC	56,093	76,305	25,155	157,553
Canada	13,727	23,496	–	37,223
Belgium	30,313	29,663	–	59,976
Japan	17,282	21,381	369	39,032
Switzerland	105	48,408	–	48,513
Other countries	94,720	127,888	21,693	244,301
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583
Timing of revenue recognition				
Goods transferred at a point in time	604,142	925,078	59,363	1,588,583
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Revenue from contracts with customers				
External customers	604,142	925,078	59,363	1,588,583
Intersegment sales	106	27,329	–	27,435
	604,248	952,407	59,363	1,616,018
Intersegment adjustments and eliminations	(106)	(27,329)	–	(27,435)
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

5. OTHER INCOME AND OTHER LOSSES, NET

	2019	2018
	US$'000	*US$'000*
Other income		
Bank interest income	**350**	259
Interest income from financial assets at fair value through profit or loss	**482**	860
Interest income from derivative financial instruments	**–**	29
Rental income	**4,210**	4,740
Sales of scrap	**1,399**	1,738
Government subsidies*	**7,725**	6,961
Others	**10,856**	4,697
	25,022	19,284
Other losses, net		
Loss on disposal of items of property, plant and equipment	**(2,660)**	(1,177)
Foreign exchange differences, net	**1,713**	1,700
Fair value (loss)/gains, net:		
Derivative financial instruments	**(1,724)**	16
Financial assets at fair value through profit or loss	**13**	(1,293)
	(2,658)	(754)

* *Government subsidies have been received from the PRC local government authorities as reimbursement of operating expenses. There are no unfulfilled conditions or contingencies relating to these subsidies.*

6. PROFIT BEFORE TAX

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

	2019	2018
	US$'000	*US$'000*
Cost of inventories sold	**1,253,136**	1,309,910
Depreciation of property, plant and equipment	**41,113**	40,261
Depreciation of investment properties	**717**	809
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	**3,139**	895
Research and development costs	**56,254**	53,571
Minimum lease payments under operating leases	**–**	5,784
Lease payments not included in the measurement of lease liabilities	**576**	–
Contingent rents under operating leases	**–**	6,382
Auditors' remuneration	**530**	474
Employee benefits expenses (excluding directors' and chief executive's remuneration):		
Wages and salaries	**314,739**	363,502
Equity-settled share option expense	**855**	1,085
Pension scheme contributions	**754**	759
Severance pay and other related costs	**25,856**	34,168
	342,204	399,514
Impairment of financial assets:		
Impairment of trade receivables, net	**(1,461)**	3,265
Impairment of other receivables, net	**2,640**	1,931
	1,179	5,196
Impairment of property, plant and equipment	**–**	2,298
Provision of write-down of inventories, net	**(1,915)**	1,551
Loss on disposal of items of property, plant and equipment	**2,660**	1,177
Foreign exchange differences, net	**(1,713)**	(1,700)

7. INCOME TAX

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2018: 25%) during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Macau Complementary tax has been provided at the rate of 12% (2018: 12%) on the estimated assessable profits arising in Macau during the year. 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 Macau Complementary Tax.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019	2018
	US$'000	*US$'000*
Current – PRC		
Charge for the year	**15,144**	14,887
Overprovision in prior years	**(11,560)**	(11,331)
Current – Hong Kong	**–**	60
Current – Elsewhere	**539**	465
	4,123	4,081

8. DIVIDENDS

	2019	2018
	US$'000	*US$'000*
Interim – HK40 cents (2018: HK30 cents) per ordinary share	**40,517**	30,481
Final – HK45 cents per ordinary share for 2018 (2018: HK30 cents per ordinary share for 2017)	**45,579**	30,361
	86,096	60,842

A final dividend of HK45 cents per share amounting to approximately HK$357,651,225 (equivalent to US$46,071,000) in respect of the year ended 31 December 2019 (2018: HK$45 cents per share amounting to approximately HK$357,470,775 (equivalent to US$45,579,000)) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

9. 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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 792,703,248 (2018: 792,601,500) in issue during the year.

The calculation of the diluted earnings per share amount for the year ended 31 December 2019 is 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 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 computation of diluted earnings per share does not assume the exercise of the Company's share options for the year ended 31 December 2018 because the exercise price of those share options was higher than the average market price of the Company's share during that year.

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

	2019	2018
	US$'000	*US$'000*
Profit attributable to ordinary equity holder of the parent, used in basic earnings per share	**95,925**	65,455

	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**792,703,248**	792,601,500
Effect of dilution – weighted average number of ordinary shares:		
Share options	**1,150,290**	–
	793,853,538	792,601,500

10. TRADE AND BILLS RECEIVABLES

	2019	2018
	US$'000	*US$'000*
Trade receivables	**313,071**	352,003
Impairment	**(6,742)**	(8,203)
	306,329	343,800
Bills receivable	**–**	1,518
	306,329	345,318

The Group's trading terms with its customers are mainly on credit. The credit periods range from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of customers, there is no significant concentration of credit risk. The Group does not hold any collateral over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's associates of US$67,251,000 (2018: US$63,535,000), with provision for expected credit losses amounted to US$4,449,000 (2018: Nil), which are repayable on credit terms similar to those offered to the major customers of the Group.

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:

	2019	2018
	US$'000	*US$'000*
Within 1 month	**181,608**	192,332
1 to 2 months	**82,846**	90,612
2 to 3 months	**27,932**	39,312
Over 3 months	**13,943**	23,062
	306,329	345,318

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019	2018
	US$'000	*US$'000*
At beginning of the year	**8,203**	487
Effect of ad on of HKFRS 9	**–**	8,210
At beginning of the year (restated)	**8,203**	8,697
Impairment losses, net *(note 6)*	**(1,461)**	3,265
Amounts written off as uncollectible	**–**	(3,759)
At end of year	**6,742**	8,203

11. 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:

	2019	2018
	US$'000	*US$'000*
Within 1 month	**47,190**	42,297
1 to 2 months	**8,701**	10,094
Over 2 months	**3,784**	6,306
	59,675	58,697

Included in the trade payables are trade payables of US$12,655,000 (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.

CHAIRMAN'S STATEMENT

2019 was a year in which we made milestone progress in securing our long-term success and profitability with our operating profit and net profit improving significantly during the year under review.

Much of this result was due to the considerable progress we made in migrating capacity from Mainland China to Southeast Asia, including the ramping up of operations at our new manufacturing facility in Vietnam. This would not have been possible without the great dedication and professionalism of our management team who were quickly able to bring our new workforce up to the high quality and efficiency standards that our customers expect.

It is this level of quality and efficiency that continues to enable Stella to be the partner of choice for footwear brands, especially those seeking to navigate to bridge the gap between luxury and sports styles. Our leading position in the fashion sports footwear and fashion footwear markets, and our strong position in the casual footwear market, were further reinforced by our robust product development and commercialisation capabilities, craftsmanship, flexibility and adaptability.

Operational stability will be our primary focus in 2020, while continuing to optimise our margins where possible. We will continue to drive further efficiency improvements and make changes to our product mix. We have entered into the final stage of capacity migration initiative and will further diversity our manufacturing base from China to Southeast Asia.

2020 will also see us integrate our leather goods business into the listed company. Over the past few years, we have been progressively developing a capability for manufacturing high-end handbags and small leather goods for luxury brands looking to outsource the production of these products. Over time, we expect the leather goods business to be a new growth driver for the Group as we add more high-end customers and explore synergies between this business and our footwear manufacturing business.

Through the above strategies, I am confident that Stella is well placed to cope with the various short and long-term challenges we face. As our 2019 financial results testify, our long-term profitability looks assured as a result of our more diversified manufacturing locations and enhanced ability to manage our product mix and customer mix. Our diversified manufacturing footprint is also enabling us to combat the short-term challenges posed by the COVID-19 outbreak.

As always, we will also continue to work hard to further improve our operational efficiency, exceed our customers' expectations and deliver profit and return to our shareholders while continuing to achieve our long-term mission of "making the best shoes".

As our new CEO, Chi Lo-Jen and I reach the end of our first financial year of leading Stella, we wish to congratulate our management team and our colleagues for their hard work in achieving the excellent financial result for 2019 and their continued dedication and commitment during these challenging times.

On behalf of the Board, we would also like to thank our customers, business partners and shareholders for their unwavering support in 2019.

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, commercialisation 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

Lower Overall Revenue Amid Focus on Margin Improvement and Robust Fashion Sports Footwear Orders

Overall revenue for the full year declined as compared to the previous year, which was mostly attributed to lower overall shipment volumes during the year and the restructuring and consolidation of the Group's retail operations within our branding business. Fashion sports footwear orders during the year remained robust, while the revenue contribution from our fashion and casual footwear segments remained in line with our expectations as we continued to prioritise margin expansion over shipment volume growth.

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 year ended 31 December 2019 declined by 2.8% to US$1,544.8 million (2018: US$1,588.6 million). Shipment volumes declined 1.3% to 59.4 million pairs (2018: 60.2 million pairs). The average selling price ("ASP") of our footwear products for the full year was US$25.8 per pair (2018: US$25.8 per pair).

Fashion footwear was the biggest contributor to our manufacturing revenue during the year ended 31 December 2019, contributing 38.0% of total revenue (2018: 36.2%). The contributions from casual footwear and fashion sports products were 25.6% and 35.1% respectively (2018: 29.3% and 32.7%), while the Group's own branded products under branding business accounted for 1.3% (2018: 1.8%).

Geographically, North America and Europe remained our two largest markets, accounting for 51.2% and 27.6% of our total revenue during 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 6.3% and other geographic regions, which accounted for 2.8%.

Consolidation of Branding Business

Our branding business, which is anchored by the retail business of our own branded footwear in Europe, saw a revenue decline by 56.6% to US$7.5 million during the year ended 31 December 2019. Same-store sales for the year under review declined by 44.4%. The fall in revenue was attributed to the restructuring and consolidation of the Group's retail operations in Europe, as well as external events such as the "Yellow Vest" protests in Paris particularly in the first half of the year.

Profitability Improved Further on the Back of Margin Improvement Strategy and Other Initiatives

Our gross profit and operating profit improved significantly during the year as a result of our margin improvement initiatives, namely, improving production efficiency, adjusting production capacity from China to Southeast Asia, and improving our customer mix and product mix.

Our gross profit for the year under review rose 6.0% to US$293.6 million compared to the previous year. Our operating profit rose 55.4% to US$105.5 million, with our operating margin improving from 4.3% to 6.8%. Our adjusted recurring operating margin increased to 8.2%. Our adjusted operating profit refers to operating profit excluding finance costs, tax expenses, and one-off items which are mainly comprised of severance, closure and impairment costs. As a result of the above mentioned, our net profit for the year under review rose 54.2% to US$95.9 million.

Our cash generated from operations increased to US$221.7 million for the year ended 31 December 2019, from US$94.6 million for the year ended 31 December 2018. Free cash flow was strong at US$148.7 million for 2019 (2018: US$38.9 million), representing a significant increase from last year.

Our return on invested capital was at 14.3% for the year ended 31 December 2019. Return on invested capital means adjusted recurring operating profit for the year divided by the average of total assets excluding cash and cash equivalents.

Business Review

Strong and Sustained Demand for Fashion Sports Footwear

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

We are also progressively growing our customer base in our fashion sports footwear business, targeting premium and luxury fashion brands that are seeking to enter into the fashion sports market.

We are uniquely capable of serving these brands due to our long history of serving fashion brands and being one of the first in the market to cater to the ongoing convergence between fashion and sports. As more and more 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, craftsmanship, design, adaptability and flexibility needed to meet their requirements.

Implemented Differentiated Strategies to Improve Performance of Fashion and Casual Footwear Segments

We continued to actively manage the orders and customer mix of our fashion and casual footwear segments, implementing different initiatives for each business in line with our margin expansion strategy. This resulted in an increase in the ASP for both our fashion and casual footwear products during the year under review although the shipment volumes for both segments were lower.

Growing Market Share at the Premium-end of the Market

Our share of the global premium footwear market had grown to around 11.8% from 11.0% of the previous year (see the following table). This growth was mainly attributable to the further expansion of our brand portfolio as we added new customers, as well as the continued outsourcing of shoe production volume from Western European locations such as Italy and Spain.

The following table shows a summary of production and export price data for major footwear producing countries for the year ended 31 December 2018.

	Production *(million pairs)*	**Export price – leather shoes only** *(USD/pair)*
Italy	184	74
France	21	74
Spain	100	60
Portugal	80	34
Germany	44	41
Great Britain	5	30
Brazil (leather export)	16	24

Ongoing Efficiency Gains and Refinement of Manufacturing Footprint

We closed three factories in Mainland China during the year under review as we continued to ramp-up activity and production efficiency at our manufacturing facilities in the Southeast Asia in line with our margin expansion strategy. This also moved us closer to our medium-to-long-term goal of achieving a manufacturing 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 design and commercialisation centres in Venice, Italy and Dongguan, China, our global manufacturing footprint as of 31 December 2019 included facilities in Guangdong, Hunan and Guangxi provinces in Mainland China, as well as in Vietnam, Indonesia, the Philippines and Bangladesh.

Impact of External Events

Ordering activity during the year ended 31 December 2019 was not adversely affected by the 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 year under review, we continued to consolidate our retail operations in Europe, particularly the size of our retail store network in France, while exploring new distributorships in other European countries and investing further in e-commerce channels. We also continued to enhance the visibility and presence of our retail brands in leading department stores around the world.

Outlook

Focus on Operational Stability

The Group will prioritise operational stability in 2020. Full-year shipment volumes and ASP for 2020 will depend on the extent that prevailing external headwinds – including the impact of the COVID-19 virus outbreak – affects our operations. The full-year ASP for 2020 will also depend on our product mix and our customers' product mix.

We are approaching the final phase of migrating our production capacity from Mainland China to the Southeast Asia. We will continue to drive efficiency improvements and improve our product mix.

Impact of COVID-19 Virus Outbreak and Other External Risks

In terms of the direct impact of the COVID-19 virus outbreak on the Group's manufacturing operations in the first quarter of 2020 in China, we have no manufacturing facilities in Hubei province and only a tiny portion of our workforce comes from Hubei province.70% of our manufacturing capacity in 2020 is located outside of Mainland China where our factories continued to operate as normal during the Lunar New Year break and throughout the first quarter of 2020.

Within Mainland China, which makes up 30% of our manufacturing capacity, some of our factories in Guangdong experienced a delay in their work resumption as we complied with new guidelines and requirements introduced by the government to avoid the spread of the virus. Our workforce return rate on the first day after Lunar New Year in Mainland China was satisfactory, ranging from 60% to 90% at key factories, and improved to over 95% on average in the following weeks. The first quarter of the year is typically the low season for orders compared to the rest of the year.

We have shut down our manufacturing operations in the Philippines for around a month following the government's decision in mid-March to lock down the entire Luzon Island to contain COVID-19 virus. We have already relocated orders assigned there to our factories in other countries.

We will also continue to monitor other potential risks to our operations and work closely with our customers to manage risks as they arise.

Expansion of Manufacturing Footprint in Southeast Asia and Focus on R&D

We recently finalised plans to expand our manufacturing footprint in the Southeast Asia by adding a new location in Indonesia in 2020. This is part of our ongoing strategy to enhance 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.

Integration of Leather Goods Business into the Listed Group

We have been progressively ramping-up and improving our capability in manufacturing quality leather goods and accessories, such as small leather goods and handbags, to meet growing demand from brands looking to outsource the production of these products. This achievement was an important factor in our decision to incorporate the leather goods manufacturing business into the listed Group during the first half of 2020. We will further explore synergies between the leather goods business and our existing footwear manufacturing customers to bring more high-end customers into the leather goods business.

Strengthen the Distribution for our Branding Business in Europe

We will continue to restructure and strengthen the distribution network for our branding business in Europe following the consolidation of our store network, particularly in France. We will continue to invest in product development, in distribution to markets other than France, and in our online sales capabilities to maintain recognition and the value of our Stella Luna and What For brands.

Invest in the Success of our People

The success of our manufacturing and branding businesses is underpinned by the training and development of new talent. We will also continue to ensure that our industrial relations practices conform to the Group's strict Corporate Social Responsibility standards to uphold morale and to reduce labour turnover.

We will also continue to invest heavily in the training and mentoring of our workforce to further boost their skills and capabilities and improve productivity.

Outreach to Investors

We will continue to maintain our strong communication with investors about our margin-expansion strategies. We also expect our capital requirements to remain modest in 2020 and we remain committed to returning profit to shareholders and provide attractive shareholder returns amidst our ongoing journey towards margin expansion.

For the year under review, the Board has resolved to recommend a final dividend of HK45 cents after considering the Group's free cash flow situation. This will represent a full-year dividend of HK85 cents for 2019.

Liquidity, Financial Resources and Capital Structure

The Group remained in a strong financial position throughout 2019, with cash and cash equivalents of about US$68.1 million (2018: US$61.3 million) as at 31 December 2019, representing an increase of 11.1% as compared to the position as at 31 December 2018.

The Group's net cash inflows from operating activities rose to US$221.7 million (2018: US$94.6 million) for the year, representing an increase of 134.4%.

Net cash outflows used in investing activities were US$66.2 million during the year under review (2018: US$47.7 million), representing an increase of 38.8%. Capital expenditure amounted to approximately US$73.0 million (2018: US$55.7 million).

Therefore, free cash flow was US$148.7 million during the year under review (2018: US$38.9 million), representing a significant increase of over 1.8 times compared to the previous year.

Net cash outflows used in financing activities rose to US$149.6 million.

As at 31 December 2019, the Group had current assets of US$659.9 million (2018: US$702.5 million) and current liabilities of about US$166.7 million (2018: US$216.8 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 4.0 as at 31 December 2019, an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$3.0 million as at 31 December 2019 (2018: US$65.4 million).

Foreign Currency Exposure

During the year ended 31 December 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 or RMB. Currency exposures were mostly in RMB and Hong Kong dollars against US dollars, the functional currency of the relevant Group company.

Pledge of Assets

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

Contingent Liabilities

As at 31 December 2019, the Group had no material 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, quality, on time delivery and efficiency. The Company has been consistently placed within the top 10 percentile of these vendors' evaluations.

We treasure our alliance with these long-term partners 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 31 December 2019, the Group had approximately 44,000 employees (31 December 2018: approximately 44,000). 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 colleagues, to assess the quality of senior management and ultimately to determine appropriate incentives and other human resources development measures. With a view to recognising and rewarding the contribution of employees, as well as providing incentives to employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme and a share award plan.

DIVIDEND

The Board recommended the payment of a final dividend of HK45 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2019. The proposed final dividend amounting to approximately US$46.1 million, will be paid to Shareholders whose names appear on the register of members of the Company on 22 May 2020, if the proposals are approved by the Shareholders at the forthcoming annual general meeting of the Company (the "2020 AGM") to be held on 14 May 2020. It is expected that the final dividend, if approved, will be paid on or about 19 June 2020.

In order to qualify for the proposed final dividend to be approved at the 2020 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 22 May 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 11 May 2020 to 14 May 2020 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the 2020 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 8 May 2020.

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 2019 except for code provision B.1.5 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 2019. The reason for not making such disclosure is that the Board would like to observe the competitive market practices and to respect individual privacy.

Save for the said deviation 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 2019.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2019.

SCOPE OF WORK OF ERNST AND YOUNG

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 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst and Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst and Young 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 Ernst & Young 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
Chen Li-Ming, Lawrence
Chairman

Hong Kong, 19 March 2020

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.