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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1836)**

**INTERIM RESULTS FOR THE SIX MONTHS  
ENDED 30 JUNE 2020**

**Highlights:**

- Revenue decreased 32% year-on-year due to COVID-19 disruption in global retail
- Reported net loss of US\$5.2 million and adjusted net profit<sup>1</sup> of US\$9.1 million
- Cash generated from operations increased by 45% due to credit risk control and working capital management
- Solid balance sheet with US\$55 million cash and over US\$180 million undrawn bank facilities despite the pandemic
- Continue diversification of production locations and long-term margin improvement with investment in Indonesia

\* *For identification purpose only*

<sup>1</sup> Adjusted net profit (non-GAAP measure) excluded US\$14.3 million of one-off non-recurring items

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 2020, together with the comparative figures for the corresponding period in 2019 as follows:

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

For the six months ended 30 June 2020

|  | Notes | Six months ended 30 June        |                                 |
|--|-------|---------------------------------|---------------------------------|
|  |       | 2020<br>US\$'000<br>(Unaudited) | 2019<br>US\$'000<br>(Unaudited) |
| REVENUE  | 4     | 511,474                         | 750,577                         |
| Cost of sales  |       | <u>(426,725)</u>                | <u>(615,537)</u>                |
| Gross profit   |       | 84,749                          | 135,040                         |
| Other income   |       | 9,311                           | 8,701                           |
| Other gains and losses, net  |       | (5,780)                         | (653)                           |
| Selling and distribution expenses  |       | (18,519)                        | (29,879)                        |
| Administrative expenses  |       | (70,309)                        | (71,240)                        |
| Impairment losses on financial assets  |       | (3,137)                         | (183)                           |
| Share of profit of a joint venture   |       | 1,541                           | 6,040                           |
| Share of losses of associates  |       | <u>(1,247)</u>                  | <u>(2,239)</u>                  |
| Operating (loss)/profit before changes<br>in fair value of financial instruments |       | (3,391)                         | 45,587                          |
| Net fair value loss on financial instruments                                     |       | <u>(84)</u>                     | <u>(444)</u>                    |
| Operating (loss)/profit after changes in fair<br>value of financial instruments  |       | (3,475)                         | 45,143                          |
| Interest income  |       | 222                             | 552                             |
| Interest expense   |       | <u>(312)</u>                    | <u>(918)</u>                    |
| (LOSS)/PROFIT BEFORE TAX   | 5     | (3,565)                         | 44,777                          |
| Income tax expense   | 6     | <u>(1,681)</u>                  | <u>(5,846)</u>                  |
| (LOSS)/PROFIT FOR THE PERIOD   |       | <u><u>(5,246)</u></u>           | <u><u>38,931</u></u>            |

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

*For the six months ended 30 June 2020*

|  | <b>Six months ended 30 June</b>                      |  |
|--|--|--|
| <i>Note</i>  | <b>2020</b><br><i>US\$'000</i><br><b>(Unaudited)</b> | <b>2019</b><br><i>US\$'000</i><br><b>(Unaudited)</b> |
| <b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>   |  |  |
| <i>Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:</i> |  |  |
| Exchange differences on translation of foreign operations  | (4,051)  | (7)  |
| Share of other comprehensive gains of a joint venture and associates                                       | —  | 222  |
|  | (4,051)  | 215  |
| <b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX</b>  | <b>(4,051)</b>                                       | <b>215</b>   |
| <b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD</b>  | <b>(9,297)</b>                                       | <b>39,146</b>  |
| <b>(Loss)/profit attributable to:</b>  |  |  |
| Owners of the parent   | (5,247)  | 38,937   |
| Non-controlling interests  | 1  | (6)  |
|  | <b>(5,246)</b>                                       | <b>38,931</b>  |
| <b>Total comprehensive (loss)/income attributable to:</b>  |  |  |
| Owners of the parent   | (9,299)  | 39,218   |
| Non-controlling interests  | 2  | (72)   |
|  | <b>(9,297)</b>                                       | <b>39,146</b>  |
| <b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>                     |  |  |
| – Basic (US\$)   | 8<br><b>(0.0066)</b>                                 | <b>0.0491</b>  |
| – Diluted (US\$)   | <b>(0.0066)</b>                                      | <b>0.0491</b>  |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

|  | <i>Notes</i> | <b>30 June<br/>2020<br/>US\$'000<br/>(Unaudited)</b> | 31 December<br>2019<br>US\$'000<br>(Audited) |
|--|--------------|--|--|
| <b>NON-CURRENT ASSETS</b>                                |              |  |  |
| Property, plant and equipment                            |              | <b>398,240</b>                                       | 400,293                                      |
| Investment properties                                    |              | <b>4,750</b>   | 5,178  |
| Right-of-use-assets                                      |              | <b>33,685</b>  | 35,558                                       |
| Investment in a joint venture                            |              | <b>28,019</b>  | 26,479                                       |
| Investments in associates                                |              | <b>596</b>   | 1,843  |
| Deposit for acquisition of property, plant and equipment |              | <b>5,057</b>   | 4,147  |
| Deposit paid for acquisition of a subsidiary             |              | <b>16,200</b>  | –  |
|  |              | <hr/>  | <hr/>  |
| Total non-current assets                                 |              | <b>486,547</b>                                       | 473,498                                      |
| <b>CURRENT ASSETS</b>                                    |              |  |  |
| Inventories  |              | <b>193,780</b>                                       | 173,088                                      |
| Trade receivables  | <i>9</i>     | <b>278,230</b>                                       | 306,329                                      |
| Prepayments, deposits and other receivables              |              | <b>90,050</b>  | 112,204                                      |
| Financial assets at fair value through profit or loss    | <i>10</i>    | <b>105</b>   | 189  |
| Cash and cash equivalents                                |              | <b>54,726</b>  | 68,061                                       |
|  |              | <hr/>  | <hr/>  |
| Total current assets                                     |              | <b>616,891</b>                                       | 659,871                                      |
| <b>CURRENT LIABILITIES</b>                               |              |  |  |
| Trade payables   | <i>11</i>    | <b>57,254</b>  | 59,675                                       |
| Other payables and accruals                              | <i>12</i>    | <b>43,065</b>  | 63,132                                       |
| Interest-bearing bank borrowings                         |              | <b>51,610</b>  | 245  |
| Lease liabilities  |              | <b>2,805</b>   | 1,851  |
| Tax payable  |              | <b>41,558</b>  | 41,829                                       |
|  |              | <hr/>  | <hr/>  |
| Total current liabilities                                |              | <b>196,292</b>                                       | 166,732                                      |
| <b>NET CURRENT ASSETS</b>                                |              | <hr/> <b>420,599</b>                                 | <hr/> 493,139                                |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>             |              | <hr/> <b>907,146</b>                                 | <hr/> 966,637                                |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2020

|   | <b>30 June<br/>2020<br/>US\$'000<br/>(Unaudited)</b> | 31 December<br>2019<br>US\$'000<br>(Audited) |
|---|--|--|
| <b>NON-CURRENT LIABILITIES</b>              |  |  |
| Interest-bearing bank borrowings            | –  | 2,750  |
| Lease liabilities                           | <u>3,089</u>   | <u>4,721</u>                                 |
| <br>Total non-current liabilities           | <br><u>3,089</u>                                     | <br><u>7,471</u>                             |
| <br>Net assets                              | <br><u><b>904,057</b></u>                            | <br><u>959,166</u>                           |
| <b>EQUITY</b>                               |  |  |
| Equity attributable to owners of the parent |  |  |
| Share capital                               | 10,165   | 10,165                                       |
| Share premium and reserves                  | <u>894,393</u>                                       | <u>949,504</u>                               |
| <br>Non-controlling interests               | <br><u>904,558</u><br><u>(501)</u>                   | <br>959,669<br><u>(503)</u>                  |
| <br>Total equity                            | <br><u><b>904,057</b></u>                            | <br><u>959,166</u>                           |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

|  | <b>Six months ended 30 June</b> |                    |
|--|---------------------------------|--------------------|
|  | <b>2020</b>                     | <b>2019</b>        |
|  | <b>US\$'000</b>                 | <b>US\$'000</b>    |
|  | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                            |                                 |                    |
| (Loss)/profit before tax   | (3,565)                         | 44,777             |
| Depreciation of property, plant and equipment                          | 20,924                          | 20,052             |
| Depreciation of investment properties                                  | 351                             | 365                |
| Depreciation of right-of-use assets                                    | 1,402                           | 1,520              |
| Other adjustments  | 4,909                           | 948                |
|  | <hr/>                           | <hr/>              |
| Operating cash inflows   | 24,021                          | 67,662             |
| Changes in working capital   | 3,347                           | (45,621)           |
| Other operating cash flows   | (2,218)                         | (4,643)            |
|  | <hr/>                           | <hr/>              |
| Net cash flows from operating activities                               | 25,150                          | 17,398             |
|  | <hr/>                           | <hr/>              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                            |                                 |                    |
| Interest received  | 222                             | 552                |
| Purchases of items of property, plant and equipment                    | (23,706)                        | (30,858)           |
| Acquisition of right-of-use assets                                     | (244)                           | (5,645)            |
| Acquisition of non-controlling interests                               | –                               | (453)              |
| Deposit paid for acquisition of items of property, plant and equipment | (1,455)                         | (534)              |
| Proceeds from disposal of property, plant and equipment                | 634                             | 1,233              |
| Deposit paid for acquisition of a subsidiary                           | (16,200)                        | –                  |
| Decrease in derivative financial instruments                           | –                               | 439                |
|  | <hr/>                           | <hr/>              |
| Net cash flows used in investing activities                            | (40,749)                        | (35,266)           |
|  | <hr/>                           | <hr/>              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                            |                                 |                    |
| Proceeds from issue of shares  | –                               | 47                 |
| New bank loans   | 167,460                         | 338,212            |
| Repayment of bank loans  | (118,881)                       | (266,802)          |
| Dividends paid   | (46,137)                        | (45,579)           |
| Interest paid  | (185)                           | (918)              |
| Principal portion of lease payments                                    | (865)                           | (770)              |
|  | <hr/>                           | <hr/>              |
| Net cash flows from financing activities                               | 1,392                           | 24,190             |
|  | <hr/>                           | <hr/>              |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>            | (14,207)                        | 6,322              |
| Cash and cash equivalents at beginning of period                       | 68,061                          | 61,328             |
| Effect of foreign exchange rate changes, net                           | 872                             | 240                |
|  | <hr/>                           | <hr/>              |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                      | <b>54,726</b>                   | <b>67,890</b>      |
|  | <hr/> <hr/>                     | <hr/> <hr/>        |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

*For the six months ended 30 June 2020*

|  | <b>Six months ended 30 June</b> |                    |
|--|---------------------------------|--------------------|
|  | <b>2020</b>                     | <b>2019</b>        |
|  | <b>US\$'000</b>                 | <b>US\$'000</b>    |
|  | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>                     |                                 |                    |
| Cash and bank balances   | 54,726                          | 54,711             |
| Time deposits with original maturity of less than three months when acquired | -                               | 13,179             |
|  | <hr/>                           | <hr/>              |
| Cash and cash equivalents  | <u>54,726</u>                   | <u>67,890</u>      |

## NOTES:

### 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 annual consolidated financial statements for the year ended 31 December 2019.

These condensed consolidated financial statements have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss, which have been measured at fair value. These unaudited interim condensed consolidated financial statements are presented in United States dollars (“US\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

### 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial information are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

|   |  |
|---|--|
| Amendments to HKFRS 3                         | <i>Definition of a Business</i>                          |
| Amendments to HKFRS 9,<br>HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i>                    |
| Amendment to HKFRS 16                         | <i>Covid-19-Related Rent Concessions (early adopted)</i> |
| Amendments to HKAS 1<br>and HKAS 8            | <i>Definition of Material</i>                            |

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

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

The nature and impact of the revised HKFRSs are described below: (Continued)

- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any rent concessions.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

## **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 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 wholesaling segment engages in the sale of house brands

### 3. OPERATING SEGMENT INFORMATION (Continued)

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/(loss) before tax except that interest income, rental income, income from sales of scrap, fair value losses from the Group's financial instruments, research and development costs, depreciation of investment properties, finance costs, share of profits/(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.

#### Six months ended 30 June 2020 (Unaudited)

|  | Men's<br>footwear<br>US\$'000 | Women's<br>footwear<br>US\$'000 | Footwear<br>retailing and<br>wholesaling<br>US\$'000 | Total<br>US\$'000 |
|--|-------------------------------|---------------------------------|--|-------------------|
| <b>Segment revenue</b>   |                               |                                 |  |                   |
| Sales to external customers  | 230,284                       | 266,327                         | 14,863   | 511,474           |
| Intersegment sales   | –                             | 5,557                           | –  | 5,557             |
|  | <u>230,284</u>                | <u>271,884</u>                  | <u>14,863</u>  | <u>517,031</u>    |
| <b>Reconciliation:</b>   |                               |                                 |  |                   |
| Elimination of intersegment sales                                    |                               |                                 |  | (5,557)           |
| Revenue  |                               |                                 |  | <u>511,474</u>    |
| <b>Segment results</b>   | <b>30,417</b>                 | <b>38,811</b>                   | <b>(6,322)</b>                                       | <b>62,906</b>     |
| Reconciliation:  |                               |                                 |  |                   |
| Corporate and other unallocated income                               |                               |                                 |  | 11,924            |
| Corporate and other unallocated expenses, gains and losses           |                               |                                 |  | (78,515)          |
| Share of result of a joint venture                                   |                               |                                 |  | 1,541             |
| Share of result of an associate                                      |                               |                                 |  | (1,247)           |
| Operating loss before changes in fair value of financial instruments |                               |                                 |  | (3,391)           |
| Net fair value loss on financial instruments                         |                               |                                 |  | (84)              |
| Operating loss after changes in fair value of financial instruments  |                               |                                 |  | (3,475)           |
| Interest income  |                               |                                 |  | 222               |
| Interest expense   |                               |                                 |  | (312)             |
| Loss before tax  |                               |                                 |  | <u>(3,565)</u>    |

### 3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2019 (Unaudited)

|   | Men's<br>footwear<br><i>US\$'000</i> | Women's<br>footwear<br><i>US\$'000</i> | Footwear<br>retailing and<br>wholesaling<br><i>US\$'000</i> | Total<br><i>US\$'000</i> |
|---|--------------------------------------|--|---|--------------------------|
| Segment revenue   |                                      |  |   |                          |
| Sales to external customers   | 294,074                              | 439,921                                | 16,582  | 750,577                  |
| Intersegment sales  | —                                    | 10,149                                 | —   | 10,149                   |
|   | <u>294,074</u>                       | <u>450,070</u>                         | <u>16,582</u>   | <u>760,726</u>           |
| <b>Reconciliation:</b>  |                                      |  |   |                          |
| Elimination of intersegment sales   |                                      |  |   | (10,149)                 |
| Revenue   |                                      |  |   | <u>750,577</u>           |
| <b>Segment results</b>  | 36,864                               | 68,736                                 | (3,961)   | 101,639                  |
| Reconciliation:   |                                      |  |   |                          |
| Corporate and other unallocated<br>income                                 |                                      |  |   | 8,701                    |
| Corporate and other unallocated<br>expenses, gains and losses             |                                      |  |   | (68,554)                 |
| Share of result of a joint venture  |                                      |  |   | 6,040                    |
| Share of results of associates  |                                      |  |   | (2,239)                  |
| Operating profit before changes in<br>fair value of financial instruments |                                      |  |   | 45,587                   |
| Net fair value loss on financial<br>instruments                           |                                      |  |   | (444)                    |
| Operating profit after changes in<br>fair value of financial instruments  |                                      |  |   | 45,143                   |
| Interest income   |                                      |  |   | 552                      |
| Interest expense  |                                      |  |   | (918)                    |
| Profit before tax   |                                      |  |   | <u>44,777</u>            |

### 3. OPERATING SEGMENT INFORMATION (Continued)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2020 and 31 December 2019, respectively.

#### Segment assets

|                                    | <b>30 June</b>     | 31 December |
|------------------------------------|--------------------|-------------|
|                                    | <b>2020</b>        | 2019        |
|                                    | <b>US\$'000</b>    | US\$'000    |
|                                    | <b>(Unaudited)</b> | (Audited)   |
| Men's footwear                     | <b>305,743</b>     | 469,918     |
| Women's footwear                   | <b>218,413</b>     | 261,874     |
| Footwear retailing and wholesaling | <b>44,755</b>      | 54,702      |
|                                    | <hr/>              | <hr/>       |
|                                    | <b>568,911</b>     | 786,494     |
| Other                              | <b>534,527</b>     | 346,875     |
|                                    | <hr/>              | <hr/>       |
|                                    | <b>1,103,438</b>   | 1,133,369   |
|                                    | <hr/> <hr/>        | <hr/> <hr/> |

#### Segment liabilities

|                                    |                |             |
|------------------------------------|----------------|-------------|
| Men's footwear                     | <b>53,599</b>  | 106,907     |
| Women's footwear                   | <b>32,830</b>  | 11,778      |
| Footwear retailing and wholesaling | <b>17,013</b>  | 8,107       |
|                                    | <hr/>          | <hr/>       |
|                                    | <b>103,442</b> | 126,792     |
| Other                              | <b>95,939</b>  | 47,411      |
|                                    | <hr/>          | <hr/>       |
|                                    | <b>199,381</b> | 174,203     |
|                                    | <hr/> <hr/>    | <hr/> <hr/> |

### 4. REVENUE

An analysis of revenue is as follows:

|                                       | <b>Six months ended 30 June</b> |             |
|---------------------------------------|---------------------------------|-------------|
|                                       | <b>2020</b>                     | 2019        |
|                                       | <b>US\$'000</b>                 | US\$'000    |
|                                       | <b>(Unaudited)</b>              | (Unaudited) |
| Revenue from contracts with customers | <b>511,474</b>                  | 750,577     |
|                                       | <hr/> <hr/>                     | <hr/> <hr/> |

#### 4. REVENUE (Continued)

Disaggregate revenue information for revenue from contracts with customers

For the six months ended 30 June 2020 (Unaudited)

Segments

|  | Men's<br>footwear<br><i>US\$'000</i> | Women's<br>footwear<br><i>US\$'000</i> | Footwear<br>retailing and<br>wholesaling<br><i>US\$'000</i> | Total<br><i>US\$'000</i> |
|--|--------------------------------------|--|---|--------------------------|
| <b>Types of goods</b>                                  |                                      |  |   |                          |
| Sales of footwear                                      | <u>230,284</u>                       | <u>266,327</u>                         | <u>14,863</u>   | <u>511,474</u>           |
| <b>Geographical markets</b>                            |                                      |  |   |                          |
| Asia   | 19,121                               | 17,207                                 | 340   | 36,668                   |
| Europe   | 43,692                               | 78,236                                 | 2,632   | 124,560                  |
| North America  | 138,893                              | 116,693                                | 4,753   | 260,339                  |
| The People's Republic of China<br>("the PRC")          | 23,699                               | 47,395                                 | 7,129   | 78,223                   |
| Other countries  | <u>4,879</u>                         | <u>6,796</u>                           | <u>9</u>  | <u>11,684</u>            |
| <b>Total revenue from contracts<br/>with customers</b> | <u><b>230,284</b></u>                | <u><b>266,327</b></u>                  | <u><b>14,863</b></u>  | <u><b>511,474</b></u>    |
| <b>Timing of revenue recognition</b>                   |                                      |  |   |                          |
| Goods transferred at a point of<br>time                | <u>230,284</u>                       | <u>266,327</u>                         | <u>14,863</u>   | <u>511,474</u>           |

#### 4. REVENUE (Continued)

For the six months ended 30 June 2019 (Unaudited)

| Segments   | Men's<br>footwear<br><i>US\$'000</i> | Women's<br>footwear<br><i>US\$'000</i> | Footwear<br>retailing and<br>wholesaling<br><i>US\$'000</i> | Total<br><i>US\$'000</i> |
|--|--------------------------------------|--|---|--------------------------|
| <b>Types of goods</b>                                  |                                      |  |   |                          |
| Sales of footwear                                      | 294,074                              | 439,921                                | 16,582  | 750,577                  |
| <b>Geographical markets</b>                            |                                      |  |   |                          |
| Asia   | 23,126                               | 26,820                                 | 370   | 50,316                   |
| Europe   | 73,008                               | 147,139                                | 5,970   | 226,117                  |
| North America  | 157,761                              | 208,488                                | 155   | 366,404                  |
| The PRC  | 32,087                               | 43,080                                 | 9,777   | 84,944                   |
| Other countries  | 8,092                                | 14,394                                 | 310   | 22,796                   |
| <b>Total revenue from contracts<br/>with customers</b> | <b>294,074</b>                       | <b>439,921</b>                         | <b>16,582</b>   | <b>750,577</b>           |
| <b>Timing of revenue recognition</b>                   |                                      |  |   |                          |
| Goods transferred at a point of time                   | 294,074                              | 439,921                                | 16,582  | 750,577                  |

## 5. (LOSS)/PROFIT BEFORE TAX

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

|   | <b>Six months ended 30 June</b> |                          |
|---|---------------------------------|--------------------------|
|   | <b>2020</b>                     | <b>2019</b>              |
|   | <b>US\$'000</b>                 | <b>US\$'000</b>          |
|   | <b>(Unaudited)</b>              | <b>(Unaudited)</b>       |
| Cost of inventories sold  | <b>426,130</b>                  | 616,640                  |
| Depreciation of property, plant and equipment                                       | <b>20,924</b>                   | 20,052                   |
| Depreciation of investment properties   | <b>351</b>                      | 365                      |
| Depreciation of right-of-use assets   | <b>1,402</b>                    | 1,520                    |
| Net fair value loss/(gain) on financial assets at fair value through profit or loss | <b>84</b>                       | (41)                     |
| Net fair value loss on derivative financial instruments                             | <b>–</b>                        | 485                      |
| Severance payments and other related costs  | <b>13,493</b>                   | 5,863                    |
| Overhead costs related to factory suspensions resulting from COVID-19 <sup>#</sup>  | <b>2,767</b>                    | –                        |
| PRC government subsidies related to COVID-19 <sup>*#</sup>                          | <b>(1,924)</b>                  | –                        |
| Impairment losses of financial assets <sup>##</sup>                                 | <b>3,137</b>                    | 183                      |
| Write-down/(write-back) of inventories, net   | <b>595</b>                      | (1,103)                  |
| Bank interest income  | <b>(219)</b>                    | (124)                    |
| Interest income from financial assets at fair value through profit or loss          | <b>(3)</b>                      | (38)                     |
| Loss on disposal of items of property, plant and equipment                          | <b>1,139</b>                    | 300                      |
| Foreign exchange differences, net   | <b>1,874</b>                    | 353                      |
|   | <b><u>          </u></b>        | <b><u>          </u></b> |

\* *PRC government subsidies represent subsidies granted to the Group by the local governmental authority in mainland China for the business support of prevention and control of the coronavirus (“COVID-19”) outbreak. There are no unfulfilled conditions or contingencies relating to these grants.*

# *These items are included in “Other gains and losses, net” in the condensed consolidated statement of profit or loss and other comprehensive income.*

## *Impairment losses of financial assets include impairments of trade receivables and other receivables.*

## 6. INCOME TAX

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 2019: 25%) during the period.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are 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% (six months ended 30 June 2019: 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 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.

|                              | Six months ended 30 June |              |
|------------------------------|--------------------------|--------------|
|                              | 2020                     | 2019         |
|                              | US\$'000                 | US\$'000     |
|                              | (Unaudited)              | (Unaudited)  |
| Current – PRC                |                          |              |
| Charge for the period        | 1,578                    | 9,558        |
| Overprovision in prior years | –                        | (5,440)      |
| Current – Elsewhere          | 103                      | 1,728        |
|                              | <u>1,681</u>             | <u>5,846</u> |

## 7. DIVIDENDS

|   | Six months ended 30 June |               |
|---|--------------------------|---------------|
|   | 2020                     | 2019          |
|   | US\$'000                 | US\$'000      |
|   | (Unaudited)              | (Unaudited)   |
| Final declared and paid – HK45 cents (2019: HK45 cents)<br>per ordinary share | 46,137                   | 45,579        |
| Interim – Nil (2019: HK40 cents)<br>per ordinary share                        | –                        | 40,512        |
|   | <u>46,137</u>            | <u>86,091</u> |

During the six months ended 30 June 2020, the Board resolved not to declare any interim dividend.

On 22 August 2019, the board of directors declared an interim dividend of HK40 cents per ordinary share, amounting to approximately US\$40,512,000.

**8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

The calculation of the basic (loss)/earnings per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of US\$5,247,000 (profit for the period ended 30 June 2019: US\$38,937,000), and the weighted average number of ordinary shares of 793,002,500 (six months ended 30 June 2019: 792,614,522) in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2020 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

During the six months ended 30 June 2019, the calculation of the diluted earnings per share was based on the profit for the period 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 (loss)/earnings per share are based on:

|   | <b>Six months ended 30 June</b> |                           |
|---|---------------------------------|---------------------------|
|   | <b>2020</b>                     | <b>2019</b>               |
|   | <b>US\$'000</b>                 | <b>US\$'000</b>           |
|   | <b>(Unaudited)</b>              | <b>(Unaudited)</b>        |
| (Loss)/profit attributable to ordinary equity holders of the parent,<br>used in basic and diluted (loss)/earnings per share calculation | <u>(5,247)</u>                  | <u>38,937</u>             |
|   | <b>Six months ended 30 June</b> |                           |
|   | <b>Number of shares</b>         |                           |
|   | <b>2020</b>                     | <b>2019</b>               |
|   | <b>(Unaudited)</b>              | <b>(Unaudited)</b>        |
| <b>Shares</b>   |                                 |                           |
| Weighted average number of ordinary shares in issue during the<br>period used in the basic (loss)/earnings per share calculation        | <b>793,002,500</b>              | 792,614,522               |
| Effect of dilution – weighted average number of ordinary shares:  |                                 |                           |
| Share options   | <u>–</u>                        | <u>218,570</u>            |
|   | <u><b>793,002,500</b></u>       | <u><b>792,833,092</b></u> |

## 9. TRADE RECEIVABLES

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

|                | <b>30 June<br/>2020<br/>US\$'000<br/>(Unaudited)</b> | 31 December<br>2019<br>US\$'000<br>(Audited) |
|----------------|--|--|
| Within 1 month | <b>156,891</b>                                       | 181,608                                      |
| 1 to 2 months  | <b>55,014</b>  | 82,846                                       |
| 2 to 3 months  | <b>14,742</b>  | 27,932                                       |
| Over 3 months  | <b>51,583</b>  | 13,943                                       |
|                | <b>278,230</b>                                       | 306,329                                      |

The Group's trading terms with its customers are mainly on credit. The credit periods are ranging from 30 to 90 days.

Included in the Group's trade receivables are amounts due from the Group's associates of US\$58,669,000 (31 December 2019: US\$67,251,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

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

|  | <b>30 June<br/>2020<br/>US\$'000<br/>(Unaudited)</b> | 31 December<br>2019<br>US\$'000<br>(Audited) |
|--|--|--|
| Listed debt investments, at fair value | <b>105</b>   | 189  |

The above debt investments at 30 June 2020 were classified as financial assets at fair value through profit or loss as they were held for trading.

## 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:

|                 | <b>30 June<br/>2020<br/>US\$'000<br/>(Unaudited)</b> | 31 December<br>2019<br>US\$'000<br>(Audited) |
|-----------------|--|--|
| Within 1 months | 37,395   | 47,190                                       |
| 1 to 2 months   | 9,444  | 8,701  |
| Over 2 months   | 10,415   | 3,784  |
|                 | <u>57,254</u>  | <u>59,675</u>                                |

Included in the trade payables are trade payables of US\$8,059,000 (31 December 2019: US\$12,655,000) 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.

## 12. OTHER PAYABLES AND ACCRUALS

|                               | <i>Notes</i> | <b>30 June<br/>2020<br/>US\$'000<br/>(Unaudited)</b> | 31 December<br>2019<br>US\$'000<br>(Audited) |
|-------------------------------|--------------|--|--|
| Refund liabilities            |              | 5,814  | 5,867  |
| Other payables                | <i>(a)</i>   | 1,723  | 2,121  |
| Accruals                      |              | 35,133   | 54,749                                       |
| Financial guarantee contracts | <i>(b)</i>   | 395  | 395  |
|                               |              | <u>43,065</u>  | <u>63,132</u>                                |

*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 2019: US\$15,000,000), of which US\$10,000,000 (31 December 2019: US\$10,000,000) was utilised by the associate. The Group does not hold any collateral or other credit enhancements over the guarantee.

The Group does not provide financial guarantees except for limited circumstances. All guarantees are approved by the Group's Chief Financial Officer in accordance with the authorized limits and conditions as approved by the Company's Board of Directors.

## CHAIRMAN'S STATEMENT

2020 is looking like to be one of the most challenging years faced by both our Group and our customers. COVID-19 has delivered a hammer blow to the global retail sector, as lockdowns forced the temporary closure of stores in almost every country while curtailing demand for footwear – severely affecting the business of our brand customers.

Our manufacturing operations were also impacted by local shutdown measures to curb the spread of the pandemic and low utilisation of our production facilities. While the safety of our staff is the absolute top priority for our company, these temporary factory closures nonetheless curtailed operating efficiency across our business and eroded the progress we have been making over the last year in improving our margins. Inevitably, our profitability in the first half of the year was adversely affected, along with the rest of the footwear manufacturing industry.

We have implemented a number of initiatives to address the negative ramifications of the pandemic, including stringent cost reduction and control, re-examining and improving our credit risk and adopting cautious approach in cash flow management. As a result of these measures, we have maintained a solid balance sheet and turned into a net cash position, despite the turbulent business environment.

We are also pushing forward with our long-term margin-accretive strategies. Leveraging the current window of slow business, we accelerated the permanent closure of factories in Mainland China and continued the migrating of manufacturing activity to Southeast Asia. We also proceeded with expanding our long-term production footprint in lower-cost production areas. I am pleased to say that our investment in a new factory location in Indonesia will go ahead as planned in the second half of the year as risk exposure remains manageable given our financial position.

Looking forward, in addition to our ongoing efforts in increasing our operational efficiency, we will continue to focus on enhancing our product mix and customer mix. This will include, among others, growing our sportswear and high-fashion brand customer base by leveraging our competitive advantages such as our unparalleled product design and commercialisation capabilities, best-in-class craftsmanship and high speed-to-market. We are also committed to broaden our opportunities and potential synergies with high-fashion brands by scaling-up and commercialising our manufacturing business of fashion accessories and leather goods such as handbags. We expect to complete the integration of this business into the listed Company by the end of this year.

These long-term strategies remain essential for our future competitiveness and profitability, as well as our ability to grow our margins and to continue delivering value to our customers and shareholders.

On behalf of the Board, I would like to take this opportunity to thank our customers, business partners, employees and shareholders for their unwavering support during this unprecedented challenging period.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Model And Strategy**

In 1982, Stella embarked on a simple mission of “making the best shoes”. Today, this mission is still the core DNA of our business. Every day, we create value for our customers in ways unmatched by our competitors through our unrivalled position at the high-end of the footwear manufacturing supply chain.

We insist on being a true partner of our customers, offering unparalleled product design and commercialisation capabilities, as well as ‘artisan-level’ craftsmanship and an uncompromising commitment to quality that matches any footwear produced in Europe. We also possess the ability, flexibility, knowledge and skills required to cater to numerous customer groups – from high-fashion brands to the world’s largest sports brands, from casual brands to cult brands and limited collections. We are widely known within the footwear industry for our speed-to-market and small-batch production flexibility, which allows us to become the ideal partner of many top-end designer brands and fashion brands with increasing focus on e-commerce.

Our unique proposition is supported by a broad, diverse and proven manufacturing base, located in China, Vietnam, Indonesia, Philippines and Bangladesh. These diverse and well-established bases of operations deliver the flexibility, skillsets and level-of-quality that can meet every need of our customers.

We aim to expand the high-end and high-quality segment of customers across our different shoe categories, especially fashion and fashion sports footwear. We also showcase our capability in producing best-in-class ‘European-standard’ shoes with high-complexity to the world’s leading fashion brands through our own contemporary retail brand, *Stella Luna*, which has a retail presence in Europe’s major fashion capitals.

With a clear focus on improving our gross margin, we will concentrate on winning orders for differentiated products with high average selling price (“ASP”) and working closely with current and prospective customers, while continuously improving our production cost structure.

We will continue to improve our operating profit margin and increase returns to shareholders by accelerating our capacity migration to Southeast Asia, improving our operational excellence and implementing robust cost controls. We are also proactively carrying out lateral expansion strategies, including the manufacture of fashion accessories and leather goods such as handbags, to tap synergies and future sources of growth.

## **Business Review**

The global COVID-19 pandemic has had an unprecedented impact on our customers and our manufacturing operations. Shopping malls and stores in almost every country were forced to close for months as part of localised efforts to curb the spread of the virus. For much of the second quarter, footwear sales were mostly limited to e-commerce, especially in the United States and Europe – our two major retail markets – which significantly affected our customers, especially those that heavily rely on brick-and-mortar stores and distribution through department store channels.

This impact was quickly felt in two ways. First, many of our customers requested delays or cancellation of shipments and orders, while also postponing payments to their suppliers including Stella, to manage their inventory and protect their cash flow after experiencing a sudden decline in sales beginning in March. Second, as physical stores began reopening in June, our customers focused on clearing Spring/Summer seasonal merchandise. As a result, our customers became more conservative in planning and placing orders for the Fall/Winter season of 2020, which would normally be completed by end of the second quarter.

Global footwear production was also impacted by government-ordered curbs and shutdowns of factories in all major producer countries. Stella was not spared as we were forced to temporarily close some factories in Mainland China, Philippines and Bangladesh to comply with local government measures. This negatively impacted our production schedule and profitability.

Despite these challenges, we still made further progress in implanting our margin-accretive strategy by permanently closing factories in China and accelerating our capacity migration to Southeast Asia. Orders for our fashion sports footwear, which is currently our main growth driver, were also relatively resilient given the challenging conditions being faced by all our brand partners.

The key financial performance indicators of the Company include revenue growth, gross profit and operating profit. An analysis of these indicators during the six months ended 30 June are as below:

## **Revenue**

The Group's consolidated revenue for the six months ended 30 June 2020 declined by 31.9% to US\$511.5 million, compared to US\$750.6 million in the corresponding period of last year. The decline in revenue was driven by a steep decline in shipment volumes and ASP, with customers delaying or cancelling orders and shipments due to the COVID-19 pandemic. Changing seasonal order patterns also impacted shipment volumes and ASP, with our shipment volumes falling by 30.8% to 20.4 million pairs during the six months under review, compared to 29.5 million pairs in the corresponding period of last year.

The ASP of our footwear products decreased by 2.0% to US\$24.7 per pair during the six months under review, compared to US\$25.2 per pair in the corresponding period of last year. This decline was mostly driven by changes to our product mix and customer mix. In terms of product mix, changing fashion trends saw us ship more low-priced products such as sandals compared to the corresponding period of last year, while shifting order patterns delayed the production of boots, which have a higher ASP.

In terms of customer mix, our fashion sports products were more resilient than fashion and casual categories. As a result, fashion sports products overtook fashion footwear as the biggest contributor to our overall revenue during the period, with each category contributing 49.3% and 29.2% respectively. The contribution from the casual footwear and the Group own retail brands accounted for 20.1% and 1.4% of total revenue respectively

Geographically, North America and Europe remain our two largest markets, accounting for 50.9% and 24.4% of our total revenue during the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 15.3%, Asia (other than the PRC), which accounted for 7.2% and other geographic regions, which accounted for 2.2%.

Our branding business, which is anchored by the retail business of *Stella Luna* – our own branded footwear – in Europe, saw revenue decline by 83.1% to US\$1.0 million during the six months ended 30 June 2020. Same-store sales for the period declined by 69.5%. The fall in revenue was mainly attributed to temporary store closures due to government-enforced COVID-19 lockdowns in various European countries since mid-March, as well as the ongoing 'yellow vest' protests in France during the first quarter of 2020.

## **Gross profit**

Our gross profit for the period under review declined 37.3% to US\$84.7 million compared to the corresponding period of last year as our brand customers delayed and cancelled orders and shipments as a result of the COVID-19 pandemic. These effects also pressured our gross profit margin, which declined to 16.6%.

Other factors driving the decline in our gross profit margin were: overhead costs related to temporary factory closures in Mainland China, Philippines and Bangladesh in compliance with local government measures to curb the spread of COVID-19; lower utilisation at our manufacturing facilities due to customers' delaying shipments and cancelling orders; and operating deleverage due to workers at some of our factories in Mainland China, Indonesia and Vietnam being granted extra days off by the Group because of the reduction in orders resulted from the COVID-19 pandemic.

## **Operating profit/loss**

For the period under review, we turned to a reported operating loss<sup>2</sup> of US\$3.4 million from an operating profit of US\$45.6 million for the same period last year. The main factors behind the decline in our operating performance was the significant decrease in shipment volume during the period and the operating deleverage resulting from this, as well as an increase in one-off costs.

The one-off costs included severance payments and other costs in connection with the permanent closure of factories in Mainland China as we accelerated our planned migration of production capacity to Southeast Asia; and overhead costs related to the temporary factory closures in Mainland China, Philippines and Bangladesh, which resulted from the outbreak of the COVID-19 – the operations of our factories in Philippines and Bangladesh were suspended for more than one month respectively. These one-off costs were partially offset by one-time local government subsidies to support local employment and businesses in the PRC.

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<sup>2</sup> Reported Operating Loss is operating loss before changes in fair value of financial instruments.

We believe these net expenses are one-off in nature and not reflective of the underlying recurring business. If excluding the net one-off expenses, mentioned above (and as listed in the table below), the non-GAAP adjusted operating profit<sup>3</sup> for the Group during the period under review would be adjusted to US\$10.9 million and the adjusted recurring operating margin would be 2.1%.

|   |                          |
|---|--------------------------|
| <b>Reported Operating Loss<sup>2</sup></b>                            | <b>US\$(3.4) million</b> |
| Severance payments and other related costs                            | US\$13.5 million         |
| Overhead costs related to factory suspensions resulting from COVID-19 | US\$2.7 million          |
| PRC government subsidies related to COVID-19                          | US\$(1.9) million        |
| <b>TOTAL Net One-off Expenses</b>                                     | <b>US\$14.3 million</b>  |
| <b>Adjusted Operating Profit<sup>3</sup></b>                          | <b>US\$10.9 million</b>  |

## Net results

Due to the factors outlined above, we recorded a net loss of US\$5.2 million for the period under review, compared to a net profit of US\$38.9 million in the corresponding period of last year.

## Stable financial position with a proactive focus on credit risk and cash flow management

A majority of our customers requested a temporary delay of payment and/or extension of credit terms during the period under review as they grappled with the impact of the COVID-19 pandemic. As a result, the Group conducted a credit risk re-assessment of all its customers, which determined the current risk level of each customer accordingly. Following this, we introduced a financial protection plan to reduce our exposure to high-risk customers. This included purchasing credit insurance, implementing a factoring program for accounts receivables and reducing inventory on hand for these customers through ‘just-in-time’ production management, among other measures.

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<sup>2</sup> Reported Operating Loss is operating loss before changes in fair value of financial instruments.

<sup>3</sup> Adjusted operating profit is a non-GAAP measure that refers to operating profit excluding one-off items, which mainly comprised of severance payment, overhead costs related to factory suspensions, and PRC government subsidies related to COVID-19.

Despite the challenges arising from the unprecedented pandemic and the US\$46.1 million payment of our final dividend for the fiscal year 2019 during the period under review, our dedicated efforts in managing credit risk and cash flow helped the Group turned into a net cash position of US\$3.1 million as of 30 June 2020 from a net debt<sup>4</sup> of US\$69.0 million as of 30 June 2019. Therefore, the Group's net gearing ratio<sup>5</sup> became slightly negative, close to zero, as of 30 June 2020 from 7.3% as of 30 June 2019.

In the six months ended 30 June 2020, cash generated from operations increased to US\$25.2 million, compared to US\$17.4 million for the corresponding period of last year.

## **Outlook**

The sales revenue of our brand customers displayed signs of improvement towards the end of the period under review, with consumer spending in China recovering quickly in the second quarter and with retail stores in the United States and Europe progressively reopening from May. This sales revenue recovery is expected to continue in the coming months, although the speed will depend on how new waves of COVID-19 infections are managed in our major retail markets.

Despite this, order visibility for the remainder of 2020 remains low, especially in the fourth quarter during which customers may adopt a cautious attitude to ordering Spring/Summer 2021 seasonal products as they continue to prioritise clearing their inventories leftover from Spring 2020 season.

This outlook for the coming months will not prevent us from pushing-forward with our long-term strategies. We will continue to accelerate the migration of our production capacity to Southeast Asia, starting by completing the recent factory closures in Mainland China, to enhance our long-term cost structure.

With a net cash position and total undrawn bank facilities of over US\$180 million – a solid financial position that is more than sufficient to meet our current business need – we are also comfortable about investing in the future, including proceeding with our plan to set up a new factory in Indonesia in the second half of 2020. This new factory will help improve our cost efficiency and competitiveness in the long-term. We also expect to complete the integration of our handbag business into the listed Group, as we continue to pursue lateral growth in the long-term by capitalising on the synergies emerging from our broad and high-end customer base.

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<sup>4</sup> Net debt = total debt – cash and cash equivalents

<sup>5</sup> Net gearing ratio = net debt/shareholder equity

These investments will not weaken our efforts in maintaining a strong financial position. We will continue to implement new processes, policies and initiatives to improve our risk and cash flow management and safeguard our strong balance sheet to weather any new challenges that emerge from the COVID-19 pandemic and the global political and economic environments.

We will also continue to nurture promising opportunities that match our business model. One is the fast-growing athleisure market, of which more and more high-fashion brands are seeking a slice. We will continue to pursue partnerships with these brands to develop new sports fashion footwear ranges, further growing our unique track record in this space, which is underpinned by our proven R&D and commercialisation capabilities. Stella's own retail brand – *Stella Luna* – will also play a critical role in offering a visible proof of concept of our design capabilities to high-fashion brands in Europe.

In addition, recent production shutdowns in Europe exposed the risk of concentrating supply chain in the region, which may encourage high-fashion brands to consider diversifying their supply chains out of Europe. As the largest premium footwear manufacturer in Asia, Stella offers proven product quality that is comparable to European peers, leaving us well-poised to benefit from these new business opportunities.

Major sportswear brands are also investing considerably in adding more limited edition/collectable product lines and cross-brands collaborations that have become one of their biggest profit drivers. We remain one of the very few manufacturers globally that can efficiently produce these highly complex footwear models which require a high standard of craftsmanship, complicated production processes and strong technical know-how – attributes that are difficult to emulate.

Similarly, COVID-19 will likely entrench a higher e-commerce sales ratio for fashion brands, pushing them to demand short order windows and small batch sizes to compete in the fast-changing online sales environment. We will concentrate on better leveraging our already-competitive short lead-time and small-batch production to attract more high-quality customers.

Stella will continue to seek to fully capitalise on each of these trends, which will support the future growth of Stella's fashion and fashion sports categories while contributing to margin improvement in the long-term.

## **Liquidity, Financial Resources And Capital Structure**

Despite the severe headwinds due to the pandemic, the Group retained its solid financial position. As at 30 June 2020, the Group had cash and cash equivalents of approximately US\$54.7 million (31 December 2019: US\$68.1 million) and total undrawn bank facilities of over US\$180 million.

In the six months ended 30 June 2020, cash generated from operations increased to US\$25.2 million, compared to US\$17.4 million for the corresponding period of last year.

Net cash outflows used in investing activities were US\$40.7 million during the period under review (for the six months ended 30 June 2019: US\$35.3 million), representing an increase of 15.3%. Capital expenditure amounted to approximately US\$25.4 million during the period (for the six months ended 30 June 2019: US\$37.0 million).

As at 30 June 2020, the Group had current assets of approximately US\$616.9 million (31 December 2019: US\$659.9 million) and current liabilities of approximately US\$196.3 million (31 December 2019: US\$166.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.1 as at 30 June 2020 (31 December 2019: 4.0), an indication of the Group's high liquidity and healthy financial position.

### **Bank Borrowings**

The Group had bank borrowings of US\$51.6 million as at 30 June 2020 (31 December 2019: US\$3.0 million), a reduction of US\$85.3 million compared to 30 June 2019, (30 June 2019: US\$136.9 million).

The Group turned into a net cash position of US\$3.1 million as of 30 June 2020 from a net debt<sup>4</sup> of US\$69.0 million as of 30 June 2019. Therefore, the Group's net gearing ratio<sup>5</sup> became slightly negative, close to zero, as of 30 June 2020 from 7.3% as of 30 June 2019.

### **Foreign Currency Exposure**

During the six months ended 30 June 2020, 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.

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<sup>4</sup> Net debt = total debt – cash and cash equivalents

<sup>5</sup> Net gearing ratio = net debt/shareholder equity

## **Pledge Of Assets**

As at 30 June 2020, the Group had pledged US\$5.6 million of its assets (31 December 2019: US\$5.6 million).

## **Contingent Liabilities**

As at 30 June 2020, the Group had no contingent liabilities (31 December 2019: 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 30 June 2020, the Group had approximately 33,000 employees (31 December 2019: 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 share option scheme and a share award plan.

## **EVENTS AFTER THE REPORTING PERIOD**

There are no events causing material impact on the Group from the end of the reporting period to the date of this announcement.

## **REVIEW OF ACCOUNTS BY AUDIT COMMITTEE**

The audit committee of the Board has reviewed the interim results of the Group, including the accounting treatment adopted by the Company for the six months ended 30 June 2020, with no disagreement.

## **INTERIM DIVIDEND**

Given the COVID-19 and the consequential very challenging business circumstances in which the Group found itself, the Group recorded a net loss of US\$5.2 million for the six months ended 30 June 2020. The Board does not recommend the declaration of an interim dividend for the period ended 30 June 2020.

## **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 2020, 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 2019 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 on terms no less exacting than the acquired standard set out in the Model Code. 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 2020.

## **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, 20 August 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.*