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 2020

Highlights:

– Revenue decreased by 26.5% year-on-year due to widespread disruption to global retail caused by COVID-19

– Reported net profit of US$1.1 million and adjusted net profit[1] of US$52.4 million

– Net cash inflow increased to US$47.3 million from US$5.8 million in 2019 due to active credit risk controls and working capital management

– Solid balance sheet with cash position of US$108.7 million and over US$270 million undrawn bank facilities

[1] Adjusted net profit (non-GAPP measure) excluded US$51.3 million of one-off non-recurring items.

* *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 2020, 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 2020

	Notes	**2020** *US$'000*	2019 *US$'000*
Revenue	*4*	**1,135,880**	1,544,830
Cost of sales		**(934,218)**	(1,251,221)
Gross profit		**201,662**	293,609
Other income	*5*	**24,738**	24,190
Other losses, net	*5*	**(9,225)**	(947)
Selling and distribution expenses		**(36,422)**	(63,739)
Administrative expenses		**(176,131)**	(154,010)
Impairment losses on financial assets, net		**(5,942)**	(1,179)
Share of profit of a joint venture		**4,676**	6,977
Share of losses of associates		**(1,218)**	(2,099)
Operating profit before changes in fair value of financial instruments		**2,138**	102,802
Net fair value loss on financial instruments		**(101)**	(1,711)
Operating profit after changes in fair value of financial instruments		**2,037**	101,091
Interest income		**740**	832
Interest expense		**(549)**	(1,882)
Profit before tax	*6*	**2,228**	100,041
Income tax expense	*7*	**(1,164)**	(4,123)
Profit for the year		**1,064**	95,918

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

For the year ended 31 December 2020

	Note	**2020**	2019
		US$'000	*US$'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		**10,197**	1,719
Share of other comprehensive income/(loss) of a joint venture and associates		**47**	(156)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**10,244**	1,563
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**11,308**	97,481
Profit attributable to:			
Owners of the parent		**1,685**	95,925
Non-controlling interests		**(621)**	(7)
		1,064	95,918
Total comprehensive income attributable to:			
Owners of the parent		**11,918**	97,557
Non-controlling interests		**(610)**	(76)
		11,308	97,481
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
– Basic *(in HK cents)*		**1.64**	94.21
(equivalent to US cents)		**0.21**	12.10
– Diluted *(in HK cents)*		**1.64**	94.08
(equivalent to US cents)		**0.21**	12.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 US$'000	2019 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**411,607**	400,293
Investment properties		**5,009**	5,178
Right-of-use assets		**45,573**	35,558
Investment in a joint venture		**31,155**	26,479
Investments in associates		**672**	1,843
Deposit for acquisition of a subsidiary		**25,600**	–
Deposits for acquisition of property, plant and equipment		**4,575**	4,147
Total non-current assets		**524,191**	473,498
CURRENT ASSETS			
Inventories		**184,998**	173,088
Trade receivables	*10*	**265,309**	306,329
Prepayments, deposits and other receivables		**66,302**	112,204
Financial assets at fair value through profit or loss		**88**	189
Cash and cash equivalents		**108,667**	68,061
Total current assets		**625,364**	659,871
CURRENT LIABILITIES			
Trade payables	*11*	**77,280**	59,675
Other payables and accruals		**86,909**	63,132
Interest-bearing bank borrowings		**2,893**	245
Lease liabilities		**4,438**	1,851
Tax payable		**38,974**	41,829
Total current liabilities		**210,494**	166,732

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

	2020	2019
	US$'000	*US$'000*
NET CURRENT ASSETS	**414,870**	493,139
TOTAL ASSETS LESS CURRENT LIABILITIES	**939,061**	966,637
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**–**	2,750
Lease liabilities	**15,222**	4,721
Total non-current liabilities	**15,222**	7,471
Net assets	**923,839**	959,166
EQUITY		
Equity attributable to owners of the parent		
Share capital	**10,165**	10,165
Share premium and reserves	**914,422**	949,504
	924,587	959,669
Non-controlling interests	**(748)**	(503)
Total equity	**923,839**	959,166

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 US$'000	2019 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,228**	100,041
Adjustments for:			
Finance costs		**549**	1,882
Share of profit of a joint venture		**(4,676)**	(6,977)
Share of losses of associates		**1,218**	2,099
Interest income	6	**(740)**	(832)
Loss on disposal of items of property, plant and equipment		**4,228**	2,660
Gain on disposal of leasehold land		**(1,465)**	–
Gain on early termination of a lease		**(6)**	–
Fair value losses, net:			
Derivative financial instruments		**–**	1,724
Financial assets at fair value through profit or loss		**101**	(13)
Depreciation of property, plant and equipment		**43,114**	41,113
Depreciation of investment properties		**723**	717
Depreciation of right-of-use assets		**6,102**	3,139
Provision for/(reversal of) impairment of trade receivables		**3,542**	(1,461)
Impairment of other receivables		**2,400**	2,640
Write-down/(write-back) of inventories, net		**811**	(1,915)
Loss on deregistration of subsidiaries		**282**	–
(Reversal of)/provision for equity-settled share option expense		**(123)**	855
		58,288	145,672
Increase in inventories		**(12,188)**	(1,138)
Decrease in trade receivables		**27,299**	45,981
Decrease in prepayments, deposits and other receivables		**62,982**	22,704
Decrease in financial assets at fair value through profit or loss		**–**	1,493
Increase/(decrease) in trade payables		**12,149**	(7,265)
Increase in other payables and accruals		**27,060**	26,133
Decrease in derivative financial instruments		**–**	(1,724)
Cash generated from operations		**175,590**	231,856
Interest paid		**(258)**	(272)
Taxes paid		**(4,874)**	(8,101)
Net cash flows from operating activities		**170,458**	223,483

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2020

	Notes	**2020**	2019
		US$'000	*US$'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**740**	832
Dividends received from an associate and a joint venture		**–**	4,506
Purchases of items of property, plant and equipment		**(49,263)**	(65,066)
Additions to investment properties		**(226)**	–
Acquisition of non-controlling interests		**–**	(453)
Acquisition of leasehold lands		**(244)**	(6,931)
Acquisition of a subsidiary		**(1,744)**	–
Deposit paid for acquisition of property, plant and equipment		**(1,828)**	(1,046)
Deposit paid for acquisition of a subsidiary		**(25,600)**	–
Proceeds from disposal of property, plant and equipment		**4,782**	1,930
Proceeds from disposal of leasehold lands		**2,083**	–
Net cash flows used in investing activities		**(71,300)**	(66,228)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**338,381**	562,751
Repayment of bank loans		**(338,638)**	(625,215)
Principal portion of lease payments		**(4,479)**	(1,829)
Dividends paid		**(46,137)**	(86,096)
Interest paid		**(291)**	(1,610)
Share repurchase		**(740)**	–
Proceeds from issue of shares		**–**	588
Net cash flows used in financing activities		**(51,904)**	(151,411)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**47,254**	5,844
Cash and cash equivalents at beginning of year		**68,061**	61,328
Effect of foreign exchange rate changes, net		**(6,648)**	889
CASH AND CASH EQUIVALENTS AT END OF YEAR		**108,667**	68,061
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**85,176**	46,444
Time deposits with original maturity of less than 3 months when acquired		**23,491**	21,617
Cash and cash equivalents		**108,667**	68,061

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 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 (collectively referred to as the "Group") for the year ended 31 December 2020. 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

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

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 hedging relationships.

(d) 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 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 for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

The amendments did not have any impact on the financial position and performance of the Group as the Group did not have any lease concession during the year ended 31 December 2020.

(e) 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 or both. The amendments did not have any significant impact on the financial position and 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 two reportable operating segments as follows:

– the manufacturing segment engages in the sale and manufacture of footwear and handbag

– the retailing and wholesaling 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 losses from the Group's financial instruments, research and development costs, depreciation of investment properties, non-lease-related 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.

During the year ended 31 December 2020, the financial results of the men's and women's footwear segments of the Group, which were reported as separate segments in prior years' financial statements are reported in aggregate under the "Manufacturing" segment. Comparative figures of the segment information have been reclassified to conform with the current year's presentation.

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 2020

	Manufacturing	**Retailing and wholesaling**	**Total**
	US$'000	***US$'000***	***US$'000***
Segment revenue *(note 4)*			
Sales to external customers	**1,119,278**	**16,602**	**1,135,880**
Intersegment sales	**12,016**	**–**	**12,016**
	1,131,294	**16,602**	**1,147,896**
Reconciliation:			
Elimination of intersegment sales			**(12,016)**
Revenue			**1,135,880**
Segment results	**169,343**	**(9,223)**	**160,120**
Reconciliation:			
Interest income			**740**
Corporate and other unallocated income and gains			**24,637**
Corporate and other unallocated expenses and losses			**(182,978)**
Finance costs (other than interest on lease liabilities)			**(291)**
Profit before tax			**2,228**
Segment assets	**1,022,840**	**41,620**	**1,064,460**
Reconciliation:			
Corporate and other unallocated assets			**85,095**
Total assets			**1,149,555**

	Manufacturing	Retailing and wholesaling	Total
	US$'000	*US$'000*	*US$'000*
Segment liabilities	**172,519**	**10,874**	**183,393**
Reconciliation:			
Corporate and other unallocated liabilities			**42,323**
Total liabilities			**225,716**
Other segment information			
Share of profit of a joint venture	**4,676**	**–**	**4,676**
Share of losses of associates	**(1,247)**	**29**	**(1,218)**
Impairment on trade receivables, net	**3,653**	**(111)**	**3,542**
Impairment on other receivables, net	**2,396**	**4**	**2,400**
Depreciation of property, plant and equipment	**42,822**	**292**	**43,114**
Depreciation of right-of-use assets	**5,836**	**266**	**6,102**
Write-down/(write-back) of inventories, net	**5,632**	**(4,821)**	**811**
Income tax expense	**1,120**	**44**	**1,164**
Investment in a joint venture	**31,155**	**–**	**31,155**
Investments in associates	**–**	**672**	**672**
Capital expenditure*	**41,596**	**9,965**	**51,561**

* *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 2019

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Segment revenue *(note 4)*			
Sales to external customers	1,513,969	30,861	1,544,830
Intersegment sales	19,376	–	19,376
	1,533,345	30,861	1,564,206
Reconciliation:			
Elimination of intersegment sales			(19,376)
Revenue			1,544,830
Segment results	233,880	(9,544)	224,336
Reconciliation:			
Interest income			832
Corporate and other unallocated income and gains			20,385
Corporate and other unallocated expenses and losses			(143,902)
Finance costs (other than interest on lease liabilities)			(1,610)
Profit before tax			100,041
Segment assets	1,037,145	54,876	1,092,021
Reconciliation:			
Corporate and other unallocated assets			41,348
Total assets			1,133,369
Segment liabilities	118,636	12,327	130,963
Reconciliation:			
Corporate and other unallocated liabilities			43,240
Total liabilities			174,203

	Manufacturing	Retailing and wholesaling	Total
	US$'000	*US$'000*	*US$'000*
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	(1,475)	14	(1,461)
Impairment on other receivables, net	2,634	6	2,640
Depreciation of property, plant and equipment	40,462	651	41,113
Depreciation of right-of-use assets	2,873	266	3,139
Write-down/(write-back) of inventories, net	(4,045)	2,130	(1,915)
Income tax expense	3,371	752	4,123
Investment in a joint venture	26,497	–	26,479
Investments in associates	1,247	596	1,843
Capital expenditure*	72,934	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.*

Geographical information

(a) Revenue from external customers

	2020	2019
	US$'000	*US$'000*
North America	**608,331**	791,109
Europe	**247,915**	426,995
The PRC	**185,028**	186,455
Asia	**70,524**	97,388
Other countries	**24,082**	42,883
	1,135,880	1,544,830

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

(b) Non-current assets

	2020	2019
	US$'000	*US$'000*
The PRC	**247,347**	236,625
Bangladesh	**17,039**	15,311
Vietnam	**150,951**	132,079
Indonesia	**26,102**	24,289
Other countries	**82,752**	65,194
	524,191	473,498

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:

	2020	2019
	US$'000	*US$'000*
Derived from the manufacturing segment:		
Customer A	**411,800**	381,420
Customer B	**164,213**	250,685

4. REVENUE

An analysis of revenue from contracts with customers is as follows:

(i) Disaggregated revenue information

For the year ended 31 December 2020

Segments

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Types of goods			
Sales of footwear and handbag	1,119,278	16,602	1,135,880
Total revenue from contracts with customers	1,119,278	16,602	1,135,880
Geographical markets			
North America	608,327	4	608,331
Europe	243,685	4,230	247,915
The PRC	172,828	12,200	185,028
Asia	70,356	168	70,524
Other countries	24,082	–	24,082
Total revenue from contracts with customers	1,119,278	16,602	1,135,880
Timing of revenue recognition			
Goods transferred at a point in time	1,119,278	16,602	1,135,880
Total revenue from contracts with customers	1,119,278	16,602	1,135,880
Revenue from contracts with customers			
External customers	1,119,278	16,602	1,135,880
Intersegment sales	12,016	–	12,016
	1,131,294	16,602	1,147,896
Intersegment adjustments and eliminations	(12,016)	–	(12,016)
Total revenue from contracts with customers	1,119,278	16,602	1,135,880

For the year ended 31 December 2019

Segments

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Types of goods			
Sales of footwear	1,513,969	30,861	1,544,830
Total revenue from contracts with customers	1,513,969	30,861	1,544,830
Geographical markets			
North America	790,902	207	791,109
Europe	417,666	9,329	426,995
The PRC	166,060	20,395	186,455
Asia	96,853	535	97,388
Other countries	42,488	395	42,883
Total revenue from contracts with customers	1,513,969	30,861	1,544,830
Timing of revenue recognition			
Goods transferred at a point in time	1,513,969	30,861	1,544,830
Total revenue from contracts with customers	1,513,969	30,861	1,544,830
Revenue from contracts with customers			
External customers	1,513,969	30,861	1,544,830
Intersegment sales	19,376	–	19,376
	1,533,345	30,861	1,564,206
Intersegment adjustments and eliminations	(19,376)	–	(19,376)
Total revenue from contracts with customers	1,513,969	30,861	1,544,830

(ii) Performance obligations

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

Sale of goods

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

5. OTHER INCOME AND OTHER LOSSES, NET

	2020	2019
	US$'000	*US$'000*
Other income		
Rental income	**3,586**	4,210
Sales of scrap	**1,750**	1,399
Government subsidies*	**10,319**	7,725
Others	**9,083**	10,856
	24,738	24,190
Other losses, net		
Loss on disposal of items of property, plant and equipment	**(4,228)**	(2,660)
Loss on work stoppage	**(2,766)**	–
Gain on disposal of leasehold land	**1,465**	–
Gain on early termination of a lease	**6**	–
Loss on deregistration of subsidiaries	**(282)**	–
Foreign exchange differences, net	**(3,420)**	1,713
	(9,225)	(947)
Interest income		
Bank interest income	**420**	350
Interest income from financial assets at fair value through profit or loss	**320**	482
	740	832

* *Included in government subsidies, amounts of US$1,980,000 were related to financial supports of COVID-19 in different regions including the Hong Kong Special Administrative Region ("HKSAR") and the People's Republic of China (the "PRC").*

6. PROFIT BEFORE TAX

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

	2020	2019
	US$'000	*US$'000*
Cost of inventories sold	**933,407**	1,253,136
Depreciation of property, plant and equipment	**43,114**	41,113
Depreciation of investment properties	**723**	717
Depreciation of right-of-use assets	**6,102**	3,139
Research and development costs	**44,394**	56,254
Lease payments not included in the measurement of lease liabilities	**730**	575
Auditors' remuneration	**564**	571
Employee benefits expenses (excluding directors' and chief executive's remuneration:		
Wages and salaries	**282,361**	314,739
(Reversal of)/provision for equity-settled share option expense	**(123)**	855
Pension scheme contributions	**734**	754
Severance pay and other related costs	**52,452**	25,856
	335,424	342,204
Impairment of financial assets:		
Provision for/(reversal of) impairment of trade receivables, net	**3,542**	(1,461)
Provision for impairment of other receivables, net	**2,400**	2,640
	5,942	1,179
Fair value loss, net:		
Derivative financial instruments	**–**	1,724
Financial assets at fair value through profit or loss	**101**	(13)
	101	1,711
Write-down/(write-back) of inventories, net	**811**	(1,915)
Loss on disposal of items of property, plant and equipment	**4,228**	2,660
Gain on disposal of leasehold land	**(1,465)**	–
Gain on early termination of a lease	**(6)**	–
Loss on deregistration of subsidiaries	**282**	–
Foreign exchange differences, net	**3,420**	(1,713)

7. INCOME TAX

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2019: 25%) during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%).

Macau Complementary Tax has been provided at the rate of 12% (2019: 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.

	2020 **US$'000**	2019 US$'000
Current – PRC		
Charge for the year	**5,548**	15,144
Overprovision in prior years	**(4,634)**	(11,560)
Current – Hong Kong		
Charge for the year	**7**	–
Overprovision in prior years	**(20)**	–
Current – Elsewhere		
Charge for the year	**238**	539
Underprovision in prior years	**25**	–
	1,164	4,123

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020	2019
	US$'000	US$'000
Profit before tax	**2,228**	100,041
Tax at the statutory tax rate at 25% (2019: 25%)	**557**	25,010
Lower tax rates for subsidiaries operating in other jurisdictions	**1,475**	(1,327)
Adjustments in respect of current tax of previous periods	**(4,629)**	(11,560)
Profits and losses attributable to a joint venture and associates	**(889)**	(1,931)
Income not subject to tax	**(2,477)**	(11,752)
Expenses not deductible for tax	**6,972**	2,921
Tax losses not recognised	**155**	2,762
Income tax expense	**1,164**	4,123

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, the Group will retain all of the distributable profits of the subsidiaries in the PRC for its operation in Mainland China and no dividend will be declared in foreseeable future. Hence, no provision for withholding tax was made. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately US$49,806,000 at 31 December 2020 (2019: US$35,214,000).

The Group has tax losses arising in Hong Kong of US$2,528,000 (2019: US$2,483,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of US$19,784,000 (2019: US$19,194,000) that will expire in 1 to 5 years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

8. DIVIDENDS

	2020	2019
	US$'000	*US$'000*
Interim – Nil (2019: HK40 cents) per ordinary share	**–**	40,517
Final declared and paid – HK45 cents per ordinary share for 2019 (2019: HK45 cents per ordinary share for 2018)	**46,137**	45,579
	46,137	86,096

No final dividend was proposed by the Company in respect of the year ended 31 December 2020.

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 792,999,202 (2019: 792,703,248) in issue during the year.

The calculation of the diluted earnings per share amount for the years ended 31 December 2020 and 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 calculations of basic and diluted earnings per share are based on:

	2020	2019
	US$'000	*US$'000*
Profit attributable to ordinary equity holder of the parent, used in basic earnings per share	**1,685**	95,925

	Number of shares 2020	Number of shares 2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**792,999,202**	792,703,248
Effect of dilution – weighted average number of ordinary shares: Share options	**3,012**	1,150,290
	793,002,214	793,853,538

10. TRADE RECEIVABLES

	2020	2019
	US$'000	*US$'000*
Trade receivables	**275,437**	313,071
Impairment	**(10,128)**	(6,742)
	265,309	306,329

The Group's trading terms with its customers are mainly on credit. The standard payment terms are generally 30 days, and selected customers up 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 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 receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's associates of US$57,699,000 (2019: US$67,251,000), with provision for expected credit losses amounting to US$2,048,000 (2019: US$549,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

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:

	2020	2019
	US$'000	*US$'000*
Within 1 month	**166,522**	181,608
1 to 2 months	**55,682**	82,846
2 to 3 months	**20,741**	27,932
3 to 6 months	**13,014**	10,100
6 to 12 months	**8,064**	1,154
Over 1 year	**1,286**	2,689
	265,309	306,329

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

	2020	2019
	US$'000	*US$'000*
At beginning of the year	**6,742**	8,203
Impairment losses, net	**3,542**	(1,461)
Amounts written off as uncollectible	**(156)**	–
At end of year	**10,128**	6,742

An impairment analysis is performed at each reporting date by assigning an internal credit rating with reference to the historical record of the Group and comparing it with comparable companies with published credit ratings to determine the probability of default. Loss given default is estimated based on market information and is adjusted to reflect the effect of credit enhancement and other information of the specific debtors. The loss rate is then adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. Generally, trade receivables are written off if past due for more than 1 year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables:

As at 31 December 2020

	Notes	**Expected credit loss rate*** %	**Gross carrying amount** ***US$'000***	**Expected credit losses** ***US$'000***
As at 31 December 2020				
Class of credit rating				
Class 1 to Class 3	*(i) to (iii)*	**0.03-1.04**	**230,332**	**–**
Class 4	*(iv)*	**0.77**	**34,853**	**1,906**
Class 5	*(v)*	**60.23-100.00**	**10,252**	**8,222**
Total			**275,437**	**10,128**
As at 31 December 2019				
Class of credit rating				
Class 1 to Class 3	*(i) to (iii)*	0.02-1.2	304,658	1,101
Class 4	*(iv)*	–	–	–
Class 5	*(v)*	11.03-100.00	8,413	5,641
Total			313,071	6,742

* *The range of the expected credit loss rate is due to different geographical locations of the customers.*

Notes:

(i) Class 1 customers maintain active business with the Group and have a good repayment history. Receivables were not yet past due.

(ii) Class 2 customers have no recent transactions with the Group but have a good repayment history. Receivables were not yet past due.

(iii) Class 3 customers have past due receivables but the Group expects that the receivables can be recovered.

(iv) Class 4 customers have past due receivables and the Group expects higher risk of irrecoverability for the receivables.

(v) Class 5 customers have past due receivables and the Group has substantial evidence of irrecoverability for the receivables.

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:

	2020	2019
	US$'000	*US$'000*
Within 1 month	**59,412**	47,190
1 to 2 months	**10,991**	8,701
Over 2 months	**6,877**	3,784
	77,280	59,675

Included in the trade payables are trade payables of US$20,286,000 (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.

CHAIRMAN'S STATEMENT

The COVID-19 pandemic had a profound impact on our operations in 2020. It hit global footwear retailers hard, leading to a significant reduction in orders especially in the first half of the year. In the midst of this unprecedented global crisis, we prioritised our risk control by implementing a scorecard system to assess the financial health of our customer portfolio, signing a committed credit facility to ensure we have ample liquidity, reallocating production across factories to address COVID-19 driven lockdowns, and streamlining our operations across functions to safeguard our competitive cost base.

Retail store shutdowns and the inability to sell their merchandise led many retailers to experience a liquidity crunch in the first half of 2020. This liquidity crunch also put pressure on the supply chain as payment terms were temporarily extended. In light of this, we created a customer scorecard to assess the financial health of our customer portfolio and identify areas with high-risk exposure. Based on this assessment, we quickly worked with our customers to facilitate their liquidity flow in the supply chain using various financing and insurance programs. Furthermore, we expanded our uncommitted credit facility by signing an additional US$85 million committed credit facility to reach a total of over US$270 million which we did not need to draw down in 2020, to ensure we could withstand an even more serious disruption.

Securing the safety of our employees during the pandemic was another top priority. This included the temporary closure of our factories to comply with local government efforts to contain the spread of the virus. However, the impact of this was partially mitigated by the geographic diversity of our manufacturing footprint. This meant that our factories were not all shut down at the same time, allowing us to effectively reallocate orders among factories and deliver our promises to customers.

To position our production on a more cost-competitive basis, we accelerated the pace of factory closures that we were undergoing in Mainland China – a decision that sets us up well for expanding our margins in the coming years. We also temporarily scaled-back our production capacity in Southeast Asia to match the lower-order environment to stem its impact on our margins as much as possible.

We also made effective changes to enhance the operation and management of our business. We reorganised our internal management structure including merging several manufacturing divisions into one centralised and streamlined unit, and consolidating our R&D centres for fashion, luxury and casual footwear. The new structure will bring together the complementary skills, know-how and experiences of our managers in a way that greatly sharpens our overall capabilities and efficiency, as well as our ability to add value to our customers. It will also better support our future strategic development by recognising the changes taking place in the footwear market.

All of this will serve us well post-COVID-19. The impact of the pandemic in 2020 was tamer on brands with a strong online presence and the industry as a whole is taking note of this. The growing athleisure trend and the increasing popularity of limited-edition footwear collections will continue well into the future. This plays into Stella's long-standing strengths.

More and more brands will seek shorter lead times and smaller batches – essential requirements for them to compete in the faster-changing e-commerce space and both areas where Stella is very competitive. At the same time, luxury and fashion brands are keen to emulate the success that major sports brands have had in developing sports crossover ranges. We are one of the few supply chain partners with the know-how and proven R&D and commercialisation capabilities to assist them in achieving this.

We intend to grow our reach in the sports, luxury and fashion segments to optimise our product mix. We will also further drive up our operational efficiency by completing the reallocation of our manufacturing capacity to Southeast Asia and bringing our new factory in Indonesia online by the end of 2021. In the long-term, we will also seek to expand our synergies with luxury and fashion brands by scaling-up and commercialising the manufacturing of fashion accessories and leather goods such as handbags.

I am confident that we are on a strong path for growing our business and delivering sustainable returns and value to our shareholders. On behalf of the Board, I would also like to thank our customers, business partners, employees and shareholders for their support and trust in a very challenging year. I wish all of our stakeholders a happier and healthier year in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2020, our customers were hit hard by the unprecedented global COVID-19 pandemic with retail stores around the world being forced to temporarily shut down on government lockdown orders. The impact was especially acute in two of our major markets, the United States and Europe. This disruption led many of our customers to request the delay or cancellation of orders, particularly in the first half of the year. However, the situation gradually improved in the third and fourth quarters of the year, as the business of our customers started to recover and some customers sought to replenish their inventory levels after experiencing understocking ahead of the holiday season.

The pandemic also had a huge impact on global footwear production as a whole and we were not spared. At various times throughout the first few months of the year, some of our factories in Mainland China, the Philippines and Bangladesh were forced to temporarily close to comply with preventive measures implemented by local governments to curb the spread of COVID-19. This had some negative impact on our production schedule and profitability.

Despite these challenges, we made further progress in implanting our margin-accretive strategy, including permanently closing factories in China and accelerating our capacity migration to Southeast Asia. Orders for our sports footwear[2], which is currently one of our main growth drivers, also proved 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 year ended 31 December 2020 are as below:

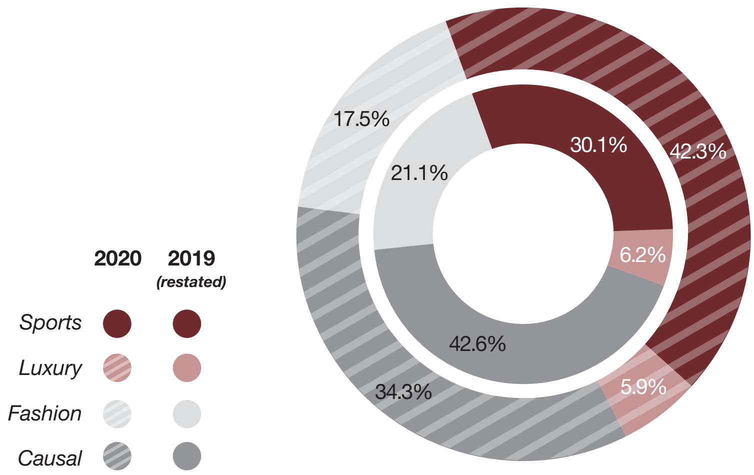
Revenue

The Group's consolidated revenue for the year declined by 26.5% to US$1,135.9 million (2019: US$1,544.8 million), while shipment volumes for the year declined by 26.9% to 43.4 million pairs (2019: 59.4 million pairs). The decline in revenue and shipment volumes was attributable to decreased demand from our brand customers due to the COVID-19 pandemic. The ASP of our footwear products was mostly flat at US$25.7 per pair (2019: US$25.8 per pair).

[2] Our previously 'Sports Fashion' category has now been split into two categories: 'Sports' and 'Luxury'. 'Sports' category includes fashionable sports footwear ranges developed for well-known sportswear brands, including limited edition/collectable product lines and cross-brands collaborations. 'Luxury' category is mostly athleisure footwear ranges designed and developed specifically for high-fashion brands. The Group also reclassified some of its customer brands in the Fashion and Casual categories into different product categories to better reflect their current brand positioning.

In terms of product categories[2], our Sports category was more resilient than others during the year under review. On a like-for-like basis, revenue attributed to the Sports category rose 2.2% year-on-year and accounted for 42.3% of total manufacturing revenue (2019: 30.1%), while revenue attributed to the Luxury category decreased by 30.9% year-on-year and accounted for 5.9% of total manufacturing revenue (2019: 6.2%). The revenue attributed to Fashion category declined 39.8% year-on-year and accounted for 17.5% of total manufacturing revenue (2019: 21.1%) and the revenue attributed to Casual category declined 41.5% year-on-year and accounted for 34.3% (2019: 42.6%) of total manufacturing revenue.

Manufacturing Revenue by Product Categories for 2020 & 2019

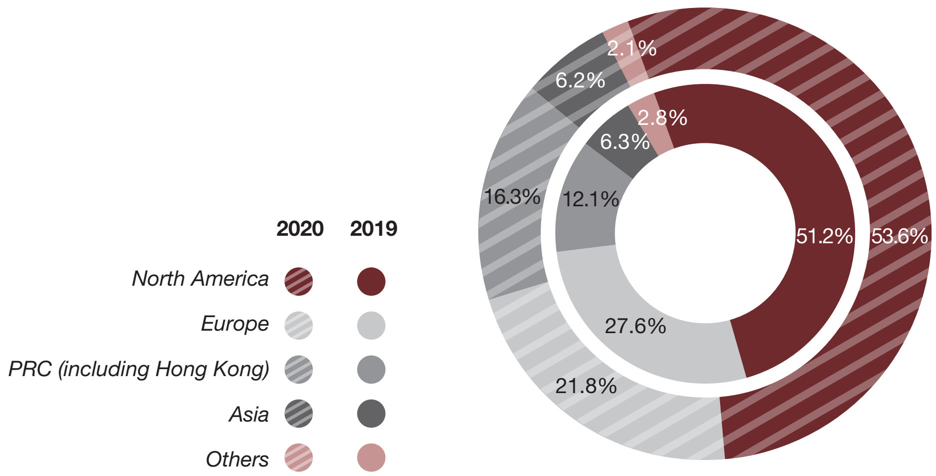


* Excluding sales from samples and others

Geographically, North America and Europe remain our two largest markets, accounting for 53.6% and 21.8% of our total revenue during the year under review. This was followed by the PRC (including Hong Kong), which accounted for 16.3%, Asia (other than the PRC), which accounted for 6.2% and other geographic regions, which accounted for 2.1%.

2 Our previously 'Sports Fashion' category has now been split into two categories: 'Sports' and 'Luxury'. 'Sports' category includes fashionable sports footwear ranges developed for well-known sportswear brands, including limited edition/collectable product lines and cross-brands collaborations. 'Luxury' category is mostly athleisure footwear ranges designed and developed specifically for high-fashion brands. The Group also reclassified some of its customer brands in the Fashion and Casual categories into different product categories to better reflect their current brand positioning.

Group Revenue by Geographical Segments for 2020 & 2019



Our branding business, referring to the retail business in Europe and the wholesale business of our own branded footwear *Stella Luna*, saw revenue decline by 46.2% to US$16.6 million during the year under review. The fall in revenue was mainly attributed to the disruption to the retail market by the COVID-19 pandemic during 2020.

Gross profit

Our gross profit for the year under review declined by 31.3% to US$201.7 million (2019: US$293.6 million) as our brand customers reduced their orders and shipments as a result of the COVID-19 pandemic. Our gross profit margin declined to 17.8% due to changes to customer and product mix, lower utilisation at our manufacturing facilities as a result of the lower orders, and overhead costs related to temporary factory closures in Mainland China, the Philippines and Bangladesh.

Operating profit

For the year under review, we recorded a reported operating profit[3] of US$2.1 million (2019: US$102.8 million). The decline in operating profit was mostly attributed to the lower shipment volumes, operating deleverage and an increase in one-off costs.

These one-off costs included severance payments and impairment of property, plant and equipment made and incurred 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 factory suspensions in Mainland China, Philippines and Bangladesh resulting from COVID-19 during the year under review – 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 and one-off compensation resulting from the sale of land that was previously occupied by one of our closed factories.

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[4] for the Group during the year under review would be adjusted to US$53.4 million and the adjusted recurring operating margin would be 4.7%.

Reported Operating Profit[3]	**US$2.1 million**
Severance payments and other factory closure costs	US$52.5 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
Compensation received related to a land sale	US$(2.0) million
TOTAL Net One-off Expenses	**US$51.3 million**
Adjusted Operating Profit[4]	**US$53.4 million**

3 Reported operating profit is the Group's operating profit before changes in fair value of financial instruments.

4 Adjusted operating profit is a non-GAAP measure that refers to operating profit excluding one-off items, which mainly comprised of severance payments, overhead costs related to factory suspensions, PRC government subsidies related to COVID-19 and compensation received related to a land sale.

Net results

Due to the factors outlined above, the Group recorded a net profit of US$1.1 million (2019: US$95.9 million) and an adjusted net profit of US$52.4 million for the year ended 31 December 2020 (2019: US$117.0 million).

Strong focus on credit risk and cash flow management to reinforce financial position

During the year under review, we conducted a credit risk assessment of our customer portfolio. 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.

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 year under review, our dedicated efforts in managing credit risk and cash flow helped the Group post a net cash position of US$105.8 million as of 31 December 2020 (2019: US$65.1 million). Therefore, the Group's net gearing ratio[5] was -11.5%, as of 31 December 2020 compared to -6.8% as of 31 December 2019.

During the year under review, net cash inflow increased to US$47.3 million from US$5.8 million for the year ended 31 December 2019.

Outlook

In 2021, steady volume growth and margin improvement will be our main priorities. We are confident with our production in the first half of 2021. We expect our product mix, which was more heavily weighted to the Sports category during the year under review, will start to normalise as the Fashion, Luxury and Casual footwear categories rebound. However, order visibility for the second half of 2021 remains low – a period during which we ordinarily see higher ASP and higher-margin product mix – with customers adopting a "wait-and-see" approach as many countries around the world grappled with new COVID-19 driven lockdowns in January and February 2021.

5 Net gearing ratio = net debt (cash and cash equivalents - debt) /shareholder equity.

We will continue to nurture promising opportunities that match our business model and our proven R&D and commercialisation capabilities, particularly those supporting the growth of our Sports and Luxury categories. We see good growth potential arising from the fast-growing athleisure market, into which our Luxury and Fashion brand customers are seeking to launch new products. Major sportswear brands are 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.

We will also push forward with our long-term strategies. With a net cash position and total undrawn bank facilities of over US$270 million – a solid financial position that is more than sufficient to meet our current business need – we are comfortable about investing in the future. This includes bringing our new factory in Indonesia online later in 2021 and further realising the second phase expansion of our manufacturing facility dedicated for sports footwear in Vietnam. Both of these measures will improve our cost efficiency and competitiveness in the long-term. We also expect the streamlined manufacturing operations and the consolidated R&D centres for our Fashion, Luxury and Casual footwear to boost the efficiency.

We have also recently completed the integration of our handbag business into the listed Group. While it will be a few years before we see this business contribute materially to our overall profitability, we will pursue lateral growth over the long-term by capitalising on the synergies emerging from our broad and discerning high-end customer base.

We will also 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.

In addition, recent production shutdowns in Europe exposed the risk of concentrating supply chains 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.

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.

By capitalising on each of the above trends, we will continue to create value and generate higher returns for our shareholders. To this end, we will continue to maintain our strong communication with investors about our margin-expansion strategies. We were recently awarded the 'Best of Traditional Annual Reports' awards at the 2020 ARC Awards. As our profit and margins recover, we remain committed to returning profit to our shareholders in a prudent and responsible manner.

Liquidity, Financial Resources and Capital Structure

Despite the severe headwinds due to the pandemic, the Group retained its solid financial position. As at 31 December 2020, the Group had cash and cash equivalents of approximately US$108.7 million (31 December 2019: US$68.1 million) and total undrawn bank facilities of over US$270 million.

During the year under review, cash generated from operations was US$170.5 million (2019: US$223.5 million), representing a decrease of 23.7%.

Net cash outflows used in investing activities were US$71.3 million during the year under review (2019: US$66.3 million), representing an increase of 7.5%. Capital expenditure amounted to approximately US$51.6 million during the year under review (2019: US$73.0 million).

As at 31 December 2020, the Group had current assets of approximately US$625.4 million (31 December 2019: US$659.9 million) and current liabilities of approximately US$210.5 million (31 December 2019: US$166.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.0 as at 31 December 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$2.9 million as at 31 December 2020 (31 December 2019: US$3.0 million).

The Group maintained a net cash position of US$105.8 million as of 31 December 2020 (2019: US$65.1 million). Therefore, the Group's net gearing ratio[5] was -11.5%, as of 31 December 2020 from -6.8% as of 31 December 2019.

Foreign Currency Exposure

During the year under review, 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.

Pledge of Assets

As at 31 December 2020, the Group had pledged US$5.8 million of its assets (31 December 2019: US$5.6 million).

Contingent Liabilities

As at 31 December 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 consistently places 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.

[5] Net gearing ratio = net debt (cash and cash equivalents - debt) /shareholder equity.

Employees

As at 31 December 2020, the Group had approximately 37,200 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 long-term incentive scheme and a share award plan.

Cash Return to Shareholders

Given the COVID-19 pandemic and the consequential very challenging business circumstances in which the Group found itself in 2020, the Board does not recommend the declaration of an annual dividend for the year under review. Nevertheless, we have taken advantage of the price volatility of the equity markets in 2020 and repurchased 0.6 million outstanding shares at the weighted average price of HK$9.0 per share in 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 May 2021 to 13 May 2021 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the 2021 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 7 May 2021.

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 2020 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 2020. 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 2020.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2020.

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 2020 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

At the annual general meeting held on 14 May 2020, the Directors were granted a general mandate to purchase the shares of the Company not exceeding 10% of the aggregate nominal amount of its issued share capital as at the date of passing of the relevant resolution. During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2020	**Number of shares of nominal value of HK$0.10 each repurchased**	**Consideration per share Highest**	**Consideration per share Lowest**	**Aggregate consideration paid**
		HK$	*HK$*	*HK$*
December	637,500	9.00	8.85	5,736,335

The repurchased shares were cancelled on 26 February 2021 and the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year.

IMPORTANT EVENTS SUBSEQUENT TO THE YEAR

The Directors are not aware of other important events affecting the Company and its subsidiaries which have occurred since the end of the financial year.

By order of the Board
Stella International Holdings Limited
Chen Li-Ming, Lawrence
Chairman

Hong Kong, 18 March 2021

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.