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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Highlights:

- Total revenue for the year rose to US\$1,588.6 million from US\$1,577.3 million last year
- Shipment volumes in 2018 increased to 60.2 million from 56.6 million pairs in 2017
- Net profit for the year increased to US\$62.2 million
- Adjusted operating profit* increased by 35.0% to US\$110.8 million from US\$82.1 million last year
- Adjusted operating margin improved to 7.0%, compared to 5.2% last year
- Adjusted net profit rose to US\$105.1 million, up from US\$76.9 million last year, representing an increase of 36.7%
- Proposed final dividend extended to HK45 cents from HK30 cents, increasing total dividend for the year to HK75 cents

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

* *For identification purpose only*

The board (the “Board”) of directors (the “Directors”) of Stella International Holdings Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2018, 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 2018

	<i>Notes</i>	2018 US\$'000	2017 US\$'000
Revenue	4	1,588,583	1,577,270
Cost of sales		(1,311,461)	(1,307,066)
Gross profit		277,122	270,204
Other income	5	19,284	26,510
Other gains and losses, net	5	(754)	(5,486)
Selling and distribution expenses		(60,572)	(89,107)
Administrative expenses		(167,247)	(138,624)
Impairment losses on financial assets	6	(5,196)	–
Finance costs		(2,945)	(981)
Share of profit of a joint venture		10,920	1,380
Share of profits and losses of associates		(4,305)	(2,844)
Gain on disposals of subsidiaries		–	2,185
Profit before tax	6	66,307	63,237
Income tax expense	7	(4,081)	(3,547)
Profit for the year		62,226	59,690

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

For the year ended 31 December 2018

	<i>Note</i>	2018 US\$'000	2017 US\$'000
Other comprehensive income/(loss)			
Other comprehensive income/(losses) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		612	3,120
Reclassification adjustments for foreign operations disposed during the year		–	(2,180)
Share of other comprehensive losses of a joint venture and associates		<u>(530)</u>	<u>(240)</u>
Other comprehensive income/(loss) for the year, net of tax		<u>82</u>	<u>700</u>
Total comprehensive income for the year		<u>62,308</u>	<u>60,390</u>
Profit attributable to:			
Owners of the parent		65,455	61,955
Non-controlling interests		<u>(3,229)</u>	<u>(2,265)</u>
		<u>62,226</u>	<u>59,690</u>
Total comprehensive income attributable to:			
Owners of the parent		65,249	62,946
Non-controlling interests		<u>(2,941)</u>	<u>(2,556)</u>
		<u>62,308</u>	<u>60,390</u>
Earnings per share attributable to ordinary equity holders of the parent	<i>9</i>		
– Basic (US\$)		<u>0.083</u>	<u>0.078</u>
– Diluted (US\$)		<u>0.083</u>	<u>0.078</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Non-current assets			
Property, plant and equipment		395,142	403,655
Investment properties		5,980	7,128
Prepaid land lease payments		22,377	21,735
Investment in a joint venture		20,424	9,504
Investments in associates		7,679	12,308
Deposit for acquisition of property, plant and equipment		12,414	14,314
Total non-current assets		464,016	468,644
Current assets			
Inventories		170,522	172,367
Trade and bills receivables	10	345,318	351,669
Prepayment, deposits and other receivables		122,975	148,488
Prepaid land lease payments		652	622
Financial assets at fair value through profit or loss		1,669	11,736
Cash and cash equivalents		61,328	74,894
Total current assets		702,464	759,776
Current liabilities			
Trade payables	11	58,697	69,537
Other payables and accruals		49,341	77,564
Interest-bearing bank borrowings		62,483	60,006
Tax payable		46,252	50,086
Total current liabilities		216,773	257,193
Net current assets		485,691	502,583
Total assets less current liabilities		949,707	971,227

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 31 December 2018

	2018 <i>US\$'000</i>	2017 <i>US\$'000</i>
Non-current liabilities		
Interest-bearing bank borrowings	<u>2,916</u>	<u>3,265</u>
Total non-current liabilities	<u>2,916</u>	<u>3,265</u>
Net assets	<u>946,791</u>	<u>967,962</u>
Equity		
Equity attributable to owners of the parent		
Share capital	10,160	10,160
Share premium and reserves	<u>943,191</u>	<u>961,421</u>
	953,351	971,581
Non-controlling interests	<u>(6,560)</u>	<u>(3,619)</u>
Total equity	<u>946,791</u>	<u>967,962</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Notes	Attributable to owners of the parent											Total equity US\$'000
	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Capital reserve US\$'000	Exchange reserve US\$'000	Shares held for award scheme US\$'000	Capital redemption reserve US\$'000	Share option reserve US\$'000	Retained profits US\$'000	Sub-total US\$'000	Non-controlling interests US\$'000	
At 31 December 2017	10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	766,185	971,581	(3,619)	967,962
Effect of adoption of HKFRS 9	-	-	-	-	-	-	-	-	(23,871)	(23,871)	-	(23,871)
At 1 January 2018 (restated)	10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	742,314	947,710	(3,619)	944,091
Profit/(loss) for the year	-	-	-	-	-	-	-	-	65,455	65,455	(3,229)	62,226
Other comprehensive income/(loss) for the year:												
Exchange differences on translation of foreign operations	-	-	-	-	324	-	-	-	-	324	288	612
Share of other comprehensive losses of a joint venture and associates	-	-	-	-	(530)	-	-	-	-	(530)	-	(530)
Total comprehensive income for the year	-	-	-	-	(206)	-	-	-	65,455	65,249	(2,941)	62,308
Equity-settled share option expense	-	-	-	-	-	-	-	1,234	-	1,234	-	1,234
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	-	-	-	(1,060)	1,060	-	-	-
Final 2017 dividend	8	-	-	-	-	-	-	-	(30,361)	(30,361)	-	(30,361)
Interim 2018 dividend	8	-	-	-	-	-	-	-	(30,481)	(30,481)	-	(30,481)
At 31 December 2018	10,160	154,503*	45,427*	1,146*	(4,491)*	(2,722)*	190*	1,151*	747,987*	953,351	(6,560)	946,791
At 1 January 2017	10,160	154,503	45,427	1,146	(5,276)	(2,722)	190	1,450	774,042	978,920	(1,063)	977,857
Profit/(loss) for the year	-	-	-	-	-	-	-	-	61,955	61,955	(2,265)	59,690
Other comprehensive income/(loss) for the year:												
Exchange differences on translation of foreign operations	-	-	-	-	3,411	-	-	-	-	3,411	(291)	3,120
Reclassification adjustments for foreign operations disposed during the year	-	-	-	-	(2,180)	-	-	-	-	(2,180)	-	(2,180)
Share of other comprehensive losses of a joint venture and associates	-	-	-	-	(240)	-	-	-	-	(240)	-	(240)
Total comprehensive income for the year	-	-	-	-	991	-	-	-	61,955	62,946	(2,556)	60,390
Equity-settled share option expense	-	-	-	-	-	-	-	977	-	977	-	977
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	-	-	-	(1,450)	1,450	-	-	-
Final 2016 dividend	8	-	-	-	-	-	-	-	(30,599)	(30,599)	-	(30,599)
2016 Special dividend	8	-	-	-	-	-	-	-	(10,200)	(10,200)	-	(10,200)
Interim 2017 dividend	8	-	-	-	-	-	-	-	(30,463)	(30,463)	-	(30,463)
At 31 December 2017	10,160	154,503*	45,427*	1,146*	(4,285)*	(2,722)*	190*	977*	766,185*	971,581	(3,619)	967,962

* These reserve accounts comprise the consolidated reserves of US\$943,191,000 (2017: US\$961,421,000) in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 (“FVTPL”) which has been measured at fair value. These consolidated financial statements are presented in United States dollars (“US\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. 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. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement			HKFRS 9 measurement	
	<i>Note</i>	<i>Category</i>	<i>Amount</i> <i>US\$'000</i>	<i>ECL</i> <i>US\$'000</i>	<i>Amount</i> <i>US\$'000</i>	<i>Category</i>
Financial assets						
Trade receivables		L&R ¹	351,143	(8,210)	342,933	AC ²
Bills receivables		L&R	526	–	526	AC
Financial assets included in prepayments, deposits and other receivables		L&R	145,460	(15,661)	129,799	AC
Financial assets at fair value through profit or loss	(i)	FVTPL ³	11,736	–	11,736	FVTPL
Cash and cash equivalents		L&R	74,894	–	74,894	AC
Total assets			583,759	(23,871)	559,888	
Financial liabilities						
Trade payables		AC	69,537	–	69,537	AC
Financial liabilities included in other payables and accruals		AC	25,155	–	25,155	AC
Interest-bearing bank borrowings		AC	63,271	–	63,271	AC
Financial guarantee contract		FG ⁴	800	–	800	FG
Total liabilities			158,763	–	158,763	

¹ L&R: Loans and receivables

² AC: Financial assets or financial liabilities at amortised cost

³ FVTPL: Financial assets or liabilities at fair value through profit or loss

⁴ FG: Financial guarantee contract

Note:

- (i) The Group classified its debt instruments at fair value through profit or loss as they are held-for-trading.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017 US\$'000	Re-measurement US\$'000	ECL allowances under HKFRS 9 at 1 January 2018 US\$'000
Trade receivables	487	8,210	8,697
Financial assets included in prepayments, deposits and other receivables	<u>1,650</u>	<u>15,661</u>	<u>17,311</u>
	<u><u>2,137</u></u>	<u><u>23,871</u></u>	<u><u>26,008</u></u>

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Retained profits US\$'000
Balance as at 31 December 2017 under HKAS 39	766,185
Recognition of expected credit losses for trade receivables under HKFRS 9	(8,210)
Recognition of expected credit losses for financial assets included in prepayments, deposits and other receivables under HKFRS 9	<u>(15,661)</u>
Balance as at 1 January 2018 under HKFRS 9	<u><u>742,314</u></u>

- (b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The adoption of HKFRS 15 has had no impact on the Group's financial statements, except for the following:

Volume rebates

Before the adoption of HKFRS 15, the Group estimated the expected volume rebates using the probability-weighted average amount of rebates approach and included an allowance for rebates in other payables and accruals. Upon the adoption of HKFRS 15, the Group has applied either the most likely amount method or the expected value method for the estimation of the variable consideration for expected volume rebates which are recorded as refund liabilities included in other payables and accruals in the statement of financial position. Accordingly, the Group recognised refund liabilities of US\$3,315,000 for the expected future rebates as at 1 January 2018 and derecognised the allowance for rebates included in other payables and accruals of US\$3,315,000. As at 31 December 2018, the Group recognised refund liabilities of US\$3,585,000.

3. OPERATING SEGMENT INFORMATION

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

- the men's footwear segment engages in the sale and manufacture of men's footwear
- the women's footwear segment engages in the sale and manufacture of women's footwear
- the footwear retailing and wholeselling segment engages in the sale of self-developed brands

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

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

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

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

Year ended 31 December 2018

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

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

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

Year ended 31 December 2017

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing and wholeselling US\$'000	Total US\$'000
Segment revenue (note 4)				
Sales to external customers	624,894	882,293	70,083	1,577,270
Intersegment sales	<u>310</u>	<u>25,046</u>	<u>–</u>	<u>25,356</u>
	<u><u>625,204</u></u>	<u><u>907,339</u></u>	<u><u>70,083</u></u>	<u><u>1,602,626</u></u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(25,356)</u>
Revenue				<u><u>1,577,270</u></u>
Segment results	61,845	122,649	(4,914)	179,580
<i>Reconciliation:</i>				
Interest income				2,068
Corporate and other unallocated income and gains				20,897
Corporate and other unallocated expenses and losses				(138,327)
Finance costs				<u>(981)</u>
Profit before tax				<u><u>63,237</u></u>
Segment assets	487,645	477,494	48,599	1,013,738
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>214,682</u>
Total assets				<u><u>1,228,420</u></u>
Segment liabilities	84,036	53,226	9,039	146,301
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				<u>114,157</u>
Total liabilities				<u><u>260,458</u></u>

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing and wholeselling <i>US\$'000</i>	Total <i>US\$'000</i>
Other segment information				
Share of profit of a joint venture	1,380	—	—	1,380
Share of losses of associates	(5)	—	(2,839)	(2,844)
Depreciation of property, plant and equipment	13,420	19,951	3,916	37,287
Amortisation of prepaid land lease payments	460	460	—	920
Write-down/(reversal of write-down) of inventories	3,726	(1,666)	2,000	4,060
Income tax expense	1,030	2,055	462	3,547
Investment in a joint venture	9,504	—	—	9,504
Investments in associates	5,692	—	6,616	12,308
Capital expenditure*	20,205	18,239	5,290	43,734

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

Geographical information

(a) Revenue from external customers

	2018 <i>US\$'000</i>	2017 <i>US\$'000</i>
United States of America (“USA”)	766,000	741,112
United Kingdom (“UK”)	112,992	125,976
Netherlands	122,993	126,396
The PRC	157,553	190,474
Canada	37,223	42,402
Belgium	59,976	48,069
Japan	39,032	38,420
Germany	20,502	31,894
Other countries	272,312	232,527
	1,588,583	1,577,270

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

(b) Non-current assets

	2018 US\$'000	2017 US\$'000
The PRC	285,009	299,171
Bangladesh	14,609	74,380
Vietnam	52,389	34,403
Indonesia	18,168	16,125
Other countries	93,841	44,565
	<u>464,016</u>	<u>468,644</u>

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:

	2018 US\$'000	2017 US\$'000
Derived from sales by men's footwear and women's footwear segments:		
Customer A	348,054	316,486
Customer B	225,382	274,303
	<u>573,436</u>	<u>590,789</u>

4. REVENUE

An analysis of revenue is as follows:

	2018 US\$'000	2017 US\$'000
<i>Revenue from contracts with customers</i>		
Sales of men's footwear	604,142	625,204
Sales of women's footwear	984,441	952,066
	<u>1,588,583</u>	<u>1,577,270</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing and wholeselling US\$'000	Total US\$'000
Type of goods				
Sales of men's footwear	604,142	–	–	604,142
Sales of women's footwear	–	925,078	59,363	984,441
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583
Geographical markets				
USA	308,379	445,810	11,811	766,000
UK	27,476	85,181	335	112,992
Netherlands	56,047	66,946	–	122,993
The PRC	56,093	76,305	25,155	157,553
Canada	13,727	23,496	–	37,223
Belgium	30,313	29,663	–	59,976
Japan	17,282	21,381	369	39,032
Germany	7,520	12,945	37	20,502
Other countries	87,305	163,351	21,656	272,312
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583
Timing of revenue recognition				
Goods transferred at a point in time	604,142	925,078	59,363	1,588,583
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing and wholeselling US\$'000	Total US\$'000
Revenue from contracts with customers				
External customers	604,142	925,078	59,263	1,588,583
Intersegment sales	106	27,329	–	27,435
	604,248	952,407	59,363	1,616,018
Intersegment adjustments and eliminations	(106)	(27,329)	–	(27,435)
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583

(ii) Performance obligations

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

Sales of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 60 to 120 days from delivery, except for new customers, where payment in advance is normally required.

5. OTHER INCOME, GAINS AND LOSSES

	2018 US\$'000	2017 US\$'000
Other income		
Bank interest income	259	722
Interest income from financial assets at fair value through profit or loss	860	581
Interest income from derivative financial instruments	29	765
Rental income	4,740	3,233
Sales of scrap	1,738	1,616
Government subsidies*	6,961	7,213
Others	4,697	12,380
	<u>19,284</u>	<u>26,510</u>
Gains and losses		
Loss on disposal of items of property, plant and equipment	(1,177)	(3,218)
Foreign exchange differences, net	1,700	(4,120)
Fair value gains/(loss), net:		
Derivative financial instruments	16	989
Financial assets at fair value through profit or loss	(1,293)	863
	<u>(754)</u>	<u>(5,486)</u>

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

6. PROFIT BEFORE TAX

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

	2018 <i>US\$'000</i>	2017 <i>US\$'000</i>
Cost of inventories sold	1,311,461	1,307,066
Depreciation of property, plant and equipment	40,261	37,287
Depreciation of investment properties	809	669
Research and development costs	53,571	56,679
Minimum lease payments under operating leases	5,784	9,709
Amortisation of prepaid land lease payments	895	920
Contingent rents under operating leases	6,382	6,308
Auditors' remuneration	474	484
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	363,502	342,907
Equity-settled share option expense	1,085	858
Pension scheme contributions	759	446
Severance pay and other related costs	34,168	7,972
	<u>399,514</u>	<u>352,183</u>
Impairment of financial assets:		
Impairment of trade receivables	3,265	–
Impairment of other receivables	1,931	–
	<u>5,196</u>	<u>–</u>
Impairment of property, plant and equipment	2,298	–
Write-down of inventories	1,551	4,060
Loss on disposal of items of property, plant and equipment	1,177	3,218
Gain on disposals of subsidiaries	–	(2,185)
Foreign exchange differences, net	<u>(1,700)</u>	<u>4,120</u>

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2017: 25%) during the year. Macau profits tax has been provided at the rate of 12% (2017: 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 Macao Complementary Tax. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2018 US\$'000	2017 US\$'000
Current – PRC		
Charge for the year	14,887	11,783
Overprovision in prior years	(11,331)	(8,744)
Current – Hong Kong	60	62
Current – Elsewhere	465	446
	4,081	3,547

8. DIVIDENDS

	2018 US\$'000	2017 US\$'000
Interim – HK30 cents (2017: HK30 cents) per ordinary share	30,481	30,463
Special – Nil (2017: HK10 cents per ordinary share for 2016)	–	10,200
Final – HK30 cents per ordinary share for 2017 (2017: HK30 cents per ordinary share for 2016)	30,361	30,599
	60,842	71,262

A final dividend of HK45 cents per share amounting to approximately HK\$357.5 million (equivalent to US\$45.5 million) in respect of the year ended 31 December 2018 has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts 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 792,601,500 (2017: 792,601,500) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 in respect of a dilution as the impact of the share option outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculation of the diluted earnings per share amounts for the year ended 31 December 2017 was based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2018 <i>US\$'000</i>	2017 <i>US\$'000</i>
Profit attributable to ordinary equity holder of the parent, used in basic earnings per share	<u>65,455</u>	<u>61,955</u>
	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	792,601,500	792,601,500
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>–</u>	<u>781,762</u>
	<u>792,601,500</u>	<u>793,383,262</u>

10. TRADE AND BILLS RECEIVABLES

	2018 <i>US\$'000</i>	2017 <i>US\$'000</i>
Trade receivables	352,003	351,630
Impairment	<u>(8,203)</u>	<u>(487)</u>
	343,800	351,143
Bills receivable	<u>1,518</u>	<u>526</u>
	<u>345,318</u>	<u>351,669</u>

The Group's trading terms with its customers are mainly on credit. The credit periods are ranging from 60 to 120 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's joint venture and associates of nil (2017: US\$7,116,000) and US\$63,585,000 (2017: US\$63,778,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

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

	2018 <i>US\$'000</i>	2017 <i>US\$'000</i>
Within 1 month	192,332	204,522
1 to 2 months	90,612	90,610
2 to 3 months	39,312	30,796
Over 3 months	<u>23,062</u>	<u>25,741</u>
	<u>345,318</u>	<u>351,669</u>

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

	2018 US\$'000	2017 <i>US\$'000</i>
At beginning of the year	487	487
Effect of adoption of HKFRS 9	<u>8,210</u>	<u>–</u>
At beginning of the year (restated)	8,697	487
Impairment losses, net (<i>note 6</i>)	3,265	–
Amounts written off as uncollectible	<u>(3,759)</u>	<u>–</u>
At end of year	<u><u>8,203</u></u>	<u><u>487</u></u>

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:

	2018 US\$'000	2017 <i>US\$'000</i>
Within 1 months	42,297	51,496
1 to 2 months	10,094	12,859
Over 2 months	<u>6,306</u>	<u>5,182</u>
	<u><u>58,697</u></u>	<u><u>69,537</u></u>

Included in the trade payables are trade payables of US\$1,185,000 (2017: Nil) 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

In 2018, we made great strides in our journey towards margin recovery and long-term growth. These achievements were attained despite numerous storm clouds appearing in the external environment. These included deteriorating trade relations between the United States and China (although our financial performance during the year was not affected by this), currency fluctuations, and some unfortunate bankruptcies among our customers.

Other long-standing challenges also remain, particularly rising wages in China.

Yet the end of the road is coming into sight. Ordering activity for our fashion athletic products was robust – which allowed us to ramp up activity and utilisation at our new manufacturing facility in Vietnam and other facilities in South East Asia, and thus achieve greater production efficiencies – while orders for our fashion and casual footwear were also higher compared to 2017. This had some positive effects on our margins and we expect more of this to come.

Greater utilisation in Vietnam also allowed us to accelerate the strategic adjustments we have been making to our capacity allocations, allowing us to move closer to our medium-to-long-term goal of achieving a manufacturing base with a majority of production facilities outside of Mainland China, particularly in South East Asia.

The progress we are making on this front is now allowing us to focus on other aspects of our operations. First of all is making an even greater commitment and emphasis on quality, which has long been our competitive advantage and sits alongside our long-standing reputation for product development and commercialisation, high adaptability, as well as our newly minted leadership position for developing high-quality fashion athletic products.

The second is our partnerships with customers. The global footwear market is changing rapidly; customers are requiring shorter order windows, more flexible order size and greater help in moving new products quicker towards market readiness. One primary driver of this has been the ongoing rise of athleisure, which is compelling even high-end luxury brands to explore adding sports elements into their footwear offerings. We are now extremely well placed to deliver on the above requirements – in ways that still protect our margins – while our exceptional research and development capabilities makes us the ideal partner for brands looking to enter and/or improve their offerings in this space.

Looking forward, we expect shipment volumes in 2019 to be broadly in line with that in 2018. Our main priority is to further improve our margins. This includes further ramping up our new manufacturing facility in Vietnam to increase production efficiency and grow the margins generated from our fashion athletic products, increasing prices for some products, and actively managing orders as required. We will also further develop our branding business in Europe, centred on our two brands, *Stella Luna* and *What For*, by investing further in product development and expanding their reach in German-speaking markets.

Finally, but certainly not least, I would like to touch on the recent generational change in Stella's leadership. On 1 January 2019, our long-serving CEO, Mr. Chen Li-Ming, Lawrence, was succeeded by Mr. Chi Lo-Jen, the previous Head of the Group's Fashion Footwear Division and the Branding Business Division. This management succession process had been planned for some time and was a natural progression in the ongoing development of our business.

Staying on the topic of natural progression, I am announcing my plans to retire as Chairman of Stella International, effective from 21 March 2019, with Mr. Chen Li-Ming, Lawrence succeeding me in the position with immediate effect on the same date. On the same day, my long-standing colleague, Mr. Chao Ming-Cheng, Eric, will also step down as Deputy Chairman of the Board to enjoy his own well-earned retirement from his existing position.

Over the past few decades, Mr. Chao Ming-Cheng, Eric and I, together with our management team, have worked together to establish Stella International into the successful and respected company it is today. We were united with a shared passion to "Make the Best Shoes" – which is still Stella's ongoing mission today – and I am extremely grateful for my professional partnership and friendship with Mr. Chao Ming-Cheng, Eric over the years.

As I just mentioned, having a passion for shoes is not just limited to us. With Mr. Chi Lo-Jen, we have found this same passion in the next generation, which makes me highly confident about Stella's future prospects and growth. With Lo-Jen and Lawrence as the new CEO and Chairman, we have the best possible leadership team for executing our ongoing strategy for growing the company, securing our ongoing competitiveness and delivering sustainable returns to shareholders.

On this optimistic note, on behalf of the Board, I would like to sincerely thank our customers, business partners and shareholders for their unwavering support in 2018, as well as my humble gratitude to my colleagues throughout Stella for their hard work and service.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Model and Strategy

Stella is a leading developer and manufacturer of quality footwear and leather goods products. Our manufacturing business was founded in 1982 with a simple mission of “making the best shoes”. We provide a one-stop shop for the design, development and manufacturing of premium and luxury footwear, fashion athletic footwear and leather goods.

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

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

Financial Highlights

Higher Shipment Volumes and Revenue

The recovery in shipment volumes and revenue became increasingly solid as we progressed through the year. Ordering activity for our fashion athletic footwear products was robust, while full-year orders for our casual and fashion footwear products were also higher overall. The growth of the average selling price (“ASP”) of our footwear products turned positive in the final quarter of the year, which was attributed to an increase in the ASP of our casual footwear products, as well as changes to the Group’s product mix and customer mix.

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

Our consolidated revenue for the year ended 31 December 2018 rose by 0.7% to US\$1,588.6 million (2017: US\$1,577.3 million). On comparable basis (after adjustments for the disposal of Group’s former China retail business), our comparable consolidated revenue for the year under review improved by 3.3% respectively.

Shipment volumes rose 6.4% to 60.2 million pairs (2017: 56.6 million pairs), while the ASP for our footwear products in the final quarter of 2018 turned positive following price increases for some products. Nevertheless, due to changes in our product mix, as well as changes in our customers' product mix, the ASP for the full year fell 3.4% to US\$25.8 per pair (2017: US\$26.7 per pair).

Fashion footwear is our largest segment, contributing 36.4% of total revenue (2017: 38.8%) during the year ended 31 December 2018. The contributions from casual footwear and fashion athletic products were 28.7% and 32.1% respectively (2017: 29.1% and 28.1%), while the Group's own retail brands accounted for 2.8% of total revenue (2017: 4.0%).

Geographically, North America and Europe remain our two largest markets, accounting for 51.1% and 29.2% of our total revenue for the year under review. This was followed by the PRC (including Hong Kong), which accounted for 10.0%, Asia (other than the PRC), which accounted for 6.4% and other geographic regions, which accounted for 3.3%.

Branding Business Maintained Revenue Growth

After the disposal of 60% stake of our retail operation in China in July 2017, our branding business is anchored by our growing retail business in Europe. Our retail sales in Europe achieved a growth of 10.9% and increased revenue to US\$17.3 million during the year ended 31 December 2018. Same store sales for the year under review decreased by 10.0% as our branding business focused on online clearance events that aimed to manage inventory.

Efficiency Improvements Supporting Margin Recovery and Underlying Profitability

Our gross profit and operating profit recovered steadily in the second half of the year under review as the result of production efficiency gains. Our gross profit for the full year rose 2.6% to US\$277.1 million compared to the previous year, while the full year net profit attributable to Shareholders of the Company increased by 5.6% to US\$65.5 million.

Excluding the one-off items of US\$42.9 million in aggregate, our adjusted operating profit* increased by 35.0% to US\$110.8 million leading to an increased adjusted operating margin of 7.0% from 5.2% last year, while our adjusted net profit was US\$105.1 million, an increase of 36.7% compared to the previous year.

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

Our cash generated from operations remained healthy at US\$94.6 million for the year ended 31 December 2018, from US\$45.6 million for the year ended 31 December 2017.

Our return on invested capital was at 7.9% in the year ended 31 December 2018. On an adjusted basis, excluding the one-off items, our return on invested capital for the year stood at 12.9%.

Return on invested capital means operating profit for the year divided by the average of total assets excluding cash and cash equivalents.

Business Review

Robust Demand for Fashion Athletic Products

Demand for our fashion athletic footwear products was robust, with strong orders from our major customers continuing to support the utilisation rate at our new manufacturing facility in Vietnam.

With a growing customer base ranging from world-famous athletic brands to premium and luxury fashion brands seeking to enter into the fashion athletic market, Stella is a strongly positioned leader in the fashion athletic footwear segment. Our long-established reputation for quality, design and research, development and commercialisation ability, and adaptability makes us the partner of choice for brands entering this segment – which remains our biggest growth driver.

Increased Orders For Fashion and Casual Footwear Products

We saw higher full-year orders for our fashion and casual footwear products although the gain was modest. This recovery was driven by improving market confidence among our customers. Changing fashion trends, for example fewer orders for boots and increased orders for sandals, was one of the reasons behind the lower ASP for our footwear products during the year under review.

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

Our share of the global premium footwear market had grown to around 11.0% from 10.0% of the previous year (see the following table). This growth was mainly attributable to the further expansion of our brand portfolio as we added new customers, as well as the continued decline of shoe production volume in Western European locations such as France.

The following table shows a summary of production and export price data for major footwear producing countries for the year ended 31 December 2017.

	Production <i>(million pairs)</i>	Export price – leather shoes only <i>(USD/pair)</i>
Italy	191	65
France	22	66
Spain	102	38
Portugal	83	32
Germany	40	39
Great Britain	6	29
Brazil (leather export)	18	23

Source: 2018 World Footwear Yearbook, Portuguese Footwear, Components and Leather Goods Manufacturers' Association

Ongoing Efficiency Gains and Refinement of Global Manufacturing Footprint

We closed down two factories in Mainland China during the year under review as we ramped-up activity and production efficiency at our new manufacturing facility in South East Asia.

We are also continuing to diversify our manufacturing base as we move closer to our medium-to-long-term goal of achieving a footprint with a majority of production facilities outside of Mainland China. This will allow us to overcome persistent labour supply and labour cost problems in China, while making solid efficiency gains.

In addition to our research and development centres in Dongguan, China and Venice, Italy, our global manufacturing footprint as of 31 December 2018 included facilities in Guangdong, Hunan, Guangxi and Hebei provinces in the PRC, as well as in Vietnam, Indonesia, the Philippines and Bangladesh.

We are also continuing to explore the manufacture of quality leather goods and accessories, including handbags, in order to meet growing demand from brands looking to outsource the production of these products.

Impact of External Events

Two of our customers – *Nine West* and *Rockport* – entered into Chapter 11 bankruptcy protection in the United States during the first half of 2018. As of the third quarter of the year under review, we had fully recovered from Rockport and its affiliates all the pre-petition debts of about US\$10.3 million, and are continuing to supply our products to Rockport and its affiliates under normal credit terms. As of the date of this announcement, the outstanding balance due from Nine West and its affiliates is about US\$8.2 million. As at 31 December 2018, an allowance for overall doubtful debts amounting to US\$8.2 million had been made. We will continue our effort in recovering the outstanding trade receivables owed by Nine West and its affiliates.

The strong appreciation in the RMB against the US dollar in the first half of 2018, which had a sizable impact on our operating margins during the period, was more than offset by the depreciation of the RMB and other foreign currencies against the US dollar in the second half of 2018. Foreign exchange gains/losses did not have a material impact on our margins for the full year.

Also, ordering activity in the year ended 31 December 2018 was not affected by escalating trade tensions between the United States and China.

Development of Branding Business in Europe

We continued to focus on building the global profile and value of our two contemporary retail brands – *Stella Luna* and *What For*, each of which showcase our unique design and fashion capabilities. During 2018, we adjusted the size of our retail store network in France, explored distributorship in other European countries and continued to invest in e-commerce channels, while also enhancing our visibility and presence in famous department stores around the world.

Outlook

Stable Shipment Volumes Expected in 2019 with Priority on Margin Expansion

We expect shipment volumes in 2019 to be around the same level as the year under review, with a steady but normalised growth in demand for our sports fashion footwear products and stable demand for our casual and fashion footwear products. ASP in 2019 is likely to remain broadly stable and will depend on our product mix and our customers' product mix.

Our priority for the coming year will be to improve margins. We will continue to ramp up our new manufacturing facility in Vietnam, which is specifically geared towards fashion athletic products, to increase production efficiency and grow margins. We will also aim to adjust the price for some products while actively managing orders for some product categories.

Accelerate Strategic Refinement of Manufacturing Footprint and Focus on research and development and Efficiency

We will continue to selectively reduce capacity in some parts of China in order to improve utilisation and protect margins. We will also continue to maintain strict cost control measures, such as closely managing headcounts and working hours to deliver value to our customers.

We will also continue to invest in our research and development capabilities to further improve and extend our range of innovative footwear products, including creating new footwear products for fashion brands that are exploring how to include sporting elements into their ranges – products that we are uniquely positioned to create.

Monitoring Ongoing Risks to Our Manufacturing Business

The trade relationship between the United States and China deteriorated in 2018 with both countries imposing trade tariffs on various imports originating in the other country, although as of the date of this announcement, these tariffs are yet to target finished footwear products that the Group manufactures. We will continue to closely monitor the risk that this dispute may pose to our operations.

We will also continue to monitor other potential risks to our operations, such as ongoing consolidation among footwear brands, the continued penetration of e-commerce and its impact on our customers, and other political risks such as Brexit. We will continue to work closely with our customers to manage these risks if they arise.

Expanding Market Coverage of Our Retail Brands in Europe

Building on the good level of recognition our retail brands have built in France and other markets, we will invest further in its product development and expanding their reach in Europe.

Invest in the Success of our People

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

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

Continued Commitment to Shareholders

We expect our capital requirements to remain modest in 2019. We remain committed to returning profit to shareholders and provide ongoing shareholder returns amidst our journey to margin recovery.

For the year under review, the Board has resolved to recommend a final dividend after considering the Group's free cash flow situation and margin trend.

Liquidity, Financial Resources, Capital Expenditure and Capital Structure

The Group remained in a stable financial position throughout 2018, with cash and cash equivalents of about US\$61.3 million (2017: US\$74.9 million) as at 31 December 2018, representing a decrease of 18.2% as compared to the position as at 31 December 2017.

The Group's net cash inflows from operating activities rose to US\$94.6 million (2017: US\$45.6 million) for the year, representing an increase of 107.5%.

Net cash outflows from investing activities were US\$47.7 million during the year under review (2017: US\$41.2 million), representing an increase of 15.8%. Capital expenditure amounted to approximately US\$55.7 million (2017: US\$43.7 million).

Net cash outflows used in financing activities rose to US\$61.5 million.

Therefore, free cash flow was US\$38.9 million during the year under review (2017: US\$1.9 million), representing a significant increase over the previous year.

As at 31 December 2018, the Group had current assets of US\$702.5 million (2017: US\$759.8 million) and current liabilities of about US\$216.8 million (2017: US\$257.2 million). The current ratio (which is calculated based on the total current assets divided by the total current liabilities) was 3.2 as at 31 December 2018, an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US\$65.4 million as at 31 December 2018 (2017: US\$63.3 million).

Foreign Currency Exposure

During the year ended 31 December 2018, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars or RMB. Currency exposures were mostly denominated in RMB and Hong Kong dollars against the functional currency of the relevant Group company.

Pledge of Assets

As at 31 December 2018, the Group had pledged US\$5.6 million of its assets (31 December 2017: US\$5.9 million).

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

Major Customers and Suppliers

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

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

Employees

As at 31 December 2018, the Group had approximately 63,000 employees (31 December 2017: approximately 63,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets to the Group's development and expansion. We actively seek to attract, develop and retain individuals who are proactive, positive, committed to and passionate about our business.

The Group has continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership Program" to identify potential high calibre employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures. With a view to recognising and rewarding the contribution of employees, as well as providing incentives to employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme and a share award plan.

DIVIDEND

The Board recommended the payment of a final dividend of HK45 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2018. The proposed final dividend amounting to approximately US\$45.5 million, will be paid to Shareholders whose names appear on the register of members of the Company on 24 May 2019, if the proposals are approved by the Shareholders at the forthcoming annual general meeting of the Company (the "2019 AGM") to be held on 10 May 2019. It is expected that the final dividend, if approved, will be paid on or about 21 June 2019.

In order to qualify for the proposed final dividend to be approved at the 2019 AGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 24 May 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 May 2019 to 10 May 2019 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the 2019 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 6 May 2019.

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 2018 except for code provisions B.1.5 and E.1.2 as follows:–

For code provision B.1.5 of the CG Code, the Company decided not to disclose details of remuneration payable to members of senior management by band in the annual report of 2018. The reason for not making such disclosure is that the Board would like to observe the competitive market practices and to respect individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman ("Chairman") of the Board, had not attended the annual general meeting of the company held on 18 May 2018 ("2018 AGM"). Instead, Mr. Chao Ming Cheng, Eric, the Deputy Chairman, took the chair at the 2018 AGM and the chairman or member of the Audit Committee, Corporate Governance Committee, Remuneration Committee and Nomination Committee attended the 2018 AGM to answer Shareholders' questions. The reason for such arrangement is that the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman is mainly responsible for managing major customers' relationship and overseeing strategies of the Group, while the Deputy Chairman is responsible for providing leadership and management to the Board. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the stakeholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Save for the said deviations from the CG Code, the Group has been in compliance with the CG Code in all material respects and has upheld a high standard of corporate governance which, the Directors believe, are of higher standard than that required under the CG Code in various aspects.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2018.

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 2018 as set out in the preliminary announcement have been agreed by the Group’s auditor, Ernst and Young, to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by Ernst and Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

By order of the Board
Stella International Holdings Limited
Chiang Jeh-Chung, Jack
Chairman

Hong Kong, 21 March 2019

As at the date of this announcement, the executive Directors are Mr. Chiang Jeh-Chung, Jack, Mr. Chao Ming-Cheng, Eric, Mr. Chi Lo-Jen and Mr. Chen Li-Ming, Lawrence 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.