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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 2021

Highlights:

- Revenue increased by 36% year-on-year due to a strong recovery of orders across all product categories
- Net profit increased to US\$90.8 million, a significant improvement from US\$1.1 million for last year
- Enhanced customer portfolio, especially in the Sports and Luxury footwear categories, helped contribute to higher gross profit margin
- Completed management transition and reorganised internal divisions to execute long-term plan
- Factories at full utilisation alongside continued investment in Indonesia as part of our long-term margin expansion and capacity diversification strategies
- Declared final dividend of HK56 cents translates to 2021 total dividend of HK77 cents, representing a payout ratio of about 87%

* 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 2021, 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 2021

	<i>Notes</i>	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Revenue	4	1,540,608	1,135,880
Cost of sales		<u>(1,223,761)</u>	<u>(934,218)</u>
Gross profit		316,847	201,662
Other income	5	13,597	24,738
Other losses, net	5	(9,066)	(9,225)
Selling and distribution expenses		(41,997)	(36,422)
Administrative expenses		(167,407)	(176,131)
Impairment losses on financial assets, net		(15,679)	(5,942)
Share of profit of a joint venture		6,741	4,676
Share of losses of associates		<u>(60)</u>	<u>(1,218)</u>
Operating profit before changes in fair value of financial instruments		102,976	2,138
Net fair value losses on financial instruments		<u>(25)</u>	<u>(101)</u>
Operating profit after changes in fair value of financial instruments		102,951	2,037
Interest income	5	903	740
Interest expense		<u>(366)</u>	<u>(549)</u>
Profit before tax	6	103,488	2,228
Income tax expense	7	<u>(12,650)</u>	<u>(1,164)</u>
Profit for the year		<u>90,838</u>	<u>1,064</u>

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

For the year ended 31 December 2021

	<i>Note</i>	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		1,409	10,197
Share of other comprehensive (loss)/income of a joint venture and associates		(4)	47
		1,405	10,244
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX			
		1,405	10,244
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
		92,243	11,308
Profit attributable to:			
Owners of the parent		89,694	1,685
Non-controlling interests		1,144	(621)
		90,838	1,064
Total comprehensive income attributable to:			
Owners of the parent		91,314	11,918
Non-controlling interests		929	(610)
		92,243	11,308
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
– Basic (<i>in HK cents</i>)		88.34	1.64
<i>(equivalent to US cents)</i>		11.33	0.21
– Diluted (<i>in HK cents</i>)		88.10	1.64
<i>(equivalent to US cents)</i>		11.30	0.21

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Notes</i>	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		410,258	411,607
Investment properties		4,455	5,009
Right-of-use assets		90,398	45,573
Investment in a joint venture		37,896	31,155
Investments in associates		608	672
Financial assets at fair value through profit or loss		10,000	–
Deposit for acquisition of a subsidiary		–	25,600
Deposits for acquisition of property, plant and equipment		4,241	4,575
Pledged deposits		5,467	–
		<hr/>	<hr/>
Total non-current assets		563,323	524,191
CURRENT ASSETS			
Inventories		226,189	184,998
Trade receivables	<i>10</i>	328,544	265,309
Prepayments, deposits and other receivables		44,919	66,302
Financial assets at fair value through profit or loss		63	88
Cash and cash equivalents		135,170	108,667
		<hr/>	<hr/>
Total current assets		734,885	625,364
CURRENT LIABILITIES			
Trade payables	<i>11</i>	88,624	77,280
Other payables and accruals		124,955	86,909
Interest-bearing bank borrowings		265	2,893
Lease liabilities		4,809	4,438
Tax payable		38,909	38,974
		<hr/>	<hr/>
Total current liabilities		257,562	210,494

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2021

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
NET CURRENT ASSETS	<u>477,323</u>	<u>414,870</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u><u>1,040,646</u></u>	<u><u>939,061</u></u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	7,449	–
Lease liabilities	<u>16,476</u>	<u>15,222</u>
Total non-current liabilities	<u>23,925</u>	<u>15,222</u>
Net assets	<u><u>1,016,721</u></u>	<u><u>923,839</u></u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	10,155	10,165
Share premium and reserves	<u>988,440</u>	<u>914,422</u>
	998,595	924,587
Non-controlling interests	<u>18,126</u>	<u>(748)</u>
Total equity	<u><u>1,016,721</u></u>	<u><u>923,839</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	<i>Notes</i>	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		103,488	2,228
Adjustments for:			
Finance costs		366	549
Share of profit of a joint venture		(6,741)	(4,676)
Share of losses of associates		60	1,218
Interest income	<i>5</i>	(903)	(740)
Loss on disposal of items of property, plant and equipment	<i>6</i>	6,914	4,228
Gain on disposal of leasehold land	<i>6</i>	–	(1,465)
Gain on early termination of leases	<i>6</i>	(118)	(6)
Fair value losses on financial assets at fair value through profit or loss, net	<i>6</i>	25	101
Depreciation of property, plant and equipment	<i>6</i>	48,360	43,114
Depreciation of investment properties	<i>6</i>	835	723
Depreciation of right-of-use assets	<i>6</i>	7,795	6,102
Impairment of trade receivables, net	<i>6</i>	9,619	3,542
Provision for impairment of other receivables, net	<i>6</i>	6,060	2,400
(Write-back)/write-down of inventories, net	<i>6</i>	(3,169)	811
Loss on deregistration of subsidiaries	<i>6</i>	2,167	282
Provision for/(reversal of) equity-settled share option expense		4,398	(123)
		179,156	58,288
Increase in inventories		(39,130)	(12,188)
(Increase)/decrease in trade receivables		(73,156)	27,299
Decrease in prepayments, deposits and other receivables		22,944	62,982
Increase in trade payables		4,970	12,149
Increase in other payables and accruals		38,524	27,060
		133,308	175,590
Cash generated from operations		133,308	175,590
Interest paid		(190)	(258)
Taxes paid		(12,862)	(4,874)
Net cash flows from operating activities		120,256	170,458

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2021

	2021 US\$'000	2020 US\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	903	740
Purchases of items of property, plant and equipment	(52,224)	(49,263)
Additions to investment properties	(170)	(226)
Acquisition of leasehold lands	–	(244)
Acquisition of a subsidiary	(1,400)	(1,744)
Deposits paid for acquisition of property, plant and equipment	(3,483)	(1,828)
Deposit paid for acquisition of a subsidiary	–	(25,600)
Proceeds from disposal of property, plant and equipment	490	4,782
Proceeds from disposal of leasehold lands	–	2,083
Purchases of financial assets at fair value through profit or loss	(10,000)	–
Placement of pledged deposits	(5,467)	–
Net cash flows used in investing activities	<u>(71,351)</u>	<u>(71,300)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	38,659	338,381
Repayment of bank loans	(33,792)	(338,638)
Principal portion of lease payments	(5,609)	(4,479)
Dividends paid	(21,409)	(46,137)
Interest paid	(176)	(291)
Shares repurchased	(1,301)	(740)
Proceeds from issue of shares	1,006	–
Net cash flows used in financing activities	<u>(22,622)</u>	<u>(51,904)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	26,283	47,254
Cash and cash equivalents at beginning of year	108,667	68,061
Effect of foreign exchange rate changes, net	220	(6,648)
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>135,170</u></u>	<u><u>108,667</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	87,368	85,176
Non-pledged time deposits with original maturity of less than three months when acquired	47,802	23,491
Cash and cash equivalents as stated in the statement of cash flows	<u><u>135,170</u></u>	<u><u>108,667</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 Group for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received,

(ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in New Taiwan dollars (“NTD”) based on the NTD Interest Rate Swap (“IRS”) Interest Rate as at 31 December 2021. The Group expects that NTD IRS Interest Rate will continue to exist and the interest rate benchmark reform has not had an impact on the Group's NTD IRS Interest Rate-based borrowings.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

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, fair value losses from the Group's financial instruments, share of profits/(losses) of a joint venture and associates as well as unallocated corporate income, expenses, gains and losses are excluded from such measurement.

Segment assets exclude investments in a joint venture, financial assets at fair value through profit or loss, pledged deposits 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 2021

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Segment revenue <i>(note 4)</i>			
Sales to external customers	1,524,908	15,700	1,540,608
Intersegment sales	<u>11,040</u>	<u>–</u>	<u>11,040</u>
	<u>1,535,948</u>	<u>15,700</u>	<u>1,551,648</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(11,040)</u>
Revenue			<u>1,540,608</u>
Segment results	118,314	(13,843)	104,471
<i>Reconciliation:</i>			
Corporate and other unallocated income and gains			13
Corporate and other unallocated expenses and losses			(8,189)
Share of result of a joint venture			6,741
Share of results of associates			<u>(60)</u>
Operating profit before changes in fair value of financial instruments			102,976
Net fair value losses on financial instruments			<u>(25)</u>
Operating profit after changes in fair value of financial instruments			102,951
Interest income			903
Interest expense			<u>(366)</u>
Profit before tax			<u>103,488</u>
Segment assets	1,213,401	32,031	1,245,432
<i>Reconciliation:</i>			
Corporate and other unallocated assets			<u>52,776</u>
Total assets			<u>1,298,208</u>

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Segment liabilities	276,111	820	276,931
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			<u>4,556</u>
Total liabilities			<u><u>281,487</u></u>
Other segment information			
Share of profit of a joint venture	6,741	–	6,741
Share of losses of associates	–	(60)	(60)
Impairment of trade receivables, net	7,653	1,966	9,619
Loss on disposal of items of property, plant and equipment	6,914	–	6,914
Loss on deregistration of a subsidiary	–	2,167	2,167
Impairment of other receivables, net	6,059	1	6,060
Depreciation of property, plant and equipment	47,726	634	48,360
Depreciation of right-of-use assets	7,529	266	7,795
Write-back of inventories, net	(1,596)	(1,573)	(3,169)
Income tax expense	12,458	192	12,650
Investment in a joint venture	37,896	–	37,896
Investments in associates	–	608	608
Capital expenditure*	<u>55,769</u>	<u>108</u>	<u>55,877</u>

* *Capital expenditure consists of additions to property, plant and equipment, investment properties and deposits for acquisition of property, plant and equipment.*

Year ended 31 December 2020

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Segment revenue (note 4)			
Sales to external customers	1,119,278	16,602	1,135,880
Intersegment sales	<u>12,016</u>	<u>–</u>	<u>12,016</u>
	<u><u>1,131,294</u></u>	<u><u>16,602</u></u>	<u><u>1,147,896</u></u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(12,016)</u>
Revenue			<u><u>1,135,880</u></u>
Segment results	11,092	(9,424)	1,668
<i>Reconciliation:</i>			
Corporate and other unallocated income and gains			98
Corporate and other unallocated expenses and losses			(3,086)
Share of result of a joint venture			4,676
Share of results of associates			<u>(1,218)</u>
Operating profit before changes in fair value of financial instruments			2,138
Net fair value loss on financial instruments			<u>(101)</u>
Operating profit after changes in fair value of financial instruments			2,037
Interest income			740
Interest expense			<u>(549)</u>
Profit before tax			<u><u>2,228</u></u>
Segment assets	1,022,840	41,620	1,064,460
<i>Reconciliation:</i>			
Corporate and other unallocated assets			<u>85,095</u>
Total assets			<u><u>1,149,555</u></u>

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Segment liabilities	172,519	10,874	183,393
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			<u>42,323</u>
Total liabilities			<u><u>225,716</u></u>
Other segment information			
Share of profit of a joint venture	4,676	–	4,676
Share of losses of associates	(1,247)	29	(1,218)
Loss on disposal of items of property, plant and equipment	4,228	–	4,228
Impairment on trade receivables, net	3,653	(111)	3,542
Impairment on other receivables, net	2,396	4	2,400
Loss on deregistration of subsidiaries	282	–	282
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	<u>41,596</u>	<u>9,965</u>	<u>51,561</u>

Geographical information

(a) Revenue from external customers

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
North America	765,257	608,331
Europe	336,866	247,915
The PRC	312,493	185,028
Asia	94,830	70,524
Other countries	31,162	24,082
	<u>1,540,608</u>	<u>1,135,880</u>

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

(b) Non-current assets

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
The PRC	226,258	247,347
Bangladesh	18,616	17,039
Vietnam	159,731	150,951
Indonesia	48,608	26,102
Other countries	94,643	82,752
	<u>547,856</u>	<u>524,191</u>

The non-current asset information above is based on the location of the assets and excludes financial assets and pledged deposits.

Information about major customers

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Derived from the manufacturing segment:		
Customer A	523,463	411,800
Customer B	217,352	164,213
	<u>217,352</u>	<u>164,213</u>

4. REVENUE

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

(i) Disaggregated revenue information

For the year ended 31 December 2021

Segments

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Types of goods			
Sales of footwear and handbag	1,524,908	15,700	1,540,608
Total revenue from contracts with customers	<u>1,524,908</u>	<u>15,700</u>	<u>1,540,608</u>
Geographical markets			
North America	765,257	–	765,257
Europe	333,799	3,067	336,866
The PRC	299,997	12,496	312,493
Asia	94,693	137	94,830
Other countries	31,162	–	31,162
Total revenue from contracts with customers	<u>1,524,908</u>	<u>15,700</u>	<u>1,540,608</u>
Timing of revenue recognition			
Goods transferred at a point in time	1,524,908	15,700	1,540,608
Total revenue from contracts with customers	<u>1,524,908</u>	<u>15,700</u>	<u>1,540,608</u>
Revenue from contracts with customers			
External customers	1,524,908	15,700	1,540,608
Intersegment sales	11,040	–	11,040
Intersegment adjustments and eliminations	<u>1,535,948</u> (11,040)	<u>15,700</u> –	<u>1,551,648</u> (11,040)
Total revenue from contracts with customers	<u>1,524,908</u>	<u>15,700</u>	<u>1,540,608</u>

For the year ended 31 December 2020

Segments

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Types of goods			
Sales of footwear and handbag	1,119,278	16,602	1,135,880
Total revenue from contracts with customers	<u>1,119,278</u>	<u>16,602</u>	<u>1,135,880</u>
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	<u>1,119,278</u>	<u>16,602</u>	<u>1,135,880</u>
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	<u>1,119,278</u>	<u>16,602</u>	<u>1,135,880</u>
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	<u>(12,016)</u>	<u>–</u>	<u>(12,016)</u>
Total revenue from contracts with customers	<u>1,119,278</u>	<u>16,602</u>	<u>1,135,880</u>

(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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
<u>Other income</u>		
Rental income	3,998	3,586
Sales of scrap	1,027	1,750
Government subsidies	4,085	10,319
Others	4,487	9,083
	<u>13,597</u>	<u>24,738</u>
<u>Other losses, net</u>		
Loss on disposal of items of property, plant and equipment	(6,914)	(4,228)
Loss on work stoppage	(197)	(2,766)
Gain on disposal of leasehold land	–	1,465
Gain on early termination of leases	118	6
Loss on deregistration of subsidiaries	(2,167)	(282)
Foreign exchange differences, net	94	(3,420)
	<u>(9,066)</u>	<u>(9,225)</u>
<u>Interest income</u>		
Bank interest income	376	420
Interest income from overdue trade receivables	338	–
Interest income from financial assets at fair value through profit or loss	189	320
	<u>903</u>	<u>740</u>

6. PROFIT BEFORE TAX

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Cost of inventories sold	1,226,930	933,407
Depreciation of property, plant and equipment	48,360	43,114
Depreciation of investment properties	835	723
Depreciation of right-of-use assets	7,795	6,102
Research and development costs	42,381	44,394
Lease payments not included in the measurement of lease liabilities	542	730
Auditors' remuneration	583	564
Employee benefit expenses (excluding directors' and chief executive's remuneration):		
Wages and salaries	372,158	282,361
Provision for/(reversal of) equity-settled share option expense	4,088	(123)
Pension scheme contributions*	122	734
Severance pay and other related costs	5,695	52,452
	<u>382,063</u>	<u>335,424</u>
Impairment of financial assets:		
Provision for impairment of trade receivables, net	9,619	3,542
Provision for impairment of other receivables, net	6,060	2,400
	<u>15,679</u>	<u>5,942</u>
Fair value loss on financial assets at fair value through profit or loss, net	<u>25</u>	<u>101</u>
Loss on deregistration of subsidiaries	2,167	282
(Write-back)/write-down of inventories, net	(3,169)	811
Loss on disposal of items of property, plant and equipment	6,914	4,228
Gain on early termination of leases	(118)	(6)
Foreign exchange differences, net	(94)	3,420
Gain on disposal of leasehold land	–	(1,465)
	<u>–</u>	<u>(1,465)</u>

* *There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.*

7. INCOME TAX

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax (“CIT”) rate of 25% (2020: 25%) during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 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 (2020: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%).

Macau Complementary Tax has been provided at the rate of 12% (2020: 12%) on the 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, was entitled to the exemption of Macau Complementary Tax, which was valid up to 31 December 2020.

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

	2021 US\$'000	2020 US\$'000
Current – PRC		
Charge for the year	8,266	5,548
Underprovision/(overprovision) in prior years	346	(4,634)
Current – Hong Kong		
Charge for the year	33	7
Overprovision in prior years	–	(20)
Current – Macau		
Charge for the year	3,621	–
Current – Elsewhere		
Charge for the year	384	238
Underprovision in prior years	–	25
	<u>12,650</u>	<u>1,164</u>

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:

	2021	2020
	US\$'000	US\$'000
Profit before tax	<u>103,488</u>	<u>2,228</u>
Tax at the statutory tax rate at 25% (2020: 25%)	25,872	557
Lower tax rates for subsidiaries operating in other jurisdictions	(5,838)	1,475
Adjustments in respect of current tax of previous periods	346	(4,629)
Profits and losses attributable to a joint venture and associates	(1,670)	(889)
Income not subject to tax	(7,960)	(2,477)
Expenses not deductible for tax	1,994	6,972
Tax losses utilised from previous periods	(95)	–
Tax losses not recognised	<u>1</u>	<u>155</u>
Income tax expense	<u>12,650</u>	<u>1,164</u>

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 2021, 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\$84,719,000 at 31 December 2021 (2020: US\$49,806,000).

The Group has tax losses arising in Hong Kong of US\$2,536,000 (2020: US\$2,528,000) 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\$19,403,000 (2020: US\$19,784,000) 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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Interim – HK21 cents (2020: Nil) per ordinary share	21,409	–
Final declared and paid – Nil (2020: HK45 cents per ordinary share for 2019)	–	46,137
	<u>21,409</u>	<u>46,137</u>

A final dividend of HK56 cents per share amounting to approximately HK\$444,628,000 (equivalent to US\$56,843,000) in respect of the year ended 31 December 2021 (2020: Nil) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 791,946,897 (2020: 792,999,202) in issue during the year.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2021 and 2020 is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares in issue during the year, as used in the calculation is 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:

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Profit attributable to ordinary equity holder of the parent, used in the basic earnings per share calculation	<u>89,694</u>	<u>1,685</u>
	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	791,946,897	792,999,202
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>1,605,207</u>	<u>3,012</u>
	<u>793,552,104</u>	<u>793,002,214</u>

10. TRADE RECEIVABLES

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Trade receivables	339,082	275,437
Impairment	<u>(10,538)</u>	<u>(10,128)</u>
	<u>328,544</u>	<u>265,309</u>

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 except for certain overdue trade receivables on selected customers at annual interest rate of 5%.

Included in the Group's trade receivables are amounts due from the Group's associates of US\$50,489,000 (2020: US\$57,699,000), with provision for expected credit losses amounting to US\$9,736,000 (2020: US\$2,048,000), 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:

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Within 1 month	141,809	166,522
1 to 2 months	84,689	55,682
2 to 3 months	43,508	20,741
3 to 6 months	23,542	13,014
6 to 12 months	13,880	8,064
Over 1 year	<u>21,116</u>	<u>1,286</u>
	<u>328,544</u>	<u>265,309</u>

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
At beginning of year	10,128	6,742
Impairment losses, net (<i>note 6</i>)	9,619	3,542
Amount written off as uncollectible	<u>(9,209)</u>	<u>(156)</u>
At end of year	<u>10,538</u>	<u>10,128</u>

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:

	<i>Notes</i>	Expected credit loss rate* <i>%</i>	Gross carrying amount <i>US\$'000</i>	Expected credit losses <i>US\$'000</i>
As at 31 December 2021				
Class of credit rating				
Class 1 to Class 3	<i>(i) to (iii)</i>	0.05-0.45	311,666	325
Class 4	<i>(iv)</i>	17.07-36.02	26,874	9,678
Class 5	<i>(v)</i>	92.22-100.00	542	535
Total			339,082	10,538
As at 31 December 2020				
Class of credit rating				
Class 1 to Class 3	<i>(i) to (iii)</i>	0.03-1.04	230,332	–
Class 4	<i>(iv)</i>	0.77	34,853	1,906
Class 5	<i>(v)</i>	60.23-100.00	10,252	8,222
Total			275,437	10,128

* *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:

	2021	2020
	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 month	67,771	59,412
1 to 2 months	12,213	10,991
Over 2 months	8,640	6,877
	<u>88,624</u>	<u>77,280</u>

Included in the trade payables are trade payables of US\$25,924,000 (2020: US\$20,286,000) due to a joint venture which are repayable within 90 days, which represents 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

2021 was a year of investment and recovery for Stella. We saw a strong bounce back in revenue, with confidence among our brand customers rapidly improving and seasonality becoming more normal.

Operations at our factories also stabilised. Because of our location, we were lucky to avoid many of the COVID-19 restrictions reimposed in the south of Vietnam in the second half of the year. This allowed us to deepen our relationship with several major customers. At the same time, we took full advantage of the internal changes we made in 2020 to enhance the operation and management of our business.

Each of these factors enabled a strong recovery in our profitability. As a result, I am pleased to share that the Board has resolved to declare a final dividend of HK56 cents per ordinary share. On top of the earlier declared interim dividend of HK21 cents per ordinary share, this represents a full-year dividend of HK77 cents.

We continued to smoothly progress our long-term margin-accretive strategies: increasing capacity in line with demand, enhancing our customer portfolio and increasing operational efficiency. We also completed another major milestone – the completion of our management transition. This has optimally aligned our incentive structure with the interests of our shareholders. It will therefore better facilitate the execution of our long-term strategic plans and our ability to deliver greater shareholder value.

2022 will be another busy and important year for us. Long-term manufacturing capacity expansion remains our key focus. We will continue to ramp up our new manufacturing facility in Solo, Indonesia, which will add significant capacity from 2023 onwards. We also just entered into a long-term agreement with our largest customer to build an exclusive factory in another part of Indonesia. This demonstrated the commitment of both of our companies to grow together well into the future.

We will also continue to focus on strengthening our Sports and Luxury footwear businesses, while maintaining our strong relationships with key customers in other categories. There is still huge growth potential in the athleisure market, particularly at the high-end. We are partnering with more luxury brands to develop their sports-fashion footwear lines, which will provide a broader base of lucrative growth in the future.

For these reasons, we are optimistic about the future of our business and our ability to deliver sustainable returns to our shareholders. While we remain mindful of ongoing short-to-medium-term risks, including supply chain volatility and the progression of the COVID-19 pandemic, especially in Southeast Asia, we will continue to push forward with our growth strategies.

On behalf of the Board, I would like to take this opportunity to thank our customers, business partners, employees and shareholders for their incredible support in 2021.

Chen Li-Ming, Lawrence

Chairman

Hong Kong, 17 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We saw a strong bounce back in profit in the year ended 31 December 2021 alongside a strong recovery in orders as the year progressed. Our manufacturing facilities across China and Southeast Asia also operated at full capacity throughout the year, including those located in Northern Vietnam. We also bolstered our relationship with some major customers by helping them address the challenges they faced when the south of Vietnam was affected by the large wave of COVID-19 infections in the third and fourth quarters of 2021.

This contrasted sharply to 2020, during which demand for our products and the operations of our production facilities were severely impacted by the COVID-19 pandemic, especially in the first half of that year.

We focused on implementing our margin-expansion strategy, including capitalising on business opportunities that match our unique capabilities, particularly in the Sports and Luxury footwear segments, which allowed us to improve our product and customer mix in 2021. We also started to benefit from our efforts to centralise and consolidate our R&D centres and internal management structure in order to boost our operational efficiency. Furthermore, we recently took steps to align our management incentive structure with the interests of our shareholders to better facilitate the execution of our long-term strategic plans and deliver greater shareholder value. Our capacity expansion initiatives continued to remain on track with our new factory in Solo, Indonesia commencing operations in the fourth quarter of 2021 although its operations are yet to be fully ramped up.

In October 2021, we became a strategic investor in the Lanvin Group (formerly known as Fosun Fashion Group). This placed us in an unparalleled position to become its preferred manufacturing partner of its upcoming luxury footwear lines under its various high-end luxury brands. This is also an example of how we remain one of the very few manufacturers globally that can efficiently produce highly complex footwear models that cross sports, fashion and luxury styles and require a high standard of craftsmanship, complicated production processes, and strong technical know-how – attributes that are difficult to emulate.

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 2021 are as below:

Revenue

The Group's consolidated revenue for the year increased by 35.6% to US\$1,540.6 million (2020: US\$1,135.9 million), while shipment volumes for the year rose by 28.5% to 55.8 million pairs (2020: 43.4 million pairs). The increase in revenue and shipment volumes was mostly attributed to a recovery of orders across all product categories. The average selling price ("ASP") of our footwear products for the year increased to US\$27.1 per pair (2020: US\$25.7 per pair) as a result of changes in our customer mix and product mix.

In terms of product category, demand for our Sports category, one of our main growth drivers, increased by 28.7% on a like-for-like basis and accounted for 40.0% of total manufacturing revenue (2020: 42.3%). Revenue attributed to our Luxury category, where we also see a lot of future growth potential, increased by 137.2% year-on-year albeit from a very low base, accounting for 10.4% of total manufacturing revenue (2020: 5.9%).

Demand for our Casual and Fashion footwear categories recovered in 2021 as demand continued to normalise, increasing by 30.4% and 27.9% year-on-year and accounting for 34.1% (2020: 35.4%) and 15.5% (2020: 16.4%) of total manufacturing revenue respectively.

Geographically, North America and Europe remain our two largest markets, accounting for 49.7% and 21.9% of our total revenue during the year under review. This was followed by the PRC (including Hong Kong), which accounted for 20.3%, Asia (other than the PRC), which accounted for 6.1% and other geographic regions, which accounted for 2.0%.

Revenue attributed to our branding business (which consists of our retail business in Europe and the wholesale business for our own branded footwear *Stella Luna*) decreased by 5.4% to US\$15.7 million during the year under review due to a weak operating environment with physical retail channels in Europe only starting to recover from the pandemic.

Gross profit

Our gross profit for the year under review increased by 57.1% to US\$316.8 million (2020: US\$201.7 million). Our gross profit margin increased to 20.6% (2020: 17.8%), which was mostly attributable to changes to our customer and product mix. Our focus on growing our Luxury segment helped expand our gross profit margin.

Operating profit

Our reported operating profit¹ for the year under review increased to US\$103.0 million (2020: US\$2.1 million). This increase was supported by the year-long recovery in revenue and shipment volumes, better operating leverage and increased production efficiency at some divisions. This was partially offset by higher product development costs related to our new Luxury customers (who are seeking new styles and complex products), costs associated with exiting customers to enhance our customer portfolio, and one-off costs that amount to US\$5.7 million (mainly severance payments related to factory closures).

¹ Reported operating profit is the Group's operating profit before changes in fair value of financial instruments.

Net results

Our effective tax rate has increased after our exemption to the Macau Complementary Tax expired on 1 January 2021, increasing the tax exposure of one of our wholly-owned subsidiaries to 12%. For more details, see Note 7 to our consolidated financial statements.

Due to the factors outlined above, the Group recorded a net profit of US\$90.8 million (2020: US\$1.1 million) for the year ended 31 December 2021.

Continued focus on credit risk and cash flow management to safeguard our financial position

We continuously assess the credit risk of our customer portfolio to reduce our risk exposure. As a result of our dedicated efforts in managing credit risk and cash flow, we posted a net cash position of US\$127.5 million as at 31 December 2021, compared to a net cash position of US\$105.8 million as at 31 December 2020. Therefore, the Group's net gearing ratio² was -12.5%, as at 31 December 2021 compared to -11.5% as at 31 December 2020.

Outlook

Orders for the upcoming Spring and Summer 2022 seasons are robust and we are positive about the outlook for the remainder of 2022. This will likely lead us to operate at full capacity and utilisation in 2022. That said, we are expanding manufacturing capacity at our existing production locations and ramping up our new manufacturing facility in Solo, Indonesia, which will add significant capacity from 2023.

Despite these constraints, we expect to continue expanding our profitability through an improved product and customer mix and by benefiting from even better operational efficiency via our new centralised production structure under our new management team. At the same time, we will continue to closely monitor potential headwinds, particularly the COVID-19 situation in Southeast Asia and the PRC, and will take measures to minimise the impact accordingly. Furthermore, the global shortage of shipping containers will have an impact on raw material shipments to our Southeast Asia factories. To counter this, we will ship raw materials ahead of our normal schedule and hold more raw materials as inventory to ensure smooth production.

In 2022, we will remain primarily focused on achieving long-term profitable and sustainable long-term growth. Our Sports footwear category will remain our main growth driver, in addition to the high-potential Luxury category that will continue to grow from a low base. With demand for our Casual and Fashion footwear continuing to recover, we expect the overall ASP of our total shipment in 2022 to be similar as in 2021.

² Net gearing ratio = net debt/shareholder equity.

We will continue to pursue promising growth opportunities that match our business model and proven R&D and commercialisation capabilities, particularly those in the Sports and Luxury product categories. This includes serving an increasing number of Luxury and Fashion brand customers who are seeking to launch new products that follow the footsteps of major sportswear brands for whom limited edition/collectable product lines and cross-brand collaborations have become a big growth driver. As these new customers continue to grow in this new product area, we expect its benefits will be reflected in our future performance.

2022 will also be a significant investment year. In addition to the new facility that we are ramping up in Solo, Indonesia, we recently entered into a new long-term agreement with our largest customer to invest over US\$120 million – Stella’s largest-ever single investment – to build and operate a new manufacturing facility in another part of Indonesia. Upon completion, it is expected to expand our capacity by an additional 15 million pairs. This project will be a major source of future growth and reflects the long-term commitment between Stella and this customer in recognition of our unparalleled capabilities, unique strengths and differentiation.

We are also continuing to pursue lateral growth opportunities through our handbag business with this segment expected to start contributing marginal operating profit in 2022. We will focus on enhancing the product quality and operational efficiency of this business, while gradually introducing it to our high-end customer base. However, it will take some time for our handbag business to meaningfully contribute to our overall business.

We also remain committed to further developing our branding business with a view of adopting a more omnichannel model to adapt to the new post-pandemic retail environment.

By capitalising on each of the initiatives above, we will continue to create value and generate higher returns for our shareholders.

Cash Return to Shareholders

As we work towards implementing these strategies and fully capitalising on the above trends, we remain committed to returning profit to shareholders and providing attractive shareholder returns. After considering the Group’s strong free cash flow generation in 2021 and net cash position as at 31 December 2021, the Board has resolved to declare a final dividend of HK56 cents, representing a full-year dividend of HK77 cents per ordinary share which translated to a payout ratio of 87% for the year under review, a higher than our normal 70% payout ratio.

In addition, we have continued to take advantage of the price volatility in equity markets to repurchase 1,064,500 outstanding shares at the weighted average price of HK\$9.49 per share during the year under review.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2021, the Group had cash and cash equivalents of approximately US\$135.2 million (31 December 2020: US\$108.7 million).

During the year under review, cash generated from operations was US\$120.3 million (2020: US\$170.5 million), representing a decrease of 29.4%, as the Group increased working capital usage from its business recovery.

Net cash outflows used in investing activities were US\$71.4 million during the year under review (2020: US\$71.3 million), representing an increase of 0.1%. Capital expenditure amounted to approximately US\$55.9 million during the year under review (2020: US\$51.6 million).

As at 31 December 2021, the Group had current assets of approximately US\$734.9 million (31 December 2020: US\$625.4 million) and current liabilities of approximately US\$257.6 million (31 December 2020: US\$210.5 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.9 as at 31 December 2021 (31 December 2020: 3.0), an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US\$7.7 million as at 31 December 2021 (31 December 2020: US\$2.9 million).

The Group maintained a net cash position of US\$127.5 million as at 31 December 2021 (31 December 2020: US\$105.8 million). Therefore, the Group's net gearing ratio² was -12.5% as at 31 December 2021 compared to -11.5% as at 31 December 2020.

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 2021, the Group had pledged US\$11.4 million of its assets (31 December 2020: US\$5.8 million).

² Net gearing ratio = net debt/shareholder equity.

Contingent Liabilities

As at 31 December 2021, the Group had no contingent liabilities (31 December 2020: 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.

Employees

As at 31 December 2021, the Group had approximately 42,500 employees (31 December 2020: approximately 37,200). 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 Programme" 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2022 to 12 May 2022 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting of the Company to be held on 12 May 2022, 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 5 May 2022.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the code provisions and, where appropriate, adopted the recommended best practices set out in 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 (the “Stock Exchange”) throughout the year ended 31 December 2021, with the following exception:

Code Provision F.2.2

Due to personal reason, Mr. Chen Li-Ming, Lawrence, the chairman of the Board, was not able to attend the annual general meeting held on 13 May 2021 (the “2021 AGM”), Mr. Chan Fu Keung, William, the chairman of the Remuneration Committee and member of the Audit Committee, the Corporate Governance Committee and the Nomination Committee attended the 2021 AGM in his absence. In addition, members of the senior management and Ernst & Young, the Company’s external auditor, had attended the 2021 AGM to answer shareholders’ questions.

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 2021.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2021.

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 2021 as set out in this 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 this preliminary announcement.

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

At the annual general meeting held on 13 May 2021, 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 2021	Number of ordinary shares repurchased	Consideration per shares		Aggregate consideration paid <i>HK\$ million</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
January	8,500	9.00	9.00	0.08
May	458,000	9.49	9.46	4.35
June	598,000	9.49	9.38	5.67

The repurchased shares were cancelled on 23 June 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, 17 March 2022

As at the date of this announcement, the executive Directors are Mr. Chen Li-Ming, Lawrence, Mr. Chi Lo-Jen, Mr. Gillman Charles Christopher and Mr. Chiang Yi-Min, Harvey; 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.