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 2022

Highlights:

– Revenue increased by 5.9% to US$1,630.8 million with support from 5.2% growth in average selling price

– Continued enhancement to customer portfolio, led by Fashion and Sports categories

– Operating profit increased by 30.9% to US$134.8 million

– Operating profit margin increased to 8.3%, a growth of 1.6 percentage point compared to that of last year

– Net profit increased by 29.1% to US$117.2 million

– Strong net cash position reached US$206.1 million, with an increase of 61.6% year-on-year

– Continued investment in Indonesia as part of capacity expansion and diversification strategy

– Declared final dividend of HK45 cents, leading to an annual dividend of HK87 cents per share

* *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 2022, 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 2022

	Notes	**2022** **US$'000**	2021 *US$'000*
Revenue	*4*	**1,630,771**	1,540,608
Cost of sales		**(1,278,644)**	(1,223,761)
Gross profit		**352,127**	316,847
Other income	*5*	**11,361**	13,597
Other losses, net	*5*	**(15,263)**	(9,066)
Selling and distribution expenses		**(44,743)**	(41,997)
Administrative expenses		**(157,174)**	(167,407)
Impairment losses on financial assets, net		**(16,022)**	(15,679)
Share of profit of a joint venture		**4,553**	6,741
Share of losses of associates		**(84)**	(60)
Operating profit before changes in fair value of financial instruments		**134,755**	102,976
Net fair value loss on financial instruments		**(2,281)**	(25)
Operating profit after changes in fair value of financial instruments		**132,474**	102,951
Interest income	*5*	**1,665**	903
Interest expense		**(944)**	(366)
Profit before tax	*6*	**133,195**	103,488
Income tax expense	*7*	**(16,008)**	(12,650)
Profit for the year		**117,187**	90,838

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

For the year ended 31 December 2022

	Note	**2022**	2021
		US$'000	*US$'000*
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(24,650)**	1,409
Share of other comprehensive loss of an associate		**–**	(4)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(24,650)**	1,405
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**92,537**	92,243
Profit attributable to:			
Owners of the parent		**118,033**	89,694
Non-controlling interests		**(846)**	1,144
		117,187	90,838
Total comprehensive income attributable to:			
Owners of the parent		**93,575**	91,314
Non-controlling interests		**(1,038)**	929
		92,537	92,243
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
– Basic *(in HK dollar)*		**1.1667**	0.8834
(equivalent to US dollar)		**0.1490**	0.1133
– Diluted *(in HK dollar)*		**1.1667**	0.8810
(equivalent to US dollar)		**0.1490**	0.1130

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 US$'000	2021 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**379,098**	410,258
Investment properties		**3,265**	4,455
Right-of-use assets		**79,684**	90,398
Investment in a joint venture		**42,449**	37,896
Investments in associates		**524**	608
Financial assets at fair value through profit or loss		**10,723**	10,000
Deposits for acquisition of property, plant and equipment and leasehold land		**16,367**	4,241
Pledged deposits		**–**	5,467
Total non-current assets		**532,110**	563,323
CURRENT ASSETS			
Inventories		**188,752**	226,189
Trade receivables	*10*	**264,532**	328,544
Prepayments, deposits and other receivables		**53,843**	44,919
Financial assets at fair value through profit or loss		**59**	63
Pledged deposits		**5,484**	–
Cash and cash equivalents		**213,303**	135,170
Total current assets		**725,973**	734,885
CURRENT LIABILITIES			
Trade payables	*11*	**66,463**	88,624
Other payables and accruals		**107,785**	124,955
Interest-bearing bank borrowings		**5,117**	265
Lease liabilities		**4,337**	4,809
Tax payable		**36,167**	38,909
Total current liabilities		**219,869**	257,562

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2022

	2022	2021
	US$'000	*US$'000*
NET CURRENT ASSETS	**506,104**	477,323
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,038,214**	1,040,646
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**2,110**	7,449
Lease liabilities	**10,602**	16,476
Deferred tax liabilities	**9,553**	–
Total non-current liabilities	**22,265**	23,925
Net assets	**1,015,949**	1,016,721
EQUITY		
Equity attributable to owners of the parent		
Share capital	**10,155**	10,155
Share premium and reserves	**988,706**	988,440
	998,861	998,595
Non-controlling interests	**17,088**	18,126
Total equity	**1,015,949**	1,016,721

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	**2022** **US$'000**	2021 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**133,195**	103,488
Adjustments for:			
Finance costs		**944**	366
Share of profit of a joint venture		**(4,553)**	(6,741)
Share of losses of associates		**84**	60
Interest income	*5*	**(1,665)**	(903)
Loss on disposal of items of property, plant and equipment	*6*	**10,572**	6,914
Gain on early termination of leases	*6*	**–**	(118)
Fair value losses on financial assets at fair value through profit or loss, net	*6*	**2,281**	25
Depreciation of property, plant and equipment	*6*	**45,279**	48,360
Depreciation of investment properties	*6*	**837**	835
Depreciation of right-of-use assets	*6*	**10,278**	7,795
Impairment of trade receivables, net	*6*	**15,072**	9,619
Impairment of other receivables, net	*6*	**950**	6,060
Write-back of inventories, net	*6*	**(460)**	(3,169)
(Gain)/loss on deregistration of subsidiaries	*6*	**(208)**	2,167
Provision for equity-settled share option expense		**5,821**	4,398
		218,427	179,156
Decrease/(increase) in inventories		**37,892**	(39,130)
Decrease/(increase) in trade receivables		**46,944**	(73,156)
(Increase)/decrease in prepayments, deposits and other receivables		**(24,153)**	22,944
(Decrease)/increase in trade payables		**(19,317)**	4,970
(Decrease)/increase in other payables and accruals		**(10,485)**	38,524
Cash generated from operations		**249,308**	133,308
Interest paid		**(693)**	(190)
Taxes paid		**(8,539)**	(12,862)
Net cash flows from operating activities		**240,076**	120,256

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2022

	2022	2021
	US$'000	*US$'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**1,665**	903
Purchases of items of property, plant and equipment	**(45,267)**	(52,224)
Additions to investment properties	**–**	(170)
Acquisition of a subsidiary	**–**	(1,400)
Deposits paid for acquisition of property, plant and equipment and leasehold land	**(12,665)**	(3,483)
Proceeds from disposal of property, plant and equipment	**5,510**	490
Purchases of financial assets at fair value through profit or loss	**(3,000)**	(10,000)
Placement of pledged deposits	**(17)**	(5,467)
Net cash flows used in investing activities	**(53,774)**	(71,351)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**92,237**	38,659
Repayment of bank loans	**(92,456)**	(33,792)
Principal portion of lease payments	**(6,812)**	(5,609)
Dividends paid	**(99,130)**	(21,409)
Interest paid	**(251)**	(176)
Shares repurchased	**–**	(1,301)
Proceeds from issue of shares	**–**	1,006
Net cash flows used in financing activities	**(106,412)**	(22,622)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**79,890**	26,283
Cash and cash equivalents at beginning of year	**135,170**	108,667
Effect of foreign exchange rate changes, net	**(1,757)**	220
CASH AND CASH EQUIVALENTS AT END OF YEAR	**213,303**	135,170
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**68,651**	87,368
Non-pledged time deposits with original maturity of less than three months when acquired	**144,652**	47,802
Cash and cash equivalents as stated in the consolidated statement of financial position	**213,303**	135,170

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. BASIS OF PREPARATION

These 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 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

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

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

– the retailing and wholesaling segment engages in the sale of products 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 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 unallocated 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 2022

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Segment revenue *(note 4)*			
Sales to external customers	**1,620,045**	**10,726**	**1,630,771**
Intersegment sales	**7,128**	**–**	**7,128**
	1,627,173	**10,726**	**1,637,899**
Reconciliation:			
Elimination of intersegment sales			**(7,128)**
Revenue			**1,630,771**
Segment results	**162,141**	**(20,973)**	**141,168**
Reconciliation:			
Corporate and other unallocated income and gains			**506**
Corporate and other unallocated expenses and losses			**(11,388)**
Share of result of a joint venture			**4,553**
Share of result of associates			**(84)**
Operating profit before changes in fair value of financial instruments			**134,755**
Net fair value loss on financial instruments			**(2,281)**
Operating profit after changes in fair value of financial instruments			**132,474**
Interest income			**1,665**
Interest expense			**(944)**
Profit before tax			**133,195**

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Segment assets	**1,209,631**	**28,221**	**1,237,852**
Reconciliation:			
Corporate and other unallocated assets			**20,231**
Total assets			**1,258,083**
Segment liabilities	**237,843**	**269**	**238,112**
Reconciliation:			
Corporate and other unallocated liabilities			**4,022**
Total liabilities			**242,134**
Other segment information			
Share of profit of a joint venture	**4,553**	**–**	**4,553**
Share of loss of associates	**–**	**(84)**	**(84)**
Impairment of trade receivables, net	**2,905**	**12,167**	**15,072**
Loss on disposal of items of property, plant and equipment	**10,572**	**–**	**10,572**
Impairment of other receivables, net	**950**	**–**	**950**
Depreciation of property, plant and equipment	**44,860**	**419**	**45,279**
Depreciation of right-of-use assets	**10,118**	**160**	**10,278**
Write-back of inventories, net	**(443)**	**(17)**	**(460)**
Income tax expense	**15,488**	**520**	**16,008**
Investment in a joint venture	**42,449**	**–**	**42,449**
Investments in associates	**–**	**524**	**524**
Capital expenditure*	**57,821**	**111**	**57,932**

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

Year ended 31 December 2021

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

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Segment liabilities	276,111	820	276,931
Reconciliation:			
Corporate and other unallocated liabilities			4,556
Total liabilities			281,487
Other segment information			
Share of profit of a joint venture	6,741	–	6,741
Share of loss 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*	55,769	108	55,877

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

Geographical information

(a) Revenue from external customers

	2022 ***US$'000***	2021 *US$'000*
North America	**836,053**	765,257
Europe	**393,771**	336,866
The PRC	**220,883**	312,493
Asia, other than the PRC	**133,963**	94,830
Other countries	**46,101**	31,162
	1,630,771	1,540,608

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

(b) Non-current assets

	2022	2021
	US$'000	*US$'000*
The PRC	**187,194**	226,258
Bangladesh	**18,538**	18,616
Vietnam	**152,904**	159,731
Indonesia	**87,434**	48,608
Other countries	**75,317**	94,643
	521,387	547,856

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

Information about major customers

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

	2022	2021
	US$'000	*US$'000*
Derived from the manufacturing segment:		
Customer A	**563,618**	523,463
Customer B	**–***	217,352

* *Revenue from the customer did not exceed 10% of total revenue in this respective year.*

4. REVENUE

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

(i) Disaggregated revenue information

For the year ended 31 December 2022

Segments

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Types of goods			
Sales of footwear and handbag	**1,620,045**	**10,726**	**1,630,771**
Total revenue from contracts with customers	**1,620,045**	**10,726**	**1,630,771**
Geographical markets			
North America	**836,053**	**–**	**836,053**
Europe	**391,326**	**2,445**	**393,771**
The PRC	**212,603**	**8,280**	**220,883**
Asia, other than the PRC	**133,963**	**–**	**133,963**
Other countries	**46,100**	**1**	**46,101**
Total revenue from contracts with customers	**1,620,045**	**10,726**	**1,630,771**
Timing of revenue recognition			
Goods transferred at a point in time	**1,620,045**	**10,726**	**1,630,771**
Total revenue from contracts with customers	**1,620,045**	**10,726**	**1,630,771**
Revenue from contracts with customers			
External customers	**1,620,045**	**10,726**	**1,630,771**
Intersegment sales	**7,128**	**–**	**7,128**
	1,627,173	**10,726**	**1,637,899**
Intersegment adjustments and eliminations	**(7,128)**	**–**	**(7,128)**
Total revenue from contracts with customers	**1,620,045**	**10,726**	**1,630,771**

For the year ended 31 December 2021

Segments

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Types of goods			
Sales of footwear and handbag	1,524,908	15,700	1,540,608
Total revenue from contracts with customers	1,524,908	15,700	1,540,608
Geographical markets			
North America	765,257	–	765,257
Europe	333,799	3,067	336,866
The PRC	299,997	12,496	312,493
Asia, other than the PRC	94,693	137	94,830
Other countries	31,162	–	31,162
Total revenue from contracts with customers	1,524,908	15,700	1,540,608
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	1,524,908	15,700	1,540,608
Revenue from contracts with customers			
External customers	1,524,908	15,700	1,540,608
Intersegment sales	11,040	–	11,040
	1,535,948	15,700	1,551,648
Intersegment adjustments and eliminations	(11,040)	–	(11,040)
Total revenue from contracts with customers	1,524,908	15,700	1,540,608

(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. Standard payment terms are generally 30 days and selected payment terms for customers are up to 90 days from delivery, except for new customers, where payment in advance is normally required.

5. OTHER INCOME, OTHER LOSSES, NET AND INTEREST INCOME

	2022	2021
	US$'000	*US$'000*
Other income		
Rental income	**3,581**	3,998
Sales of scrap	**528**	1,027
Government subsidies	**3,423**	4,085
Others	**3,829**	4,487
	11,361	13,597
Other losses, net		
Gain/(loss) on deregistration of subsidiaries	**208**	(2,167)
Loss on disposal of items of property, plant and equipment	**(10,572)**	(6,914)
Loss on work stoppage	**(6,758)**	(197)
Gain on early termination of leases	**–**	118
Foreign exchange differences, net	**1,859**	94
	(15,263)	(9,066)
Interest income		
Bank interest income	**1,198**	376
Interest income from overdue trade receivables	**235**	338
Interest income from financial assets at fair value through profit or loss	**232**	189
	1,665	903

6. PROFIT BEFORE TAX

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

	Notes	**2022**	2021
		US$'000	*US$'000*
Cost of inventories sold		**1,279,104**	1,226,930
Depreciation of property, plant and equipment		**45,279**	48,360
Depreciation of investment properties		**837**	835
Depreciation of right-of-use assets		**10,278**	7,795
Research and development costs		**40,252**	42,381
Lease payments not included in the measurement of lease liabilities		**334**	542
Auditors' remuneration		**607**	583
Employee benefit expenses (excluding directors' and chief executive's remuneration):			
Wages and salaries		**392,251**	372,158
Provision for equity-settled share option expense		**4,746**	4,088
Pension scheme contributions*		**120**	122
Severance pay and other related costs		**7,362**	5,695
		404,479	382,063
Impairment of financial assets:			
Provision for impairment of trade receivables, net	*10*	**15,072**	9,619
Provision for impairment of other receivables, net		**950**	6,060
		16,022	15,679
Fair value loss on financial assets at fair value through profit or loss, net		**2,281**	25
(Gain)/loss on deregistration of subsidiaries		**(208)**	2,167
Loss on disposal of items of property, plant and equipment		**10,572**	6,914
Write-back of provision against inventories, net		**(460)**	(3,169)
Gain on early termination of leases		**–**	(118)
Foreign exchange differences, net		**(1,859)**	(94)

* *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 Mainland China has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2021: 25%) during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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 (2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%).

Macau Complementary Tax has been provided at the rate of 12% (2021: 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.

As approved by the relevant tax authorities in Vietnam, certain subsidiaries of the Company are entitled to two to four years' exemption from income taxes followed by four to nine years of a 50% tax reduction based on preferential income tax rates, commencing from the first profitable year. The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% for both years.

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

	2022	2021
	US$'000	*US$'000*
Current – PRC		
Charge for the year	**11,974**	8,266
(Overprovision)/underprovision in prior years	**(12,126)**	346
Current – Hong Kong		
Charge for the year	**212**	33
Current – Macau		
Charge for the year	**5,792**	3,621
Current – Elsewhere		
Charge for the year	**603**	384
	6,455	12,650
Deferred tax		
– Withholding tax on undistributed profits	**9,553**	–
	16,008	12,650

A reconciliation of the tax expense applicable to profit before tax at the PRC statutory rates for the jurisdictions in which the majority of its subsidiaries are domiciled, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the income tax expense, are as follows:

	2022	2021
	US$'000	*US$'000*
Profit before tax	**133,195**	103,488
Tax at the statutory tax rate at 25% (2021: 25%)	**33,299**	25,872
Lower tax rates for subsidiaries operating in other jurisdictions	**(14,832)**	(5,838)
Adjustments in respect of current tax of previous periods	**(12,126)**	346
Profits and losses attributable to a joint venture and associates	**(1,117)**	(1,670)
Income not subject to tax	**(1,819)**	(7,960)
Expenses not deductible for tax	**1,496**	1,994
Tax losses utilised from previous periods	**–**	(95)
Tax losses not recognised	**1,554**	1
Effect of withholding tax at 10% on the distributable profits of certain subsidiaries	**9,553**	–
Income tax expense	**16,008**	12,650

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.

By the end of 31 December 2021, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings of approximately US$84,719,000 that are subject to withholding taxes of certain subsidiaries of the Group. In the opinion of the directors of the Company, it was not probable that these subsidiaries will distribute earnings arising from 1 January 2008 to 31 December 2021 in the foreseeable future.

During the year ended 31 December 2022, in the opinion of the directors, a proposed changes in business plan involving the probable distribution of the unremitted earnings from certain subsidiaries in the foreseeable future. As at 31 December 2022, deferred tax liabilities of US$9,553,000 has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain subsidiaries of the Group.

8. DIVIDENDS

	2022	2021
	US$'000	*US$'000*
Final declared and paid – HK56 cents (2021: Nil) per ordinary share	**56,646**	–
Interim – HK42 cents (2021: HK21 cents) per ordinary share	**42,484**	21,409
	99,130	21,409

A final dividend of HK45 cents per share amounting to approximately HK$357,290,000 (equivalent to US$45,520,000) in respect of the year ended 31 December 2022 (2021: HK$444,628,000 (equivalent to US$56,646,000)) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares, excluding a pool of shares maintained by a trustee, of 792,200,500 (2021: 791,946,897) in issue during the year.

The calculation of the diluted earnings per share amounts for the year ended 31 December 2021 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 share options granted to directors, employees and consultants had no dilutive effect during the year ended 31 December 2022 because the exercise price of the share options granted was higher than the average market price of the Company's shares during the year.

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

	2022	2021
	US$'000	*US$'000*
Profit attributable to ordinary equity holder of the parent, used in the basic and diluted earnings per share calculations	**118,033**	89,694

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**792,200,500**	791,946,897
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	1,605,207
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**792,200,500**	793,552,104

10. TRADE RECEIVABLES

	2022	2021
	US$'000	*US$'000*
Trade receivables	**289,451**	339,082
Impairment	**(24,919)**	(10,538)
	264,532	328,544

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 gross trade receivables are amounts due from the Group's associates of US$37,274,000 (2021: US$60,225,000), with provision of expected credit losses amounting to US$23,928,000 (2021: US$9,736,000), 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:

	2022 *US$'000*	2021 *US$'000*
Within 1 month	**111,235**	141,809
1 to 2 months	**72,686**	84,689
2 to 3 months	**44,763**	43,508
3 to 6 months	**20,857**	23,542
6 to 12 months	**9,049**	13,880
Over 1 year	**5,942**	21,116
	264,532	328,544

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

	2022 *US$'000*	2021 *US$'000*
At beginning of year	**10,538**	10,128
Impairment losses, net *(note 6)*	**15,072**	9,619
Amounts written off as uncollectible	**(691)**	(9,209)
At end of year	**24,919**	10,538

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:

	Notes	**Expected credit loss rate*** **%**	**Gross carrying amount** ***US$'000***	**Expected credit losses** ***US$'000***
As at 31 December 2022				
Class of credit rating				
Class 1 to Class 3	*(i) to (iii)*	**0.07-12.76**	**251,483**	**3,285**
Class 4	*(iv)*	**54.59-87.52**	**37,950**	**21,616**
Class 5	*(v)*	**100.00**	**18**	**18**
Total			**289,451**	**24,919**
As at 31 December 2021				
Class of credit rating				
Class 1 to Class 3	*(i) to (iii)*	0.05-0.45	311,666	325
Class 4	*(iv)*	17.07-36.02	26,874	9,678
Class 5	*(v)*	92.22-100.00	542	535
Total			339,082	10,538

* *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:

	2022	2021
	US$'000	*US$'000*
Within 1 month	**55,463**	67,771
1 to 2 months	**5,817**	12,213
Over 2 months	**5,183**	8,640
	66,463	88,624

Included in the trade payables are trade payables of US$29,586,000 (2021: US$25,924,000) 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

2022 was more challenging than anticipated. Sudden geopolitical events compounded an already inflationary post-pandemic business environment, impacting consumer sentiment and catching some of our brand customers off guard.

Still, we navigated these challenges well as we continued to implement our growth strategies and improve our product and customer mix. We delivered higher gross and operating profit margins despite flat year-on-year volume growth and moderate revenue growth.

The success we have had in increasing our profitability is convincing proof that we are on the right path to secure future growth in profitability and returns for our shareholders. But there is scope for us to push these even further. We are moving forward with a new three-year plan that will see us further enhance our product category mix to align with our unique strengths and capabilities, continue to diversify our manufacturing footprint, optimise our management effectiveness and efficiency, strengthen our cost efficiency, improve working capital, and increase operational efficiency.

During our Three-Year Plan (2023-2025), our goals are to achieve an operating margin of 10% and low-teens annualised growth rate on profit after tax.

We believe these are highly achievable targets even in the face of escalating headwinds in 2023. Consumer sentiment overall in North America and Europe may remain subdued while some of our Sports and Casual segments will continue to face inventory pressures. Yet, our strategic direction appears sound with our Luxury and high-end Fashion customers seeing expanded sales in 2022 when recession risk in western markets was even more acute. Our customers’ prospects will be further supported by the recent re-opening of the Chinese border.

Although it will still take a little more time for the new customers we have recently added in our Luxury, high-end Fashion and Sports segments to ramp up their order, the expansion of our manufacturing base will be well-timed to cater for it. The development of our new manufacturing facility in Solo, Indonesia, remains on track and is contributing to our operational competitiveness. Together with a major brand name partner, we are preparing the way for our third manufacturing facility in Indonesia. We are also expanding capacity at our other manufacturing facilities, particularly in Bangladesh. Each of these steps will be integral for securing our cost base and diversifying away from China and Vietnam.

All in all, we are optimistic about our medium and long-term profitability growth, as well as our shorter-term ability to continue delivering strong margins and profitability in 2023 despite a likely full-year decline in volumes.

I am pleased to announce a final dividend of HK45 cents per ordinary share, bringing our full-year dividend to HK87 cents per ordinary share. This represents about 75% of dividend payout ratio, which is in line with our long-standing dividend policy.

On behalf of the Board, I would like to take this opportunity to thank our customers, business partners, employees and shareholders for their unflinching and valued support in 2022.

Chen Li-Ming, Lawrence
Chairman
Hong Kong, 16 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Business Strategies

We have adopted a margin-accretive business model within our footwear manufacturing business by being highly responsive to growth opportunities in the footwear market, particularly those arising from the booming 'athleisure' trend being led by major Sports brands and into which more and more Luxury and Fashion brands are seeking to enter.

We are also seeking ways in which to apply the same business model in similar business streams that synergise well with the client base of our manufacturing business. In late 2021, we incorporated our earlier acquired handbag and accessories manufacturing business into the Company as we aim to become a total solutions provider for our premium customers.

Three-Year Plan (2023-2025)

As part of our long term strategy, we are embarking on a Three-Year Plan with a focus on growth and margin expansion listed below:

- Enhance our category mix to better align with our unique strengths and capabilities, including:

  - Further deepening our relationships with major global sports brands, leveraging our capabilities in product development in differentiated and complex products to support and grow with them as they continue to expand and lead innovation in the athleisure and luxury-priced footwear categories

  - Partner with additional Luxury and high-end Fashion brands that are seeking to introduce sports and athleisure into their collections, with Stella being a close collaborator at every stage including design, commercialisation and manufacturing

  - Add more well-established but fast-growing boutique Sports and Fashion footwear brands that are leading athleisure fashion trends to our customer portfolio

- Expand and diversify our manufacturing capacity to protect our cost base, including:
  - Ramping up our new footwear factory in Solo, Indonesia that commenced production in 2022
  - Announcing plans, together with a major brand partner, to jointly develop an exclusive Sports footwear factory in Indonesia
  - Committing to increasing our production capacity in Bangladesh, starting in 2023
- Optimise our management effectiveness and efficiency, including:
  - Re-organising our organisational structure, centralizing our account management teams to provide better customer service and refocusing our factory operational teams on day-to-day manufacturing excellence
  - Combining our research and development teams to enhance our design and commercialisation capabilities, and better serve our customers
  - Aligning manager incentive schemes with transparent short-term and long-term operational targets
- Strengthen cost efficiency and improve working capital including:
  - Enhancing our customer portfolio to reduce our overall risk
  - Improving our inventory and cash flow management
  - Further strengthening cost controls across divisions
- Increasing operational efficiency, including:
  - Encouraging the sharing of best practices among factories
  - Pursuing operational excellence through process optimisation and by moving our supply chain closer to new production areas

During our Three-Year Plan (2023-2025), our goals are to achieve an operating margin of 10% and low-teens annualised growth rate on profit after tax.

Business Review

In the year ended 31 December 2022, we saw an expansion of our gross profit margin and operating profit margin as we successfully implemented our growth strategies and improved our product and customer mix, despite a weakening global economy and inventory challenges faced by some of our customers.

We continued to add new customers, particularly in our Luxury, high-end Fashion and Sports categories and committed to growing with them in anticipation of them making a significant contribution to our profitability in the coming years.

Our footwear manufacturing facilities across Asia, particularly those devoted to non-Sports customers, operated at close-to-full capacity for most of the year. Our long-term capacity expansion and diversification initiatives also remained on track as we continued to ramp up our new factory in Solo, Indonesia. After seeing a slowing macroeconomic environment and increasing inventory levels at selected customers from the end of the first half of the year, we quickly tightened cost controls and delayed planned capacity expansion projects at our other manufacturing facilities to safeguard our strong operational performance.

We continued to develop our handbag and accessories manufacturing business, integrating and standardising our production bases in Vietnam and Indonesia to meet 'European heritage brand' standards in terms of styles and product mix.

The key financial performance indicators of the Company include revenue, gross profit and operating profit. An analysis of these indicators during the year ended 31 December 2022 are as below:

Revenue

The Group's consolidated revenue for the year increased by 5.9% to US$1,630.8 million (2021: US$1,540.6 million), while shipment volumes for the year rose by 0.4% to 56.0 million pairs (2021: 55.8 million pairs), led by our Fashion and Sports segments.

The ASP of our footwear products for the year increased by 5.2% to US$28.5 per pair (2021: US$27.1 per pair), mostly driven by 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 14.7% on a like-for-like basis and accounted for 42.6% of total manufacturing revenue (2021: 39.4%). Despite adding new customers in our Luxury category, revenue attributed to it declined by 14.4% year-on-year due to one customer pulling back orders on selected styles to better manage its product launch strategy. Our Luxury category accounted for 8.3% of total manufacturing revenue (2021: 10.2%).

Revenue attributed to our Fashion category increased by 50.3% year-on-year, accounting for 25.5% of our total manufacturing revenue (2021: 18%), as demand from our existing customers bounced back strongly and as we added new customers in this category that have similar ASPs to Luxury customers but are classified as Fashion customers due to their branding and style. Revenue attributed to our Casual category declined by 22.9%, accounting for 23.6% (2021: 32.4%) of total manufacturing revenue as we reallocated capacity to grow our other categories in line with our strategy.

Geographically, North America and Europe remain our two largest markets, accounting for 51.3% and 24.1% of our total revenue during the year under review. This was followed by the PRC (including Hong Kong), which accounted for 13.5%, Asia (other than the PRC), which accounted for 8.2% and other geographic regions, which accounted for 2.9%.

Revenue attributed to our branding business (which consists of our retail business in Europe and the wholesale business for our own retail footwear brand Stella Luna) decreased by 31.8% to US$10.7 million during the year under review, mainly due to the weak performance of the wholesale business which was impacted by COVID restrictions in the PRC.

Gross profit

Our gross profit for the year under review increased by 11.1% to US$352.1 million (2021: US$316.8 million). Our gross profit margin was 21.6% (2021: 20.6%) with upward support from an improved customer and product mix as a result of our growth strategy although partially offset by higher raw material costs.

Operating profit

Our reported operating profit[1] for the year under review increased by 30.9% to US$134.8 million (2021: US$103.0 million) as a result of higher revenue, an improved customer mix, enhanced production efficiency and cost controls, partially affected by US$6.8 million work stoppage loss associated with the impact of COVID-19 lockdowns at two of our factories in the PRC.

Net results

Due to the factors outlined above, the Group recorded a net profit of US$117.2 million for the year ended 31 December 2022 (2021: US$90.8 million), including a loss of US$2.3 million on the net fair value loss on financial instruments related to its investment in Lanvin Group Holdings Limited following its listing on the New York Stock Exchange.

Notwithstanding the Group's investment in Lanvin Group Holdings Limited, the Group recorded an adjusted net profit of US$119.5 million for the year ended 31 December 2022 (2021: US$90.8 million)

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

Strong net cash position

As a result of our dedicated efforts in managing credit risk and cash flow, we posted a net cash position of US$206.1 million as at 31 December 2022, compared to a net cash position of US$127.5 million as at 31 December 2021. Therefore, the Group's net gearing ratio[2] was -20.3%, as at 31 December 2022 compared to -12.5% as at 31 December 2021.

Outlook

We are facing stronger headwinds in 2023 compared to 2022 with weakening economies and global inflation crimping consumer sentiment in both North America and Europe. At the same time, some of our customers, particularly in the Sports and Casual segments, are grappling with inventory challenges which may impact our order book, especially in the first half of 2023.

However, the sudden removal of all COVID-19 restrictions in China at the end of 2022 caught many of our brand customers by surprise and this may positively influence ordering activity, particularly in the second half of 2023.

Notwithstanding the impact of China's reopening and adopting a conservative approach, we expect overall full-year volume to decline in 2023 led by our Sports customers, although orders from newly-added Luxury and high-end Fashion customers are expected to grow robustly from a small base in line with our growth strategies. But with our endeavours to drive operational efficiency and control costs, together with the increasing benefits brought by an enhanced product and consumer mix, we still expect to maintain strong gross profit margin and operating profit margin levels.

Moving forward, ASP and volume guidance will become more difficult to guide on a like-for-like basis compared with previous years as we continue to adjust and reshape our customer and product mix as a result of our growth strategies. But we are cautiously optimistic that these adjustments will positively grow our margins and profitability.

[2] Net gearing ratio = net debt/shareholder equity.

We are committed to moving forward on our long-term capacity expansion projects. The ramp-up of our new manufacturing facility in Solo, Indonesia, remains on track and is performing very well operationally. We are set to acquire new land for a new manufacturing facility in another part of Indonesia for our major Sports customer, which will account for the majority of our capital expenditure in 2023. At the same time, we plan to implement smaller-scale capacity expansions at our existing production facilities that were delayed in 2022. We will also begin to build additional facility capacity in Bangladesh.

We will continue to develop our new handbag and accessories manufacturing business into another pillar of growth by continuing to enhance its product quality and production efficiency while introducing it to more of our high-end customer base.

As we implement our growth strategies, we will continue to create value and generate higher returns for our shareholders.

Cash Return To Shareholders

As we work towards implementing our strategies, we remain committed to returning profits and providing attractive returns to our shareholders. After considering the Group's free cash flow situation, the Board has resolved to declare a final dividend of HK45 cents per ordinary share, representing a full-year dividend of HK87 cents per ordinary share for the year ended 31 December 2022, representing a payout ratio of about 75%.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2022, the Group had cash and cash equivalents of approximately US$213.3 million (31 December 2021: US$135.2 million).

During the year under review, cash generated from operations was US$240.1 million (2021: US$120.3 million), representing an increase of 99.6%.

Net cash outflows used in investing activities were US$53.8 million during the year under review (2021: US$71.4 million), representing a decrease of 24.6%. Capital expenditure amounted to approximately US$57.9 million during the year under review (2021: US$55.9 million).

As at 31 December 2022, the Group had current assets of approximately US$726.0 million (31 December 2021: US$734.9 million) and current liabilities of approximately US$219.9 million (31 December 2021: US$257.6 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.3 as at 31 December 2022 (31 December 2021: 2.9), an indication of the Group's well-maintained liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$7.2 million as at 31 December 2022 (31 December 2021: US$7.7 million).

The Group maintained a net cash position of US$206.1 million as at 31 December 2022 (31 December 2021: US$127.5 million). Therefore, the Group's net gearing ratio which is calculated on the basis of net debt over shareholder equity was -20.3% as at 31 December 2022 compared to -12.5% as at 31 December 2021.

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 2022, the Group had pledged US$10.8 million of its assets (31 December 2021: US$11.4 million).

Contingent Liabilities

As at 31 December 2022, the Group had no contingent liabilities (31 December 2021: 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 2022, the Group had approximately 42,500 employees (31 December 2021: approximately 42,500). 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 attract 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 8 May 2023 to 11 May 2023 (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 11 May 2023, 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 2023.

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 Part 2 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 (the "Stock Exchange") throughout the year ended 31 December 2022.

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 2022.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2022.

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 2022 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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2022.

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, 16 March 2023

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; and the independent non-executive Directors are Mr. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, BBS, Mr. Yue Chao-Tang, Thomas, Ms. Shi Nan Sun and Ms. Wan Sin Yee, Sindy.