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 2023

Highlights:

– Average selling price ("ASP") increased by 4.2%

– Further enhancement of customer portfolio, led by Luxury and high-end Fashion categories

– Rationalization of the Group's retail operation in Mainland China and exited all other physical points-of-sales worldwide

– Gross profit margin expanded by 3.0 percentage points to 24.6%

– Operating profit US$159.4 million saw an increase of 18.2% year-on-year

– Operating profit margin increased to 10.7% from 8.3% last year

– #Adjusted net profit increased by 23.5% to US$147.6 million

– Strong net cash position reached US$287.4 million, compared to US$206.1 million as at 31 Dec 2022. About US$140.0 million is earmarked for delayed capacity expansion in Bangladesh and Indonesia

– Declared final dividend of HK61 cents per share, representing a full-year dividend of HK103 cents with a dividend payout ratio of approximately 70% based on adjusted net profit

Adjusted net profit excluded net fair value loss of US$7.3 million on financial instruments (related to Lanvin Group)

* *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 2023, 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 2023

	Notes	**2023** **US$'000**	2022 US$'000
Revenue	*4*	**1,492,651**	1,630,771
Cost of sales		**(1,125,923)**	(1,278,644)
Gross profit		**366,728**	352,127
Other income	*5*	**7,026**	11,361
Other gains and losses, net	*5*	**510**	(15,263)
Selling and distribution expenses		**(44,044)**	(44,743)
Administrative expenses		**(152,022)**	(157,174)
Impairment losses on financial assets, net		**(23,797)**	(16,022)
Share of profit of a joint venture		**4,952**	4,553
Share of losses of associates		**–**	(84)
Operating profit before changes in fair value of financial instruments		**159,353**	134,755
Net fair value loss on financial assets at fair value through profit or loss		**(7,308)**	(2,281)
Operating profit after changes in fair value of financial instruments		**152,045**	132,474
Interest income	*5*	**10,234**	1,665
Interest expense		**(943)**	(944)
Profit before tax	*6*	**161,336**	133,195
Income tax expense	*7*	**(21,081)**	(16,008)
Profit for the year		**140,255**	117,187

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

For the year ended 31 December 2023

	Note	2023 US$'000	2022 US$'000
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(5,579)**	(24,650)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(5,579)**	(24,650)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**134,676**	92,537
Profit attributable to:			
Owners of the parent		**141,072**	118,033
Non-controlling interests		**(817)**	(846)
		140,255	117,187
Total comprehensive income attributable to:			
Owners of the parent		**135,505**	93,575
Non-controlling interests		**(829)**	(1,038)
		134,676	92,537
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
– Basic (in HK dollar)		**1.3937**	1.1667
(equivalent to US dollar)		**0.1780**	0.1490
– Diluted (in HK dollar)		**1.3919**	1.1667
(equivalent to US dollar)		**0.1778**	0.1490

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 US$'000	2022 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**378,853**	379,098
Investment properties		**2,435**	3,265
Right-of-use assets		**80,081**	79,684
Investment in a joint venture		**47,401**	42,449
Investments in associates		**–**	524
Financial assets at fair value through profit or loss		**3,469**	10,723
Pledged deposits		**5,637**	–
Deposits for acquisition of property, plant and equipment and leasehold land		**14,298**	16,367
Total non-current assets		**532,174**	532,110
CURRENT ASSETS			
Inventories		**197,122**	188,752
Trade receivables	*10*	**277,820**	264,532
Prepayments, deposits and other receivables		**58,109**	53,843
Financial assets at fair value through profit or loss		**5**	59
Pledged deposits		**–**	5,484
Cash and cash equivalents		**294,471**	213,303
Total current assets		**827,527**	725,973
CURRENT LIABILITIES			
Trade payables	*11*	**82,756**	66,463
Other payables and accruals		**138,186**	107,785
Interest-bearing bank borrowings		**1,324**	5,117
Lease liabilities		**2,870**	4,337
Tax payable		**40,100**	36,167
Total current liabilities		**265,236**	219,869
NET CURRENT ASSETS		**562,291**	506,104
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,094,465**	1,038,214

	2023	2022
	US$'000	*US$'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**5,786**	2,110
Lease liabilities	**5,264**	10,602
Deferred tax liabilities	**15,951**	9,553
Total non-current liabilities	**27,001**	22,265
Net assets	**1,067,464**	1,015,949
EQUITY		
Equity attributable to owners of the parent		
Share capital	**10,171**	10,155
Share premium and reserves	**1,041,034**	988,706
	1,051,205	998,861
Non-controlling interests	**16,259**	17,088
Total equity	**1,067,464**	1,015,949

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Note	**2023**	2022
		US$'000	*US$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**161,336**	133,195
Adjustments for:			
Finance costs		**943**	944
Share of profit of a joint venture		**(4,952)**	(4,553)
Share of losses of associates		**–**	84
Interest income	*5*	**(10,234)**	(1,665)
Loss on disposal of items of property, plant and equipment		**3,284**	10,572
Gain on early termination of leases		**(326)**	–
Fair value loss on financial assets at fair value through profit or loss, net		**7,308**	2,281
Depreciation of property, plant and equipment		**47,337**	45,279
Depreciation of investment properties		**766**	837
Depreciation of right-of-use assets		**8,113**	10,278
Impairment of trade receivables, net		**23,797**	15,072
Impairment of other receivables, net		**–**	950
Write-down/(write-back) of inventories, net		**5,525**	(460)
Gain on deregistration of subsidiaries		**–**	(208)
Gain on liquidation of an associate		**(8)**	–
Provision for equity-settled share option expense		**3,474**	5,821
		246,363	218,427
(Increase)/decrease in inventories		**(13,774)**	37,892
(Increase)/decrease in trade receivables		**(37,742)**	46,944
Increase in prepayments, deposits and other receivables		**(3,074)**	(24,153)
Increase/(decrease) in trade payables		**15,975**	(19,317)
Increase/(decrease) in other payables and accruals		**32,475**	(10,485)
Cash generated from operations		**240,223**	249,308
Interest paid		**(532)**	(693)
Taxes paid		**(10,538)**	(8,539)
Net cash flows from operating activities		**229,153**	240,076

	Note	2023 US$'000	2022 US$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	*5*	**10,234**	1,665
Purchases of items of property, plant and equipment		**(55,699)**	(45,267)
Additions to right-of-use assets		**(11,600)**	–
Deposits paid for acquisition of property, plant and equipment and leasehold land		**(339)**	(12,665)
Proceeds from disposal of property, plant and equipment		**452**	5,510
Purchases of financial assets at fair value through profit or loss		**–**	(3,000)
Proceeds from liquidation of an associate		**532**	–
Placement of pledged deposits		**(153)**	(17)
Net cash flows used in investing activities		**(56,573)**	(53,774)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**61,316**	92,237
Repayment of bank loans		**(61,432)**	(92,456)
Principal portion of lease payments		**(3,626)**	(6,812)
Dividends paid		**(88,074)**	(99,130)
Interest paid		**(411)**	(251)
Proceeds from issue of shares upon exercise of share options		**1,439**	–
Net cash flows used in financing activities		**(90,788)**	(106,412)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**81,792**	79,890
Cash and cash equivalents at beginning of year		**213,303**	135,170
Effect of foreign exchange rate changes, net		**(624)**	(1,757)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**294,471**	213,303
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**51,891**	68,651
Non-pledged time deposits with original maturity of less than three months when acquired		**242,580**	144,652
Cash and cash equivalents as stated in the consolidated statement of financial position		**294,471**	213,303

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2023

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") 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 2023. 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 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 the related assets (including goodwill), liabilities, any non-controlling interest and the exchange reserve; and recognises the fair value of any investment retained and 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 new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 17	*Insurance Contracts*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

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

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have a significant impact on the Group's financial statements.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments and the mandatory temporary exception retrospectively. Further disclosures are included in note 7.

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, interest expense, 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 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 2023

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Segment revenue *(note 4)*			
Sales to external customers	**1,488,042**	**4,609**	**1,492,651**
Intersegment sales	**3,007**	**–**	**3,007**
Total segment revenue	**1,491,049**	**4,609**	**1,495,658**
Reconciliation:			
Elimination of intersegment sales			**(3,007)**
Revenue			**1,492,651**
Segment results	**175,635**	**(11,659)**	**163,976**
Reconciliation:			
Corporate and other unallocated income and gains			**29**
Corporate and other unallocated expenses and losses			**(9,604)**
Share of result of a joint venture			**4,952**
Operating profit before changes in fair value of financial instruments			**159,353**
Net fair value loss on financial assets at fair value through profit or loss			**(7,308)**
Operating profit after changes in fair value of financial instruments			**152,045**
Interest income			**10,234**
Interest expense			**(943)**
Profit before tax			**161,336**
Segment assets	**1,315,496**	**25,576**	**1,341,072**
Reconciliation:			
Corporate and other unallocated assets			**18,629**
Total assets			**1,359,701**
Segment liabilities	**281,529**	**1,536**	**283,065**
Reconciliation:			
Corporate and other unallocated liabilities			**9,172**
Total liabilities			**292,237**

	Manufacturing	Retailing and wholesaling	Total
	US$'000	*US$'000*	*US$'000*
Other segment information			
Share of profit of a joint venture	**4,952**	**–**	**4,952**
Impairment of trade receivables, net	**16,029**	**7,768**	**23,797**
Loss on disposal of items of property, plant and equipment	**3,094**	**190**	**3,284**
Depreciation of property, plant and equipment	**47,244**	**93**	**47,337**
Depreciation of right-of-use assets	**7,989**	**124**	**8,113**
Write-down/(write-back) of inventories, net	**6,441**	**(916)**	**5,525**
Gain on early termination of leases	**326**	**–**	**326**
Income tax expense	**21,070**	**11**	**21,081**
Investment in a joint venture	**47,401**	**–**	**47,401**
Capital expenditure*	**67,616**	**22**	**67,638**

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

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
Total segment revenue	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 assets at fair value through profit or loss			(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
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

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Other segment information			
Share of profit of a joint venture	4,553	–	4,553
Share of losses of associates	–	(84)	(84)
Impairment of trade receivables, net	2,905	12,167	15,072
Impairment of other receivables, net	950	–	950
Loss on disposal of items of property, plant and equipment	10,572	–	10,572
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.*

Geographical information

(a) Revenue from external customers

	2023 ***US$'000***	2022 *US$'000*
North America	**680,183**	836,053
Europe	**372,122**	393,771
The PRC	**257,979**	220,883
Asia, other than the PRC	**132,098**	133,963
Other countries	**50,269**	46,101
Total revenue	**1,492,651**	1,630,771

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

(b) Non-current assets

	2023	2022
	US$'000	*US$'000*
The PRC	**161,481**	187,194
Bangladesh	**32,074**	18,538
Vietnam	**149,954**	152,904
Indonesia	**105,287**	87,434
Other countries	**74,272**	75,317
Total non-current assets	**523,068**	521,387

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

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:

	2023	2022
	US$'000	*US$'000*
Derived from the manufacturing segment:		
Customer A	**525,066**	563,618
Customer B	**150,176**	N/A*

* *Revenue from this customer did not exceed 10% of the total revenue in the 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 2023

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Types of goods			
Sales of footwear and handbags	**1,488,042**	**4,609**	**1,492,651**
Total	**1,488,042**	**4,609**	**1,492,651**
Geographical markets			
North America	**680,183**	**–**	**680,183**
Europe	**370,900**	**1,222**	**372,122**
The PRC	**254,592**	**3,387**	**257,979**
Asia, other than the PRC	**132,098**	**–**	**132,098**
Other countries	**50,269**	**–**	**50,269**
Total	**1,488,042**	**4,609**	**1,492,651**
Timing of revenue recognition			
Goods transferred at a point in time	**1,488,042**	**4,609**	**1,492,651**
Total	**1,488,042**	**4,609**	**1,492,651**

For the year ended 31 December 2022

	Manufacturing *US$'000*	Retailing and wholesaling *US$'000*	Total *US$'000*
Types of goods			
Sales of footwear and handbags	1,620,045	10,726	1,630,771
Total	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	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	1,620,045	10,726	1,630,771

(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 GAINS AND LOSSES, NET AND INTEREST INCOME

	2023	2022
	US$'000	*US$'000*
Other income		
Rental income	**3,428**	3,581
Sales of scrap	**1,048**	528
Government subsidies	**219**	3,423
Others	**2,331**	3,829
Total other income	**7,026**	11,361
Other gains and losses, net		
Gain on deregistration of subsidiaries	**–**	208
Gain on liquidation of an associate	**8**	–
Loss on disposal of items of property, plant and equipment	**(3,284)**	(10,572)
Loss on work stoppage *(note)*	**–**	(6,758)
Gain on early termination of leases	**326**	–
Foreign exchange differences, net	**3,460**	1,859
Total other gains and losses, net	**510**	(15,263)
Interest income		
Bank interest income	**9,755**	1,198
Interest income of overdue trade receivables	**151**	235
Interest income of financial assets at fair value through profit or loss	**328**	232
Total interest income	**10,234**	1,665

Note: An amount represented the direct costs incurred during the close-down of factories.

6. PROFIT BEFORE TAX

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

	Note	**2023** **US$'000**	2022 US$'000
Cost of inventories sold		**1,120,398**	1,279,104
Depreciation of property, plant and equipment		**47,337**	45,279
Depreciation of investment properties		**766**	837
Depreciation of right-of-use assets		**8,113**	10,278
Research and development costs		**40,000**	40,252
Lease payments not included in the measurement of lease liabilities		**1,262**	334
Auditors' remuneration		**629**	607
Employee benefit expenses (excluding directors' and chief executive's remuneration):			
Wages and salaries		**352,237**	392,251
Provision for equity-settled share option expense		**2,788**	4,746
Pension scheme contributions*		**135**	120
Severance pay and other related costs		**7,972**	7,362
Total		**363,132**	404,479
Impairment of financial assets, net:			
Trade receivables	*10*	**23,797**	15,072
Other receivables		**–**	950
Total		**23,797**	16,022
Fair value loss on financial assets at fair value through profit or loss, net		**7,308**	2,281
Gain on deregistration of subsidiaries		**–**	(208)
Gain on liquidation of an associate		**(8)**	–
Loss on disposal of items of property, plant and equipment		**3,284**	10,572
Provision/(write-back of provision) against inventories, net		**5,525**	(460)
Gain on early termination of leases		**(326)**	–
Foreign exchange differences, net		**(3,460)**	(1,859)

* *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 Chinese Mainland has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2022: 25%) during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 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 (2022: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

Macau Complementary Tax has been provided at the rate of 12% (2022: 12%) on the assessable profits arising in Macau during the year.

As approved by the relevant tax authorities in Vietnam, certain subsidiaries of the Company are entitled to the exemption from income taxes for two to four years 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 the years ended 31 December 2022 and 2023.

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

	2023	2022
	US$'000	*US$'000*
Current – PRC		
Charge for the year	**11,395**	11,974
Overprovision in prior years	**(3,876)**	(12,126)
Current – Hong Kong		
Charge for the year	**–**	212
Current – Macau		
Charge for the year	**6,693**	5,792
Current – Elsewhere		
Charge for the year	**365**	603
	14,577	6,455
Deferred tax		
– Withholding tax on undistributed profits	**6,504**	9,553
	21,081	16,008

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate for the jurisdiction where the operations of the Group are substantially based to the tax expense at the effective tax rate is as follows:

	2023	2022
	US$'000	*US$'000*
Profit before tax	**161,336**	133,195
Tax at the statutory tax rate at 25% (2022: 25%)	**40,334**	33,299
Lower tax rates for subsidiaries operating in other jurisdictions	**(23,027)**	(14,832)
Adjustments in respect of current tax of previous periods	**(3,876)**	(12,126)
Profits and losses attributable to a joint venture and associates	**(1,238)**	(1,117)
Income not subject to tax	**(2,859)**	(1,819)
Expenses not deductible for tax	**2,635**	1,496
Tax losses not recognised	**2,608**	1,554
Effect of withholding tax at 10% on the distributable profits of certain subsidiaries	**6,504**	9,553
Income tax expense	**21,081**	16,008

The share of tax attributable to a joint venture amounting to US$14,000 (2022: Nil) is included in "Share of profits and losses of a joint venture and associates" in the profit or loss. There is no share of tax attributable to associates for both years.

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008. The applicable rate is 10% for the Group.

As at 31 December 2023, deferred tax liabilities of US$15,951,000 (2022: US$9,553,000) have 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.

Pillar Two income taxes

As stated in note 2(d), the Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities arising from Pillar Two income taxes, and will account for the Pillar Two income taxes as current tax when incurred. Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates, and the legislation will be effective for the Group's financial year beginning 1 January 2024.

The Group is in the process of assessing the potential exposure arising from Pillar Two legislation based on the information available for the financial year ended 31 December 2023. Based on the assessment carried out so far, tax jurisdictions where the Group members registered did not officially implement pillar two legislation in 2023. However, the Group has identified potential exposure to Pillar Two income taxes in Vietnam in 2024. Quantitative information to indicate potential exposure to Pillar Two income taxes is currently not reasonably estimable as detailed guidance of related regulations is not available.

8. DIVIDENDS

	2023	2022
	US$'000	*US$'000*
Final declared and paid – HK45 cents (2022: HK56 cents) per ordinary share	**45,590**	56,646
Interim – HK42 cents (2022: HK42 cents) per ordinary share	**42,484**	42,484

A final dividend of HK61 cents per share amounting to approximately HK$486,227,000 (equivalent to US$62,169,000) in respect of the year ended 31 December 2023 (2022: HK$357,290,000 (equivalent to US$45,590,000)) 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 792,386,619 (2022: 792,200,500) in issue during the year.

The calculation of the diluted earnings per share amount for the year ended 31 December 2023 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 total of (i) the number of ordinary shares used in the basic earnings per share calculation, and (ii) 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 that year.

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

	2023	2022
	US$'000	*US$'000*
Profit attributable to ordinary equity holder of the parent, used in the basic and diluted earnings per share calculations	**141,072**	118,033

	Number of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**792,386,619**	792,200,500
Effect of dilution – weighted average number of ordinary shares:		
Share options	**1,026,612**	–
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**793,413,231**	792,200,500

10. TRADE RECEIVABLES

	2023	2022
	US$'000	*US$'000*
Trade receivables	**326,536**	289,451
Impairment	**(48,716)**	(24,919)
Net carrying amount	**277,820**	264,532

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 2% to 5%.

Included in the Group's gross trade receivables are amounts due from the Group's associates of US$39,795,000 (2022: US$37,274,000), with provision for expected credit losses amounting to US$31,696,000 (2022: US$23,928,000), 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:

	2023	2022
	US$'000	*US$'000*
Within 1 month	**112,155**	111,235
1 to 2 months	**94,317**	72,686
2 to 3 months	**49,584**	44,763
3 to 6 months	**11,861**	20,857
6 to 12 months	**4,742**	9,049
Over 1 year	**5,161**	5,942
Total	**277,820**	264,532

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

	2023	2022
	US$'000	*US$'000*
At beginning of year	**24,919**	10,538
Impairment losses, net *(note 6)*	**23,797**	15,072
Amounts written off as uncollectible	**–**	(691)
At end of year	**48,716**	24,919

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 2023				
Class of credit rating				
Class 1 to Class 3	*(i) to (iii)*	**0.33-0.44**	**261,396**	**952**
Class 4	*(iv)*	**78.03**	**40,656**	**31,721**
Class 5	*(v)*	**65.54**	**24,484**	**16,043**
Total			**326,536**	**48,716**
As at 31 December 2022				
Class of credit rating				
Class 1 to Class 3	*(i) to (iii)*	0.08-12.70	251,483	3,285
Class 4	*(iv)*	55.18	37,950	21,616
Class 5	*(v)*	100.00	18	18
Total			289,451	24,919

* *The range of the expected credit loss rates is due to the 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 a 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 reporting period, based on the invoice date, is as follows:

	2023	2022
	US$'000	*US$'000*
Within 1 month	**70,797**	55,463
1 to 2 months	**7,623**	5,817
Over 2 months	**4,336**	5,183
Total	**82,756**	66,463

Included in the trade payables are trade payables of US$40,044,000 (2022: US$29,586,000) 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

At the beginning of 2023, we embarked on a Three-Year Plan focused on growth and margin expansion, with a target of achieving an operating margin of 10% and a low-teens annualised growth rate on profit after tax by the end of 2025. We are already ahead of schedule in reaching these targets, despite a generally weak retail environment and destocking by some of our major Sports customers during the year.

One foundation of this success has been our efforts to cultivate relationships with new customers in the Luxury and high-end Fashion categories seeking to expand or add premium lifestyle and athleisure footwear into their collections. After months of product development, collaboration and effort, these products have started to reach the store and are delivering strong sell-through for these customers and providing new proof points of our capabilities.

It is also having a solid financial impact by enhancing our product mix, with premium products introduced by our customers in our Sports, Luxury and high-end Fashion categories pushing up our ASP and helping offset lower shipment volumes year-on-year. Combined with the production improvements and productivity gains we have been making under our Three-Year Plan, our gross profit margin expanded by 3.0 percentage points to 24.6% in 2023.

Internally, we have made great strides in optimising our operations and management to support our operating margins, removing silos by centralising our account management, business development, research and development functions, and enhancing our supply chain management. We also maintained strong cost controls and optimised labour efficiency to offset the impact of lower Sports orders. As a result, our operating profit margin expanded by a solid 2.4 percentage points to 10.7%.

We are also prudently expanding our manufacturing capacity to protect our cost base. We will continue to ramp up our new manufacturing facility in Solo, Indonesia and are making further progress towards completing an additional production facility in Bangladesh. Further, we plan to reallocate orders – including for some Fashion products – from Vietnam to our facility in Solo, Indonesia, to free up resources that will allow us to continue improving our product mix.

Finally, as we focus on our primary strengths and capabilities, we are scaling back our branding business. All retail stores and wholesale distribution points-of-sales in Europe have now ceased operations and we will further rationalize our remaining operation in the PRC by our associated company over the next two years.

We are optimistic about our ongoing margin growth and our ability to continue meeting the targets set out in the Three-Year Plan in 2024, even with the global economic environment likely to remain subdued. We also expect our Sports order book to improve in 2024.

As such, I am pleased to announce a final dividend of HK61 cents per ordinary share, bringing a full-year dividend to HK103 cents per ordinary share. This represents a dividend payout ratio of around 70% based on adjusted net profit, which is in line with our long-standing dividend policy.

Our achievements in 2023 would not have been possible without our valued customers and business partners, as well as the hard work of our employees. I would also like to thank our shareholders for their ongoing faith and support.

Chen Li-Ming, Lawrence
Chairman
Hong Kong, 21 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Business Strategies

Stella is widely known within the footwear industry for its unparalleled product design and commercialisation capabilities, 'artisan level' craftsmanship, uncompromising commitment to quality, speed-to-market, and small-batch production flexibility, supported by a broad, diverse, and proven manufacturing base located in Vietnam, China, Indonesia, Philippines and Bangladesh. It provides customers with an all-rounded skillset, integrated and accumulated from developing a broad product base spanning Luxury, high-end Fashion, athleisure and outdoor Sports footwear over the years.

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 have embarked on a Three-Year Plan (2023-2025) 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 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, centralising 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

Targets for Three-Year Plan (2023-2025):

Operating margin: 10%	**Profit After Tax CAGR^: Low-Teens**

Business Review

For the year ended 31 December 2023, we are well ahead of schedule in achieving the target levels of operating margin and profit after tax CAGR set out under our Three-Year Plan.

Revenue and shipment volumes declined year-on-year, in line with our expectations, as some customers destocked during 2023 to manage their inventories and we reallocated our production capacity to more premium and capacity-consuming footwear styles, in particular for our new customers in the Luxury and high-end Fashion categories. These product styles delivered stronger than expected sell-through to these customers in a tough retail market.

^ *CAGR: Compound Annual Growth Rate*

A much-enhanced customer and product mix helped contribute to gross margin improvement. At the same time, our relentless focus on improving our operational efficiency, while maintaining tight cost controls, steadily enhanced our operating margin.

We continued to ramp up production at our new factory in Solo, Indonesia throughout the year, as part of our long-term capacity expansion and diversification initiatives.

We also continued to develop our handbag and accessories manufacturing business, integrating and standardising our production bases in Vietnam and the Philippines 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 2023 is as follows:

Revenue

In 2023, the ASP of our footwear products increased by 4.2% to US$29.7 per pair (2022: US$28.5 per pair), partially offsetting a 12.5% decrease in shipment volumes to 49.0 million pairs (2022: 56.0 million pairs). The increase in ASP was mostly driven by the declining share of lower ASP styles from the Casual category and a more pronounced contribution from customers of our Sports, Luxury and high-end Fashion categories which introduced new premium products.

The Group's consolidated revenue for the year under review decreased by 8.5% to US$1,492.7 million (2022: US$1,630.8 million).

In terms of product category, sales of our Sports category decreased by 8.0% and accounted for 43.2% of total manufacturing revenue (2022: 42.6%) as some Sports customers destocked to manage inventory issues. Revenue attributed to our Luxury and Fashion categories increased by 4.1% and decreased by 6.2% respectively, on a year-on-year basis, in line with our expectations, and accounted for 9.5% and 26.1% of total manufacturing revenue respectively (2022: 8.3% and 25.5%). Revenue attributed to our Casual category declined by 18.0%, accounting for 21.2% (2022: 23.6%) of total manufacturing revenue as we reallocated capacity to grow our other categories in line with our Three-Year Plan.

Geographically, North America and Europe remain our two largest markets, accounting for 45.6% and 24.9% of the total revenue of the Group during the year under review. This was followed by the People's Republic of China (the "PRC") (including Hong Kong), Asia (other than the PRC) and other geographic regions, which accounted for 17.3%, 8.8% and 3.4% respectively of the Group's total revenue.

Revenue attributed to our branding business (consisting of our retail business in Europe and the wholesale business for our own retail footwear brand Stella Luna) during the year decreased by 57% to US$4.6 million, as we scaled down our branding business. As at 31 December 2023, all retail stores and wholesale distribution points of sales in Europe have ceased operations. In the PRC, we rationalisd our associated company's operation by significantly reduced its retail footprint.

Gross profit

Our gross profit for the year under review increased by 4.1% to US$366.7 million (2022: US$352.1 million). Our gross profit margin was 24.6% (2022: 21.6%), due to a product mix that included more premium styles and improved production efficiency.

Operating profit

The reported operating profit[1] of the Group for the year under review increased by 18.2% to US$159.4 million (2022: 134.8 million), with the positive impact from our improved customer mix, enhanced operational efficiency and cost controls being offset by a US$16 million net provision[2] for outstanding accounts receivables of The Rockport Company, LLC ("Rockport"), which filed for Chapter 11 bankruptcy.

In addition, we reduced the financial impact of the decline in shipment volumes in our Sports category by stepping up our efforts in cost controls and labour efficiency at our factories. The operating profit margin (before changes in fair value of financial instruments) of the Group for the year was 10.7% (2022: 8.3%).

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

[2] Net provision represents the impairment loss arising from the outstanding trade receivables of US$24 million owed by Rockport and certain of its affiliates, which have each filed a voluntary petition (the "Voluntary Petition") in the United States Bankruptcy Court for the District of Delaware for relief under chapter 11 of the United States Bankruptcy Code, net of the insured amounts of the Group against the credit risk of its counterparties of approximately US$8 million. For details of the Voluntary Petition, please refer to the announcement of the Company dated 16 June 2023. On 26 July 2023, Authentic Brands Group announced that the United States Bankruptcy Court for the District of Delaware has approved its acquisition of Rockport.

Net results

Due to the factors outlined above, the Group recorded a net profit of US$140.3 million for the year under review (2022: 117.2 million), including a marked-to-market net fair value loss of US$7.3 million on financial instruments related to its investment in Lanvin Group Holdings Limited ("Lanvin Group") listed on the New York Stock Exchange (2022: marked-to-market net fair value loss of US$2.3 million).

Excluding the Group's net fair value change from its investment in Lanvin Group, the Group recorded an adjusted net profit[3] of US$147.6 million (2022: US$119.5 million). Our adjusted net profit[3] margin was 9.9% (2022: 7.3%).

Strong net cash position

Given the softer retail environment and the inventory issue in the market, we delayed some planned capacity expansion projects to better match the timing with future demand. Furthermore, we were very focused on managing our working capital usage. As a result of our delayed capital expenditure and dedicated efforts in managing working capital and cash flow, we posted a net cash position of US$287.4 million as at 31 December 2023 (2022: US$206.1 million). About US$140 million of the cash is reserved for the building of a new factory in Bangladesh, and a new sports footwear factory in Indonesia that experienced delays in land acquisition in 2023. Therefore, the Group's net gearing ratio[4] was -26.9% as at 31 December 2023, compared to -20.3% as at 31 December 2022.

Outlook

We expect to maintain our strong gross profit margin and operating margin levels in 2024 and to continue meeting the targets set out in the Three-Year Plan.

We expect ASP to be at a similar level as in 2023, with ongoing ASP and volume guidance remaining difficult to guide on a like-for-like basis compared to previous years as we continue to reallocate production capacity from the Casual category to the Luxury and high-end Fashion categories.

3 Adjusted net profit represents the profit for the year, excluding net fair value loss of US$7.3 million (2022: US$2.3 million) related to the Group's investment in Lanvin Group.

4 Net gearing ratio = net debt/shareholder equity

We expect our non-Sports manufacturing facilities to continue operating at close to full utilisation as we further enhance our product category mix as part of our Three-Year Plan. As such, we plan to transition more production from our factories in Vietnam to the factory we are ramping up in Solo, Indonesia, including the production of some Fashion category products as workers' skills improve. We also expect our Sports order book to improve in 2024.

As we become more confident about our outlook, we plan to push forward our long-term capacity expansion projects. This includes the start of building a new manufacturing facility in Indonesia for our major Sports customer, and further progressing the buildout of an additional production facility in Bangladesh that we are already undertaking.

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 with the aim of introducing it to more of our high-end customer base.

Further, having already significantly reduced the retail footprint of our branding business, we plan to further scale down its operation in the PRC over the next two years as part of our strategic plan to focus on creating more value and higher returns for our shareholders.

Cash Return To Shareholders

As we work towards implementing our strategies, we remain committed to returning profit 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 HK61 cents per ordinary share, representing a full-year dividend of HK103 cents per ordinary share for the year ended 31 December 2023 and maintaining the Company's normal payout ratio of about 70% set against its adjusted net profit[3] of US$147.6 million, which excludes the US$7.3 million fair value loss on the Lanvin Group investment.

Liquidity, Financial Resources And Capital Structure

As at 31 December 2023, the Group had cash and cash equivalents of approximately US$294.5 million (31 December 2022: US$213.3 million).

During the year under review, cash generated from operations was US$229.2 million (2022: US$240.1 million), representing an decrease of 4.5%.

Net cash outflows used in investing activities were US$56.6 million during the year under review (2022: US$53.8 million), representing an increase of 5.2%. Capital expenditure amounted to approximately US$67.6 million during the year under review (2022: US$57.9 million).

As at 31 December 2023, the Group had current assets of approximately US$827.5 million (31 December 2022: US$726.0 million) and current liabilities of approximately US$265.2 million (31 December 2022: US$219.9 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.1 as at 31 December 2023 (31 December 2022: 3.3), an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$7.1 million as at 31 December 2023 (31 December 2022: US$7.2 million), which are principally denominated in New Taiwan dollars and U.S. dollars, with an effective interest rate of 2.05%-4.10%.

The Group maintained a net cash position of US$287.4 million as at 31 December 2023 (31 December 2022: US$206.1 million). Therefore, the Group's net gearing ratio[4] was -26.9% as at 31 December 2023 compared to -20.3% as at 31 December 2022.

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 2023, the Group had pledged US$10.9 million of its assets (31 December 2022: US$10.8 million).

Contingent Liabilities

As at 31 December 2023, the Group had no contingent liabilities (31 December 2022: Nil).

Material Acquisition and Disposal

During the year ended 31 December 2023, the Group had no material acquisition or disposal of subsidiaries, associates or joint ventures.

4 Net gearing ratio = net debt/shareholder equity

Significant Investment

As at 31 December 2023, the Group did not hold any significant investments with a value of 5% or more of the Group's total assets.

Future Plan for Material Investments or Capital Assets

The Directors confirmed that, as at the date of this announcement, there was no plan for any material investment or to acquire capital assets other than those in the Group's ordinary business.

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 2023, the Group had approximately 39,900 employees (31 December 2022: 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.

DIVIDEND

The Board recommended the payment of a final dividend of HK61 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2023. The proposed final dividend amounting to approximately US$62.2 million, will be paid to Shareholders whose names appear on the register of members of the Company on 17 May 2024, if the proposals are approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on 9 May 2024. It is expected that the final dividend, if approved, will be paid on or about 7 June 2024.

In order to qualify for the proposed final dividend to be approved at the AGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 17 May 2024.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2024 to 9 May 2024 (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 9 May 2024, 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 3 May 2024.

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 C1 (formerly known as 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 2023.

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 C3 (formerly known as 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 2023.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2023.

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 2023 as set out in this preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft 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 2023.

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, 21 March 2024

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. Bolliger Peter, Mr. Chan Fu Keung, William, BBS, Mr. Yue Chao-Tang, Thomas, Ms. Shi Nan Sun and Ms. Wan Sin Yee, Sindy.