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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016, together with the comparative figures for the corresponding period in 2015 as follows:–

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	NOTES	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**721,388**	798,052
Cost of sales		**(588,164)**	(636,134)
Gross profit		**133,224**	161,918
Other income		**11,380**	11,060
Other gains and losses		**1,979**	411
Distribution and selling expenses		**(43,303)**	(44,186)
Administrative expenses		**(39,948)**	(44,743)
Research and development costs		**(30,720)**	(27,074)
Share of result of a joint venture		**540**	–
Share of results of associates		**(76)**	63
Finance costs		**(194)**	(114)
Profit before tax		**32,882**	57,335
Income tax expense	*4*	**(2,438)**	(3,898)

* *For identification purpose only*

		Six months ended 30 June	
		2016	2015
	NOTES	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Profit for the period	*5*	**30,444**	53,437
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**(207)**	(271)
Share of exchange differences of associates and a joint venture		**(11)**	25
Other comprehensive expense for the period, net of income tax		**(218)**	(246)
Total comprehensive income for the period		**30,226**	53,191
Profit (loss) for the period attributable to:			
Owners of the Company		**30,380**	54,018
Non-controlling interests		**64**	(581)
		30,444	53,437
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**30,189**	53,744
Non-controlling interests		**37**	(553)
		30,226	53,191
Earnings per share	*7*		
– Basic and diluted *(US$)*		**0.0383**	0.0682

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30 June 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**388,130**	375,339
Prepaid lease payments		**17,337**	18,044
Interests in associates		**8,045**	8,141
Interest in a joint venture		**6,177**	5,631
Deposit paid for acquisition of property, plant and equipment	*8*	**39,162**	27,893
		458,851	435,048
CURRENT ASSETS			
Inventories		**250,843**	208,482
Trade and other receivables	*9*	**426,163**	362,295
Bills receivables	*9*	**285**	317
Loan receivable		**832**	840
Prepaid lease payments		**585**	593
Amounts due from associates	*10*	**38,376**	37,544
Amount due from a joint venture	*11*	**14,795**	11,897
Derivative financial assets	*12*	**24,952**	–
Held for trading investments		**32,822**	41,084
Cash and cash equivalents		**94,774**	145,126
		884,427	808,178
CURRENT LIABILITIES			
Trade and other payables	*13*	**174,476**	186,169
Bank borrowings – due within one year	*14*	**156,135**	15,140
Tax liabilities		**50,890**	53,626
Derivative financial liabilities	*12*	**198**	788
		381,699	255,723
NET CURRENT ASSETS		**502,728**	552,455
		961,579	987,503

	NOTES	30 June 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	*15*	**10,160**	10,160
Share premium and reserves		**948,808**	974,909
Equity attributable to owners of the Company		**958,968**	985,069
Non-controlling interests		**(740)**	(777)
TOTAL EQUITY		**958,228**	984,292
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	*14*	**3,351**	3,211
		961,579	987,503

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company											
	Share capital	**Share premium**	**Merger reserve**	**Capital reserve**	**Exchange reserve**	**Shares held for share award scheme**	**Capital redemption reserve**	**Share award reserve**	**Accumulated profits**	**Subtotal**	**Non-controlling interests**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2015 (audited)	10,160	154,503	45,427	1,146	(3,791)	(2,722)	190	1,450	745,490	951,853	856	952,709
Profit (loss) for the period	–	–	–	–	–	–	–	–	54,018	54,018	(581)	53,437
Other comprehensive (expense) income for the period	–	–	–	–	(274)	–	–	–	–	(274)	28	(246)
Total comprehensive (expense) income for the period	–	–	–	–	(274)	–	–	–	54,018	53,744	(553)	53,191
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	3	3
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(56,360)	(56,360)	–	(56,360)
At 30 June 2015 (unaudited)	10,160	154,503	45,427	1,146	(4,065)	(2,722)	190	1,450	743,148	949,237	306	949,543
Profit (loss) for the period	–	–	–	–	–	–	–	–	67,029	67,029	(315)	66,714
Other comprehensive (expense) income for the period	–	–	–	–	(451)	–	–	–	–	(451)	68	(383)
Total comprehensive (expense) income for the period	–	–	–	–	(451)	–	–	–	67,029	66,578	(247)	66,331
Acquisition of additional interest in a subsidiary	–	–	–	–	2	–	–	–	–	2	(836)	(834)
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(30,748)	(30,748)	–	(30,748)
At 31 December 2015 (audited)	10,160	154,503	45,427	1,146	(4,514)	(2,722)	190	1,450	779,429	985,069	(777)	984,292
Profit for the period	–	–	–	–	–	–	–	–	30,380	30,380	64	30,444
Other comprehensive expense for the period	–	–	–	–	(191)	–	–	–	–	(191)	(27)	(218)
Total comprehensive (expense) income for the period	–	–	–	–	(191)	–	–	–	30,380	30,189	37	30,226
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(56,290)	(56,290)	–	(56,290)
At 30 June 2016 (unaudited)	10,160	154,503	45,427	1,146	(4,705)	(2,722)	190	1,450	753,519	958,968	(740)	958,228

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES:		
Decrease (increase) in investments held for trading	**9,394**	(1,684)
Increase in trade and other receivables	**(64,173)**	(79,219)
Other operating cash flows	**(7,967)**	4,178
	(62,746)	(76,725)
NET CASH USED IN INVESTING ACTIVITIES:		
Deposit paid for acquisition of property, plant and equipment	**(13,163)**	(110)
Purchase of derivative financial instruments	**(25,000)**	–
Purchase of property, plant and equipment	**(36,117)**	(42,549)
Other investing cash flows	**2,087**	2,279
	(72,193)	(40,380)
NET CASH FROM FINANCING ACTIVITIES:		
New short-term bank borrowings raised	**140,995**	138,937
New long-term bank borrowing raised	**3,351**	–
Repayment of long-term bank borrowing	**(3,211)**	–
Capital injection from non-controlling interests	**–**	3
Dividend paid	**(56,290)**	(56,360)
Other financing cash flows	**(194)**	–
	84,651	82,580
Net decrease in cash and cash equivalents	**(50,288)**	(34,525)
Cash and cash equivalents at the beginning of period	**145,126**	131,601
Effect of foreign exchange rate changes	**(64)**	(92)
Cash and cash equivalents at the end of period, represented by bank balances and cash	**94,774**	96,984

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKAS 27	Equity method in separate financial statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the periods under review:

Six months ended 30 June 2016

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
Revenue						
External sales	222,167	459,362	39,859	721,388	–	721,388
Inter-segment sales	476	16,162	–	16,638	(16,638)	–
Total	222,643	475,524	39,859	738,026	(16,638)	721,388
Inter-segment sales are charged at prevailing market rates						
Results						
– Segment results	25,260	57,656	1,948	84,864	–	84,864
Unallocated income						
– Interest income on bank balances						454
– Interest income from held for trading investments						1,633
– Rental income						581
– Sale of scrap						470
– Net gain on changes in fair value of derivative financial instruments						542
– Net gain on changes in fair value of held for trading investments						1,132
– Others						8,444
Unallocated expenses						
– Research and development costs						(30,720)
– Central administrative costs						(34,788)
Finance costs						(194)
Share of result of a joint venture						540
Share of results of associates						(76)
Profit before tax						32,882

3. **SEGMENT INFORMATION (Continued)**

Six months ended 30 June 2015

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing and wholesaling *US$'000*	Segment total *US$'000*	Eliminations *US$'000*	Consolidated *US$'000*
Revenue						
External sales	266,511	487,311	44,230	798,052	–	798,052
Inter-segment sales	412	8,915	–	9,327	(9,327)	–
Total	266,923	496,226	44,230	807,379	(9,327)	798,052
Inter-segment sales are charged at prevailing market rates						
Results						
– Segment results	43,103	73,391	(300)	116,194	–	116,194
Unallocated income						
– Interest income on bank balances						375
– Interest income from held for trading investments						1,904
– Rental income						664
– Sale of scrap						559
– Net gain on changes in fair value of derivative financial instruments						368
– Net gain on changes in fair value of held for trading investments						449
– Others						7,152
Unallocated expenses						
– Research and development costs						(27,074)
– Central administrative costs						(43,205)
Finance costs						(114)
Share of results of associates						63
Profit before tax						57,335

Segment profit represents the profit earned by each segment without allocation of interest income on bank balances, interest income from held for trading investments, net gain on changes in fair value of derivative financial instruments, rental income, sale of scrap, research and development costs, share of results of associates, share of result of a joint venture, net gain on changes in fair value of held for trading investments, central administrative costs, and finance costs. This is the measure reported to the Group's chief executives for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")		
Current tax	**6,388**	7,377
Overprovision in prior years	**(4,015)**	(3,493)
	2,373	3,884
Other jurisdictions	**65**	14
	2,438	3,898

EIT in the PRC is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, a subsidiary, Stella International Trading (Macao Commercial Offshore) Limited, which was acquired in 2011, is exempted from Macao Complementary Tax.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2016	2015
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
(Reversal of) write-down of inventories (included in cost of sales)	**(1,220)**	3,461
Depreciation of property, plant and equipment	**21,937**	19,644
Release of prepaid lease payments	**469**	311
Net fair value gain on held for trading investments (included in other gains and losses)	**(1,132)**	(449)
Interest income on bank balances	**(454)**	(375)
Interest income from held for trading investments	**(1,633)**	(1,904)
Net fair value gain on derivative financial instruments (included in other gains and losses)	**(542)**	(368)

6. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Final dividend declared and paid for 2015		
– HK55 cents (2014: HK55 cents) per share	**56,290**	56,360
Interim dividend declared subsequent to period end		
– HK30 cents (2015: HK30 cents) per share	**30,730**	30,748
	87,020	87,108

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2016 of HK30 cents (30 June 2015: HK30 cents) per ordinary share to owners of the Company whose names appeared in the register of members of the Company at the close of business on 30 September 2016.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2016	2015
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**30,380**	54,018

	Six months ended 30 June	
	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**792,602**	792,602

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share have been arrived at after deducting the shares held in trust for the Company by Teeroy Limited *(see note 17)*.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately US$37,967,000 (30 June 2015: US$42,779,000) for business expansion.

In addition, during the current interim period, the Group paid approximately US$13,163,000 (30 June 2015: US$110,000) in deposits for acquisition of property, plant and equipment in order to expand its manufacturing capacities in the PRC, Philippines and Myanmar.

The Group has pledged freehold land and buildings with net book values of approximately US$3,433,000 (31 December 2015: US$3,373,000) and US$2,156,000 (31 December 2015: US$2,171,000), respectively to secure a bank loan granted to the Group.

9. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an analysis of the Group's trade and bills receivables by age, presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30 June 2016	31 December 2015
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Trade and bills receivables:		
0 – 30 days	**184,251**	142,420
31 – 60 days	**94,727**	66,190
61 – 90 days	**8,588**	11,224
Over 90 days	**4,862**	18,846
	292,428	238,680
Other receivables	**134,020**	123,932
	426,448	362,612

Other receivables include prepayment to suppliers of US$88,647,000 (31 December 2015: US$75,284,000).

9. **TRADE, BILLS AND OTHER RECEIVABLES (Continued)**

Movement in the allowance for doubtful debts

	30 June 2016	31 December 2015
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Balance at beginning of the period/year	**1,500**	2,636
Impairment loss recognised on trade receivables	**–**	1,000
Amounts written off as uncollectable	**(402)**	(2,136)
Balance at end of the period/year	**1,098**	1,500

10. **AMOUNTS DUE FROM ASSOCIATES**

The amounts due from associates are trading balances, representing prepayments to associates for purchase of goods. The amounts are unsecured and interest-free.

11. **AMOUNT DUE FROM A JOINT VENTURE**

The amount due from a joint venture is trading balance, representing prepayments to a joint venture for purchase of goods. The amount is unsecured and interest-free.

12. **DERIVATIVE FINANCIAL INSTRUMENTS**

	Assets	
	30 June 2016	31 December 2015
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Dual currency deposits	**24,952**	–

	Liabilities	
	30 June 2016	31 December 2015
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Foreign currency option contract	**198**	788

12. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group entered into derivative financial instruments, including foreign currency option contract and dual currency deposits ("DCD"), to manage exposure to foreign exchange fluctuations and to improve the returns on its cash assets.

DCD is a US$ denominated transaction that provides an enhanced guaranteed interest payment at maturity. However, the currency delivered at maturity depends upon a specified conversion rate ("Strike Rate") on the valuation date. The Group will receive the final payment amount at maturity in US$ plus the coupon (comprised of interest portion and premium portion) if the spot rate on the valuation date is above the Strike Rate. If the spot rate on the valuation date is equal to or less than the Strike Rate, the Group will receive final payment amount in EUR plus the coupon, both converted at a rate equivalent to the Strike Rate.

As at 30 June 2016, the Group hold the following dual currency deposits.

30 June 2016

Nominal amount	Net fair value as at 30 June 2016 in US$	Coupon rate	Maturity	Strike rate
US$10,000,000	US$9,996,200	3.3% per annum	5 July 2016	EUR1:USD1.0840
US$3,000,000	US$2,970,294	14.42% per annum	5 July 2016	EUR1:USD1.1140
US$7,000,000	US$6,985,972	7.94% per annum	5 July 2016	EUR1:USD1.1040
US$5,000,000	US$5,000,000	4.00% per annum	7 July 2016	EUR1:USD1.0880

As at 30 June 2016 and 31 December 2015, the major terms of outstanding foreign currency option contract are as follows:

30 June 2016 and 31 December 2015

Notional amount	Maturity	Exchange rate
US$16,000,000	8 August 2016	USD1:RMB6.33

The above derivatives were measured at fair value at the end of the reporting period. Their fair value were determined based on equivalent instruments at the end of reporting period.

13. TRADE AND OTHER PAYABLES

The following is an analysis of the Group's trade payables by age, presented based on the invoice date at the end of the reporting period:

	30 June 2016	31 December 2015
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Trade payables:		
0 – 30 days	**71,931**	67,535
31 – 60 days	**7,130**	7,050
Over 60 days	**23,007**	14,276
	102,068	88,861
Other payables	**72,408**	97,308
	174,476	186,169

14. BANK BORROWINGS

	30 June 2016	31 December 2015
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Bank borrowings comprised of:		
Bank loan – secured	**3,351**	3,351
Bank loans – unsecured	**156,135**	15,000
	159,486	18,351

As at 31 December 2015, included in bank borrowings was a secured bank loan denominated in New Taiwan dollars amounting to US$3,351,000, which was repayable within twenty years and carrying fixed interest rate at 1.85% per annum. It was secured by the Group's freehold land and building with carrying amounts of US$3,373,000 and US$2,171,000 respectively. The proceeds were used mainly for general working capital purposes. This balance was shown under current and non-current liabilities as at 31 December 2015, and was early repaid in full during the six months ended 30 June 2016.

As at 30 June 2016, included in bank borrowings is a new secured bank loan denominated in New Taiwan dollars amounting to US$3,351,000, which is repayable within 5 years with 1 year grace period and carrying at benchmark interest rate per month. The effective interest rate during the period (which is equal to contractual interest rate) of this bank borrowing is 1.09% per month. It is secured by the Group's freehold land and building with carrying amounts of US$3,433,000 and US$2,156,000 respectively. The proceeds are used mainly for general working capital purposes. This balance is shown under non-current liabilities.

During the six months ended 30 June 2016, the Group also obtained new bank loans denominated in United States dollars amounting to approximately US$409,129,000 and repaid these bank loans of approximately US$268,189,000. These loans are repayable within one year and carry interest at fixed rate ranging from 0.65% to 1.18% per annum. The proceeds were used mainly for general working capital purposes. This balance was shown under current liabilities.

15. SHARE CAPITAL

	Number of shares	**Nominal value** *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
As at 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	794,379,500	79,438
Shown in financial statements as		US$10,160,000

16. CAPITAL COMMITMENTS

	30 June 2016 ***US$'000*** **(Unaudited)**	31 December 2015 *US$'000* (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**4,452**	15,118

17. SHARE-BASED PAYMENTS

Long Term Incentive Scheme (the "Scheme")

Pursuant to the Scheme, the Company appointed a trustee, Teeroy Limited (the "Trustee"), for the purpose of administering the Scheme and holding the awarded shares before they vest.

As at 30 June 2016, the Trustee maintained a pool of 1,778,000 shares (31 December 2015: 1,778,000 shares) which are available for the Trustee to satisfy the Scheme upon their respective vesting or future grant.

During the six months ended 30 June 2016 and the year ended 31 December 2015, no shares of the Company were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding shares of the Company under the Scheme as at both of the end of reporting periods.

18. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June **2016** *US$'000* **(Unaudited)**	2015 *US$'000* (Unaudited)
辛集市寶得福皮業有限公司 (Xinji Baodefu Leather Co. Ltd.) [(1)]	Purchase of footwear products	**35,322**	38,527
Couture Accessories Limited [(1)]	Purchase of footwear products	**262**	599
	Sales of footwear products	**–**	254
Bay Footwear Company Limited [(2)]	Purchase of footwear products	**27,656**	–

Notes:

(1) Associates of the Company.

(2) A joint venture of the Company.

(II) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June **2016** *US$'000* **(Unaudited)**	2015 *US$'000* (Unaudited)
Short-term benefits	**374**	374

The remuneration of directors and key executives is determined with reference to the financial performance of the Group and are first reviewed by the remuneration committee of the Board and then approved by the Board.

CHAIRMAN’S STATEMENT

The first half of 2016 will be long remembered for the great level of uncertainty it brought: not just to global markets but also to the current economic and political order.

The United Kingdom’s vote in June 2016 to leave the European Union caught many by surprise, notwithstanding the lack of a clear exit procedure or historical precedent for such a radical restructuring. All eyes are now turning towards how Europe will respond to this decline in its unity. Even in the absence of such information, many analysts agree that the impact of ‘Brexit’ on consumer confidence both in the UK and the broader European economy – our second largest export market – will be felt for years.

The recent terrorist attacks in France and Germany, as well as the failed military coup d’état in Turkey, a close geopolitical ally, only add to this uncertainty.

Across the Atlantic in the United States, our largest export market, the picture is a little better. Economic growth and job creation continues to hum along at a stable level, while New York’s stock markets are once again hitting record highs. Yet even here, this progress remains uncertain. The current U.S. presidential race has exposed a high level of discontent on both sides of America’s domestic political divide, with many voters voicing their dissatisfaction with stagnant wage growth and global trade policies. In reaction to this, both presidential candidates have expressed their intention to change Washington’s approach to free trade agreements, including the recently concluded Trans-Pacific Partnership (TPP).

Finally, in the realm of fashion (a perhaps lighter but no less serious area of importance to our business), changing lifestyles and aspirations are rapidly transforming the landscape of footwear retailing. The most prevalent trend has been the rise of ‘athleisure’ footwear, a hybrid product segment that is replacing the space traditionally occupied by casual footwear.

All of these events have brought a fresh set of challenges to our business and were the primary reasons behind the declines in volume, revenues and margins during the six months ended 30 June 2016. In particular, the speed of the volume decline hurts the utilisation of our manufacturing facilities, as well as our efficiency, at least in the short-term.

None of these changes and uncertainties is likely to diminish in the second half of the year. However, our ability to respond to them is improving. Of key importance will be a continued focus on quality through ongoing investments in research and development and a better allocation of production, working hours and headcounts at our manufacturing facilities. This will ensure that we will be able to differentiate our products, meet the changing needs of our customers and reduce some of the pressure on our margins compared to the first half of this year.

Better planning will also help our retail business overcome slowing economic growth in China, under the guidance of our new retail management team.

On a final note, there is one thing that I am absolutely certain about in this time of rapid change: my gratitude for the unwavering support from our customers, business partners and shareholders. Their support has always seen Stella through challenging periods. At the same time, I am also extremely thankful for the dedication, hard work and service of my colleagues over the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Model and Strategy

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

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

We launched our retail business in 2006 in order to diversify our business and tap growing demand for affordable luxury footwear in China and across the region. All our retail products are designed and manufactured in-house and have quickly attracted a strong following among China's upwardly mobile consumers.

Our retail business currently consists of three self-developed brands – *Stella Luna*, *What For*, and *JKJY by Stella*. Our network of retail stores is primarily focused in Mainland China, with additional stores in France, the Philippines, Bahrain, Taiwan, Kuwait, Lebanon and the United Arab Emirates.

Financial Highlights

Lower Shipment Volumes and Unit Prices Affect Earnings

We experienced a slowdown in demand for our footwear products, particularly in the casual footwear segment, during the six months ended 30 June 2016, as a result of the weak retail environment in North America and Europe, as well as other factors. This resulted in lower utilisation of our non-sports footwear factories, resulting in a drop in efficiency and margins. The lower shipment volumes, combined with declining unit prices for our footwear products, negatively affected our financial performance during the period under review.

Our consolidated revenue for the six months ended 30 June 2016 fell 9.6% to US$721.4 million, compared to US$798.0 million in the first half of 2015. Shipment volumes fell 4.5% to 25.4 million pairs, compared to 26.6 million pairs in the corresponding period of last year. The average selling price ("ASP") of our footwear products fell to US$27.1 per pair, compared to US$28.6 per pair, which was attributable to falling raw material costs (particularly for leather), changes in product mix, as well as greater pricing competition.

Casual footwear continued to be the biggest contributor to overall revenue, at around 45.7% of total revenue. Orders for sports footwear continued to accelerate, accounting for 22.9% of overall revenue. Dress and fashion footwear maintained its contribution at 31.4% of overall revenue.

Geographically, North America and Europe remained our two largest markets, accounting for 49.2% and 26.9% of the Group's total revenue respectively in the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 13.9%, Asia (other than the PRC), which accounted for 8.0% and other geographic regions, which accounted for 2.0%.

External Factors Weighing on Retail Business, Despite Some Improvements

We continued to implement our retail optimisation strategy during the six months under review, which included: the ongoing closure of underperforming stores and counters; the launch of multi-brand stores; the opening of new standalone stores in high-potential shopping malls in China; the refurbishment of older stores; the addition of more point-of-sales in Europe; as well as the use of online platforms to clear off-season merchandise.

This strategy has started to have some positive impact on the performance of our retail business, with same-store sales declines in China slowing markedly during most of the period under review. However, wet weather towards the end of the second quarter of 2016 impacted sales volumes for our new Spring/Summer season products, pushing overall retail sales lower in the first half of the year.

Retail revenue declined 9.7% to US$39.9 million during the six months ended 30 June 2016, compared to retail revenue of US$44.2 million in the first half of 2015. Same-store sales (in China only) fell 17.6% to US$24.7 million during the period under review, compared to US$30.9 million during the corresponding period of last year. Despite this, our retail business made a US$1.9 million profit in the six months under review.

Ongoing Profitability Despite Ongoing Challenges in the Business Environment

We continued to remain profitable, despite the above challenges. Gross profit across all of our business segments fell 17.7% to US$133.2 million in the six months under review, compared to US$161.9 million in the corresponding period of last year. Net profit for the period was US$30.4 million, down 43.7% compared to the same period of last year.

Business Review

Adjusting Production Processes to Meet Rising 'Athleisure' Trend

The performance of our manufacturing operations in the six months under review was marked by the growing popularity of 'athleisure' footwear products – a fashionable take on the traditional sports shoe. This shift in demand is being driven by a number of factors, including changing fashion and lifestyles that favour comfortable and casual wear. This has resulted in a falling propensity for spending on dress and high-end footwear in North America and Europe (our primary export markets), while also adding to the ongoing blurring of fitness and fashion footwear products.

As a result, athleisure products continued to be a major growth driver during the period under review, during which time we have remained a leading developer and manufacturer for this product segment. However, the growing demand for these products also cannibalised demand for casual footwear products, resulting in an overall fall in shipment volumes during the six months under review. This had other negative effects on our manufacturing business, particularly lower efficiencies and the under utilisation of some manufacturing facilities, which impacted our margins. Our margins were also affected by the hiring of additional headcount at our non-China factories during the period under review.

Continued Investment in New Value-adding Products

Changing global consumer tastes have made it even more important for Stella to maintain its unparalleled reputation for quality, flexibility and new product commercialisation, in order to differentiate our products and maintain our market share.

We continued to add new value-adding footwear products to our range during the period under review, particularly in the key athleisure segment. Our ability to do this was underpinned by our continued investment in our research and development centres. We are also continuing to explore the manufacture of quality leather goods and accessories, including handbags.

ASP Decline on Lower Input Costs, Changing Product Mix and Pricing Competition

The 5.2% decline in the ASP of our footwear products was the result of three main factors: falling raw material costs, particularly for leather; changing product mix; and increased pricing competition.

Leather prices continue to reflect lower slaughterhouse prices that were seen towards the end of 2015 following the breaking of drought conditions in major cattle markets. At the same time, many footwear brands have been broadening their product ranges, which widened the number of price points we need to cater for while pushing down the ASP of some of our products. Increasing competition, particularly in the causal footwear segment also impacted the ASP of some our footwear products.

Despite this, we continued to attract a higher ASP than the industry average during the period under review in reflection of the higher quality and value-adding attributes of our footwear products.

Retail Business Encountering Both Bright Spots and Challenges

The recent introduction of a new retail management team and the continued implementation of our retail optimisation strategy delivered some benefits to our retail business during the period under review. However, slowing economic growth in China and an unseasonably wet start to the Spring/Summer season posed challenges to these efforts.

We further reduced our store network in China as we continued to close underperforming stores and counters. However, the expanding presence of our *Stella Luna*, *What For* and *JKJY by Stella* brands in Europe continued to support the value of our retail brands in China.

In April 2016, we closed our last *Pierre Balmain* branded store in China, although *Pierre Balmain*-branded footwear remain available at our other retail stores in China.

As of 30 June 2016, our *Stella Luna* footwear was priced between RMB1,780 and RMB8,680 per pair in China, while our *What For* and *JKJY by Stella* products retailed for between RMB1,180 and RMB1,680 per pair and between RMB2,380 and RMB3,980 per pair respectively.

The following table shows the geographic distribution of our stores, by brand, as of 30 June 2016.

	Stella Luna	*What For*	*JKJY by Stella*
Greater China			
Eastern China	46	5	0
Southern China	31	12	0
Northern China	34	19	0
North-East China	19	6	0
South-West China	29	8	1
Central China	16	7	0
Taiwan	2	0	1
Subtotal	177	57	2
France	7	48	1
Philippines	2	1	1
Bahrain	1	1	0
Kuwait	2	2	0
Lebanon	9	8	0
United Arab Emirates	4	1	0
Total	202	118	4

Business Outlook

Challenging Conditions to Continue into Second Half of 2016

We expect that the current challenging environment will continue into the second half of 2016, with shipment volumes likely to be impacted by lower consumer confidence, particularly in Europe. We also expect more customers to confirm the details of their orders i.e. SKUs until the last minute, which may affect our production planning and efficiency.

However, the effect of both of these factors on our shipment volumes may be partially cushioned by rising demand for our sports fashion footwear products.

Other potential risks that could impact consumer sentiment and customer orders going forward include: a potential debt crisis in the Chinese or European financial sectors; a disorderly exit from the European Union by the United Kingdom; the increasingly vitriolic presidential election campaign in the United States and its potential impact on the future ratification of the TPP; as well as further violent attacks on civilians in Europe.

Measures to Reduce Margin Pressure

As the sports footwear category becomes an increasingly significant part of our business going forward, we will continue to make adjustments to our manufacturing business in order to increase efficiency and reduce pressure on margins. This includes increasing investment in research and design to further differentiate our products, allocating production processes across our manufacturing facilities more efficiently and better managing headcounts and working hours.

We will also continue to implement strict cost controls and other efficiency improvement measures, while also safeguarding our ability to cater for short lead times and narrow shipment windows, in order to deliver value to our customers.

Focus on Long-term Competitiveness of Retail Business

We will also continue to focus on restoring the long-term competitiveness of our retail business by selectively opening new standalone stores in high-potential locations in China and by expanding our presence in Europe.

We are also continuing to work with leading retailers around the world on new initiatives that will boost the global visibility of our brands. This may include the introduction of our *Stella Luna* brand shoes in globally renowned department stores, such as *Lane Crawford* and *Barneys New York*, bringing our retail brands to new markets, such as Hong Kong, China and the United States for the first time, while also making them available on their ecommerce channels.

Continued Commitment to Shareholders

We expect our capital requirements to remain modest following the earlier completion of our inland migration strategy and the recent consolidation of our manufacturing capacity in coastal China, despite our ongoing investment in our research and development capabilities and manufacturing facilities in South-East Asia.

Despite the emergence of more challenging operational conditions, we remain committed to returning profit to shareholders and maintaining our current dividend policy.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2016, the Group had cash and cash equivalents of about US$152.6 million (31 December 2015: US$186.2 million).

As at 30 June 2016, the Group had current assets of about US$884.4 million (31 December 2015: US$808.2 million) and current liabilities of about US$381.7 million (31 December 2015: US$255.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.3 as at 30 June 2016 (31 December 2015: 3.2), an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$159.5 million as at 30 June 2016 (31 December 2015: US$18.3 million).

Foreign Exchange Exposure

During the six months ended 30 June 2016, 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 the functional currency of the relevant Group company.

The Group has entered into various foreign currency forward contracts to minimise the Group's exchange rate exposure.

Capital Expenditure

Net cash outflows from investing activities was US$47.2 million during the period under review (for the six months ended 30 June 2015: US$42.1 million), up 12.1%. Capital expenditure amounted to approximately US$49.3 million during the period (for the six months ended 30 June 2015: US$42.7 million), of which approximately US$39.9 million was used in production capacity expansion and approximately US$9.4 million was used for the optimisation of our retail store network.

Pledge of Assets

As at 30 June 2016, the Group had pledged US$5.6 million of its assets (31 December 2015: US$5.5 million).

Contingent Liabilities

As at 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

Employees

As at 30 June 2016, the Group had approximately 78,000 employees (31 December 2015: approximately 83,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets to the Group's development and expansion. We actively seek to attain, train and retain individuals who are proactive, positive, committed to and passionate about our business.

The Group has continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership Program" to identify potential high calibre employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures.

Corporate Social Responsibility (CSR)

Stella has long recognised its responsibility to ensure that its operations are environmentally sustainable and accountable to the safety, health and well being of both our employees and the communities in which we operate.

At the core of our 'CSR Vision' is the Triple Bottom Line of 'People, Planet and Profit', particularly in the areas of:

– *Product Stewardship:* by offering environmentally friendly products that meet the needs of our customers and the markets we serve

– *Regulatory Compliance:* by complying with all applicable laws and regulations covering our operations

– *Environmental Preservation:* by protecting valuable natural resources through the reduction, reuse and recycling of materials, while also reducing emissions.

We also adhere to a Code of Conduct, to which we also bind our suppliers and business partners. The Code outlines a number of minimum standards to eliminate the scourges of child labour, modern-day slavery, excessive working hours and all forms of discrimination, while ensuring freedom of association and the timely payment of wages and compensation.

We continued to make progress towards the achievement of our Sustainability Strategy 2014-2017, in particular the continued rollout of annual centralised audits at each of our manufacturing facilities, including in China, Vietnam, Bangladesh, Indonesia and the Philippines. The goal of the Strategy is to rapidly increase the sustainability of Stella's operations, while infusing strong CSR and compliance standards into everything that we do.

We also continued to work hard towards meeting our 'Stella 2020' targets for waste management. By the year 2020, our goal is to reduce our fresh water usage to around 35 litres/pair, while also reducing the level of solid and hazardous waste to less than 150g/pair and 13g/pair respectively. Another goal is to increase the percentage of wastewater treated by wastewater treatment plants to between 85-100%, depending on the location.

Other areas of focus during the current period under review, as well as in the coming years will be to make further improvements to workplace health and safety by creating a culture of empowerment among employees to support a collaborative, safe and healthy work environment. We will also continue to act as a responsible employer by capping the number of overtime hours worked and by providing health benefits, social activities and personal development opportunities.

We look forward to continuing our CSR mission in the second half of 2016 and beyond.

REVIEW OF ACCOUNTS BY AUDIT COMMITTEE

The audit committee of the Board has reviewed the interim results of the Group for the six months ended 30 June 2016.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2016. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 30 September 2016. It is expected that the interim dividend will be paid on or about 14 October 2016. In order to qualify for the interim dividend for the six months ended 30 June 2016, 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 30 September 2016.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders"). The Company has applied the principles and complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2016, except for code provisions B.1.5 and E.1.2 of the CG Code, details of which are disclosed below.

For code provision B.1.5 of the CG Code, the Company had not disclosed the details of remuneration payable to members of senior management by band in the annual report of 2015 for observing competitive market practices and respecting individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (the "Chairman") of the Board, had not attended the annual general meeting of the Company held on 26 May 2016 (the "2016 AGM"). Instead, Mr. Chao Ming-Cheng, Eric, the Deputy Chairman of the Board, took the chair at the 2016 AGM, and the chairman or member of the audit committee, corporate governance committee, remuneration committee and nomination committee attended the 2016 AGM to answer Shareholders' questions. The reason for such arrangement was that the Board had allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, was mainly responsible for managing major customers' relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Chao Ming-Cheng, Eric, was responsible for providing leadership and management to the Board. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Governance Model

The Company advocates a governance model which combines both corporate governance and business governance in order to build long-term interests for the Group. Corporate governance emphasises on conformance with relevant laws and regulations while business governance focuses on business performance. We believe the combination of both will enhance accountability and assurance to the Shareholders which are the key drivers for value creation for the Group.

Model Code for Securities Transactions by Directors (the "Model Code")

The Company has adopted 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 its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2016.

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

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

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

Hong Kong, 26 August 2016

As at the date of this announcement, the executive Directors are Mr. Chiang Jeh-Chung, Jack, Mr. Chao Ming-Cheng, Eric, Mr. Chen Li-Ming, Lawrence and Mr. Chi Lo-Jen and the independent non-executive Directors are Mr. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, BBS and Mr. Yue Chao-Tang, Thomas.