Stella International Holdings Limited

Stock Code: 1836

2017 INTERIM report

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2017, we saw a continuation of the same political and economic forces and changing retail dynamics that shaped 2016.

Political uncertainties in the United States and Europe remained prevalent and no closer to resolution, as was the ongoing risk of a slide into trade protectionism. This, combined with low wage growth and low inflation in most of our export markets, continued to dampen consumer sentiment and the confidence of our customers, and in turn our ability to plan for future demand.

The faster than foreseen growth of the fashion athletic footwear market – which is currently transforming the global footwear retail space – continued to compel us to further realign our manufacturing capabilities with changing consumer tastes. However, despite some non-recurring expenses that affected our profitability in the first six months of the year, it is pleasing to see this part of our business growing at a brisk pace as we continue to win the trust of our customers.

We remain focused on incorporating a high level of research and development, as well as quality craftsmanship into our fashion athletic products, as we have always done for all of our products, that further enhances our competitive edge. This will remain the case in the second half of the year as we further expand our fashion athletic manufacturing capacity, or convert existing capacity, even as demand growth for this sector moderates slightly as our low-base benefit arising from the secure of a new customer in the previous year was reflected in the first six months of this year.

Looking forward to the second half of the year, the current external environment is unlikely to change. Fortunately, the proactive steps we have taken over the last one and a half years to improve our manufacturing processes, production allocation, research and development, and efficiency has put us in a better place to tackle challenges as they arise. We also remain committed to controlling working hours and headcounts to control costs, without compromising on our mission to "make the best shoes".

In a similar vein, we are taking proactive steps to secure the future competitiveness of our retail business in China. We recently sold a majority stake in the China retail business to Max Group Holdings Limited on 19 July 2017, the company that secured the recent turnaround of our China retail business. This will enable us to concentrate on brand building and product development while transferring the day-to-day management of the retail store network to this highly experienced retail operator. We will continue to maintain control over our retail brands and retail operations in Europe.

During this time of high activity, I would like to take this opportunity on behalf of the Board to thank our customers, business partners and shareholders for their support and dedication during this period. I would also like to express my gratitude to my colleagues for their service and hard work during the interim period.

Chiang Jeh-Chung, Jack
Chairman
Hong Kong, 17 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017.

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, fashion athletic 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 client 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.* The retail store network of these brands is primarily focused in Mainland China (in which the Group maintains a minority interest from 19 July 2017 onwards), and with stores in France, the Philippines, Taiwan, Kuwait, Bahrain, Lebanon and the United Arab Emirates.

FINANCIAL HIGHLIGHTS

Demand for Fashion Athletic Products Supports Financial Performance

We continued to experience growing demand for our fashion athletic products during the six months under review, which supported higher revenue and shipment volumes compared to the same period last year. Demand for our casual and fashion footwear products stabilised during the period. However, our profitability was impacted by some one-off non-recurring items incurred during the period.

Our consolidated revenue for the six months ended 30 June 2017 increased 5.7% to US$762.4 million, compared to US$721.4 million in the corresponding period of last year. Shipment volumes rose 6.3% to 27.0 million pairs, compared to 25.4 million pairs in the corresponding period of last year. The average selling price ("ASP") of our footwear products fell 1.9% to US$26.6 per pair due to changes to our customers' product mix, compared to US$27.1 per pair in the corresponding period of last year.

Fashion footwear was the biggest contributor to our overall revenue during the six months ended 30 June 2017, contributing 36.0% of total revenue. The contributions from casual footwear and fashion athletics were 29.3% and 28.8% respectively.

Geographically, North America and Europe remain our two largest markets, accounting for 47.1% and 29.7% of our total revenue during the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 13.5%, Asia (other than the PRC), which accounted for 7.6% and other geographic regions, which accounted for 2.1%.

Retail Optimisation Strategy Delivers Positive Outcomes

The performance of our retail business continued to improve during the period under review as a result of the retail optimisation strategy being implemented by the retail management team. The strategy includes 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; as well as the use of online platforms for effective marketing strategies and to clear off-season merchandise.

During the six months ended 30 June 2017, retail revenue grew 13.0% to US$45.1 million, compared to US$39.9 million during the corresponding period of last year. Same store sales (in China only) rose 6.9% to US$26.3 million during the period, compared to US$24.6 million during the corresponding period of last year. The retail business recorded a profit of US$0.7 million during the period under review.

On 19 July 2017, Max Group Holdings Limited ("Max Group") completed the acquisition of the 60% stake in our China retail business (see "Exercise of Option to Sell 60% of Stella's China Retail Business" in the Business Review below).

Higher Profitability Despite Margin Pressure

Despite the pressure on our margins, gross profit across our business segments rose 5.8% to US$140.9 million, compared to US$133.2 million during the corresponding period of last year. However, affected primarily by the one-off impact from air freight charges, our net profit for the six months ended 30 June 2017 declined 6.2% to US$28.5 million, compared to US$30.4 million during the corresponding period of last year. If excluding the one-off items, our adjusted net profit was US$33.9 million, an increase of 11.5% against the previous year.

BUSINESS REVIEW

Continued Success in Leveraging on Fashion Athletic Trend

We continued to align our manufacturing business to take advantage of the growing popularity of 'fashion athletic' footwear products – a fashionable take on the traditional sports shoe – during the six months under review, a segment that is being driven by changing lifestyles and the convergence of fashion and fitness.

We continued to grow our customer base in this segment, as well as expand our relationship with existing customers, by proactively leveraging on our reputation for design, research and development, quality and unique skill base for developing compelling footwear products. We further enlarged the range of fashion athletic footwear products within our overall product portfolio including customised products during the period, which will enable us to remain a partner of choice to customers in this segment in the years to come.

The crossover between performance and fashion meant cannibalisation of demand for our non-sports footwear products, in particular, casual footwear products. Despite this, demand for our casual and fashion footwear products has seen signs of stabilisation compared to last year.

Adjustment of Manufacturing Capacity to Match New Market Conditions Progressing Well

We have continued to actively adjust our manufacturing operations to utilise some of our existing casual footwear manufacturing capacity to meet rising orders for fashion athletic footwear. We have been achieving this objective at a good pace, which enabled us to further enhance efficiencies and utilisation at our factories during the period. We also continued to reduce headcounts to better control capacity and costs.

We are further diversifying our manufacturing base into South-East Asia, with a new fashion athletic-focused manufacturing factory in Vietnam to become operational in the second half of 2017. Our manufacturing footprint currently includes facilities in China's Guangdong, Hunan, Guangxi and Hebei provinces, as well as Vietnam, Indonesia and Bangladesh. The Group has also established footholds in the Philippines and Myanmar, which may lead to the establishment of new manufacturing facilities in these countries sometime in the future.

This diverse manufacturing base has enabled us to overcome persistent labour supply and labour cost problems in China's coastal regions while taking advantage of the shift within China's workforce away from transient migrant labour towards a more resident and career-focused workforce.

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

Retail Business Returns to Growth

We continued to see positive outcomes emerging from the retail optimisation strategy being implemented by our retail management team in China with the retail business delivering positive revenue and same-store sales growth during the period under review.

We continue to optimise our retail store network in China during the period, with the management team favouring new standalone stores in selective locations. We continued to expand the presence of our *Stella Luna and What For* brands in Europe to support the value of our retail brands in China.

As of 30 June 2017, *Stella Luna* footwear was priced between RMB1,580 and RMB9,180 a pair in China, while *What For* and *JKJY by Stella* products retailed for RMB1,080 – RMB2,980 and RMB1,480 – RMB3,980 respectively.

The following table shows the geographic distribution of our stores, by brand, as of 30 June 2017.

	Stella Luna	*What For*	*JKJY by Stella*
Greater China			
Eastern China	65	15	0
Southern China	53	14	1
Northern China	64	31	0
Taiwan	1	0	0
Subtotal	183	60	1
France	4	42	0
Philippines	1	1	1
Bahrain	1	1	0
Kuwait	2	2	0
Lebanon	9	8	0
United Arab Emirates	5	1	0
Total	205	115	2

Exercise of Option to Sell 60% of Stella's China Retail Business

In October 2016, we granted an option to Max Group to acquire a 60% stake in our China retail business. On 19 July 2017, Max Group completed the acquisition of the 60% stake, after which the China retail business ceased to be a wholly-owned subsidiary of the Group.

We continue to maintain control over our three retail brands – *Stella Luna, What For and JKJY by Stella* as well as our retail operations in Europe and other markets. We are excited to have found the right partner for continuing the ongoing turnaround of our retail business.

OUTLOOK

Growth of Fashion Athletic Orders to Normalise in Second Half of 2017

We see the current rate of growth in demand for our fashion athletic products as a one-off that will normalise in the second half of the year. However, the segment will remain a key growth area for us and we will continue to grow our fashion athletic footwear manufacturing capacity, particularly in Vietnam, in order to increase our competitiveness.

Meanwhile, recent terrorist attacks around the world, increasing protectionist rhetoric in the United States and the initiation of official Brexit negotiations may potentially diminish confidence among some of our manufacturing and retail customers in the second half of 2017. We will continue to work closely with our customers to manage these risks if they arise.

Ongoing Focus on R&D and Efficiency Enhancements

We will continue to make proactive adjustments to our manufacturing business to further boost efficiencies and protect our margins. This includes maintaining strict cost control measures, such as closely managing headcounts and working hours, as well as meeting narrow shipment windows and short lead times to deliver value to our customers and remain their partner of choice.

We will further invest in our R&D capabilities in order to improve and extend our range of innovative footwear products to deepen our customer relationships.

Continued Commitment to Developing Global Retail Brands

We are highly committed to further developing the profile and desirability of our global retail brands. Apart from *Stella Luna*, *What For* and *JKJY by Stella*. The Group maintains a minority interest in the retail stores in China and we remain the exclusive manufacturer of all our brands worldwide. We expect that the growing profile of our brands will continue to showcase our unique design and fashion capabilities.

We will continue to expand our directly owned retail store network in Europe and other markets in the periods going forward.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2017, the Group had cash and cash equivalents of approximately US$106.0 million (31 December 2016: US$106.3 million).

As at 30 June 2017, the Group had current assets of approximately US$798.5 million (31 December 2016: US$712.8 million) and current liabilities of approximately US$303.4 million (31 December 2016: US$191.4 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.6 as at 30 June 2017 (31 December 2016: 3.7), and the Group's gearing ratio (which is calculated by dividing (i) long-term and short-term borrowings minus bank balances and cash dividend by (ii) total equity) was 1.5% (31 December 2016: Nil) an indication of the Group's high liquidity and healthy financial position.

BANK BORROWINGS

The Group had bank borrowings of US$121.2 million as at 30 June 2017 (31 December 2016: US$3.3 million).

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2017, 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 were US$22.6 million during the period under review (for the six months ended 30 June 2016: US$47.2 million), representing a decrease of 52.1%. Capital expenditure amounted to approximately US$23.5 million during the period (for the six months ended 30 June 2016: US$49.3 million), of which approximately US$12.0 million was used in production capacity expansion in Vietnam.

PLEDGE OF ASSETS

As at 30 June 2017, the Group had pledged US$5.8 million of its assets (31 December 2016: US$5.5 million).

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

EMPLOYEES

As at 30 June 2017, the Group had approximately 67,000 employees (31 December 2016: approximately 71,000). 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 recruit, 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. With a view to recognising and rewarding the contribution of employees, as well as providing incentives to employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme, a share option scheme and a share award plan. Please refer to the paragraphs headed "The 2007 Scheme", "The 2017 Scheme" and "Share Award Plan" in the section headed "Other Information" in this interim report for details.

As of 30 June 2017, our recruitment efforts remained satisfactory, despite the labour shortages in our primary manufacturing locations in China.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2017. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 15 September 2017. It is expected that the interim dividend will be paid on or about 20 October 2017. In order to qualify for the interim dividend for the six months ended 30 June 2017, 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 15 September 2017.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF STELLA INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 11 to 29, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June 2017 US$'000 (Unaudited)	2016 US$'000 (Unaudited)
Revenue	3	**762,433**	721,388
Cost of sales		**(621,505)**	(588,164)
Gross profit		**140,928**	133,224
Other income		**12,944**	12,878
Other gains and losses		**(2,389)**	481
Distribution and selling expenses		**(51,330)**	(43,303)
Administrative expenses		**(40,149)**	(39,948)
Research and development costs		**(29,089)**	(30,720)
Share of result of a joint venture		**1,040**	540
Share of results of associates		**15**	(76)
Finance costs		**(219)**	(194)
Profit before tax		**31,751**	32,882
Income tax expense	4	**(3,520)**	(2,438)
Profit for the period	5	**28,231**	30,444
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**117**	(207)
Share of exchange differences of associates and a joint venture		**16**	(11)
Other comprehensive income (expense) for the period, net of income tax		**133**	(218)
Total comprehensive income for the period		**28,364**	30,226
Profit (loss) for the period attributable to:			
Owners of the Company		**28,505**	30,380
Non-controlling interests		**(274)**	64
		28,231	30,444
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**28,767**	30,189
Non-controlling interests		**(403)**	37
		28,364	30,226
Earnings per share	7		
– Basic (US$)		**0.0360**	0.0383
– Diluted (US$)		**0.0359**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	30 June 2017 US$'000 (Unaudited)	31 December 2016 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**396,772**	378,080
Prepaid lease payments		**17,210**	17,271
Interests in associates		**7,643**	7,635
Interest in a joint venture		**9,093**	8,031
Deposit paid for acquisition of property, plant and equipment	*8*	**43,558**	48,661
		474,276	459,678
CURRENT ASSETS			
Inventories		**227,052**	210,412
Trade and other receivables	*9*	**427,665**	359,337
Bills receivables	*9*	**–**	336
Prepaid lease payments		**605**	591
Amounts due from associates	*10*	**25,980**	24,407
Amount due from a joint venture	*11*	**11,174**	11,410
Derivative financial assets		**2,228**	–
Held for trading investments	*12*	**14,197**	23,892
Cash and cash equivalents		**89,572**	82,453
		798,473	712,838
CURRENT LIABILITIES			
Trade and other payables	*13*	**132,623**	139,412
Bank borrowings – due within one year	*14*	**117,905**	114
Tax liabilities		**52,853**	51,884
Derivative financial liabilities		**5**	5
		303,386	191,415
NET CURRENT ASSETS		**495,087**	521,423
		969,363	981,101
CAPITAL AND RESERVES			
Share capital	*15*	**10,160**	10,160
Share premium and reserves		**957,351**	968,760
Equity attributable to owners of the Company		**967,511**	978,920
Non-controlling interests		**(1,466)**	(1,063)
TOTAL EQUITY		**966,045**	977,857
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	*14*	**3,318**	3,244
		969,363	981,101

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Capital reserve US$'000	Exchange reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000	Share award reserve US$'000	Accumulated profits US$'000	Sub-total US$'000	Non–controlling interests US$'000	Total US$'000
At 1 January 2017 (audited)	10,160	154,503	45,427	1,146	(5,276)	(2,722)	190	1,450	774,042	978,920	(1,063)	977,857
Profit (loss) for the period	–	–	–	–	–	–	–	–	28,505	28,505	(274)	28,231
Other comprehensive income (expense) for the period	–	–	–	–	262	–	–	–	–	262	(129)	133
Total comprehensive income (expense) for the period	–	–	–	–	262	–	–	–	28,505	28,767	(403)	28,364
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	623	–	623	–	623
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(40,799)	(40,799)	–	(40,799)
At 30 June 2017 (unaudited)	10,160	154,503	45,427	1,146	(5,014)	(2,722)	190	2,073	761,748	967,511	(1,466)	966,045
At 1 January 2016 (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 2017

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES:		
Decrease in held for trading investments	**10,486**	9,394
Increase in trade and other receivables	**(73,876)**	(64,173)
Other operating cash flows	**17,522**	(7,967)
	(45,868)	(62,746)
NET CASH USED IN INVESTING ACTIVITIES:		
Deposit paid for acquisition of property, plant and equipment	**(4,069)**	(13,163)
Increase in derivative financial instruments	**(1,084)**	(25,000)
Purchase of property, plant and equipment	**(19,468)**	(36,117)
Other investing cash flows	**934**	2,087
	(23,687)	(72,193)
NET CASH FROM FINANCING ACTIVITIES:		
New short-term bank borrowings raised	**464,957**	409,129
Repayment of short-term bank borrowings	**(347,294)**	(268,134)
New long-term bank borrowing raised	**–**	3,351
Repayment of long-term bank borrowing	**–**	(3,211)
Dividend paid	**(40,799)**	(56,290)
Other financing cash flows	**(219)**	(194)
	76,645	84,651
Net increase (decrease) in cash and cash equivalents	**7,090**	(50,288)
Cash and cash equivalents at the beginning of period	**82,453**	145,126
Effect of foreign exchange rate changes	**29**	(64)
Cash and cash equivalents at the end of period, represented by bank balances and cash	**89,572**	94,774

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 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.

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2016.

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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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 HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the Annual improvements to HKFRSs 2014 – 2016 cycle

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.

In addition, the Group has applied the following accounting policy in the current interim period:

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to director and eligible participants

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share award reserve.

When share options are exercised, the amount previously recognised in share award reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share award reserve will be transferred to accumulated profits.

3. SEGMENT INFORMATION

Information reported to the chief executive of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of footwear manufactured and on footwear retailing and wholesaling. This is also the basis upon which the Group is organised and managed. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

1) Men's footwear – the manufacturing and sales of men's footwear

2) Women's footwear – the manufacturing and sales of women's footwear

3) Footwear retailing and wholesaling of self-developed brands

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 2017

	Men's footwear US$'000 (Unaudited)	Women's footwear US$'000 (Unaudited)	Footwear retailing and wholesaling US$'000 (Unaudited)	Segment total US$'000 (Unaudited)	Eliminations US$'000 (Unaudited)	Consolidated US$'000 (Unaudited)
Revenue						
External sales	304,103	413,254	45,076	762,433	–	762,433
Inter-segment sales	68	10,120	–	10,188	(10,188)	–
Total	304,171	423,374	45,076	772,621	(10,188)	762,433
Results						
– Segment results	28,523	56,925	669	86,117	–	86,117
Unallocated income						
– Interest income on bank balances						216
– Interest income from held for trading investments						107
– Interest income from derivative financial instruments						685
– Rental income						1,021
– Sale of scrap materials						171
– Net gain on changes in fair value of derivative financial instruments						1,144
– Net gain on changes in fair value of held for trading investments						791
– Others						7,547
Unallocated expenses						
– Research and development costs						(29,089)
– Central administrative costs						(37,795)
– Finance costs						(219)
Share of result of a joint venture						1,040
Share of results of associates						15
Profit before tax						31,751

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2016

	Men's footwear US$'000 (Unaudited)	Women's footwear US$'000 (Unaudited)	Footwear retailing and wholesaling US$'000 (Unaudited)	Segment total US$'000 (Unaudited)	Eliminations US$'000 (Unaudited)	Consolidated US$'000 (Unaudited)
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
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 materials						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

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

4. INCOME TAX EXPENSE

	Six months ended 30 June 2017 US$'000 (Unaudited)	2016 US$'000 (Unaudited)
Current tax:		
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")	**8,438**	6,388
Hong Kong Profits Tax	**14**	–
Other jurisdictions	**69**	65
	8,521	6,453
Overprovision in prior years:		
PRC EIT	**(5,001)**	(4,015)
	3,520	2,438

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

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.

Taxation arising in other jurisdictions including Indonesia and Italy is calculated at the rates prevailing in the relevant jurisdictions.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June 2017 US$'000 (Unaudited)	2016 US$'000 (Unaudited)
Allowance for doubtful debts	**–**	(402)
Reversal of write-down of inventories (included in cost of sales)	**(422)**	(1,220)
Loss on disposal of property, plant and equipment	**1,175**	1,498
Depreciation of property, plant and equipment	**18,971**	21,937
Release of prepaid lease payments	**456**	469
Net fair value gain on held for trading investments (included in other gains and losses)	**(791)**	(1,132)
Net fair value gain on derivative financial instruments (included in other gains and losses)	**(1,144)**	(542)
Interest income on bank balances	**(216)**	(454)
Interest income from held for trading investments	**(107)**	(1,633)
Interest income from derivative financial instruments	**(685)**	–

6. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Final dividend declared and paid for 2016 – HK30 cents (2015: HK55 cents) per share	**30,599**	56,290
Special dividend declared and paid for 2016 – HK10 cents (2015: Nil) per share	**10,200**	–
Interim dividend declared subsequent to period end – HK30 cents (2016: HK30 cents) per share	**30,463**	30,674
	71,262	86,964

The board has determined the payment of an interim dividend in respect of the six months ended 30 June 2017 of HK30 cents (for the six months ended 30 June 2016: 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 15 September 2017.

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	
	2017	2016
	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	**28,505**	30,380

	Six months ended 30 June	
	2017	2016
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**792,602**	792,602
Effect of dilutive potential ordinary shares: Adjustment in relation to share options outstanding	**774**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**793,376**	792,602

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period after deducting the shares held in trust for the Company by Teeroy Limited (see note 17).

Diluted earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by weighted average number of ordinary shares in issue after deducting the shares held in trust for the Company by Teeroy Limited (see note 17) and adjusting the potential dilutive effect of the outstanding options during the six months ended 30 June 2017.

Diluted earnings per shares was not presented for the six months ended 30 June 2016 as there was no dilutive ordinary shares in existence during the period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately US$29,526,000 (for the six months ended 30 June 2016: US$37,967,000) for business expansion.

In addition, during the current interim period, the Group paid approximately US$4,069,000 (for the six months ended 30 June 2016: US$13,163,000) in deposits for acquisition of property, plant and equipment to expand its manufacturing capacities in the PRC and Vietnam, and the amount of deposits of approximately US$9,231,000 (for the six months ended 30 June 2016: US$1,850,000) for acquiring the property, plant and equipment were completed and transferred to the property, plant and equipment.

The Group has pledged freehold land and buildings with net book values of approximately US$3,647,000 (31 December 2016: US$3,441,000) and US$2,176,000 (31 December 2016: US$2,107,000), 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 extention of credit period to customers may be granted by considering the credit worthiness, the customers' financial condition and the payment history with the Group.

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 2017 US$'000 (Unaudited)	31 December 2016 US$'000 (Audited)
Trade and bills receivables:		
0 – 30 days	**176,066**	137,100
31 – 60 days	**105,331**	74,404
61 – 90 days	**16,628**	14,660
Over 90 days	**5,381**	10,927
	303,406	237,091
Other receivables	**124,259**	122,582
	427,665	359,673

Other receivables include prepayment to suppliers of US$70,487,000 (31 December 2016: US$79,442,000).

Movements in the allowance for doubtful debts

	30 June 2017 US$'000 (Unaudited)	31 December 2016 US$'000 (Audited)
Balance at beginning of the period/year	**487**	1,500
Amounts written off as uncollectible	**–**	(1,013)
Balance at end of the period/year	**487**	487

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

12. HELD FOR TRADING INVESTMENTS

	30 June 2017 US$'000 (Unaudited)	31 December 2016 US$'000 (Audited)
Bonds:		
– listed in Hong Kong	**2,588**	8,030
– listed overseas	**11,609**	15,862
	14,197	23,892

The fair values of the above investments were measured with reference to quoted market price provided by the financial institution managing the funds.

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 2017 US$'000 (Unaudited)	31 December 2016 US$'000 (Audited)
Trade payables:		
0 – 30 days	**65,949**	63,902
31 – 60 days	**12,729**	7,171
Over 60 days	**10,220**	19,972
	88,898	91,045
Other payables	**43,725**	48,367
	132,623	139,412

14. BANK BORROWINGS

	30 June 2017 US$'000 (Unaudited)	31 December 2016 US$'000 (Audited)
Bank borrowings comprised of:		
Bank loan – secured	**3,559**	3,358
Bank loans – unsecured	**117,664**	–
	121,223	3,358

Secured bank loan

As at 30 June 2017, included in bank borrowings was a secured bank loan denominated in New Taiwan dollars amounting to US$3,559,000 (31 December 2016: US$3,358,000), which was repayable by instalments within 5 years 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% (31 December 2016: 1.09%) per annum. It was secured by the Group's freehold land and building with carrying amounts of US$3,647,000 (31 December 2016: US$3,441,000) and US$2,176,000 (31 December 2016: US$2,107,000) respectively. The proceeds were used mainly for general working capital purposes. This balance was shown under current and non-current liabilities as at 30 June 2017 and 31 December 2016.

14. BANK BORROWINGS (continued)

Unsecured bank loans

During the six months ended 30 June 2017, the Group also obtained new bank loans denominated in United States dollars amounting to approximately US$464,957,000 and repaid these bank loans of approximately US$347,294,000. These loans contained a repayment on demand clause and were carrying interest at variable rate ranging from 0.65% to 1.86% 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$'000	US$'000
Ordinary share of HK$0.10 each			
Authorised:			
As at 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	5,000,000,000	500,000	63,975
Issued and fully paid:			
As at 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	794,379,500	79,438	10,160

16. CAPITAL COMMITMENTS

	30 June 2017 US$'000 (Unaudited)	31 December 2016 US$'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**11,631**	12,615

17. SHARE-BASED PAYMENTS TRANSACTIONS

The Company's former long term incentive scheme (the "Old Scheme") was adopted pursuant to a resolution passed on 15 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and had expired on 5 July 2017. Under the Old Scheme, the board of directors of the Company may grant an award either by way of option, to subscribe shares of the Company, an award of shares or a grant of a conditional right to acquire shares, to eligible employees, including directors of the Company and its subsidiaries. Pursuant to the Old 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 2017, the Trustee maintained a pool of 1,778,000 shares (the "Entrusted Shares") on trust for the Company and it will, at the direction of the Company, transfer, assign or otherwise deal with the Entrusted Shares , provided that no Entrusted Shares may be transferred to the Company unless in compliance with the applicable laws and regulations (including the Code of Share Repurchase) and that the Trustee is not required to exercise the voting rights attaching to the Entrusted Shares.

During the six months ended 30 June 2016, no share options of the Company were granted, exercised or cancelled by the Company under the Old Scheme.

On 17 March 2017, the Company granted an aggregate of 27,970,000 share options under the Old Scheme, by 5 equal tranches of 5,594,000 share options. The share options are valid for a term of six years from the date of grant, and the vesting of the share options on a particular vesting date is conditional upon satisfaction of certain conditions, including (1) the net profit ratio and the revenue growth ratio of the Group for the financial year immediately preceding the relevant vesting date shall meet the targets as prescribed by the Board of Directors for the relevant financial year; and (2) the relevant grantee shall obtain the grade prescribed in the performance appraisal to be conducted and completed by the management before the relevant vesting date in respect of the work performance of the relevant grantee in the financial year immediately preceding that vesting date. Details of the share options granted are set out in the Company's announcement dated 17 March 2017.

The share options shall be vested on the following estimated date of results announcement of the Company for the relevant financial years and shall be exercisable as follows:

Share options	Date of grant	Vesting period	Exercise period	Exercise price
2017-A	17 March 2017	17 March 2017 to 21 March 2018	22 March 2018 to 16 March 2023	HK$11.48
2017-B	17 March 2017	17 March 2017 to 21 March 2019	22 March 2019 to 16 March 2023	HK$11.48
2017-C	17 March 2017	17 March 2017 to 21 March 2020	22 March 2020 to 16 March 2023	HK$11.48
2017-D	17 March 2017	17 March 2017 to 21 March 2021	22 March 2021 to 16 March 2023	HK$11.48
2017-E	17 March 2017	17 March 2017 to 21 March 2022	22 March 2022 to 16 March 2023	HK$11.48

17. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

Details of the movements of the share options granted are as follows:

For the six months ended 30 June 2017

Category of participants	Share options	Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Forfeited/ lapsed during the period	Outstanding as at 30 June 2017
Director						
Lo-Jen, Chi	2017-A	–	683,500	–	–	683,500
	2017-B	–	683,500	–	–	683,500
	2017-C	–	683,500	–	–	683,500
	2017-D	–	683,500	–	–	683,500
	2017-E	–	683,500	–	–	683,500
Employees and other eligible participants in aggregate	2017-A	–	4,910,500	–	–	4,910,500
	2017-B	–	4,910,500	–	–	4,910,500
	2017-C	–	4,910,500	–	–	4,910,500
	2017-D	–	4,910,500	–	–	4,910,500
	2017-E	–	4,910,500	–	–	4,910,500
		–	27,970,000	–	–	27,970,000
Exercisable at the end of the period						–
Weighted average exercise price		N/A	HK$11.48	–	–	HK$11.48

17. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

The valuation of share options was carried out by Ascent Partners Valuation Service Limited, an independent professional valuer not connected by the Group. The fair value was determined using a binomial option pricing model. The following table lists the significant inputs to the model used at the date of grant.

Grant date share price	HK$11.48
Exercise price	HK$11.48
Expected volatility	28.32%
Share options life	6 years
Expected dividend yield	28.32%
Risk-free interest rate	1.60%

The variables and assumptions used in computing the fair values of the share options are based on the directors' best estimates. Expected volatility is based on the historical share price volatility of the Company over the most recent period commensurate with the contractual life of the share options. Expected dividend yield is based on the historical dividend payment of the Company. The risk-free interest rate is assumed with reference to Hong Kong government bond yield with maturity matching the contractual life of the share options as at the date of grant. The values of the share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to the assumptions regarding future performance on which the model is based, and certain inherent limitations of the model itself. The value of the share options varies according to the value of the inputs, which may be subjective in nature. Any change to the variables used may materially affect the estimated fair value of the share options.

At 30 June 2017, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 27,970,000, representing 3.5% (31 December 2016: Nil) of the shares of the Company in issue at that date.

The estimated fair values of the options granted on the date of grant is HK$37,045,000 (equivalent to US$4,780,000). The Group recognised share-based payments expense of approximately HK$4,826,000 (equivalent to approximately US$623,000) (for the six months ended 30 June 2016: Nil) for the six months ended 30 June 2017 in relation to share options granted by the Company.

Share award plan

On 16 March 2017, the Company adopted a new share award plan (the "Share Award Plan") pursuant to which shares of the Company may be awarded to selected eligible participants, including, among others, any employee of, non-executive director of, supplier of goods or services to, customer of, person or entity providing design, research, development or other technological support to, shareholder of, holder of any security issued by, and adviser or consultant in respect of any area of business or business development of any member of the Group or any entity in which any member of the Group holds any equity interest, and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. The Share Award Plan became effective immediately on 16 March 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

17. SHARE-BASED PAYMENTS TRANSACTIONS (continued)

Share award plan (continued)

In any given financial year of the Company, the maximum number of shares to be subscribed for and/or purchased by the trustee by utilising the funds to be allocated by the board out of the Company's resources for the purpose of the Share Award Plan shall not exceed 2.5% of the total number of issued shares as at the beginning of such financial year. Details of the Share Award Plan are set out in the announcement of the Company dated 16 March 2017.

During the six months ended 30 June 2017, no shares had been granted under the Share Award Plan.

Share option scheme

On 19 May 2017, the Company adopted a new share option scheme (the "Share Option Scheme") pursuant to which shares of the Company may be awarded to selected eligible participants. The Share Option Scheme became effective immediately on 19 May 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

During the six months ended 30 June 2017, no shares of the Company were granted, exercised or cancelled by the Company under the Share Option Scheme.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

	Financial assets/ financial liabilities	Fair value as at 30 June 2017	Fair value as at 31 December 2016	Fair value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
		US$'000 (Unaudited)	US$'000 (Audited)				
1)	Held for trading non-derivative financial assets classified as held for trading investments in the condensed consolidated statement of financial position	Listed bonds in Hong Kong – 2,588 Listed bonds in elsewhere – 11,609	Listed bonds in Hong Kong – 8,030 Listed bonds in elsewhere – 15,862	Level 1	Quoted bid prices in an active market	N/A	N/A
2)	Dual currency deposits classified as derivative financial instruments in the condensed consolidated statement of financial position	Assets – 2,228	Assets – Nil	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchanges rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A
3)	Call option granted by the Group classified as derivative financial instruments in the condensed consolidated statement of financial position	Liabilities – 5	Liabilities – 5	Level 3	Binomial option pricing model The fair value is estimated based on risk free rate for the life of the option and expected volatility of the share price of a set of comparable companies with similar business nature with the relevant group of subsidiaries, and expected dividend yield	Expected volatility of the share price of a set of comparable companies with similar business nature with the relevant group of subsidiaries, determined by reference to the historical share price of those companies	The higher the volatility, the higher the fair value

Fair value measurements and valuation process

The board of directors of the Company has closely monitored and determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

19. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June 2017 US$'000 (Unaudited)	2016 US$'000 (Unaudited)
辛集市寶得福皮業有限公司 (Xinji Baodefu Leather Co. Ltd.) [1]	Purchase of footwear products	**32,294**	35,322
Couture Accessories Limited [1]	Purchase of footwear products	**–**	262
	Sales of footwear products	**8**	–
Bay Footwear Company Limited [2]	Purchase of footwear products	**30,620**	27,656

Notes:

[1] Associates of the Company.

[2] A joint venture of the Company.

(II) Related party balances

Details of balances with related parties are set out in notes 10 and 11.

(III) 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 2017 US$'000 (Unaudited)	2016 US$'000 (Unaudited)
Short-term benefits	**417**	374
Equity-settled share-based payments	**76**	–
	493	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.

20. EVENTS AFTER THE REPORTING PERIOD

(a) On 13 July 2017, the Group entered into a supplemental investment agreement (the "Supplemental Agreement") with Max Group Holdings Limited (the "Max Group"), indirectly owned as to approximately 64.75% by the brother of Mr. Chiang, an executive Director and chairman of the Group, to amend certain terms of the original investment agreement dated 18 October 2016 (the "Investment Agreement") previously entered into, of which under the Investment Agreement, a restructuring of the Group's PRC retail business shall take place pursuant to which (1) the Group shall procure, among others, that all of the Group's PRC retail business shall be injected into a special purpose vehicle (the "SPV") and/or its wholly-owned subsidiary in Hong Kong (the "Restructuring") within six months from the date of the Investment Agreement; and (2) all amounts owed by members of the SPV and its subsidiaries to the Group shall be repaid in full. During the current interim period, the required Restructuring was yet completed. Pursuant to the Supplemental Agreement, both contracting parties have further agreed to exclude repayment of all amounts owed by members of the SPV to the Group from the scope of the Restructuring and to extend the period of the Restructuring to be completed from six months to nine months from the date of the Investment Agreement, and both parties agreed to procure the SPV to enter into two bank loan agreements with aggregate principal amounts of RMB180 million for drawdown within three months after the date of completion of the sale and purchase of 60% interests in the SPV and capable of being used by the SPV and its subsidiaries for repaying the amounts owed by any member of the SPV to any member of the Group. On the same date, the Restructuring was completed in accordance with the terms and conditions of the Supplement Agreement. Accordingly, the Group sent a completion notice of Restructuring to Max Group and it entitled that the call option granted to Max Group became exercisable for a period of 12 months commencing from the date of completion of the Restructuring (i.e. from 13 July 2017 to 12 July 2018). On 13 July 2017, Max Group exercised such call option to acquire 60% interests in the SPV at a cash consideration of approximately US$10,577,000 (equivalent to approximately HK$82,498,000) in accordance with the terms of the Supplemental Agreement. The transaction was completed on 19 July 2017.

Details of the transaction are set out in the announcements of the Company dated 18 October 2016, 13 July 2017 and 19 July 2017.

(b) On 19 July 2017, a wholly-owned subsidiary of the Group, as a supplier, and Max Group, as a purchaser, entered into the master manufacturing agreement in relation to the manufacture and supply of footwear products bearing specified trademarks owned by Max Group and the grant of the non-exclusive right to manufacture such footwear products under such specified trademarks owned by Max Group in various specified locations to the Group for a term commencing from the date thereof and ending on 31 December 2019. Pursuant to the master manufacturing agreement, the total consideration which will be payable by Max Group to the Group for the manufacture and supply of footwear products will not exceed US$3 million, US$6 million and US$9 million for the years ending 31 December 2017, 2018 and 2019, respectively.

In addition, another wholly-owned subsidiary of the Group, as a supplier, and a non-wholly owned subsidiary held as to 60% by Max Group, as a distributor, entered into the exclusive distribution agreement in relation to the supply of footwear products, leather goods and accessories bearing specified trademarks owned by the Group and the grant of the exclusive right to distribute the products under the specified trademarks owned by the Group in the PRC for a term commencing from the date thereof and ending on 31 December 2019. Pursuant to the exclusive distribution agreement, the total consideration which will be payable by Max Group to the Group for the supply of footwear products will not exceed RMB100 million, RMB250 million and RMB320 million for the years ending 31 December 2017, 2018 and 2019, respectively.

These arrangements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details of the arrangements were set out in the announcements of the Company dated 19 July 2017 and 28 July 2017.

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Aggregate long positions in shares and underlying shares of the Company

Director	Capacity/Nature of Interests	Number of Shares Personal Interest	 Corporate Interest	Number of Underlying Shares	Total	Approximate Percentage of Shareholding
Bolliger Peter	Beneficial owner	150,000	–	–	150,000	0.02%
Chao Ming-Cheng, Eric	Beneficial owner and interest of controlled corporation	238,500	26,205,289 *(Note 1)*	–	26,443,789	3.33%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	238,000	21,921,870 *(Note 2)*	–	22,159,870	2.79%
Chi Lo-Jen	Beneficial owner	1,783,500	–	3,417,500 *(Note 3)*	5,201,000	0.65%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	331,500	28,551,674 *(Note 4)*	–	28,883,174	3.64%

Notes:

1. These interests were held by a company, the entire issued share capital of which was held by Mr. Chao Ming-Cheng, Eric. Mr. Chao Ming-Cheng, Eric was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

2. These interests were held by a company, the entire issued share capital of which was held by Mr. Chen Li-Ming, Lawrence. Mr. Chen Li-Ming, Lawrence was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

3. These interests are Options (as defined in the paragraphs headed "The 2007 Scheme" in the section headed "Other Information" below) granted but not yet vested under the 2007 Scheme (as defined in the paragraphs headed "The 2007 Scheme" in the section headed "Other Information" below).

4. These interests were held by a company, the entire issued share capital of which was held by Mr. Chiang Jeh-Chung, Jack. Mr. Chiang Jeh-Chung, Jack was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2017, the interests and short positions of the then shareholders of the Company (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:–

Long position in the shares of the Company

Name	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Cordwalner Bonaventure Inc.	Beneficial owner	246,412,214	31.02%
The Capital Group Companies, Inc.	Interest of corporation controlled	63,053,000	7.94%
Capital Research and Management Company	Investment manager	47,261,000	5.95%

Save as disclosed above, as at 30 June 2017, no person (other than a Director or chief executive of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above), had an interest or short position in the shares and underlying shares of the Company that were required to be recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

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 Listing Rules throughout the six months ended 30 June 2017, 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 2016 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 19 May 2017 (the "2017 AGM"). Instead, Mr. Chao Ming-Cheng, Eric, the Deputy Chairman of the Board, took the chair at the 2017 AGM, and the chairmans and members of the audit committee, corporate governance committee, remuneration committee and nomination committee attended the 2017 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 the 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 2017.

Board Practices

The Board assumes the responsibility for leadership and control of the Company, and is collectively responsible for the success of the Company by directing and supervising the Company's affairs. The respective responsibility of the Board and the management of the Company have been formalised and set out in writing.

There is a clear division of responsibilities between the chairman of the Board and the chief executive officer of the Group, which have been formalised and set out in writing.

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, the policy of selection and nomination of Directors has been established and set out in writing. Directors are selected and nominated based on their experience, competencies, skills, geographical network capabilities and cross-border experiences in pursuit of maintaining a Board of diversified background and competencies, in order to contribute to more effective Board deliberations and business directions of the Group.

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Directors have been provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable them to make an informed decision and to discharge their duties and responsibilities as Directors.

Risk Management and Internal Control

The effectiveness of the risk management and internal control systems and the progress of internal audit are reviewed, and their respective aspects that can be strengthened are identified, at the regular Audit Committee (as defined below) meetings. The findings at such meetings are reported subsequently at Board meetings. This enables the Directors to assess the effectiveness of the risk management and internal control systems of the Group, which helps managing enterprise risks and improving its risk mitigation. The internal control functions are vested in the internal audit team which reports directly to the Audit Committee and the chief executive officer of the Company.

Audit Committee

Pursuant to the requirements of the CG Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising four independent non-executive Directors, Mr. Yue Chao-Tang, Thomas, Mr. Chen Johnny, Mr. Chan Fu Keung, William, *BBS* and Mr. Lian Jie. The chairman of the Audit Committee is Mr. Yue Chao-Tang, Thomas. The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations. The Audit Committee has reviewed the Group's interim report for the six months ended 30 June 2017.

Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") pursuant to the requirements of the Listing Rules. The Remuneration Committee has three members comprising all independent non-executive Directors, Mr. Chan Fu Keung, William, *BBS*, Mr. Chen Johnny and Mr. Yue Chao-Tang, Thomas. The chairman of the Remuneration Committee is Mr. Chan Fu Keung, William, *BBS*. The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration, reviewing and making recommendations to the Board and the management's remuneration proposals for Directors and reviewing the Group's overall human resources strategy.

Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") in compliance with the CG Code. The Nomination Committee has five members comprising all independent non-executive Directors, Mr. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, *BBS*, Mr. Yue Chao-Tang, Thomas and Mr. Lian Jie. The chairman of the Nomination Committee is Mr. Chen Johnny. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

Corporate Governance Committee

To facilitate more effective implementation of corporate governance practices, the Company has established a corporate governance committee (the "Corporate Governance Committee"). The Corporate Governance Committee has three members comprising all independent non-executive Directors, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, *BBS* and Mr. Yue Chao-Tang, Thomas. The chairman of the Corporate Governance Committee is Mr. Bolliger Peter. The principal duties of the Corporate Governance Committee include developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, reviewing the Company's compliance with the CG Code and the relevant disclosure in the Company's annual and interim reports, reviewing and monitoring the Company's communication policy and practices with its Shareholders and investor communities and reviewing and monitoring the training and continuous professional development of Directors and senior management. The Corporate Governance Committee advocates upholding the principles of "4Rs" – regulatory compliance, risk management, investor relations and corporate social responsibility, believing that the fulfillment of which will translate into long-term returns to the Shareholders.

Executive Committee

To facilitate more efficient day-to-day operations of the Group and to handle such matters as delegated by the Board from time to time, the Company has established an executive committee (the "Executive Committee") in July 2015. The Executive Committee has four members comprising all executive Directors, Mr. Chen Li-Ming, Lawrence, Mr. Chiang Jeh-Chung, Jack, Mr. Chao Ming-Cheng, Eric and Mr. Chi Lo-Jen. The chairman of the Executive Committee is Mr. Chen Li-Ming, Lawrence, the chief executive officer of the Group. The principal duties of the Executive Committee include monitoring and reviewing the implementation of business plans or projects approved by and policies laid down by the Board, discussing and making decisions on matters relating to the management and operations of the Group including but not limited to corporate matters, financial/treasury planning and business and operating strategies and considering and making recommendations to the Board on acquisition, disposals or investments in business or any other projects.

OTHER INFORMATION

Update on Directors' Information

Mr. Chen Johnny, an independent non-executive Director of the Company, has been appointed as an independent non-executive director of China Dongxiang (Group) Co., Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 3818), with effect from 5 July 2017.

The updated full biography of Mr. Chen Johnny is set forth below:

Mr. CHEN Johnny, aged 57, is an independent non-executive Director of the Company, and the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Board. Mr. Chen is currently an Adjunct Associate Professor at the Hong Kong University of Science and Technology. Mr. Chen joined Zurich Insurance Group ("Zurich") in 2005 and served as the chief executive officer of Greater China and South East Asia Regions from 2005 to 2010. From 2010 to 2013, he became the chief executive officer of the general insurance business in Asia Pacific Region. In 2013, Mr. Chen was appointed as the chairman of the life and general insurance businesses in China until his departure in 2014. Prior to joining Zurich, Mr. Chen was an executive member of the Greater China Management Board and the Operating Committee of PricewaterhouseCoopers ("PwC"). He was also the managing partner of PwC's Beijing office during the same period. From July 2005 to January 2014, Mr. Chen was a non-executive director of New China Life Insurance Company Ltd. (Stock Code: 1336), a company listed on the Main Board of the Stock Exchange. Mr. Chen is currently an independent non-executive director of Viva China Holdings Limited (Stock Code: 8032), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chen is also currently an independent non-executive director of Uni-President China Holdings Ltd. (Stock Code: 220), China Minsheng Financial Holding Corporation Limited (stock code: 245), Alibaba Pictures Group Limited (stock code: 1060) and China Dongxiang (Group) Co., Ltd (stock code: 3818) respectively, companies listed on the Main Board of the Stock Exchange. Mr. Chen received a master's degree in accounting from the University of Rhode Island and has been a U.S. qualified CPA since 1986. Mr. Chen has been appointed as an independent non-executive Director of the Company since February 2009.

The 2007 Scheme

A long term incentive scheme (the "2007 Scheme") was conditionally approved by a written resolution of the Shareholders passed on 15 June 2007 and was adopted by a resolution of the Board on 15 June 2007 and as amended by a resolution of the duly authorised committee of the Board on 18 June 2007 and further amended by a resolution of the Shareholders passed on 6 May 2011. The 2007 Scheme had expired on 5 July 2017.

The purpose of the 2007 Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, directors, shareholders of any member of the Group or any holder of any securities issued by any member of the Group, and to reward any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group who are potential contributors to the success, development and/or growth of the Group.

The eligible participants under the 2007 Scheme include employees, directors, shareholders of any member of the Group or holders of any securities issued by any member of the Group and advisers (professional or otherwise) or consultants to any area of business development of any member of the Group. The Board may, at its discretion and on such terms as it may think fit, grant to any eligible participant an award, either in the form of or a combination of (1) an option ("Option(s)") to subscribe for shares of the Company ("Shares"), (2) an award of Shares held in the name of or for the benefit of a grantee in accordance with the restricted share award agreement to be entered into by such grantee and the Company or (3) a grant of a conditional right to acquire Shares ("Restricted Unit Award(s)") as the Board may determine in accordance with the terms of the Scheme.

No Options were outstanding at the beginning of the period under review.

On 17 March 2017 (the "Date of Grant"), a total of 27,970,000 Options were granted to a total of 107 eligible participants (each of the eligible participants, the "Grantee"). Details are set out as below:

Subscription price of Options granted

HK$11.48 to subscribe for one Share

Closing price of the Shares immediately before the Date of Grant

HK$11.48 per Share

Vesting date and validity period of Options

The Options shall be valid for a term of six years from the Date of Grant, which shall be vested on the following date and shall be exercisable as follows:

(a) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options will be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2017 ("2018 Vesting Date"), which will be exercisable during the period commencing on the 2018 Vesting Date and expiring on 16 March 2023;

(b) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options will be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2018 ("2019 Vesting Date"), which will be exercisable during the period commencing on the 2019 Vesting Date and expiring on 16 March 2023;

(c) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options shall be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2019 ("2020 Vesting Date"), which is exercisable during the period commencing on the 2020 Vesting Date and expiring on 16 March 2023;

(d) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options shall be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2020 ("2021 Vesting Date"), which is exercisable during the period commencing on the 2021 Vesting Date and expiring on 16 March 2023; and

(e) subject to the vesting condition as mentioned below being fully or partly satisfied, up to 5,594,000 Options shall be vested on the business day immediately following the date of results announcement of the Company for the financial year ended 31 December 2021 ("2022 Vesting Date"), which is exercisable during the period commencing on the 2022 Vesting Date and expiring on 16 March 2023.

Vesting of the Options on a particular vesting date is conditional upon both of the following conditions being satisfied:

(1) Both the net profit ratio and the revenue growth ratio of the Group for the financial year immediately preceding the relevent vesting date shall meet the targets as prescribed by the Board for the relevent financial year. If either the net profit ratio or the revenue growth ratio of the Company for the relevant financial year fails to meet the prescribed target, 50% of the Options granted which are expected to vest in the relevant Grantee(s) on the relevant vesting date shall become vested in the relevant Grantee(s) on that date. If both the net profit ratio and the revenue growth ratio of the Company for the relevant financial year meet the prescribed targets, 100% of the Options granted which are expected to vest in the relevant Grantee(s) on the relevant vesting date shall become vested accordingly. However, if both the net profit ratio and the revenue growth ratio of the Company for the relevant financial year fall below the prescribed targets, all the Options granted which are expected to vest in the relevant Grantee(s) on the relevant vesting date shall automatically lapse on that date.

(2) The relevant Grantee(s) shall obtain grade C or above in the appraisal conducted and completed by the management of the Company before the relevant vesting date in respect of the work performance of the relevant Grantee(s) in the financial year immediately preceding that vesting date. If the relevant Grantee(s) fails to achieve the results as described, all the Options granted which are expected to vest in the relevant Grantee(s) on the relevant vesting date shall automatically lapse on that date.

Out of these 27,970,000 Options, 3,417,500 Options were granted to Mr. Chi Lo-Jen, an executive director of the Company, an aggregate of 24,552,500 Options were granted to the employees and other eligible participants of the Group. Details are set out as below:

Category of participants	Outstanding as at 1 January 2017	Date of grant	Number of Options granted	Exercise period	Exercise price	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2017
Director									
Chi Lo-Jen	–	17 March 2017	683,500	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
	–	17 March 2017	683,500	2019 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
	–	17 March 2017	683,500	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
	–	17 March 2017	683,500	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
	–	17 March 2017	683,500	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
Employees and other eligible participants									
In aggregate	–	17 March 2017	4,910,500	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	4,910,500
	–	17 March 2017	4,910,500	2019 Vesting Date to 16 March 2023	HK$11.48	–	–	–	4,910,500
	–	17 March 2017	4,910,500	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	–	4,910,500
	–	17 March 2017	4,910,500	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	–	4,910,500
	–	17 March 2017	4,910,500	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	–	4,910,500

During the period under review, no Options were exercised or cancelled or lapsed under the 2007 Scheme.

Pursuant to the terms of the 2007 Scheme, the Company has entered into an engagement agreement (the "Engagement Agreement") and a deed of settlement (the "Deed") dated 2 June 2008 and 27 August 2008 respectively with a trustee (the "Trustee") for the administration by the Trustee of the awards of Restricted Unit Awards under the Scheme. The Engagement Agreement and the Deed were subsequently terminated with effect from 15 July 2013.

As at 30 June 2017, the Trustee maintained a pool of 1,778,000 shares (the "Entrusted Shares") (31 December 2016: 1,778,000 shares) on trust for the Company and it will, at the direction of the Company, (i) transfer, assign or otherwise deal with the Entrusted Shares (other than the Company); and (ii) account for all other incomes and sales proceeds to the Company.

The 2017 Scheme

A new share option scheme (the "2017 Scheme") was approved by an ordinary resolution of the shareholders of the Company on 19 May 2017. The terms of the 2017 Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

Purpose

The purpose of the 2017 Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the New Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

Participants

The Directors (which expression shall, for the purpose of this paragraph, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares: (a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest ("Eligible Employee"); (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of any member of the Group or any Invested Entity; (e) any person or entity that provides design, research, development or other technological support to any member of the Group or any Invested Entity; (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (g) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, and, for the purposes of the 2017 Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. The eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of the Group.

Maximum number of Shares

The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2007 Scheme, the 2017 Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time (i.e. 238,313,850 Shares as at the date of this interim report) (the "Overriding Limit").

The total number of Shares which may be issued upon exercise of all options to be granted under the 2017 Scheme and any other share option scheme of the Group must not in aggregate exceed 79,437,950 Shares, representing 10% of the Shares in issue as at the effective date of the 2017 Scheme and the date of this interim report ("General Scheme Limit").

Subject to the Overriding Limit, the Company may issue a circular to its shareholders and seek approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the 2017 Scheme and any other share option scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit.

Subject to the Overriding Limit, the Company may also seek separate shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to above to participants specifically identified by the Company before such approval is sought.

The maximum number of Shares which may fall to be issued upon exercise of the options to be granted under the 2017 Scheme and the options granted under any other share option scheme of the Group (including both exercised and outstanding options) to be granted by the Company or any other member of the Group in any given financial year of the Company shall not exceed 2.5% of the Shares in issue as at the beginning of such financial year.

Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the 2017 Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the Shares in issue for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to separate Shareholders' approval in general meeting of the Company with such participant and his close associates (or his associates if the participant is a connected person of the Company) abstaining from voting.

Grant of options to connected persons

Any grant of options under the 2017 Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive Directors of the Company (excluding any independent non-executive Director who or whose associate is the proposed grantee of the options). Where any grant of options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% of the Shares in issue; and (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million; such further grant of options must be approved by the Shareholders in general meeting. The Company must send a circular to the Shareholders. The proposed grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting, except that any such person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates must be approved by the Shareholders in general meeting.

Subscription price for Shares and consideration for the option

The subscription price for Shares under the 2017 Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. A nominal consideration of HK$1 is payable on acceptance of the grant of an option and shall be received by the Company within such time as may be specified in the offer of grant of the option, which shall not be later than 21 days from the offer date.

Period

The 2017 Scheme will remain in force for a period of 10 years commencing on 19 May 2017.

During the period under review, no Options were granted, exercised or cancelled or lapsed under the 2017 Scheme and there were no outstanding Options under the 2017 Scheme as at 30 June 2017.

Share Award Plan

On 16 March 2017, the Company adopted a share award plan (the "Plan") pursuant to which shares of the Company (each a "Share") may be awarded to selected participants, including, among others, any employee of, non-executive director of, supplier of goods or services to, customer of, person or entity providing design, research, development or other technological support to, shareholder of, holder of any security issued by, and adviser or consultant in respect of any area of business or business development of any member of the Group or any entity in which any member of the Group holds any equity interest, and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group (collectively, the "Eligible Participants"). The Plan became effective on 16 March 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

A trustee (the "Trustee") shall from time to time be appointed by the Company for the purpose of implementation of the Plan pursuant to and in accordance with the terms of the trust deed entered into between the Company as settler and the Trustee as trustee. In order to satisfy any award of Shares to be granted under the Plan from time to time, the Trustee shall maintain a pool of Shares (the "Shares Pool") which shall comprise the following: (a) such Shares as may be purchased by the Trustee on the Stock Exchange or off the market by utilising the funds allocated by the Board out of the Company's resources; (b) such Shares as may be subscribed for by the Trustee by utilising the funds allocated by the Board out of the Company's resources, subject to the Company having obtained the requisite Shareholders' approval for the allotment and issue of new Shares, the grant of listing of and permission to deal in such Shares by the Stock Exchange, and compliance with the applicable requirements under the Listing Rules; (c) such Shares as may be (i) transferred to the Trustee from any person (other than the Group) by way of gift, or (ii) purchased by the Trustee on the Stock Exchange or off the market by utilising the funds received by the Trustee from any person (other than the Group) by way of gift; and (d) such Shares which remain unvested and revert to the Trustee due to the lapse of any award of Shares under the Plan. In any given financial year of the Company, the maximum number of Shares to be subscribed for and/or purchased by the Trustee by utilising the funds to be allocated by the Board out of the Company's resources for the purpose of the Plan shall not exceed 2.5% of the total number of issued Shares as at the beginning of such financial year. The Board shall not instruct the Trustee to subscribe for and/or purchase any Shares for the purpose of the Plan when such purchase and/or subscription will result in such threshold being exceeded.

The Board will make award of Shares only to the extent that there are unallocated Shares available in the Shares Pool. The Board shall notify the Trustee in writing upon the making of an award under the Plan by giving the Trustee an award notice. The Trustee shall then set aside such number of Shares awarded from the Shares Pool and hold the same on trust pending the vesting of the same to the Eligible Participant to whom Shares have been awarded in accordance with the Plan (the "Selected Participant"). The Board may from time to time, at its discretion, determine (i) the earliest date (the "Vesting Date") on which the legal and beneficial ownership of any awarded Shares are to be transferred to and vested in any Selected Participant, and (ii) any condition(s) or performance target(s) to be attained by the relevant Selected Participant subject to and upon which the awarded Shares held by the Trustee on trust referable to a Selected Participant shall vest in that Selected Participant.

During the period under review, no award of shares had been made under the Plan.

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, 17 August 2017

CORPORATE INFORMATION

Board of Directors

Executive Directors

CHIANG Jeh-Chung, Jack, *Chairman*
CHAO Ming-Cheng, Eric, *Deputy Chairman*
CHEN Li-Ming, Lawrence, *Chief Executive Officer*
CHI Lo-Jen

Independent Non-Executive Directors

CHEN Johnny
BOLLIGER Peter
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas
LIAN Jie

Audit Committee

YUE Chao-Tang, Thomas, *Chairman*
CHEN Johnny
CHAN Fu Keung, William, *BBS*
LIAN Jie

Corporate Governance Committee

BOLLIGER Peter, *Chairman*
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas

Executive Committee

CHEN Li-Ming, Lawrence, *Chairman*
CHIANG Jeh-Chung, Jack
CHAO Ming-Cheng, Eric
CHI Lo-Jen

Nomination Committee

CHEN Johnny, *Chairman*
BOLLIGER Peter
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas
LIAN Jie

Remuneration Committee

CHAN Fu Keung, William, *BBS, Chairman*
CHEN Johnny
YUE Chao-Tang, Thomas

Authorised Representatives

CHEN Li-Ming, Lawrence
KAN Siu Yim, Katie

Chief Financial Officer

LEE Kwok Ming, Don

Company Secretary

KAN Siu Yim, Katie

Legal Adviser

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place, Hong Kong

Auditors

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway, Hong Kong

Principal Bankers

Chinatrust Commercial Bank, Ltd.
The Hongkong and Shanghai Banking Corporation Limited
Citibank Taiwan Ltd.

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House
3rd Floor, 24 Shedden Road
P.O. Box 1586, Grand Cayman,
KY1-1110, Cayman Islands

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Registered Office

Cricket Square, Hutchins Drive, P.O. Box 2681,
Grand Cayman KY1-1111, Cayman Islands

Principal Place of Business in Hong Kong

Flat C, 20/F, MG Tower,
133 Hoi Bun Road, Kowloon, Hong Kong

Stock Code

1836

Website

www.stella.com.hk

In the event of inconsistency, the English version of this interim report shall prevail over the Chinese version

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

Incorporated in the Cayman Islands with limited liability
於開曼群島註冊成立之有限公司

* for identification purpose only