ANNUAL REPORT 2017

Stella International Holdings Limited

Stock Code: 1836

MISSION STATEMENT
OUR CORE VALUES

Stella are dedicated to providing our customers with a wide range of top quality and high-end footwear. We are customer-driven and passionate about our business, and conscious of providing the best quality in everything we present to our customers. In addition to promoting these core values, the management philosophy of Stella is to be fair, caring and respectful.

OUR MISSION:
TO MAKE THE BEST SHOES

Always seeking to fulfill our promise of delivering outstanding and unique footwear, we are guided at all times by our unwavering motto of "making the best shoes" and missions of:

- We wish, within our selected business segments, to be the **preferred partner** for footwear products and associated services, contributing to an **efficient and superior supply chain**.
- By being close to our customers we fulfill their needs with **innovative, cost effective and high quality solutions**. Through **empathy, responsiveness** and **dependability** we seek to earn their loyalty.
- Our culture attracts and nourishes individuals who are energetic, committed and have a **passion with a learning attitude** for our business.
- By striving **to be the best** in our business we achieve growth and increased value for our customers, employees and shareholders.

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What For

JKJY by Stella

Stella is a leading developer and manufacturer of quality footwear and leather goods products and was listed on The Stock Exchange of Hong Kong Limited on 6 July 2007. We offer our brand clients a one-stop shop that combines elements of design, development and manufacturing.

Since 1982, Stella has developed strong working relationships with, and has produced quality shoes for, many global brand names. Our constantly expanding product range includes quality high-fashion, premium, casual, and increasingly, sports-fashion footwear. Our client base includes the world's leading casual footwear companies, namely, Clarks, Deckers, Rockport, Timberland and Wolverine, as well as leading brands in fashion footwear, such as Cole Haan, Guess, Jones Group, Kenneth Cole, Tory Burch and Michael Kors.

We also design, develop and manufacture footwear for several high-fashion icons, such as 3.1 Phillip Lim, Alexander Wang, Balenciaga, Kenzo, Marc Jacobs and Prada.

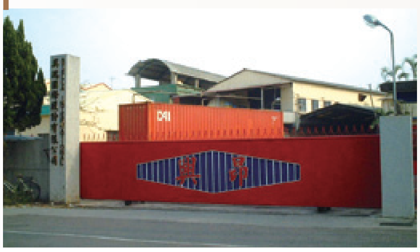
By leveraging our manufacturing expertise and the wide acceptance of Stella's products and industry recognition, we launched our branding business in 2006 under our own brands *Stella Luna, What For and JKJY by Stella*. These brands have successfully expanded into China and Europe's footwear retail markets.

We have also started to penetrate into the handbag market and position ourselves as a total solution provider for leather products to premium customers. By leveraging our strong customer base, as well as our leather product experience, we are further investing in our design and development capability to provide a wide range of leather accessories to our customers.

MILESTONES

1982

Founded in Taiwan by Jimmy Chen, Jack Chiang and Eric Chao to produce fashion footwear for US retail customers.



1991

Commenced China operations with the establishment of the Stella Footwear Factory in Changan, Dongguan.

1995

Established Seville Footwear Factory in Changan, Dongguan for the development and manufacture of casual footwear for leading companies like Clarks, Rockport, Timberland and Wolverine.

1998

Entered into an exclusive supply arrangement with Golden Star Company Limited for the manufacture of casual footwear in Vietnam.

2009

Opened *Stella Luna* Store at Dubai Mall in July.

2010

Diversified into inland China.

Expanded our casual footwear production lines in Indonesia.

2011

Introduced new men's affordable luxury footwear brand – *JKJY by Stella*.

2012

Opened *Stella Luna* Store in Paris.

PRIVATE LABEL › CASUAL/FASHION › LUXURY

COMPONENTS MANUFACTURING › ASSEMBLY › ENGINEERING & DEVELOPMENT › BRANDING/ RETAIL

2004

Developed and manufactured footwear for high-end brands.

2006

Launched *Stella Luna* flagship store in Shanghai.

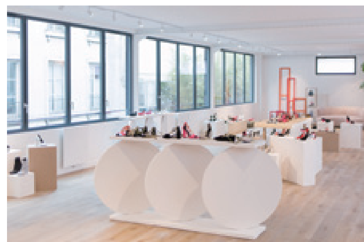
1999

Established Selena Footwear Factory in Dongguan to expand with our increased production and into premium women's fashion shoes.

2007

6 July 2007 Listed on The Stock Exchange of Hong Kong Limited.

July 2007 Expanded our retail market capabilities with the launch of our contemporary lifestyle footwear brand *What For* in China.



2013

Opened *What For* Store in Paris.

2014

Established footholds in Philippines and Myanmar, adding two more countries to our South East Asia portfolio.

2015

Completion of inland migration strategy - securing more stable labour supply and costs at Italian quality, underwriting Stella's future growth.

2016

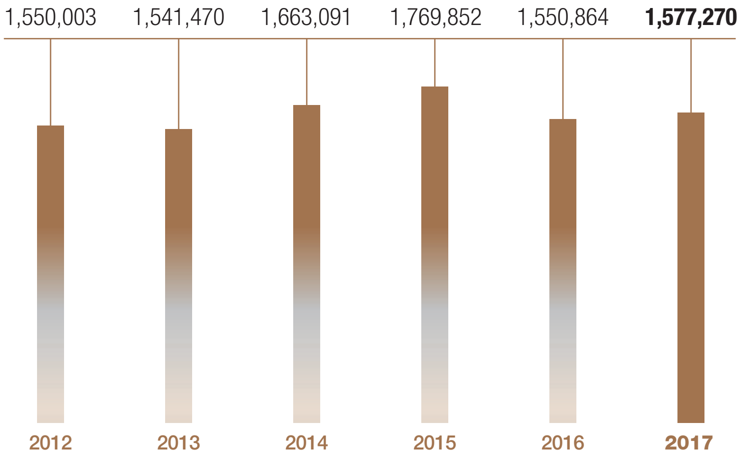
Retail brand *Stella Luna* entered new markets, including Hong Kong and the United States for the first time through renowned department stores such as Lane Crawford and Barneys New York.

2017

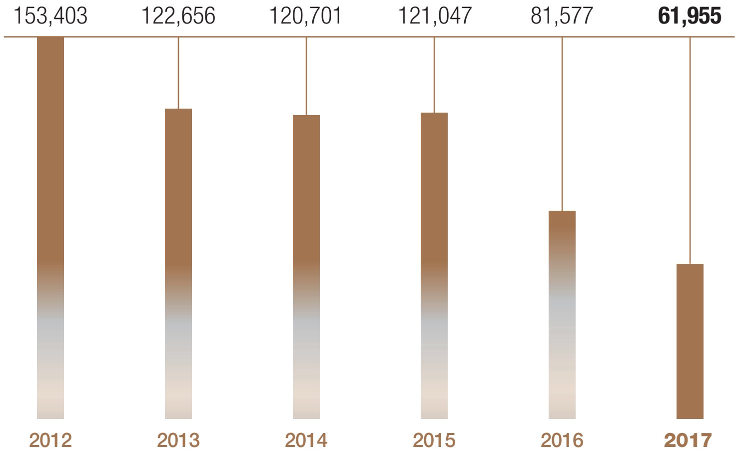
Focus on our core competencies: craftsmanship, innovation and branding.

REVENUE AND PROFIT TREND

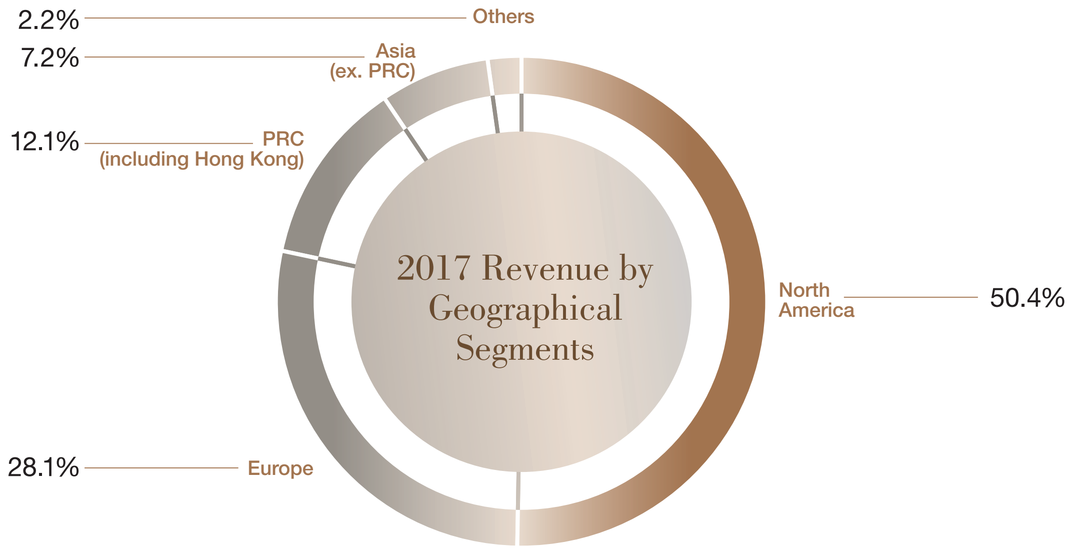
Revenue
US$'000

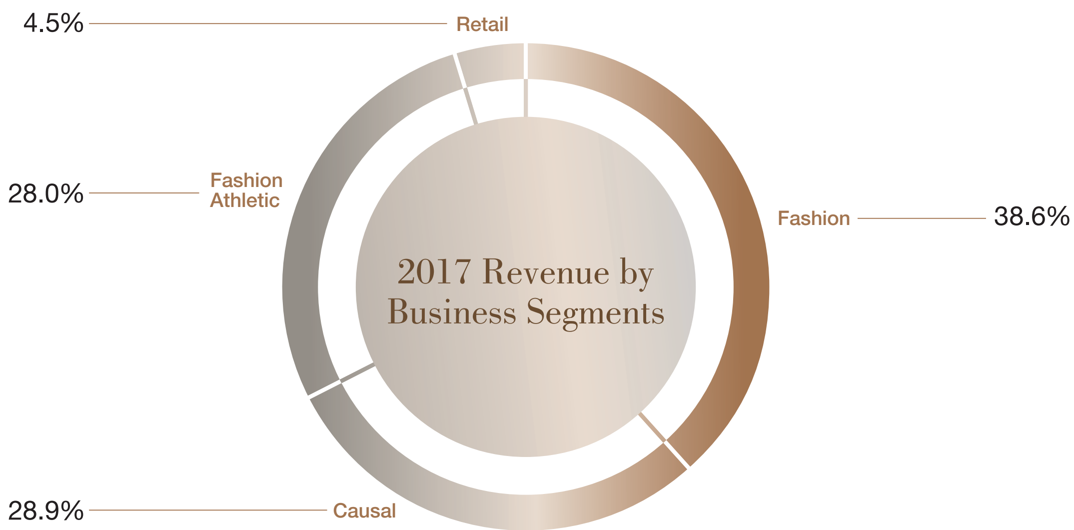


Net profit attributable to shareholders
US$'000



GEOGRAPHICALLY, NORTH AMERICA AND EUROPE CONTINUED TO BE OUR TWO LARGEST MARKETS





Stella Luna

Our mission: "Making the best shoes"

Making the best shoes

Dear Shareholders,

2017 was a fruitful year for the Group, during which we made significant progress on implementing our strategies for securing our long-term development and growth.

The first of these was our decision to sell a majority stake in our China retail business to Max Group Holdings Limited, the management team and highly experienced retail operator that was responsible for securing that business' recent turnaround. This transaction puts the day-to-day operations of our retail business in a safe pair of hands, allowing us to focus on what we are best at – brand building and developing high-quality and stylish footwear products that showcase Stella International's unique capabilities.

Another strategy in which we made significant headway was further expanding our product portfolio and capabilities to create new types of footwear products that appeal and align with rapidly changing consumer tastes. At the forefront of this is fashion athletic footwear, a product segment that remained the main growth driver of our manufacturing business this year. We continued to realign our manufacturing operations to serve this rapidly growing market by adjusting our capacity, including opening a new factory in Vietnam that is exclusively dedicated to developing fashion athletic products.

Our unique research and development capabilities also remain at the core of our offering, an attribute that continued to enhance our uniqueness and differentiation throughout the year. We believe that this capability will be increasingly important to brand customers as cross-overs become more and more common – whether it be sports brands incorporating fashion elements into their products or fashion brands incorporating sports elements into their products, which we see as becoming a more common occurrence in the future.

Of course, the manufacture of casual and fashion footwear products will remain a core part of our business. It was heartening to see some recovery in demand for our fashion footwear products as the recent wave of consolidation in the fashion industry provides brands with resources to market a more diverse product portfolio.

And best of all, total shipment volumes for the year ticked up at a decent pace, compared to 2016, as consumer sentiment and economic growth remained buoyant in most of our export markets, despite ongoing political uncertainties.

We plan to further tighten our capacity to safeguard our ability to service premium markets in order to exhibit the determination to recover our profitability and margins in the longer term. As a result, we have decided to make additional provisions this year, in anticipation of the costs arising from closing more factories in Mainland China to an optimal level.

Looking forward to 2018, we expect most of the commercial and economic trends highlighted above to continue. This means that fashion athletic footwear will remain a major growth driver for our manufacturing business, while demand for our fashion footwear products may recover further. We remain confident in our ability to benefit from this as the result of the earlier proactive steps that we have taken to secure our future competitiveness, particularly in areas such as product and capacity allocation, as well as efficiency improvement.

Meanwhile, we will continue to further build the profile of our own brands – *Stella Luna, What For* and *JKJY by Stella* – by expanding our retail store network in Europe and in famous department stores around the world. This will also allow us to market and showcase the unique design and fashion attributes that characterise all of footwear products that we create for our customers.

I would like to take this opportunity to thank our customers, business partners and shareholders for their unwavering support this year, as well as my gratitude to the Board and my colleagues for their hard work and service in 2017.

Chiang Jeh-Chung, Jack
Chairman
Hong Kong, 15 March 2018


STELLA LUNA
STELLA LUNA

Commitment to "Italian quality" supports further expansion of market share at the premium-end

Continued Growth of Fashion Athletic Footwear Business

The board ("Board") of directors ("Directors") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017.

BUSINESS MODEL AND STRATEGY

Stella is a leading developer, manufacturer 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 fashion athletic and casual brands.

We launched our branding business in 2006, which led to the creation of our three contemporary brands – *Stella Luna, What For* and *JKJY by Stella*. These brands are designed and manufactured in-house and have quickly developed a global following.

FINANCIAL HIGHLIGHTS

Shipment Volumes Recover in 2017

We saw a moderate bounce back in shipment volumes in the year, which was led by continued growth in the fashion athletic segment, as well as a recovery in demand for our casual and fashion footwear products, particularly in the second half of the year.

The key financial performance indicators of the Company are revenue growth, operating margin and return on invested capital. An analysis of these indicators are as below:

Our consolidated revenue for the year ended 31 December 2017 rose 1.7% to US$1,577.3 million (2016: US$1,550.9 million). Shipment volumes increased by 7.0% to 56.6 million pairs (2016: 52.9 million pairs). The average selling price ('ASP') of our footwear products fell 5.0% to US$26.7 per pair (2016: US$28.1 per pair) due to changes to our product mix and our customers' product mix.

Fashion footwear is our largest segment, contributing 38.6% of total revenue (2016: 42.0%) during the year ended 31 December 2017. The contributions from casual footwear and fashion athletic products were 28.9% and 28.0% respectively (2016: 29.0% and 24.0%), while the Group's own retail brands accounted for 4.5% of total revenue (2016: 5.0%).

Geographically, North America and Europe remain our two largest markets, accounting for 50.4% and 28.1% of our total revenue for the year under review. This was followed by the PRC (including Hong Kong), which accounted for 12.1%, Asia (other than the PRC), which accounted for 7.2% and other geographic regions, which accounted for 2.2%.

Impact of Acquisition of 60% of Retail Business in China

On 19 July 2017, Max Group Holdings Limited ("Max Group"), a leading footwear retail operator in the PRC, completed the acquisition of a 60% stake in our China retail business, after which the relevant companies operating the China retail business ceased to be subsidiaries of the Company and part of the Group. On the same date, we also entered into a Master Manufacturing Agreement and Exclusive Distribution Agreement with Max Group, ensuring that all self-branded footwear products in China under the labels *Stella Luna, What For* and *JKJY by Stella*, will continue to be manufactured by the Group on a wholesale basis.

These transactions and agreements allowed us to complete the turnaround of our retail business in China by leveraging on the proven local market experience and expertise of Max Group to manage the day-to-day operations of our China stores, while allowing us to focus on our core competencies: craftsmanship, innovation and branding.

Prior to the completion of the acquisition, from 1 January 2017 to 19 July 2017, our China retail business contributed revenue of US$36.5 million. Following the conclusion of the Master Manufacturing Agreement and Exclusive Distribution Agreement with Max Group, wholesale sales to Max Group from 20 July 2017 to 31 December 2017 contributed US$12.1 million.

Branding and Retail Business in Europe Growing Rapidly

During the year ended 31 December 2017, revenue from our retail business in Europe under our three retail brands, *Stella Luna, What For* and *JKJY by Stella* – rose by 26.8% to US$15.6 million, while same-store sales rose by 21.4%.

Continued Profitability Despite One-off Non-Recurring Items

Our gross profit fell 7.0% to US$270.2 million, while the full year net profit attributable to shareholders of the Company declined 24.1% to US$62.0 million, which was primarily due to one-off costs amounting to US$17.2 million that resulted from air freight charges in the first half of the year, as well as additional expenditure incurred and provisions made this year in anticipation of factory closures in the year ahead.

Excluding the one-off items of US$17.2 million in aggregate, our adjusted operating profit increased by 1.9% to US$82.1 million, while our adjusted net profit was US$79.2 million, an increase of 0.9% compared to the previous year.

Our cash generated from operations remained healthy at US$45.6 million for the year ended 31 December 2017, from US$101.5 million for the year ended 31 December 2016.

Our return on invested capital was at 7.6% in 2017, on an adjusted basis, excluding the one-off items of US$17.2 million, our return on invested capital stood at 9.6%.

Return on invested capital means operating profit for the year divided by the average of total assets excluding cash and cash equivalents.

BUSINESS REVIEW

Renewed Demand for Fashion Products in Second Half

Demand for our fashion footwear products recovered reasonably well in the second half of the year, with volumes being supported by recent large mergers and acquisitions in the fashion industry, some of which involved our customers. This trend is accelerating many of our customers' plans to expand their product portfolio into the fashion athletic category, providing us with new business opportunities.

Continued Growth of Fashion Athletic Footwear Business

On top of the recently improved performance of our fashion footwear business, fashion athletic footwear had been our main growth driver over the entire year (although the growth rate steadily normalised as the year progressed due to a diminishing base effect). Our ability to quickly grow our market share in this segment is a significant accomplishment and is an attestation of our ongoing effort to build a competitive and high-quality fashion athletic manufacturing operation.

During the year under review, we further grew our customer base in this segment, which now includes world-famous athletic brands, as well as premium and luxury fashion brands that are seeking to enter into the fashion athletic arena. Leveraging on our long-established reputation for design, research and development, quality, and our unique skill base for developing compelling footwear products, we are uniquely positioned to become a partner of choice to brands in this segment in the years to come.

Global Manufacturing Footprint Aligning with Changing Product Mix

We are continuing to diversify our manufacturing footprint outside of China, particularly in South-East Asia. A recent milestone of this was the opening of a new manufacturing factory in Vietnam during the fourth quarter of the year, which is expected to catalyse further growth from our fashion athletic business.

In addition to our research and development centres in Dongguan, China and Venice, Italy, our global 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.

Commitment to 'Italian Quality' Supports Further Expansion of Market Share at the Premium-end

Our share of the global premium footwear market had grown to around 11%, compared to the combined 74% global market share of Italian, Spanish and Portuguese manufacturers – Europe's main high-end producers. This growth was mainly attributable to the further expansion of our brand portfolio as we added new customers during the year under review, as well as the continued decline of shoe production volumes in some locations such as Italy.

The following table shows a summary of production and export price data for major footwear producing countries for the year ended 31 December 2016.

	Production (million pairs)	Export price – leather shoes only (USD/pair)
Italy	188	64
France	44	63
Spain	100	37
Portugal	82	31
Germany	37	36
Great Britain	5	29
Brazil (leather export)	20	23

Source: 2017 Yearbook, Portuguese Footwear, components and leather goods manufacturers' association

Our strong positioning in the premium footwear market is the result of the unparalleled reputation we have built in delivering 'Italian quality', flexibility and research and development capabilities. These capabilities are underpinned by our state-of-the-art design, research and development centres in Dongguan, China and Venice, Italy, allowing us to remain a preferred partner for our world-class customers.

Prudent Transactions for Safeguarding and Growing the Value of Our Retail Brands

Over the last few years, our China retail management team made significant progress in turning around our retail business in China, implementing the tough changes needed to reverse financial losses, despite strong competition and digital disruption in the China retail market.

In order to incentivise this good performance, and to allow us to concentrate on our core competencies – craftsmanship, innovation and branding – 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 relevant companies operating the China retail business ceased to be subsidiaries of the Company and part 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. The retail brands and remaining retail operations are now structured as the Group's branding business. We also remain the exclusive manufacturer of all of our brands worldwide.

OUTLOOK

Fashion Athletic Products to Remain the Main Growth Driver

Fashion athletic products will continue to be our main growth driver as we leverage on the additional capacity bought on at our new Vietnam factory. We also expect demand for our casual and fashion products to recover further, supported by buoyant consumer sentiment in the United States and most parts of Europe.

Our cautious optimism however is caveated by continued risks within the industry and the external environment, including ongoing consolidation among footwear brands, the shift of end-sales to online platforms, as well as political risks associated with tensions on the Korean Peninsula, and growing calls for trade protectionism in a number of markets. We will continue to work closely with our customers to manage these risks if they arise.

Utilising R&D to Expand Product Range

We will continue to make use of our excellent R&D capabilities to further improve and extend our range of innovative footwear products, while also taking advantage of our unique capabilities to support existing customers seeking to crossover into new product categories. This includes creating new footwear products for fashion brands that are exploring how to include sporting elements into their ranges – products that we are uniquely positioned to create.

We will also 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 to deliver value to our customers.

Determination to Further Reduce Capacity to Achieve Margin Recovery

We will continue to selectively reduce capacity in some locations in order to improve utilisation and deliver margin recovery in the medium term.

Further Developing and Growing Value of Branding Business

Having found the right partner to manage the day-to-day operations of our China retail business, we will focus exclusively on building the global profile and value of our brands by marketing and showcasing our unique design and fashion capabilities. We will also continue to expand our retail store network in Europe and our presence in famous department stores around the world.

Focused Investment in People

The training and development of new talent remains a core focus at both our manufacturing and branding businesses. We will continue to invest heavily in the training and mentoring of our workforce to further boost their skills and capabilities and improve productivity.

We will also ensure that our industrial relations practices conform to the Group's strict Corporate Social Responsibility standards to uphold employee morale and to reduce labour turnover.

Continued Commitment to Shareholders

We expect our capital requirements to remain modest in the coming year. We remain committed to returning profit to shareholders and maintaining our current dividend policy. In the year, the Board has resolved to recommend a final dividend, to enhance shareholder return amidst a transition of our journey to margin recovery.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group remained in a stable financial position throughout 2017, with cash and cash equivalents of about US$86.6 million (2016: US$106.3 million) as at 31 December 2017, representing a decrease of 18.5% as compared to the position as at 31 December 2016.

The Group's net cash inflows from operating activities fell to US$45.6 million (2016: US$102.2 million) for the year, representing a decrease of 55.4%.

Net cash outflows used in investing and financing activities fell to US$41.2 million and US$12.6 million, respectively.

As at 31 December 2017, the Group had current assets of US$759.8 million (2016: US$712.8 million) and current liabilities of about US$257.2 million (2016: US$191.4 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.0 as at 31 December 2017, an indication of the Group's high liquidity and healthy financial position.

BANK BORROWINGS

The Group had bank borrowings of US$63.3 million as of 31 December 2017 (2016: US$3.3 million).

FOREIGN CURRENCY EXPOSURE

During the year ended 31 December 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 or RMB. Currency exposures were mostly denominated in RMB and Hong Kong dollars against the functional currency of the relevant Group company.

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

CAPITAL EXPENDITURE

Net cash outflows from investing activities was US$41.2 million (2016: US$62.1 million) during the year under review, representing a decrease of 33.7%. Capital expenditure amounted to approximately US$43.7 million (2016: US$77.5 million), of which approximately US$41.3 million was used in production capacity expansion and approximately US$2.4 million was used for the optimisation of our retail store network.

PLEDGE OF ASSETS

As of 31 December 2017, the Group had pledged US$3.7 million of its assets (2016: US$5.5 million).

CONTINGENT LIABILITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

Customers and suppliers are our core stakeholders. We believe their successes are indispensable to our growth. Also, an effective alignment between them is the key to a high performing supply chain competitiveness. Our brand customers evaluate supply chain performance on

product commercialisation efficiency, quality and on time delivery. The Company has been consistently placed in the upper quartile of these vendor evaluation.

Our five largest customers accounted for approximately 61.7% of the Group's total revenue for the year ended 31 December 2017, and apart from a new customer in the fashion athletic segment whom we partnered with since 2016, each of the other four largest customers have more than ten years relationship with the Group.

Our five largest suppliers accounted for approximately 8.3% of the Group's total purchases for the year ended 31 December 2017, and each of these five largest suppliers have more than ten years relationship with the Group.

We treasure our relationship with these long-term customers and suppliers and we shall continue to seek to build strategic and fruitful relationships with them to enable continuous improvement in, quality craftsmanship, innovation, short lead times, and small batch production.

EMPLOYEES

As at 31 December 2017, the Group had approximately 63,000 employees (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 attain, train and retain individuals who are proactive, positive, committed to and passionate about our business.

The Group has continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership Program" to identify potential high calibre employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures. With a view to recognise and reward the contribution of employees, provide incentives to employees in order to retain them for the continuous operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme and a share award plan. Please refer to the paragraphs headed "Long Term Incentive Scheme" and "Share Award Plan" in the Directors' Report in this annual report for details.

As of 31 December 2017, our recruitment efforts remained satisfactory, despite the labour shortages in our primary manufacturing locations in China.


What For

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Ensure the protection of the planet, safety, health and well-being of our stakeholders

Stella International Holdings Limited and its subsidiaries (the "Group", or "we/our") have always been striving to fulfill the mission of delivering outstanding and unique footwear. To enable all stakeholders to an overview of our policy, measures and performance in the environmental, social and governance ("ESG") aspects, we prepared this environmental, social and governance report (the "Report") in accordance with the ESG Reporting Guide ("ESG Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange.

We have extended the Report to cover all manufacturing locations this year, from only the People's Republic of China (the "PRC") last year unless specified otherwise. Our manufacturing locations are located in the PRC, Vietnam, Indonesia, Bangladesh and Philippines for the period from 1 January 2017 to 31 December 2017 (the "Reporting Period", the "Financial Year", "2017 Financial Year"). The management and staff of our key subsidiaries of different functions were involved in the preparation of the Report, assisted the Group to review its operations, identified relevant ESG issues, and assessed their materiality to our business as well as to the stakeholders. The table below highlights the ESG issues which were determined to be material to the Group covered in the Report:

ESG Guide Reference		Material ESG Issues
A.	Environment	
A1.	Emissions	• Waste management
A2.	Use of Resources	• Use of energy, water and packaging materials
A3.	Environment and Natural Resources	• Environmental impact management
B.	Society	
B1.	Employment	• Responsible employer
B2.	Health and Safety	• Occupational health and safety
B3.	Development and Training	• Employee development and training
B4.	Labour Standards	• Prevention of child and forced labour
B5.	Supply Chain Management	• Supply chain environment management
B6.	Product Liability	• Product quality control and customer service quality
B7.	Anti-corruption	• Anti-bribery and anti-corruption
B8.	Community Investment	• Social contribution

A. ENVIRONMENTAL

Stella's growth and prosperity is dependent on its operation policy that are both environmentally sustainable and beneficial to our multiple stakeholders (including our employees, customers, business partners and the communities within which we work) and its ability to overcome complex challenges.

We recognise that we have the responsibility to ensure the protection of the planet, as well as the safety, health and well-being of our many stakeholders. This is Stella's "Corporate Social Responsibility ("CSR") Vision" and it is at the forefront of all our business practices, operations and development. It also underpins our continuous efforts to conduct business in an ethical and responsible manner, striving to extend our leadership among numerous industry players in respect of various areas other than financially.

Apart from placing strong emphasis on quality and research and development, we also require all departments to strictly observe and ensure their compliance with laws and regulations. Our Group has complied with the requirements as set out in local environmental protection laws and regulations (including but not limited to the Law of PRC on Environmental Protection (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Guangdong Regulations on Prevention and Control of Environmental Pollution by Solid Wastes (《廣東省固體廢物污染環境防治條例》) and the relevant environmental protection laws and regulations in Indonesia (Hinder Ordinance). There were no non-compliance cases in relation to environmental protection laws and regulations during the reporting period.

A1 Emissions

Waste management

The waste from the manufacturing segment of Stella are generally classified into hazardous waste and non-hazardous waste. The hazardous waste refers to the waste listed in the National Directory of Hazardous Waste 《國家危險廢棄物名錄》, identified according to the standards and methods for hazardous waste stipulated by the PRC government authorities or those that are designated to be of hazardous nature by clients. Non-hazardous waste refers to solid waste other than hazardous waste.

The waste produced from our fashion athletic segment during the reporting period was as follows:

Type of waste	Total (Tonnes)	Intensity (in kg, per pair of shoes)
Hazardous waste	177.6	0.1501
Non-hazardous waste	1,283.6	1.0846

In order to maximise the control on waste, suitably treat waste and minimise waste pollution to the Company and its surroundings, we have implemented the following measures:

- Management of the source of waste produced. All non-hazardous waste and hazardous waste produced during production activities will be collected, sorted and disposed of to the designated temporary storage area by site operators;
- The waste produced by the activities in office, laboratory and living quarters will be arranged for centralised storage to be treated by the respective department, and will be cleared by cleaning staff on a daily basis. In particular, a special collection storage site is established for collecting used lamps and batteries, which will be collected by a team of special management personnel;
- Leftovers of food and used oil in canteens are treated appropriately;
- The waste management department is responsible for directing the transfer of waste from temporary stacking site to the waste warehouse for further treatment;
- Hazardous waste allocated to the warehouse are handled by certified companies. Non-hazardous waste will be recycled or reused if possible; those that cannot be recycled will be disposed of (either landfilled or incinerated) appropriately, and it will be handled by solid waste disposal service provider permitted by the government; and
- The responsible department of the Company organises periodical safety training to strengthen the working skills and safety protection consciousness of the workforce and operators.

Greenhouse Gas Emission

Our carbon emissions are mainly derived from energy consumption. During the reporting period, carbon dioxide equivalence (CO2e) relevant to the energy generated by the operations covered in this report was 102,009.8 tonnes with an intensity of 1.8069 kg CO2e per pair of shoes. We have implemented all kinds of energy-saving measures to mitigate our carbon emissions. Please refer to the following section "Use of energy" for details.

Note: The carbon emission is calculated with reference to the Greenhouse Gas Protocol published by World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), Report Guidelines on Environmental Key Performance Indicators issued by the Hong Kong Stock Exchange, the Baseline Emission Factors for Regional Power Grids in China published by the Department on Climate Change of National Development, Reform Commission and the Baseline Emission Factors for Power Grids by the Ministry of Energy and Mineral Resources of Indonesia and IGES Grid Emission Factors for Vietnam.

During the Reporting Period, our Group had no significant exhaust emission or waste water discharge, while all industrial waste water was treated by certified companies.

A2 Use of Resources

Stella advocates "power-savings is glorious, wasting is shameful", and strives to set up the consciousness of conserving water and electricity. Through enhancing energy management, we take technically feasible and economically reasonable power-saving measures to reduce direct energy loss and improve energy efficiency. At the same time, we regularly detect our energy consumption to measure the usage of energy and achieve the aims of energy conservation, reduction of consumption, material, sanitary production and environmental protection.

Use of energy

Our total energy consumption during the reporting period was as follows:

Energy Category	Consumption	Intensity (per pair of shoes)
Electricity supply	1,471,096,735 kilowatt hours	2.6055 kilowatt hours
Natural gas	196,686 cubic meters	0.0035 cubic meters
Diesel	926,484 litres	0.0164 litres
Petrol (Unleaded)	499,390 litres	0.0088 litres

Note: The above statistics covered the main energy consumption of all factories. The above information included the energy the Group consumed during our operations and excluded the energy consumption that was unable to be directly controlled by the Group.

The Group has implemented certain measures of energy conservation and emissions reduction during the reporting period as follows:

- Use energy-efficient illumination lamps; light should be turned off when staff leave the premises to reduce electricity wastage;
- The temperature of air conditioners in each department shall be adjusted and controlled according to working conditions, and the air-conditioned temperature in the office shall not be lower than 26℃;
- Stringent management of production equipment that requires large electricity consumption by the production department;
- Carry out electrician patrol, monitor and guide each department's energy consumption by equipment maintenance department, rectify any wastage if being identified to avoid electricity wastage;
- Conduct monthly statistical count on electricity consumption and prepare relevant records; if the consumption is over the range specified by standard, the reasons for such should be analysed and take timely remedial actions;
- Before purchasing any machinery equipment, respective departments should assess the energy consumption of the equipment, and select the machine types with low energy consumption if conditions permit;
- Conduct monthly statistical count on petrol usage of mechanical vehicles in plants; and
- Record car mileage and maintain and repair vehicles timely to reduce petrol wastage.
- Implement waste heat recovery system.

Results achieved:

- Reduce the operating temperature of the air compressor hence extending life of machines.
- Reduce the greenhouse effect.
- Energy saving and environmental protection.

Water Management

Total water consumption of the Group during the reporting period was 5,284,603 cubic meters with an intensity of 0.0936 cubic meters water per pair of shoes, which was mainly for workforce residential usage. There was no water sourcing issue with our Group as we mainly consume municipal water. The Group has implemented the following plans to mitigate water consumption during the reporting period:

- To the greatest extent, expand the scope of recycled water for greening and for restrooms to increase the recycling rate;
- Conduct monthly review on water consumption and prepare relevant records; if the consumption is over the range specified, the reasons for such should be analysed for timely remedial actions;
- Install filter screen in canteen sewage outlet and conduct periodic cleaning and send to recycling company;
- Arrange clean and waste water segregation in water discharge, sanitary sewage to run into pipelines in a regular manner and for sedimentation treatment, then discharge after meeting standards;
- Enhance employees' education on environmental protection, and encourage employees to use non-phosphate detergent and washing powder; and
- Staff should save water in workshops, dormitories and in the workplace, and take measures of installing water-saving taps, reduce water pressure during holidays, and decrease the usage of water.

During the reporting period, one of our factories has implemented water circulation system across the manufacturing process, which has circulated 85.6% of water and saved about 700 cubic meters of water per day.

Use of packaging materials

In 2017, the packaging materials used by the Group were mainly shoeboxes, packing papers, carton boxes and shoe stretchers, reaching a total of 21,519 tonnes with an intensity of 0.3812 kg of packing materials used per pair of shoes.

A3 Environment and Natural Resources

The Group closely monitors the potential impact on environment brought by its subsidiaries and plants, and strives to minimise the impact on environment caused by our operations. We endeavour to conduct regular assessment and continuously monitor environmental risks, and at the same time enhance our environmental management system, formulate and update our environmental policy.

Apart from the hazardous and non-hazardous waste and energy consumption generated by the aforementioned section, Stella actively mitigates other major environmental impact, including noises generated from operating production facilities. To strengthen control and reduce environmental impact brought by noises, we have taken the following measures:

- Choose low noise equipment, such as low noise fans for machinery ventilation;
- Choose aluminium alloy with good sound insulation performance or double-deck structure for the doors and windows of the workshops;
- Conduct comprehensive treatment, such as noise reduction and shock absorption measures for boiler plants and generators;
- Report regularly the process of environmental protection and contamination control and their relevant outcomes to local environmental authorities;
- Formulate working programs of environmental facility and respective maintenance schedule to ensure these facilities are in good conditions during operation; and
- Provide technicians on-the-job induction and training to enhance their awareness on environmental protection and ensure all environmental protection facilities are running smoothly.

In addition, although the Group had no significant exhaust emission or waste water discharge, certain measures were carried out to mitigate environmental impact, such as use of carbon filter and UV light machines.

B. SOCIETY

B1 Employment

As a responsible employer, we strictly comply with all local employment laws and regulations. During the reporting period, there were no non-compliance cases in relation to human resources laws and regulations.

Recruitment, Promotion and Remuneration Policies

We attract talents using the fairness and objectiveness principle. Our recruitment is open to the public through various methods like posting recruitment advertisements, online recruitment, campus recruitment, job market recruitment, and head-hunter recommendation and comprehensive evaluation will be conducted.

Stella considers attendance, performance, rewards and punishments as means to promote morale. We also consider staff promotion for recommended staff to achieve the ultimate goal of talent dedication to the Group. For remuneration, on the basis of evaluating the value of workforce and under the guidance of the Group's operation strategy, the Group has in place a competitive remuneration system with reference to industry and regional standards.

Working Hours

We strictly control working hours in accordance with the requirements of laws and customers, and ensure that all the overtime works are on a voluntary basis. The overtime pay is fully remunerated according to local applicable labour laws. New comers will be provided with pre-employment education, allowing them clear understanding of relevant working hours.

Equal Opportunities, Diversification and Anti-Discrimination

The Group is committed to providing fair, equitable and reasonable job opportunities for its staff. In the respect of engagement, wages, welfare and promotion, our considerations are solely based on our staff's work competence. We treat all employees equally, irrespective of their gender, age, race, blood, skin colour, nationality, political status, creed, marital status, maternity status, sexual orientation, disability or any other factors that are irrelevant to their work competence. If a discriminatory behaviour is discovered, the Group will conduct an investigation and take disciplinary action against discriminatory behaviour. At the same time, we also have in place a whistleblowing policy to ensure that complaints are made in strict confidentiality.

Holidays and Welfare Policies

We strictly comply with relevant national laws and regulations, review and improve employees' welfares, and pay various statutory social insurance according to the law and ensure that our employees can enjoy social statutory holidays and other welfares. Apart from this, employees are also entitled to paid annual leaves, marital leave, and maternity leave and so on. To safeguard the legitimate interests of female staff, no department is allowed to arrange pregnant staff to perform works related to moving things, work in high altitude, cold temperature and cold water during pregnancy. For female staff who is pregnant for over seven months, we do not suggest them to work on night shift or perform overtime work.

Stella provides regular health checkups to all employees throughout the year, as well as arrange employees to undertake first aid training, allowing them to contribute directly to safety in the workplace. We also organised a series of health lectures (on topics such as reproductive health and occupational health) in order to promote disease prevention and better health standards.

Social Activities

We arrange regular leisure activities such as sports competitions, field trips, shoe-making competitions and seasonal celebrations during major holidays such as New Year's Day and the Mid-Autumn Festival to enrich our employees' leisure life outside of work. During the reporting period, a total of 1,505 hours were spent on the Group's social activities for team-building and promoting employee's sense of belonging.

B2 Health and Safety

Occupational Health and Safety

Workplace health and safety remains our top priority. Stella consistently meets all applicable standards and regulations, while also striving to develop the autonomy of employees so that they are involved in creating and contributing to a safe and hazard-free work environment and promoting occupational safety.

We have taken a number of steps to further improve workplace safety, including:

- Banning the storage of chemicals in our workshops;
- Maintaining notification boards throughout our workshops to reinforce awareness of workplace safety procedures among our workforce;
- Conducting regular audits of employee canteens to ensure food safety;
- Conducting regular emergency exercise activities, such as fire drills;
- Upgrading of existing machines to ensure workplace safety;
- Improving the training and innovation capability of technical personnel, and instructing our staff the correct way of using and maintaining equipment;
- Grasping the latest information of artificial intelligence in the market and developing new safety equipment;
- Evaluating and using new equipment for special use; and
- Rectifying the staging area for hazardous waste and increasing water spray cooling device.

In order to promote safety at our production facilities, prevent and reduce accidents to safeguard the life and property of workers and continue to improve safety production management, we also hold regular environmental, safety and health ("ESH") meetings, to review prevailing risks in the workplace, as well as an opportunity to evaluate any emerging risks. It is also an important conduit for face-to-face communication among employees, directors, supervisors, committee members and CSR coordinators, and is an essential component of our ESH management system.

A new "CSR Internal Training Plan" was put in place to cover training, exposure control and the use of personal protective equipment, chemical management, safety awareness and communication, and fire safety, etc.

We also instituted annual centralised audits at all of our plants worldwide, including the PRC, Vietnam, Bangladesh, Indonesia and the Philippines, to ensure that these initiatives and others are being implemented across all the factories of the Group. In 2016, we rectified all discovered security risks, including installing facilities (such as widened foot stand to avoid collapse in the process of carrying, baffles to prevent hands from being engulfed and protective covers and sensors to avoid clamping) on the machines. We will continuously call for all staff to carry out security examination and proactively facilitate safety production management to achieve modern and scientific safety in production. For example, we will develop equipment that is more convenient for operation and more suitable for ergonomics and machines that can integrate production processes to improve efficiency, thus reflecting the "human-oriented" scientific outlook on development.

During the reporting period, there were no non-compliance cases in relation to workplace health and safety laws and regulations.

B3 Development and Training

We firmly believe that it is necessary to improve employees' professional standards continuously in the corporate responsibility department, with an aim to meeting our long-term development plan and cultivating our talents and sharpening our competitive edge. Accordingly, we have established a management system relating to education and training.

We organise regular voluntary training opportunities for our employees, providing them with an opportunity to upgrade their skills and grow with the Company. At the same time, to deal with emergency situations, implement fire evacuation timely and effectively and ensure orderly evacuation to minimize casualties, property loss and social impact caused by accidents, we conduct regular fire drills every year to enhance our staff's disaster prevention awareness, including managing their own escape, self-help and mutual rescue skills.

In order to enable our employees to gain in-depth understanding of corporate responsibility and ESH knowledge and apply their correct knowledge learnt in the workplace, Stella provides basic pre-job training of corporate social responsibility for new employees or interns, and management trainees before they are on board. We also carry out relevant ESH trainings according to the job requirements of our employees.

B4 Labour standards

We prepare our internal Social Responsibility Management Manual based on the global SA8000 certification. The SA8000 is based on the principles of international human rights norms as described in International Labour Organisation Conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights, including health and safety, freedom of association, working hours and wage standards, the prohibition of child labour and the protection of minors, the prohibition of forced labour, the prohibition of discrimination, the prohibition of unfair punishment, and so on.

During recruitment, human resources department will verify the personal information of candidates according to the requirements of internal human resources policies and procedures and check their identity cards to verify their age. To ensure the employees' interests are not being infringed, all our employed staff must be recruited voluntarily, in other words, we prohibit any forced labour and never induce any employee to work by deception. Furthermore, our staff undergoing unfair treatment can report through our whistleblowing policy.

During the reporting period, there were no non-compliance cases in relation to labour laws and regulations.

B5 Supply Chain Management

Our Group follows the common principles and objectives with suppliers. We are committed to building close relationship with our suppliers and maintaining constant communication with them through various channels to ensure that the services and products provided by them meet our requirement, thus enabling us to maintain our quality. We only select suppliers that pursue constant perfection and possess environmental protection consciousness and business ethics as our partners. We choose suppliers by taking into account factors such as their scale of production, capability of on-time delivery, price advantage, quality assurance and after-sale service in a principle of justice and in accordance with our internal policies, and request them to undertake responsibilities for the following environmental and social issues:

- Employment is based on a voluntary and fair basis
- Reasonable remuneration and working hours are offered to the staff
- Child labour is prohibited
- Discrimination, harassment and abuse are not tolerated
- The workplace is healthy and safe, with protective equipment given as required
- Freedom of association is respected
- Environmental impact is minimised

Suppliers are evaluated regularly and we will continue to cautiously select partners to make sure an effective and excellent supply chain management.

B6 Product Liability

We are always seeking to fulfill our dedication to deliver outstanding and unique footwear. Stella is guided by its spirit of "making the best shoes". Our products are of high quality and exquisite technology that have gained the attention of internationally renowned luxury and casual brands.

Product Quality Control

We select our products offerings carefully and strictly control the safety and quality of our products. We integrate the whole production process monitoring with production standardisation and successfully implement good management at our production facilities. For raw materials management, we only cooperate with suppliers holding valid business licenses and various related qualification documents. Besides, we will take into consideration factors such as the capability and credibility of suppliers, performance and whether the commitment for quality is consistent with the national and industry production standards so as to endeavour and assure the quality of raw materials, whereby ensuring our product quality and safety.

Customer Service

We are always customer-driven and passionate about our business, and are dedicated to provide the best quality products and services to our customers. By being close to our customers, we strive to fulfill their needs with innovative and cost effective solutions. Through empathy, responsiveness and dependability, we seek to become the partner of choice of our customers.

Due to the ever-changing demand of customers, we pay more attention to keep abreast of their demand and expectation from time to time, especially the after-sale evaluation on products and services. We set up an effective customer communication mechanism, with an aim to continuously enhance the ways to respond and handle requirements and improve the communication system in addition to guaranteeing the quality of products and services have met standards. We also conduct customers' satisfaction surveys and take the initiative to contact customers, allowing them to offer their rating and opinions on after-sales service in all aspects, hence driving us to constantly improve.

During the reporting period, there were no non-compliance cases in relation to the quality of product and services laws and regulations.

B7 Anti-corruption

Stella is committed to maintaining a fair and equitable business environment, protecting the interests of the Company, inheriting and developing the Company's traditional corporate culture and reducing the Company's operational risks, whilst maintaining the reputation of the Company and customer brand in the industry, society and the world. We absolutely desist from any form of bribe or accepting bribe to provide commercial benefits, or obtaining any form of benefits by force or threats.

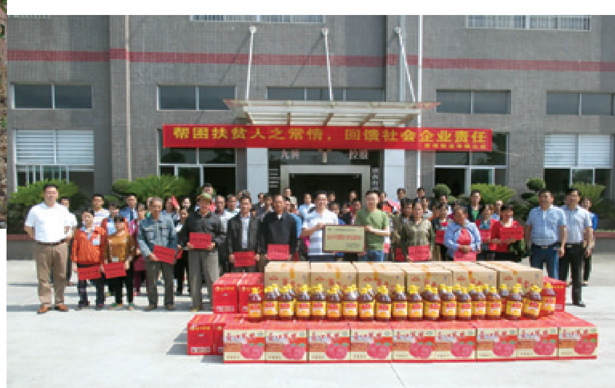
We attach great importance to our sense of honesty and integrity and conduct regular evaluation on the risks of corruption existing among each factory. We will also check whether the rules relating to payment conditions and commission in the agreements entered into between each plant and agent or business partner are clear and appropriate. Besides, the anti-corruption measures approved by suppliers and investigated by customers will also contribute to the mitigation of risks of fraud and money laundering. The Group has also formulated policy documents relevant to anti-corruption covering such areas as bribery, extortion, fraud and money laundering to encourage our staff to report any malpractice and improve their consciousness.

During the reporting period, there were no non-compliance cases in relation to corruption-related laws and regulations.

B8 Community Investment

Stella encourages our employees to support community projects and protect the natural environment. A total of 1,006 hours were contributed during the reporting period on community services, some activities we participated in the reporting period included:

- Tree planting activities to raise our employees' consciousness on environmental protection and greening environment;
- Regular donations to schools and the poverty;
- Caring for the disabled to provide practical help and support to the disabled, helping them to integrate into the society;
- Regular family visits and visiting orphanage activities within the communities where we work;
- Helping less privileged families to cultivate crops enabling them towards self-sufficiency;
- Donating money for teaching buildings at schools in Bangladesh.



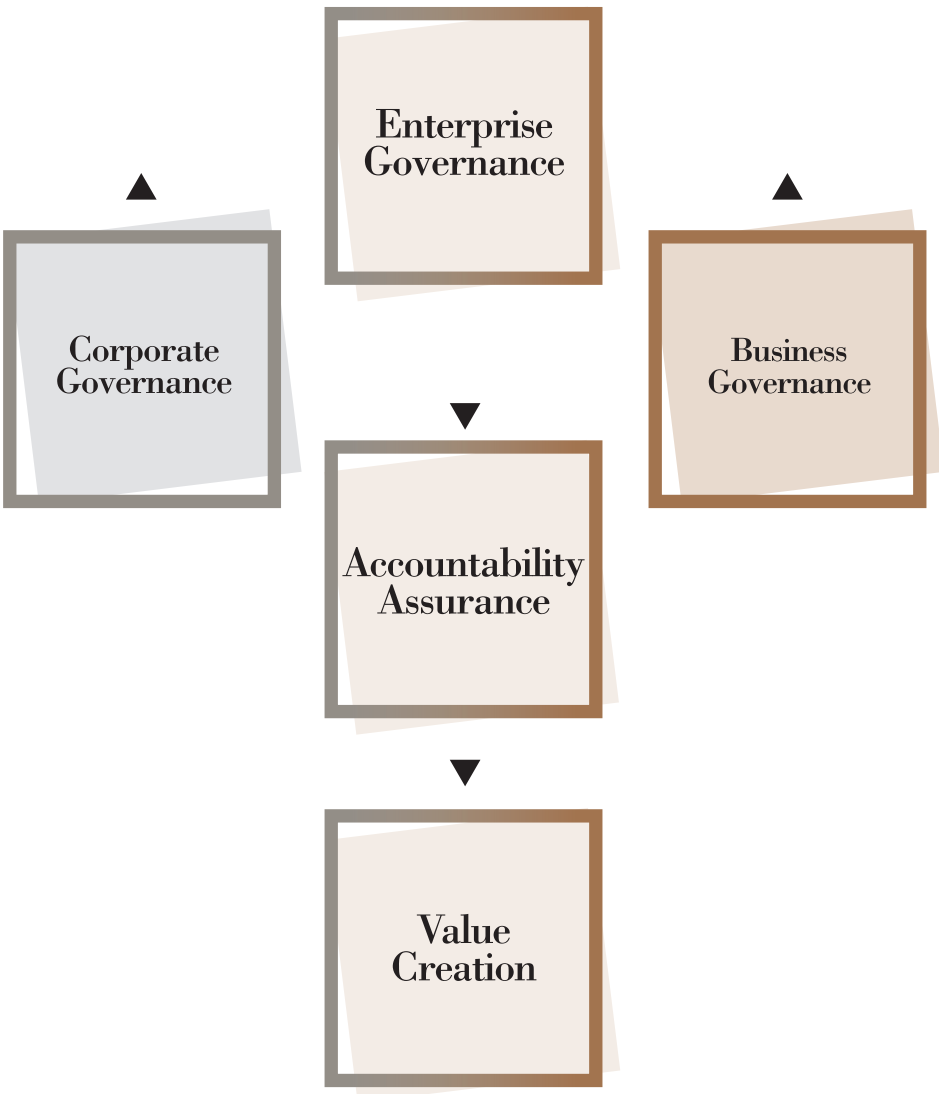
Building and protecting long-term value

JKJY by Stella

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited (the "Company") and management of the Company and its subsidiaries (collectively, 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").

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.



GOVERNANCE FRAMEWORK

The Company's governance framework embodies the following:

- Terms of reference of various Board committees (Audit Committee, Corporate Governance Committee, Executive Committee, Nomination Committee and Remuneration Committee)
- Compliance Manual
- Connected Transactions Manual
- Corporate Disclosure Policy
- Memorandum on Disclosure of (1) Inside Information and (2) Information Necessary to Avoid a False Market
- Board Diversity Policy
- Whistleblowing Policy

Corporate Governance Committee – the 4 Rs

To facilitate more effective implementation of corporate governance practices, a corporate governance committee of the Board (the "Corporate Governance Committee") has been established pursuant to a resolution of all Directors passed on 15 June 2007 with specific written terms of reference which deal clearly with the committee's authority and duties. Focusing on the 4 Rs – regulatory compliance, risk management, investor relations and corporate social responsibilities, the principal roles and functions of the Corporate Governance Committee, as disclosed in greater detail in its terms of reference, include the following major aspects:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
2. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
3. to review the Company's compliance with the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the relevant disclosure in the Company's annual and interim reports;
4. to review and monitor the Company's communication policy and practices with its shareholders and investor communities; and
5. to review and monitor training and continuous professional development of Directors and senior management.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions of the CG Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2017 except for code provisions B.1.5 and E.1.2, details of which are disclosed below. Save for the deviation from code provisions B.1.5 and E.1.2, the Group has been in compliance with the CG Code in all material respects.

The corporate governance principles and practices of the Company are summarised as below:

A. Directors

A.1 The Board

Principle

The Board assumes the responsibility for leadership and control of the Company, and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing. The scope of matters that are retained for the Board's decision are:

- Determination of future development directions
- Determination of overall strategies and policies
- Approval of annual business plan and budget
- Approval of dividend distribution proposals
- Approval of significant investments, merger/acquisition projects, major financing arrangements, connected transactions and material contracts
- Approval of any matters, if considered appropriate, following recommendations by various Board committees
- Approval of other matters that are of a material or substantial nature

The management of the day-to-day operations of the Group is delegated by the Board to the management. In view of facilitating more efficient day-to-day operations of the Group and handle such matters as delegated by the Board from time to time, an executive committee of the Board (the "Executive Committee") has been established pursuant to a resolution of all Directors passed on 9 July 2015, with specific written terms of reference which deal clearly with the committee's authority and duties. In addition, the Board has already established various other Board committees in previous years to discharge their respective responsibilities set out in their respective terms of reference.

The Board regularly reviewed the contribution required from Directors to perform their responsibilities to the Company, and whether they are spending sufficient time performing them.

<table>
<tr><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr><td>A.1.1
The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and to involve active participation of a majority of directors.</td><td>✓</td><td>The Directors' attendance records for the year 2017 are set out below:

Name of Directors — Attendance
Executive Directors
Mr. Chiang Jeh-Chung, Jack (Chairman) — 1/7
Mr. Chao Ming-Cheng, Eric (Deputy Chairman) — 7/7
Mr. Chen Li-Ming, Lawrence (Chief Executive Officer) — 5/7
Mr. Chi Lo-Jen — 5/7

Independent Non-executive Directors
Mr. Chen Johnny — 6/7
Mr. Bolliger Peter — 7/7
Mr. Chan Fu Keung, William, BBS — 7/7
Mr. Yue Chao-Tang, Thomas — 7/7
Mr. Lian Jie (Note 1) — 3/6

Relationships among the members of the Board

Mr. Chiang Jeh-Chung, Jack is the uncle of Mr. Chi Lo-Jen. Save as aforementioned, there is no other family relationship between any of the Directors, nor are there any financial, business or other material or relevant relationships among the members of the Board.</td></tr>
<tr><td>A.1.2
Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.</td><td>✓</td><td>Draft agenda of regular Board meetings are made available to all Directors in advance so that they may include any additional matters they consider appropriate in the agenda.</td></tr>
<tr><td>A.1.3
Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For other board meetings, reasonable notice should be given.</td><td>✓</td><td>At least 14 days formal notice has been given to all Directors for regular Board meetings.

Regular Board meetings in 2018 have already been scheduled to ensure compliance with the CG Code and to facilitate Directors' attendance.</td></tr>
</table>

Code Provisions	Compliance	Corporate Governance Practices
A.1.4 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and should be open for inspection at any reasonable time on reasonable notice by any director.	✓	The Company Secretary is responsible for preparing minutes of all Board meetings and Board committee meetings; the final versions of which are available for the Directors' inspection at the Company's principal place of business.
A.1.5 Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes should be sent to all directors for their comment and records respectively, within a reasonable time after the board meeting is held.	✓	Minutes of Board meetings and Board committee meetings have recorded in sufficient detail all matters discussed and resolved at such meetings. Draft minutes are circulated to all Directors for comment within a reasonable time after each meeting and final versions of the minutes are circulated to all Directors for records.
A.1.6 There should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent advice in appropriate circumstances at the issuer's expense. The board should resolve to provide separate independent professional advice to directors to assist them to perform their duties to the issuer.	✓	Directors have been advised in the Directors' appointment letters/service agreements that they are entitled to seek external independent legal advice at the Company's expense. No request was made by any Director for such independent professional advice during the year under review.
A.1.7 If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	✓	Directors are required to declare their interest, if any, in matters before Board meetings, or if such matters are dealt with by written resolutions, in such resolutions. In case the Director(s) concerned has a material conflict of interest, the Director(s) concerned has abstained from voting on the relevant board resolution and is not counted towards the quorum.
A.1.8 An issuer should arrange appropriate insurance cover in respect of legal action against its directors.	✓	A Directors and Officers Liability Insurance Policy is in place to cover the liability of the Company's Directors and officers.

A.2 Chairman and Chief Executive Officer

Principle

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. Such division of responsibilities has been formalised and set out in writing. The respective responsibilities borne by the Chairman and the Chief Executive Officer are:

Chairman's responsibilities:

- Determines broad strategic direction
- Provides leadership of the Board
- Facilitates effective contribution from non-executive Directors
- Supports and advises, and manages the CEO's performance in terms of realisation of Group's objectives determined by the Board
- Ensures good corporate governance practices and procedures are established
- Maintains an effective communication between the Board, management of the Company and shareholders generally

Chief Executive Officer's responsibilities:

- Provides leadership for the management
- Oversees the realisation by the Group of the objectives determined by the Board
- Provides information to the Board as is necessary to enable the Board to monitor the performance of management
- Leads the management of the Group's relationship with its stakeholders
- Puts in place programmes for management development and succession
- Establishes and maintains proper internal controls and internal audit systems
- Discharges such duties and authorities as may be delegated in writing to him/her by the Board

Appreciating the significant role of the Chairman in providing leadership for the Board, the position of Deputy Chairman has been put in place to assist the Chairman to discharge his responsibilities. Specifically, the Chairman, Mr. Chiang Jeh-Chung, Jack, is mainly responsible for managing major customers' relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Chao Ming-Cheng, Eric, is responsible for providing leadership and management to the Board. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of our stakeholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Code Provisions	Compliance	Corporate Governance Practices
A.2.1 The roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.	✓	The roles of the Chairman and Chief Executive Officer are separate and have been performed by separate individuals. The division of responsibilities between the two positions have been clearly established and set out in writing.
A.2.2 The chairman should ensure that all directors are properly briefed on issues arising at board meetings.	✓	With the support of the Deputy Chairman, executive Directors, senior management and the Company Secretary, the Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.
A.2.3 The chairman should be responsible for ensuring that directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable.	✓	The information and/or analyses required for the Board's consideration and decision making are included in Board papers that are delivered to Directors for their review in a timely manner.
A.2.4 One of the important roles of the chairman is to provide leadership for the board. The chairman should ensure that the board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the board in a timely manner. The chairman should be primarily responsible for drawing up and approving the agenda for each board meeting. He should take into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda. The chairman may delegate this responsibility to a designated director or the company secretary.	✓	Such roles are set out in writing and, with the support of the Deputy Chairman, such roles have been complied with.

Code Provisions	Compliance	Corporate Governance Practices
A.2.5 The chairman should take primary responsibility for ensuring that good corporate governance practices and procedures are established.	✓	
A.2.6 The chairman should encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that it acts in the best interests of the issuer. The chairman should encourage directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that board decisions fairly reflect board consensus.	✓	Such roles and practices are set out in writing and have been complied with.
A.2.7 The chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.	✓	The Chairman and the Deputy Chairman maintain open dialogue with individual independent non-executive Directors to ensure effective communication.
A.2.8 The chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the board as a whole.	✓	Please refer to the section E as described later in this report.
A.2.9 The chairman should promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors.	✓	Effective contribution of non-executive Directors and communication between executive and non-executive Directors are achieved through discussions in Board meetings, various Board committee meetings and other Board activities/programmes.

A.3 Board composition

Principle

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, a policy of selection and nomination of Directors has been established and set out in writing in our board diversity policy which is articulated in more detail below.

The independent non-executive Directors constitute the majority of the Board so that there is a strong independent element on the Board, which can effectively exercise independent judgment. The independent non-executive Directors are of diversified background and competencies, with appropriate professional qualifications and/or extensive knowledge and experience in their respective business undertakings.

The Board also ensures that changes to its composition can be managed without undue disruption.

Board Diversity Policy

The board diversity policy of the Company is:

1. Policy Statement
   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.

2. Nominations and Appointments
   The Nomination Committee is responsible for:
   - 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; and
   - making recommendations to the Board on the appointment or re-appointment of directors and succession for directors.

3. Measurable Objectives
   The Nomination Committee shall develop measurable objectives for implementing this policy, taking into account the Group's strategic plan and business needs.

4. Monitoring, Tracking and Reporting
   The Nomination Committee shall review this policy and report the same to the Board on an annual basis.

   The Nomination Committee shall also report annually, in the Corporate Governance Report a summary of this policy, the measurable objectives for implementing this Policy, and the progress made on achieving such measurable objectives.

The following objectives, which focus on the skills and experience of board members, have been set for implementing the policy:

1. Increase the diversity of functional experience in the board.
2. Increase understanding of our current and target markets.
3. Increase understanding of our target customer segments.

During the year, the following initiatives had been carried out:

1. Review existing board and identify gaps.
2. Review and develop succession plan.

Code Provisions	Compliance	Corporate Governance Practices
A.3.1 The independent non-executive directors should be identified in all corporate communications that disclose the names of directors.	✓	The composition of the Board, by category, is disclosed in all corporate communications.
A.3.2 An issuer should maintain on its website and on the Stock Exchange's website an updated list of its directors identifying their role and function and whether they are independent non-executive directors.	✓	The Company has maintained on its website and on the Stock Exchange's website an updated list of Directors identifying their role and function and whether they are independent non-executive Directors.
A.4 Appointments, re-election and removal **Principle** The Company has maintained a formal, considered and transparent procedure for appointment of new directors. There are in place procedures for the selection and nomination of new Directors to the Board. The appointments of Directors are first reviewed by the Nomination Committee; the recommendations of the Nomination Committee are then proposed to the Board for approval. The Board has also reviewed the Group's succession planning for senior appointments from time to time.		
A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election.	✓	The independent non-executive Directors are appointed for a term of three years and are subject to retirement by rotation and re-election at the annual general meetings of the Company.
A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	✓	
A.4.3 If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the board believes he is still independent and should be re-elected.	✓	As Mr. Chen Johnny has served as an independent non-executive director for more than 9 years, his further appointment shall be subject to a separate resolution to be approved by our shareholders at the forthcoming annual general meeting of the Company. The Board believes that he remains independent, notwithstanding the length of his tenure. Mr. Chen has also confirmed that he meets the criteria set out in the independence guideline of Rule 3.13 under the Listing Rules. The Board is of the opinion that his skills, expertise, background and qualifications will continue to bring benefits to the Group.

A.5 Nomination Committee		
Code Provisions	**Compliance**	**Corporate Governance Practices**
A.5.1 Issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.	✓	The Company established the Nomination Committee pursuant to a resolution of all Directors passed on 15 June 2007. The Nomination Committee currently has five members comprising all independent non-executive Directors, namely, Mr. Chen Johnny, Mr. Chan Fu Keung, William, *BBS*, Mr. Yue Chao-Tang, Thomas, Mr. Bolliger Peter and Mr. Lian Jie. The chairman of the Nomination Committee is Mr. Chen Johnny. During the year ended 31 December 2017, two Nomination Committee meetings were held and the attendance record is set out below: **Name** — **Attendance** Mr. Chen Johnny *(Chairman)* — 2/2 Mr. Chan Fu Keung, William, *BBS* — 2/2 Mr. Yue Chao-Tang, Thomas — 2/2 Mr. Bolliger Peter — 2/2 Mr. Lian Jie — 2/2 During the year, the following work has been performed by the Nomination Committee: (i) reviewed the structure, size and composition of the Board; (ii) reviewed the board diversity policy; (iii) discussed succession planning; (iv) made recommendation as to which Directors shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election; and (v) assessed the independence of independent non-executive Directors.

Code Provisions	Compliance	Corporate Governance Practices
A.5.2 The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties.	✓	The Nomination Committee was established with specific written terms of reference which deal clearly with its authority and duties. The principal role and function 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.
A.5.3 The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board by including them on the Stock Exchange's website and the issuer's website.	✓	The terms of reference of the Nomination Committee are posted on the Stock Exchange's website and the Company's website.
A.5.4 Issuers should provide the nomination committee sufficient resources to perform its duties. Where necessary, the nomination committee should seek independent professional advice, at the issuer's expense, to perform its responsibilities.	✓	The Nomination Committee has been provided with sufficient resources to perform its duties. In particular, the Nomination Committee is empowered to obtain independent professional advice, and any expenses incurred shall be borne by the Company.
A.5.5 Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent.	✓	
A.5.6 The nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report.	✓	Please refer to the disclosure made under A.3 in this report.

A.6 Responsibilities of directors

Principle

Every Director knows his responsibilities as a Director and the conduct, business activities and development of the Group. Independent non-executive Directors understand they have the same duties of care and skill and fiduciary duties as executive Directors.

Code Provisions	Compliance	Corporate Governance Practices
A.6.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the operations and business and is fully aware of his responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.	✓	All newly appointed Directors have received induction program on appointments, which are tailored to their background, experience and their role in the Group and are designed to enable them to better understand the operations and business of the Group. The program includes an induction package given to newly appointed Directors, which comprises a brief introduction of the Group's business and the statutory and regulatory obligations of a director of a listed company. Independent non-executive Directors are invited to site visits of major operating units of the Group and briefed by the Company's executive Directors and senior management on the Group's business and governance practices. Subsequently Directors also receive monthly updates comprising the Group's financial Information and order outlook. In addition, they also receive market intelligence materials (called Monthly Industry Tracker), for them to better appraise the industry in which the Group operates. During the year, Directors also participated in training sessions for update on changes to the legal and regulatory environments in which the Group operates.
A.6.2 The functions of non-executive directors should include: (a) participating in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; (b) taking the lead where potential conflicts of interests arise; (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.	✓	The independent non-executive Directors have exercised independent judgment on issues discussed at Board meetings. They have also scrutinised the Company's performance by reviewing the business and financial performance updates at regular Board meetings and following up any outstanding issues after such meetings.

Code Provisions	Compliance	Corporate Governance Practices
A.6.3 Every director should ensure that he can give sufficient time and attention to the issuer's affairs and should not accept the appointment if he cannot do so.	✓	All executive Directors have in-depth industry knowledge and established track record, whose interests are aligned with that of the Company. Every Director has given sufficient time and attention to the Company's affairs. The independent non-executive Directors have brought a wide spectrum of their extensive knowledge and experience in their respective business undertakings to the Board for the fullest performance of its functions.
A.6.4 The board should establish written guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the issuer's securities.	✓	The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the year. The Company will reiterate and remind the Directors from time to time the relevant rules and requirements in relation to Directors' dealing in securities to ensure the compliance of the Model Code. The persons occupying the following positions are regarded as the relevant employees of the Company subject to the restrictions on dealings in the Company's shares under the Model Code: Chief Executive Officer Chief Operating Officer Chief Financial Officer Company Secretary Head of Investor Relations

Code Provisions	Compliance	Corporate Governance Practices
A.6.5 All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. Note: Directors should provide a record of the training they received to the issuer.	✓	The Company is responsible for arranging and funding continuous professional development program for the Directors. Please refer to the disclosure made under A.6.1 in this report. All Directors are required to provide the Company with their training records. During the year, the Directors participated in the kinds of training as follows: Name of Directors — Kinds of Training Executive Directors Mr. Chiang Jeh-Chung, Jack *(Chairman)* — A, B, C Mr. Chao Ming-Cheng, Eric *(Deputy Chairman)* — A, B, C Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* — A, B, C Mr. Chi Lo-Jen — A, B, C Independent Non-executive Directors Mr. Chen Johnny — A, B, C Mr. Bolliger Peter — A, B, C Mr. Chan Fu Keung, William, *BBS* — A, B, C Mr. Yue Chao-Tang, Thomas — A, B, C Mr. Lian Jie — A, B, C A: Legal/regulatory B: Business C: Financial
A.6.6 Each director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments.	✓	The Directors are required to confirm to the Company at the time of appointment, and subsequently bi-annually any change, the number and nature of offices held in public companies or organisations and other significant commitments.
A.6.7 Independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.	✓	Please refer to the disclosure made under A.1.1, A.6.2 and A.6.3 in this report.
A.6.8 Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	✓	Please refer to the disclosure made under A.6.2 and A.6.3 in this report.

A.7 Supply of and access to information

Principle

Directors have been provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

Code Provisions	Compliance	Corporate Governance Practices
A.7.1 For regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent, in full, to all directors. These should be sent in a timely manner and at least 3 days before the intended date of board or board committee meeting (or other agreed period).	✓	Board papers are sent to the Directors for review at such period as agreed before the Board or Board committee meetings.
A.7.2 Management has an obligation to supply the board and its committees with adequate information, in a timely manner, to enable it to make informed decisions. The information supplied must be complete and reliable. To fulfill his duties properly, a director may not, in all circumstances, be able to rely purely on information provided voluntarily by management and he may need to make further enquiries. Where any director requires more information than is volunteered by management, he should make further enquiries where necessary. So, the board and individual directors should have separate and independent access to the issuer's senior management.	✓	The relevant senior management attends all regular meetings of the Board and its committees to present the Group's business/financial performance to the Board and individual Directors and answer all questions of the Board and individual Directors on the matters discussed at such meetings. The Directors have separate and independent access to the Company's senior management to keep themselves abreast of business activities, financial performance, internal audit and internal control progress in the Group.
A.7.3 All directors are entitled to have access to board papers and related materials. These papers and related materials should be in a form and quality sufficient to enable the board to make informed decisions on matters placed before it. Queries raised by directors should receive prompt and full response, if possible.	✓	Please refer to the disclosure made under A.7.1 and A.7.2 in this report.

B. Remuneration of Directors and Senior Management and Board Evaluation

B.1 The level and make-up of remuneration and disclosure

Principle

There is sufficient disclosure on Directors' remuneration policy and other remuneration related matters. A formal and transparent procedure for setting policy on executive Directors' remuneration and for fixing the remuneration packages for all Directors has been in place. No Director has been involved in deciding his/her own remuneration.

The Remuneration Committee

The Company established the Remuneration Committee pursuant to a resolution of all Directors passed on 15 June 2007. For the year ended 31 December 2017, the Remuneration Committee had three members comprising all independent non-executive Directors, Mr. Chan Fu Keung, William, *BBS*, Mr. Yue Chao-Tang, Thomas and Mr. Chen Johnny. The chairman of the Remuneration Committee is Mr. Chan Fu Keung, William, *BBS*.

The principal role and function of the Remuneration Committee are making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, reviewing and making recommendation to the Board the management's remuneration proposals for Directors and reviewing the Group's overall human resources strategy.

During the year ended 31 December 2017, three Remuneration Committee meetings were held, and the attendance records are set out below:

Name	Attendance
Mr. Chan Fu Keung, William, *BBS (Chairman)*	3/3
Mr. Yue Chao-Tang, Thomas	3/3
Mr. Chen Johnny	2/3

During the year, the following regular work has been performed by the Remuneration Committee:

(i) reviewed the Group's human resources and remuneration strategies;
(ii) reviewed major human resources projects;
(iii) reviewed and determined the policy for the remuneration of executive Directors; and
(iv) made recommendations to the Board on the proposed remuneration packages of individual Directors and senior management.

During the year, the Remuneration Committee has also reviewed and discussed various share incentive proposals, including a long term incentive scheme and a share award plan, with an aim to attract, retain and motivate high calibre people to contribute to the Group's long term development. For details, please refer to the paragraphs headed "Long Term Incentive Scheme" and "Share Award Plan" in the Directors' Report in this annual report.

Code Provisions	Compliance	Corporate Governance Practices
B.1.1 The remuneration committee should consult the chairman and/or chief executive about their proposals for other executive directors. The remuneration committee should have access to independent professional advice if necessary.	✓	The procedure for setting policy on executive Directors' remuneration is as follows: (i) The Company's management makes recommendations to the Remuneration Committee on the executive Directors' remuneration; (ii) the Remuneration Committee then reviews these recommendations (with access to professional advice if considered necessary and at the Company's expense) and proposes the final remuneration package to the Board for approval; and (iii) No Director or any of his or her associates is involved in deciding his or her own remuneration.
B.1.2 The remuneration committee's terms of reference should include: (a) to make recommendations to the board on the issuer's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) to review and approve the management's remuneration proposals with reference to the board's corporate goals and objectives; (c) either: (i) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management; or (ii) to make recommendations to the board on the remuneration packages of individual executive directors and senior management;	✓	The Remuneration Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties and followed closely the CG Code requirements. The Remuneration Committee adopts the model of making recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Code Provisions	Compliance	Corporate Governance Practices
(d) to make recommendations to the board on the remuneration of non-executive directors; (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group; (f) to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; (g) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and (h) to ensure that no director or any of his associates is involved in deciding his own remuneration.		
B.1.3 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board by including on the Stock Exchange's website and the issuer's website.	✓	The terms of reference of the Remuneration Committee are posted on the Stock Exchange's website and the Company's website.
B.1.4 The remuneration committee should be provided with sufficient resources to perform its duties.	✓	The Remuneration Committee has full access to the human resources personnel and senior management if required to obtain any information relating to the human resources structure of the Group so as to facilitate making appropriate remuneration-related recommendations and proposals. The Remuneration Committee also has access to independent professional advice at the Company's expense if considered necessary.
B.1.5 Issuers should disclose details of any remuneration payable to members of senior management by band in their annual report.	✗	To observe the competitive market practices and to respect individual privacy, the Company did not make such disclosure in its annual report and accounts.

Recommended Best Practices	Compliance	Corporate Governance Practices
B.1.6 Where the board resolves to approve any remuneration or compensation arrangements which the remuneration committee disagrees, the board must disclose the reasons for its resolution in its next Corporate Governance Report.	N/A	No such disagreement happened for the year ended 31 December 2017.
B.1.7 A significant proportion of executive directors' remuneration should link rewards to corporate and individual performance.	✓	For the year ended 31 December 2017, the executive Directors' performance-based remuneration related to their executive roles constituted 80.0% on average of their total remuneration.
B.1.8 Issuers should disclose details of any remuneration payable to members of senior management, on an individual and named basis, in their annual reports and accounts.	✗	To observe the competitive market practices and to respect individual privacy, the Company did not make such disclosure in its annual report and accounts.
B.1.9 The board should conduct a regular evaluation of its performance.	✓	The Board has adopted a board evaluation programme with the following objectives: (i) reviewing current Board and committee practices with the view to improving efficiency and effectiveness; (ii) providing a periodic opportunity for the Board to review the company's corporate governance framework; (iii) testing Directors' knowledge of the business and its strategic situation; (iv) assessing the balance of skills, knowledge and experience on the Board and its committees; (v) identifying weaknesses that can be remedied by training and development; and (vi) improving the Board composition. The Board believes that board evaluation is an on-going process and shall continuously assess its performance on a regular basis.

C. Accountability and audit

C.1 Financial reporting

Principle

The Board should present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects.

Code Provisions	Compliance	Corporate Governance Practices
C.1.1 Management should provide sufficient explanation and information to the board to enable it to make an informed assessment of financial and other information put before it for approval.	✓	Before the commencement of a new financial year, annual business plan and budget are presented to the Board for approval. To evaluate the performance of the Group, presentation of business review and financial analysis of the Group is made to the Board by the management at relevant Board meetings to approve the financial results of the Group.
C.1.2 Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.	✓	The management provides monthly updates to the Board members, giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties. The monthly updates comprise internal financial information comparing to budget, industry peer comparison, as well as market intelligence.

Code Provisions	Compliance	Corporate Governance Practices
C.1.3 The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. There should be a statement by the auditors about their reporting responsibilities in the auditor's report on the financial statements. Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. Where the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt on the issuer's ability to continue as a going concern, they should be clearly and prominently disclosed and discussed at length in the Corporate Governance Report. The Corporate Governance Report should contain sufficient information for investors to understand the severity and significance of matters. To a reasonable and appropriate extent, the issuer may refer to other parts of the annual report. These references should be clear and unambiguous and the Corporate Governance Report should not contain only a cross-reference without any discussion of the matter.	✓	Directors and auditor of the Company have stated their responsibilities on pages 75 and 101 respectively of this annual report. The Board is responsible for the preparation of financial statements of the Company and ensuring that they give a true and fair view of the state of affairs of the Company according to the relevant statutory requirements and accounting standards. The Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Code Provisions	Compliance	Corporate Governance Practices
C.1.4 The directors should include in the separate statement containing a discussion and analysis of the group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term (the business model) and the strategy for delivering the issuer's objectives.	✓	Under the management discussion and analysis section of this annual report, a separate statement has been made to describe the Group's business model and the strategy for delivering the Group's objectives.
C.1.5 The board should present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required by the Listing Rules. It should also do so for reports to regulators and information disclosed under statutory requirements.	✓	Legal advisers have been retained and are consulted from time to time to assist the Board in ensuring that disclosures in financial reports, announcements and any other reports and statements have presented a balanced, clear and understandable assessment of the position of the Group.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.1.6 An issuer should announce and publish quarterly financial results within 45 days after the end of the relevant quarter.	✗	In order to provide the Shareholders with pertinent information relating to the business and operations of the Company on a more timely basis, the Company has voluntarily reported on its quarterly business development. Consequently, the Company discontinued publishing voluntary quarterly financial results commencing from the first quarter of 2009.
C.1.7 Once an issuer announces quarterly financial results, it should continue to do so for each of the first 3 and 9 months periods of subsequent financial years. Where it decides not to continuously announce and publish its financial results for a particular quarter, it should announce the reasons for such decision.	✗	Please refer to the disclosure made under C.1.6 in this report.

C.2 Risk Management and Internal control

Principle

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectiveness, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Accordingly, the Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems.

Code Provisions	Compliance	Corporate Governance Practices
C.2.1 The board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to the shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.	✓	The effectiveness of the risk management and internal control systems (covering financial, operational and compliance controls) and specifically, the progress of internal audit (in various operating aspects such as fixed assets, sales, purchase, wage and production) are reviewed, and their respective aspects that can be further strengthened are identified, at the regular Audit Committee meetings corresponding to the financial reporting periods. The findings at such meetings are reported subsequently at Board meetings to enable the Directors to assess the effectiveness of the risk management and internal control systems of the Group and impel them to improve constantly, which helps manage enterprise risks and improve its risks mitigation. The Board considers such review effective and adequate. The Group's risk management and internal control systems and internal audit manual have been reviewed comprehensively and implemented according to internal operation flow and business environment changes and obtained affirmative assessment of a third-party professional body. This system, which is COSO-based, comprises 5 elements: control environment, risk assessment, control activities, information and communication, and monitoring.

Code Provisions	Compliance	Corporate Governance Practices
		The internal control procedures of the Group include strategic control, management control and business process control. The internal control procedures are designed to safeguard the integrity of business processes (including financial and human assets, data/information and applicable systems), improve business effectiveness and efficiency, improve the quality of information for decision-making, as well as maintain a high standard of corporate governance. For the handling and dissemination of inside information, a Memorandum on Disclosure of (1) Inside Information and (2) Information Necessary to Avoid a False Market (the "Inside Information Memorandum") has been adopted by the Board since March 2013 with an aim to give guidance on the managing, protection and disclosure of inside information as well as the disclosure of information necessary for avoidance of a false market. Under the Inside Information Memorandum, the control mechanism embodies (1) control structure and; (2) control process, which are articulated as below: Control Structure Monitors business and corporate developments to identify and escalate potential inside information to attention of the designated officers, committee or the Board. Control Process 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. Deloitte Touche Tohmatsu, the Company's external auditor, reported on matters concerning internal control of the Group for the year ended 31 December 2017 in accordance with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

Code Provisions	Compliance	Corporate Governance Practices
C.2.2 The board's annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit and financial reporting functions.	✓	
C.2.3 The board's annual review should consider: (a) the changes, since the last annual review, in the nature and extent of significant risks; and the issuer's ability to respond to changes in its business and external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control system; (c) the extent and frequency of communication of monitoring results to the board which enables it to assess control of the issuer and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period; and (e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.	✓	The Company's review has generally covered the aspects as referred to in C.2.3 of the CG Code.

Code Provisions	Compliance	Corporate Governance Practices
C.2.4 Issuers should disclose, in the Corporate Governance Report, a narrative statement on how they have complied with risk management and internal control code provisions during the reporting period. In particular, they should disclose: (a) the process used to identify, evaluate and manage significant risks; (b) the main features of the risk management and internal control systems; (c) an acknowledgement by the board that it is responsible for the risk management and internal control systems and reviewing their effectiveness. It should also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss; (d) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and (e) the procedures and internal controls for the handling and dissemination of inside information.	✓	Please refer to the disclosure made under C.2 and C.2.1 in this report.
C.2.5 The issuers should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report.	✓	As set out under C.2.1 in this report, the Group has an internal audit team which reports directly to the Audit Committee and the Chief Executive Officer of the Company.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.2.6 The board may disclose in the Corporate Governance Report that it has received a confirmation from management on the effectiveness of the issuer's risk management and internal control systems.	✓	The Board has received a confirmation from management on the effectiveness of the Group's risk management and internal control systems.
C.2.7 The board may disclose in the Corporate Governance Report details of any significant areas of concern.	N/A	

C.3 Audit Committee

Principle

The Board should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company's auditor.

The Company established the Audit Committee pursuant to a resolution of all Directors passed on 15 June 2007. The Audit Committee currently has four members comprising four independent non-executive Directors, namely Mr. Yue Chao-Tang, Thomas, Mr. Chen Johnny, Mr. Chan Fu Keung, William, *BBS*, and Mr. Lian Jie.

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, risk management and internal control systems, and the review of the Company's compliance with any applicable laws and regulations.

The Audit Committee meets with the external auditor annually in the absence of the Company's management, to discuss matters relating to audit fees, any issues arising from the audit and any other matters the external auditor or the Audit Committee may wish to raise.

During the year ended 31 December 2017, three Audit Committee meetings were held, and the attendance records are set out below:

Name	Attendance
Mr. Yue Chao-Tang, Thomas *(Chairman)*	3/3
Mr. Chen Johnny	3/3
Mr. Chan Fu Keung, William, *BBS*	3/3
Mr. Lian Jie	2/3

During the year, the following work has been performed by the Audit Committee:

(i) reviewed financial reporting system;
(ii) reviewed the risk management and internal control systems;
(iii) reviewed the report of I.T. department;
(iv) reviewed and discussed interim and annual results; and
(v) monitored the Group's tax matters.

External Auditor and Auditor's Remuneration

The remuneration paid/payable to the external auditor of the Company, Deloitte Touche Tohmatsu, in respect of audit services and non-audit services provided to the Group for the year ended 31 December 2017 was US$484,000 and US$147,000 respectively. The non-audit services related primarily to tax consulting services. The external auditor will not be engaged for non-audit services unless such services constitute permissible non-audit services which should be endorsed by the Audit Committee.

Code Provisions	Compliance	Corporate Governance Practices
C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of meetings should be sent to all members of the committee for their comment and records, within a reasonable time after the meeting.	✓	The Company Secretary is responsible for preparing minutes of all Audit Committee meetings and such minutes have recorded in sufficient detail all matters discussed and resolved at such meetings. Draft minutes are circulated to all members for comment within a reasonable time after each meeting and final version of the minutes is circulated to all the Directors for records.
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of its audit committee for a period of 1 year from the date of his ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.	✓	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.
C.3.3 The audit committee's terms of reference should include at least: (a) Relationship with the issuer's auditor; (b) Review of issue's financial information; (c) Oversight of the issuer's financial reporting system, risk management and internal control systems.	✓	The Audit Committee was established with specific written terms of reference which have complied with the CG Code requirements.
C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board by including them on the Stock Exchange's website and the issuer's website.	✓	The terms of reference are posted on the Stock Exchange's website and the Company's website.
C.3.5 Where the board disagrees with the audit committee's views on the selection, appointment, resignation or dismissal of the external auditor, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reasons why the board has taken a different view.	N/A	During the year, there was no such disagreement, but the Board shall endeavour to comply with the requirement when such situation arises.

Code Provisions	Compliance	Corporate Governance Practices
C.3.6 The audit committee should be provided with sufficient resources to perform its duties.	✓	The Audit Committee has full access to the executive Directors, the senior management and internal audit team for any information relating to the Company's financial performance, financial reporting system, risk management and internal control systems to facilitate the process of making appropriate recommendations and proposals. In addition, the Audit Committee may obtain advice from the external legal and other independent professional advice whenever they consider necessary.
C.3.7 The terms of reference of the audit committee should also require it: (a) to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up actions; and (b) to act as the key representative body for overseeing the issuer's relation with the external auditor.	✓	The terms of reference of the Audit Committee have covered the two items as referred to C.3.7 of the CG Code.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.3.8 The audit committee should establish a whistleblowing policy and system for employees and those who deal with the issuer to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the issuer.	✓	

D. Delegation by the Board

D.1 Management functions

Principle

The Company has established a formal schedule of matters specifically reserved for board approval. The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing. Such separation of responsibilities has been articulated under A.1 in this report.

Code Provisions	Compliance	Corporate Governance Practices
D.1.1 When the board delegates aspects of its management and administration functions to management, it must, at the same time, give clear directions as to the management's powers, in particular, where management should report back and obtain prior board approval before making decisions or entering into any commitments on the issuer's behalf.	✓	Management meetings are held periodically where executive Directors and heads of senior management of the respective business divisions are present and clear directions are given as to the management's powers.
D.1.2 An issuer should formalise the functions reserved to the board and those delegated to management. It should review those arrangements periodically to ensure that they remain appropriate to the issuer's needs.	✓	Please refer to the disclosure made under A.1 in this report.
D.1.3 An issuer should disclose the respective responsibilities, accountabilities and contributions of the board and management.	✓	Executive Directors assume the day-to-day management functions in their respective business divisions in the Group so that those affected by corporate decisions in each business division are fully aware of the division of responsibilities between the Board and the management.
D.1.4 Directors should clearly understand delegation arrangements in place. Issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.	✓	The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing.

D.2 Board Committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

D.2.1 Where board committees are established to deal with matters, the board should give them sufficiently clear terms of reference to enable them to perform their functions properly.	✓	The Board committees were established with their respective specific terms of reference.
D.2.2 The terms of reference of board committees should require them to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	✓	This requirement is satisfied in the respective terms of reference of each Board committee of the Company.

D.3 Corporate Governance Functions

For the year ended 31 December 2017, the Corporate Governance Committee had three members comprising all independent non-executive Directors, namely 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.

During the year ended 31 December 2017, two Corporate Governance Committee meetings were held, and the attendance records are set out below:

Name of Directors	Attendance
Mr. Bolliger Peter *(Chairman)*	2/2
Mr. Yue Chao-Tang, Thomas	2/2
Mr. Chan Fu Keung, William, *BBS*	2/2

During the year, the following work has been performed by the Corporate Governance Committee:

(i) reviewed annual corporate governance report and corporate social responsibilities report and related disclosure in the annual and interim reports;
(ii) reviewed corporate governance framework;
(iii) reviewed the board evaluation program;
(iv) reviewed corporate disclosure policy; and
(v) reviewed training and continuous professional development of Directors and senior management.

Code Provisions	Compliance	Corporate Governance Practices
D.3.1 The terms of reference of the board (or a committee or committees performing this function) should include at least: (a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of directors and senior management; (c) to review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and (e) to review the issuer's compliance with the code and disclosure in the Corporate Governance Report.	✓	The Board has delegated the corporate governance functions to the Corporate Governance Committee. The terms of reference of the Corporate Governance Committee have covered the aspects as referred to in D.3.1 of the CG Code.
D.3.2 The board should be responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 or it may delegate the responsibility to a committee or committees.	✓	Please refer to the disclosure made under D.3.1 in this report.

E. Communication with Shareholders

E.1 Effective communication

Principle

The Board endeavours to maintain an on-going dialogue with the Shareholders and in particular, use annual general meetings or other general meetings, financial reports and corporate websites to communicate with the Shareholders. In addition, the Company's spokespersons meet with research analysts and the press on a regular basis, attend major investors' conferences and participate in international non-deal roadshow in order to maintain a continuing communication with the institutional analysts, investors and financial media.

Shareholders' Rights

(a) How Shareholders can convene an extraordinary general meeting

In accordance with article 58 of the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(b) The procedures for sending enquiries to the Board

Shareholders may put enquiries to the Board (i) in writing to the Company's registered office in Hong Kong (Flat C, 20/F, MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong) for attention to the Company Secretary or (ii) by email at stella@stella.com.hk or (iii) by attending the Company's annual general meeting or extraordinary general meeting.

(c) The procedures for putting forward proposals at Shareholders' meetings

(i) proposal relating to election of a person other than a Director as a Director

In accordance with article 88 of the Company's articles of association, if a Shareholder wishes to propose a person other than a Director for election as a Director at any general meeting, a notice signed respectively by that Shareholder giving his intention to propose such person for election and stating the full name of the person proposed for election as a Director, including the person's biographical details as required by rule 13.51(2) of the Listing Rules, and also the person to be proposed of his willingness to be elected as Director, be lodged at the Company's registered office in Hong Kong (Flat C, 20/F, MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong) attention to the Company Secretary. The minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notices shall commence on the day after dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

The Company has published the above procedures relating to Shareholder's right to propose a person for election as a Director on the Company's website.

(ii) other proposals

If a Shareholder wishes to make other proposals at Shareholders' meeting, he may lodge a written request, duly signed, at the Company's registered office in Hong Kong (Flat C, 20/F, MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong) attention to the Company Secretary.

Change in constitutional documents

During the year, there is no change in the Company's memorandum and articles of association.

Code Provisions	Compliance	Corporate Governance Practices
E.1.1 For each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting. Issuers should avoid "bundling" resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are "bundled", issuers should explain the reasons and material implications in the notice of meeting.	✓	At the annual general meeting held on 19 May 2017 ("2017 AGM"), separate resolutions were proposed by the chairman of the meeting in respect of each substantially separate issue in accordance with E.1.1 of the CG Code. The 2017 AGM was held on 19 May 2017 at the Marco Polo Prince Hotel, Harbour City, Kowloon, Hong Kong. The major items discussed are set out below: (i) to approve the audited consolidated financial statements of the Group and the report of the Directors and the auditor of the Company; (ii) to declare a final dividend; (iii) to declare a special dividend; (iv) to re-elect Directors; (v) to re-appoint the auditor of the Company; (vi) to grant general mandate to Directors to issue additional shares in the Company, not exceeding 5% of the issued share capital; (vii) to grant general mandate to Directors to purchase shares in the Company not exceeding 10% of the issued capital; and (viii) to adopt the new share option scheme of the Company. Voting of all resolutions were conducted by poll and all resolutions were approved by Shareholders. The results of the voting had been published on the Stock Exchange's website and the Company's website.

Code Provisions	Compliance	Corporate Governance Practices
E.1.2 The chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. An issuer's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.	Partially complied with	The Chairman had not attended the 2017 AGM. Instead, Mr. Chao Ming-Cheng, Eric, the Deputy Chairman, took the chair at the 2017 AGM, and the chairman or member of the Audit Committee, the Corporate Governance Committee, the Remuneration Committee and the Nomination Committee attended the 2017 AGM to answer Shareholders' questions. The reason for such arrangement is that the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. Please refer to the disclosure made under A.2 in this report. In addition, Deloitte Touche Tohmatsu, the Company's external auditor, had attended the 2017 AGM to answer Shareholders' questions. The Directors' attendance record for the 2017 AGM held on 19 May 2017 is set out below: Name of Directors — Attendance Executive Directors Mr. Chiang Jeh-Chung, Jack *(Chairman)* — 0/1 Mr. Chao Ming-Cheng, Eric — 1/1 Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* — 1/1 Mr. Chi Lo-Jen — 0/1 Independent Non-executive Directors Mr. Chen Johnny — 0/1 Mr. Bolliger Peter — 0/1 Mr. Chan Fu Keung, William, *BBS* — 1/1 Mr. Yue Chao-Tang, Thomas — 1/1 Mr. Lian Jie — 0/1
E.1.3 The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	✓	For the 2017 AGM, the notices to Shareholders were sent more than 20 clear business days before the meeting.

Code Provisions	Compliance	Corporate Governance Practices
E.1.4 The board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness.	✓	The Company maintains a Corporate Disclosure Policy on which the framework of Shareholders' communication policy is built. In the Corporate Disclosure Policy, the following major aspects are dealt with: (a) to determine the authorised Company; spokespersons and their responsibilities; (b) to give guidelines to employees; (c) to determine policy on communicating with media; (d) to determine policy on meetings with analysts and on reviewing analyst reports; (e) to determine policy on commenting on analysts' earnings estimates and earnings forecasts; (f) to determine policy on responding to rumours/leaks/ inadvertent disclosures; and (g) to determine policy on forward-looking statements. The Corporate Governance Committee reviews this Corporate Disclosure Policy on an annual basis.

E.2 Voting by Poll

Principle

The Company should ensure that Shareholders are familiar with the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

Code Provisions	Compliance	Corporate Governance Practices
E.2.1 The chairman of a meeting should ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.	✓	Detailed explanation regarding the procedures for demanding poll by Shareholders had been provided at the commencement of the 2017 AGM.

F. Company Secretary

Principle

The Company Secretary plays an important role in supporting the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Deputy Chairman on governance matters and also facilitating induction and professional development of Directors.

During the year, the Company Secretary has attended no less than 15 hours of relevant professional training in accordance with the requirement under Rule 3.29 of the Listing Rules.

Code Provisions	Compliance	Corporate Governance Practices
F.1.1 The company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs.	✓	Ms. Kan Siu Yim, Katie, the company secretary of the Company (the "Company Secretary"), is an employee of the Company and she has day-to-day knowledge of the Company's affairs.
F.1.2 The board should approve the selection, appointment or dismissal of the company secretary.	✓	The Board is responsible for approving the selection, appointment or dismissal of the Company Secretary.
F.1.3 The company secretary should report to the board chairman and/or the chief executive.	✓	The Company Secretary reports to the Chief Financial Officer and the Chief Executive Officer on day-to-day duties and responsibilities and to the Deputy Chairman on governance matters.
F.1.4 All directors should have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.	✓	All Directors have full access to the advice and services of the Company Secretary and legal and professional consultants of the Company, whenever necessary, to ensure compliance with all applicable law, rules and regulations, and corporate governance practices.

Note:

1. Mr. Lian Jie was appointed as an independent non-executive Director and a member of each of the Audit Committee and the Nomination Committee with effect from 1 February 2017.

DIRECTORS' AND AUDITOR'S ACKNOWLEDGEMENT

The Directors acknowledge their responsibility for preparing the accounts for the year under review.

The Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group for the year under review.

The external auditor of the Company acknowledges its reporting responsibilities in the auditor's report on the financial statements for the year under review.

JKJY by Stella

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Experienced management which uphold Stella's core values

EXECUTIVE DIRECTORS

Mr. CHIANG Jeh-Chung, Jack, aged 67, is the Chairman of the Board, an executive Director of the Company and a member of the Executive Committee of the Board. Mr. Chiang has been with the Group since 1983 and is one of the founders of the Group. He is responsible for the Group's design, development, marketing and customer relationship. Mr. Chiang has over 35 years of experience in new product development and management in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in design and marketing activities. He is the uncle of the Executive Director, Mr. Chi Lo-Jen. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHAO Ming-Cheng, Eric, aged 66, is the Deputy Chairman of the Board, an executive Director of the Company and a member of the Executive Committee of the Board. Mr. Chao has been with the Group since 1982 and is one of the founders of the Group. He is responsible for factory management and setting up new manufacturing facilities. Mr. Chao has over 36 years of experience in management in the footwear industry. He holds a Bachelor of Commerce degree from the Tunghai University, Taiwan. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHEN Li-Ming, Lawrence, aged 57, is an executive Director of the Company, the Chief Executive Officer of the Group and the chairman of the Executive Committee of the Board. Mr. Chen has been with the Group since 1985. He is responsible for the Group's corporate management. He has over 33 years of experience in technology development and management in the footwear industry. He holds a Bachelor of Electrophysics degree from the National Chiao Tung University, Taiwan. He is also a director of certain subsidiaries of the Company which are engaged in design and marketing activities, manufacturing and retail business. He is a director of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also indirectly interested in the issued share capital of Cordwalner Bonaventure Inc.. He is the cousin of a member of the senior management of the Company, Mr. Yang Chen-Ning.

Mr. CHI Lo-Jen, aged 46, is an executive Director of the Company and a member of the Executive Committee of the Board. Mr. Chi joined the Group in 1995 and is the Chief Executive Officer of both of the Fashion Footwear Division and the Branding Division of the Group. He is responsible for the supervision of the daily operations and business development of fashion footwear and branding business. Mr. Chi is also responsible for product design and development. He has over 23 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in retail business. Mr. Chi is the nephew of the Chairman of the Board, Mr. Chiang Jeh-Chung, Jack. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEN Johnny, aged 58, 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. Mr. Chen is currently an executive director and the interim Chairman of Convoy Global Holdings Limited (Stock Code: 1019), a company listed on the Main Board of the Stock Exchange. Mr. Chen is also an independent non-executive director of each of Viva China Holdings Limited (Stock Code: 8032), a company listed on the Growth Enterprise Market of the Stock Exchange; 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 (HKSE 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.

Mr. BOLLIGER Peter, aged 73, is an independent non-executive Director of the Company, the chairman of the Corporate Governance Committee and a member of the Nomination Committee of the Board. Mr. Bolliger had extensive experience in retail business with renowned department stores. From 1990 to 1994, he was the managing director of Harrods, London, the director of House of Fraser Plc and the chairman of Kurt Geiger, London (which is one of the leading luxury footwear retailers in Europe). Prior to these appointments, he had served at shoes companies, such as the managing director of A & D Spitz (Pty) Ltd., South Africa (1982 to 1990) and the managing director of Bally Shoes, Scandinavian Division, Denmark. In 1994, he joined Clarks and became the chief executive in 2002 until his retirement in May 2010. He is currently an independent non-executive director and a member of the audit committee of GrandVision B.V., a well-known optical retail company in the world. In addition, he is the non-executive Chairman of Kurt Geiger, London. Mr. Bolliger has been appointed as independent non-executive Director of the Company since October 2010.

Mr. CHAN Fu Keung, William, *BBS*, aged 69, is an independent non-executive Director of the Company, and the chairman of the Remuneration Committee and a member of the Audit Committee, the Corporate Governance Committee and the Nomination Committee of the Board. Mr. Chan was a member of the Executive Directorate and the Human Resources Director of the MTR Corporation Limited (Stock Code: 66) (the "MTR Corporation"), a company listed on the Main Board of the Stock Exchange since 1996 and 1998 respectively until July 2012 when he retired from the MTR Corporation after 23 years of service. As Human Resources Director of the MTR Corporation, he was responsible for overseeing human resources management, succession planning, organisation development, operations and management training, administration and security management of the MTR Corporation. Prior to joining the MTR Corporation, Mr. Chan held senior management positions in the commercial, utility and public sectors in Hong Kong, including the Hong Kong Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. Mr. Chan is a fellow member of the Hong Kong Institute of Human Resource Management since 1985. He is a member of the Remuneration Committee of the West Kowloon Cultural District Authority, also a member of the Hospital Authority Board, the chairman of its Human Resources Committee, and the trustee of the Hospital Authority Provident Fund Scheme. In addition, he is also the chairman of the Hospital Governing Committee of the Tuen Mun Hospital. Mr. Chan has been appointed as an independent non-executive director of Analogue Holdings Ltd (AHL), which is principally engaged in electrical and mechanical engineering, since August 2015. Mr. Chan received a Bachelor of Social Science degree from the University of Hong Kong in 1971. Mr. Chan has been appointed as an independent non-executive Director of the Company since September 2012.

Mr. YUE Chao-Tang, Thomas, aged 63, is an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee of the Board. Mr. Yue was a partner and director of the Global Advisory Council of Ernst & Young from 1998 to 2001, and became the deputy chairman and chairman of Ernst & Young from 2001 to 2004 and from 2004 to 2007 respectively. Currently he is the president of Tien-Yeh Accounting Firm. He has been in the accounting profession for over 38 years. Mr. Yue also holds various positions in the academic field. He is also an adjunct professor of the Accounting and Information Technology Research Institute of the National Chung Chen University, a visiting professor of both the Accounting Faculty of the National Chung Hsing University and the Accounting and Information Research Institute of the Asia University. From June 2008 to June 2014, Mr. Yue was an independent director of WPG Holdings Limited (Stock Code: 3702), the shares of which are listed on the Taiwan Stock Exchange. Mr. Yue is currently an independent director of Industrial Bank of Taiwan (Stock Code: 2897), which is registered on Taiwan's Emerging Stock Market (also known as GreTai Securities Market). Mr. Yue is also currently an independent director of Uni-President Enterprises Corp. (Stock Code: 1216), Johnson Health Tech. Co., Ltd. (Stock Code: 1736) and Feng Hsin Steel Co., Ltd. (Stock Code: 2015) respectively, companies listed on the Taiwan Stock Exchange. In addition, he is a director of Taiwan Corporate Governance Association. Mr. Yue received a master's degree and a bachelor's degree in accounting from the National Cheng-Chi University and the National Cheng-Kung University respectively. In addition, Mr. Yue received a master's degree in business administration from China Europe International Business School. Mr. Yue has been a certified public accountant of Taiwan since 1983. Mr. Yue has been appointed as an independent non-executive Director of the Company since January 2013.

Mr. LIAN Jie, aged 43, is an independent non-executive Director of the Company, a member of the Audit Committee and the Nomination Committee of the Board, Mr. Lian is currently the President of Perfect World Co., Ltd. (stock code: 2624), a leading Chinese entertainment company listed on the Shenzhen Stock Exchange principally engaged in the game, movie and TV drama businesses. From 2010 to 2016, Mr. Lian was the founding partner of Primavera Capital Group, which is a private equity firm focusing on the Chinese market. He currently serves as Senior Advisor to Primavera Capital Group. From 2009 to 2010, Mr. Lian served as the Managing Director in the Investment Banking Division of China International Capital Corporation ("CICC"), which was based in Hong Kong. Prior to joining CICC, Mr. Lian had been the Managing Director of the Investment Banking Division of Goldman Sachs in Hong Kong for more than eight years. From 2011 to 2016, Mr. Lian was an independent director of Bona Film Group Limited which was a company listed on the NASDAQ Stock Market and privatised in May 2016. Mr. Lian is currently an independent non-executive director of Bosideng International Holdings Limited (stock code: 3998), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a non-executive director of China XLX Fertiliser Limited (stock code: 1866), a company listed on the Main Board of the Stock Exchange. Mr. Lian graduated with a MBA degree from the Tuck School of Management, Dartmouth College in Hanover, New Hampshire, United States. Mr. Lian has been appointed as an independent non-executive Director of the Company since February 2017.

SENIOR MANAGEMENT

Business Division

Mr. SMOWTON Dermot, aged 62, is the Chief Operating Officer of the Group. Mr. Smowton joined the Group in December 2015. He is responsible for the Group's overall operational management. Prior to joining the Group, he was employed by C & J Clark International and completed his 34-year career there as global sourcing director.

Mr. CHEN Tung-Jui, aged 56, is the General Manager of the Men's Footwear Division of the Group. Mr. Chen has been with the Group since 1985. He has over 33 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business.

Mr. YANG Chen-Ning, aged 53, is the General Manager of Overseas Footwear Division of the Group. Mr. Yang joined the Group in 1986. He has over 32 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business. Mr. Yang is the cousin of Mr. Chen Li-Ming, Lawrence, an executive Director.

Mr. CHANG Chen-Ou, aged 61, is the General Manager of Sports Fashion Footwear Division of the Group. Mr. Chang joined the Group in 1994. Mr. Chang has over 31 years of experience in the footwear industry. He holds a Certificate of International Trade from the Tansui Institute of Industrial and Business Administration (currently known as the Aletheia University), Taiwan. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business.

Corporate Division

Mr. LEE Kwok Ming, aged 60, is the Chief Financial Officer of the Group. He joined the Group in June 2006 and is responsible for the overall financial function of the Group. Prior to joining the Group, Mr. Lee assumed the position of chief financial officer in a number of listed companies in Hong Kong. Mr. Lee holds a Higher Diploma in Accountancy from the Hong Kong Polytechnic and a Master of Science degree in Business Administration from the University of Bath, United Kingdom. Mr. Lee is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants. He is also a director of certain subsidiaries of the Company which are engaged in design and marketing activities and retail business.

Mr. CHIU Xian Hsiung, Sean, aged 49, is the Operation Director of the Group. Mr. Chiu joined the Group in 2014 and is responsible for the Group's overall operational sustainability improvements. Prior to joining the Group, he worked with Pou Chen Group and also possessed mentoring experience in various footwear and garment companies. He has expertise in industrial engineering improvement, lean system, rationalisation and e-business. He holds a Doctor of Science degree from the National Taiwan University, Taiwan.

Endeavouring to maintain effective communication with shareholders

What For

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited (the "Company") is pleased to present the annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the Group are development, manufacturing and sales of footwear products. Particulars of the principal activities of the Company's major subsidiaries are set out in note 37 to the consolidated financial statements of the Group for the year ended 31 December 2017.

BUSINESS REVIEW

For details of business review in relation to the development, performance or position of the Company's business, please refer to the sections headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report. The foregoing sections form parts of the business review as contained in this Directors' Report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 107.

The Board recommended the payment of a final dividend of HK30 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2017. The proposed final dividend amounting to approximately US$30.4 million, will be paid to Shareholders whose names appear on the register of members of the Company on 25 May 2018, if the proposals are approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on 18 May 2018. It is expected that the final dividend, if approved, will be paid on or about 28 June 2018.

In order to qualify for the proposed final dividend to be approved at the AGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 25 May 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 May 2018 to 18 May 2018 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the forthcoming AGM of the Company, 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 14 May 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended 31 December 2017 are set out in note 27 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results of the Group for the last five financial years and its consolidated assets and liabilities as at the end of the last five financial years is set out on page 190.

BANK BORROWINGS

Details of bank borrowings for the year ended 31 December 2017 are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity of the Group and note 34 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2017 were US$332.9 million (2016: US$303.9 million).

DIRECTORS

The Directors of the Company during the year under review were:

Executive Directors:
Mr. Chiang Jeh-Chung, Jack
Mr. Chao Ming-Cheng, Eric
Mr. Chen Li-Ming, Lawrence
Mr. Chi Lo-Jen

Independent Non-executive Directors:
Mr. Chen Johnny
Mr. Bolliger Peter
Mr. Chan Fu Keung, William, *BBS*
Mr. Yue Chao-Tang, Thomas
Mr. Lian Jie (appointed with effect from 1 February 2017)

In accordance with article 87(1) of the Company's articles of association, Mr. Chen Johnny, Mr. Chan Fu Keung, William and Mr. Yue Chao-Tang, Thomas will retire by rotation at the forthcoming AGM of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM of the Company has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY PROVISION

The service agreements entered into by the Company with each of the executive Directors, which are currently in force and were in force during the year ended 31 December 2017, contain indemnity provisions which are permitted indemnity provisions under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) subject to the limitations specified in sections 468 and 469 thereof, for the benefit of the executive Directors. Pursuant to such provisions, the Company shall indemnify any executive Director against any liability, loss suffered and expenses incurred by the executive Director in connection with any legal proceedings in which he is involved by reason of being a Director, and in which the judgment is given in his favour or in which he is acquitted. The Company has also taken out and maintained appropriate insurance cover to indemnify the Directors for liabilities that may arise out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 December 2017, no claims were made against the Directors.

CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

None of the Directors had, at any time during or at the end of the year under review, whether directly or indirectly, a material interest in any contract of significance in relation to the Group's business to which the Company or any of its subsidiary was a party.

No contract of significance had been entered into between the Company or any of its subsidiaries, and the controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) of the Company or any of its subsidiaries.

Save for the sales of footwear products to Max Group and Couture Accessories Holding Limited and the grant of Stella Call Option which constituted connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules, none of the related party transactions disclosed in note 33 to the consolidated financial statements is a connected transaction or continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules. Further details are set out in the section headed "Connected Transactions and Continuing Connected Transactions" below.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group (other than contracts of service with any Director or any person engaged in full time employment of the Group) were entered into or existed during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" and "Long Term Incentive Scheme" below, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors. The Company considers all of the independent non-executive Directors of the Company independent.

DISCLOSURE OF INTERESTS

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

As at 31 December 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") (Cap.571 of the Laws of Hong Kong), 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 ("Model Code") contained in Appendix 10 to the Listing Rules were as follows:

Aggregate long positions in shares and underlying shares of the Company:

		Number of Shares				
Director	Capacity/ Nature of Interest	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	28,364,612 *(Note 1)*	–	28,603,112	3.60%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	777,000	23,728,227 *(Note 2)*	–	24,505,227	3.08%
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	30,904,418 *(Note 4)*	–	31,235,918	3.93%

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" below) granted but not yet vested under the 2007 Scheme (as defined in the paragraphs headed "The 2007 Scheme" 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 31 December 2017, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares or 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 31 December 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 by the substantial shareholder	63,053,000	7.94%
Capital Research and Management Company	Investment manager	47,261,000	5.95%

Save as disclosed above, as at 31 December 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 or 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 Division 2 and 3 of Part XV of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Definitions

Under this section, the following expressions shall, unless the context requires otherwise, have the following meanings:

"BVI"	the British Virgin Islands
"CAH"	Couture Accessories Holding Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned as to 60% by Max Group
"CAH Group"	collectively, CAH and its subsidiaries from time to time
"Covenantors"	Mr. Chiang Chih-Chung and Mr. Li Wei
"Investment Agreement"	the investment agreement dated 18 October 2016 entered into between Stella Fashion, Max and the Covenantors
"Max"	Max Group Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, the issued share capital of which is indirectly owned as to approximately 64.75% by Mr. Chiang Chih-Chung
"Max Group"	collectively, Max and its subsidiaries from time to time, but excluding the CAH Group
"Restructuring"	the restructuring of the Group's PRC retail business in accordance with the terms of the Investment Agreement
"SPV"	a company to be incorporated in the BVI under the laws of the BVI pursuant to the Investment Agreement
"SPV Group"	collectively, the SPV and its subsidiaries
"Stella Call Option"	the call option granted by Stella Fashion to Max for the acquisition of all (but not part of) of the Stella Call Option Shares by Max or its designated nominee under the Investment Agreement

"Stella Call Option Consideration"	the price payable by Max (or its designated nominee) to Stella Fashion for the sale and purchase of the Stella Call Option Shares pursuant to the exercise of the Stella Call Option
"Stella Call Option Shares"	such number of ordinary shares in the capital of the SPV to be in issue and registered in the name of Stella Fashion representing 60% of the entire issued share capital of the SPV
"Stella Fashion"	Stella Fashion Group Limited, a company incorporated under the laws of the BVI with limited liability and a wholly-owned subsidiary of the Company

Connected Transactions

Description of the transactions

On 13 July 2017, the Group entered into a supplemental agreement with Max, Mr. Chiang Chih-Chung and Mr. Li Wei (the "Parties") to amend certain terms of the Investment Agreement (the "Supplemental Agreement"), with a view to facilitating completion of the Restructuring and the sale and purchase of the Stella Call Option Shares pursuant to the exercise of the Stella Call Option. The following set forth the major terms of the Supplemental Agreement:

1. Under the Supplemental Agreement, the Parties have agreed to exclude repayment of all amounts owed by members of the SPV Group to the Group (other than the SPV Group) from the scope of the Restructuring and to extend the period within which Stella Fashion shall procure the Restructuring to be completed to nine months from the date of the Investment Agreement.

2. In accordance with the Investment Agreement (as amended by the Supplemental Agreement) (the "Amended Investment Agreement"), completion of the sale and purchase of the Stella Call Option Shares pursuant to the exercise of the Stella Call Option shall take place on the 30th day after the issue of the relevant exercise notice (or such earlier date as may be agreed in writing between Max and Stella Fashion).

3. Under the Amended Investment Agreement, the basis for determining the Stella Call Option Consideration has been amended so that it shall be the lower of the following: (i) 60% of the consolidated net asset value of the SPV as shown on its unaudited consolidated financial statements as at 31 May 2017 plus the additional share capital of the SPV injected by Stella Fashion by way of share subscription during the period from 1 June 2017 to the date on which the exercise notice of the Stella Call Option is issued by Max; or (ii) US$50,000,000.

4. The Parties have further agreed that: (i) on or before the date of completion of the sale and purchase of the Stella Call Option Shares, Max shall procure the SPV to enter into loan agreement(s) in respect of loan(s) with an aggregate principal of RMB108 million (the "Bank Loan One") with relevant lending bank(s), and Stella Fashion shall procure the SPV to enter into loan agreement(s) in respect of loan(s) with an aggregate principal of RMB72 million (the "Bank Loan Two") with the relevant lending bank(s); both Bank Loan One and Bank Loan Two shall be on terms and conditions accepted by both Max and Stella Fashion, available for drawdown within three months after the date of completion of the sale and purchase of the Stella Call Option Shares (the "Stella Call Option Completion Date") and capable of being used by the SPV Group for repaying the amounts owed by any member of the SPV Group to any member of the Group (other than the SPV Group); (ii) Max shall procure the SPV to issue the drawdown notice to the relevant lending bank(s) and fulfil all other condition precedents as specified in the relevant loan agreement(s) in respect of Bank Loan One and complete drawdown procedures of Bank Loan One within one month after the Stella Call Option Completion Date; (iii) Max and Stella Fashion shall jointly procure the SPV to issue the drawdown notice to the relevant lending bank(s) and fulfil all other condition precedents as specified in the relevant loan agreement(s) in respect of Bank Loan Two and complete drawdown procedures of Bank Loan Two within one month after the Stella Call Option Completion Date; and (iv) Max and Stella Fashion shall jointly procure the SPV to repay all amounts owed by any member of the SPV Group to any member of the Group (other than the SPV Group) in full within two months after the Stella Call Option Completion Date.

Compliance with the Reporting and Announcement Requirements

Given that Max is indirectly owned as to approximately 64.75% by Mr. Chiang Chih Chung, who is the brother of Mr. Chiang Jeh-Chung, Jack, an executive Director and chairman of the Board, each of Max and Mr. Chiang Chih-Chung is a connected person of the Company, and the transactions contemplated under the Supplemental Agreement constitute connected transactions of the Company.

As the Group does not have discretion in the exercise of the Stella Call Option, the grant of the Stella Call Option by the Group is classified as if it is exercised. As all percentage ratios (other than the profits ratio) in respect of the exercise of the Stella Call Option are less than 5%, the grant of the Stella Call Option by the Group under the Amended Investment Agreement and the transactions contemplated thereby are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company confirmed that it has complied with the disclosure requirements as applicable to the above connected transactions under chapter 14A of the Listing Rules.

Continuing Connected Transactions

Supply of Max Branded Products to Max Group

Connected person: Max, a company incorporated under the laws of the British Virgin Islands with limited liability, the issued share capital of which is indirectly owned as to approximately 64.75% by Mr. Chiang Chih-Chung, who is the brother of Mr. Chiang Jeh-Chung, Jack, an executive Director and chairman of the Board. As such, Max is an associate of Mr. Chiang Jeh-Chung, Jack and connected person of the Company under the Listing Rules.

Connected transaction: The ongoing supply of footwear products bearing the trademarks which Max Group is licensed to use (the "Max Branded Products") by the Group to Max Group as governed under a master manufacturing agreement dated 19 July 2017 entered into between the Group and Max expiring on 31 December 2019 constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Supply in 2017: The Group supplied Max Branded Products to Max Group amounting to US$885,000, which did not exceed the aggregate annual cap of US$3,000,000 for the financial year ended 31 December 2017.

Supply of Stella Branded Products to CAH Group

Connected person: CAH, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned as to 60% by Max. Max is indirectly owned as to approximately 64.75% by Mr. Chiang Chih-Chung, who is the brother of Mr. Chiang Jeh-Chung, Jack, an executive Director and chairman of the Board. As such, CAH is an associate of Mr. Chiang Jeh-Chung, Jack and connected person of the Company under the Listing Rules.

Connected transaction: The ongoing supply of footwear products bearing trademarks which are owned by the Group (the "Stella Branded Products"), by the Group to CAH Group for its distribution in the PRC as governed under an exclusive distribution agreement dated 19 July 2017 entered into between the Group and CAH expiring on 31 December 2019 constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Supply in 2017: The Group supplied Stella Branded Products to CAH Group amounting to RMB81,586,000 (equivalent to approximately US$12,077,000), which did not exceed the aggregate annual cap of RMB100,000,000 (equivalent to approximately US$14,802,000) for the financial year ended 31 December 2017.

Compliance with the Reporting and Announcement Requirements

The continuing connected transactions described above require compliance with the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

The Company confirmed that it has complied with the disclosure requirements as applicable to the above continuing connected transactions under chapter 14A of the Listing Rules.

Annual review by independent non-executive directors and auditors

The independent non-executive Directors have, for the purpose of Rule 14A.55 of the Listing Rules, reviewed all continuing connected transactions and have confirmed that all continuing connected transactions have been entered into by the Group in the ordinary and usual course of its business, on normal commercial terms and according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to report on the continuing connected transactions of the Group. The auditors of the Company have provided a letter to the Board confirming that nothing has come to their attention that causes them to believe that the continuing connected transactions:

(1) have not been approved by the Board;

(2) were not, in all material respects, in accordance with the pricing policies of the Group;

(3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(4) have exceeded the cap.

REMUNERATION POLICY

The Group cultivates a caring culture among the employees and believes that human resources are significant assets to the Group's development and expansion. The Group seeks to build the management team internally through effective training and development programs. The Group adopts a remuneration system based on employees' individual performance, skill and knowledge, together with reference to the Group's operating results and comparable market benchmarks.

The emoluments of the Directors are first reviewed by the remuneration committee of the Board and then approved by the Board, having regard to the Director's skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions.

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 year 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 relevant vesting date shall meet the targets as prescribed by the Board for the relevant 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, and 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 year ended 31 December 2017	Cancelled during the year ended 31 December 2017	Lapsed during the year ended 31 December 2017	Outstanding as at 31 December 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	–	17 March 2017	4,605,500	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	13,500	4,592,000
	–	17 March 2017	4,605,500	2019 Vesting Date to 16 March 2023	HK$11.48	–	–	13,500	4,592,000
	–	17 March 2017	4,605,500	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	13,500	4,592,000
	–	17 March 2017	4,605,500	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	13,500	4,592,000
	–	17 March 2017	4,605,500	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	13,500	4,592,000
Other eligible participants	–	17 March 2017	305,000	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	305,000
	–	17 March 2017	305,000	2019 Vesting Date to 16 March 2023	HK$11.48	–	–	–	305,000
	–	17 March 2017	305,000	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	–	305,000
	–	17 March 2017	305,000	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	–	305,000
	–	17 March 2017	305,000	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	–	305,000

During the year under review, no Options were exercised or cancelled under the 2007 Scheme. For the year ended 31 December 2017, given that both the net profit ratio and the revenue growth ratio of the Group fell below the prescribed target as described in the 2007 Scheme, all relevant share options which were expected to vest on 16 March 2018 are considered as lapsed accordingly as at the latest practicable date prior to the issue of this annual report.

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 31 December 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 annual 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 annual 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.

Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the 2017 Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the New Share Option Scheme for the holding of an option before it can be exercised.

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 year 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 31 December 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 year under review, no award of shares had been made under the Plan.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions amounted to approximately US$485,000.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest customer and five largest customers accounted for approximately 20.3% and 61.7% of the Group's total revenue for the year ended 31 December 2017 respectively.

The aggregate purchase attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year ended 31 December 2017.

None of the Directors or any of their close associates or any shareholder (which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules as at the latest practicable date prior to the issue of this annual report.

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 year.

AUDITOR

A resolution will be proposed to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company for the year ending 31 December 2018.

On behalf of the Board

Chiang Jeh-Chung, Jack
Chairman

15 March 2018

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 107 to 189, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Estimated impairment assessment on trade receivables	
We identified the impairment assessment on trade receivables as a key audit matter due to the significance of the balance of trade receivables to the consolidated financial statements as a whole, combined with the judgement and estimates used by the management on assessing the recoverability of the trade receivables and the adequacy of the impairment allowance. As disclosed in note 19 to the consolidated financial statements, the Group's trade receivables as at 31 December 2017 amounted to US$280,249,000 (net of allowance for doubtful debts of US$487,000). In determining the impairment allowance for trade receivables, the recoverability of the trade receivables is assessed by the management taking into account the debtor's payment history including default or delay in payments, settlement records, subsequent settlements and the ageing analysis of the trade receivables.	Our procedures in relation to assessing the appropriateness of the management's impairment assessment on trade receivables included: • Understanding the Group's provision policy and the management's processes in assessing recoverability of each individual trade debt as well as determining the amount of impairment allowance for irrecoverable amounts; • Understanding the Group's key control on determination of credit limits, credit approval for customers and other monitoring procedures for recovering overdue debts; • Testing the ageing analysis of the trade receivables, on a sample basis, to the source documents; • Discussing with the management and evaluating the management's basis for trade receivables which have past due but not impaired; and • Assessing the reasonableness of impairment allowance for trade receivables with reference to the debtor's payment history including default or delay in payments, settlement records, subsequent settlements and the ageing analysis of the trade receivables.

Key audit matter	How our audit addressed the key audit matter
Allowance for inventories	
We identified the allowance for inventories as a key audit matter due to the significance of the balance of inventories to the consolidated financial statements as a whole, combined with the judgement and estimates used by the management in identifying aged or obsolete, slow-moving, or out-of-season inventories, and determining the net realisable value ("NRV"). NRV represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale which are based on the current market condition, marketing and promotion plan, historical sales record, ageing analysis and subsequent selling price of inventories. The Group carried out inventory review at the end of the reporting period and made the necessary allowance on aged or obsolete, slow-moving, or out-of-season items so as to write-off or write-down inventories to their NRVs. As disclosed in note 18 to the consolidated financial statements, the Group's inventories as at 31 December 2017 amounted to US$172,367,000.	Our procedures in relation to the management's estimation of allowance for inventories included: • Understanding the key controls of the Group on identifying aged or obsolete, slow-moving or out-of-season inventories that are no longer suitable for use in production nor saleable in the market; • Understanding the Group's inventory provision policy and the management's processes in making allowance for inventories; and evaluating the historical accuracy of the allowance estimation by the management; • Testing the ageing analysis of inventories, on a sample basis, to the source documents; • Discussing with the management and assessing the basis for determining the NRV and evaluating the current market conditions, ageing analysis and subsequent selling price of inventories; and • Assessing the sufficiency and appropriateness of allowance for inventories made by the management where the estimated NRV is lower than the cost with reference to historical sales records, ageing analysis, subsequent selling price and subsequent usage of the inventories.

Key audit matter	How our audit addressed the key audit matter
Tax provision	
We identified the tax provision as a key audit matter due to the use of judgement and estimates by the management on accounting for income taxes. In light of the number of jurisdictions in which the Group operates, judgement is required by the management in determining the provision for income taxes by considering the relevant tax rules in different jurisdictions, relevant transfer pricing reports, historical tax assessments, tax arrangement with local tax authorities and correspondence with local tax authorities. As disclosed in note 8 to the consolidated financial statements, as at 31 December 2017, the Group has recorded income tax expense of US$3,547,000.	Our procedures in relation to assess in the accuracy of taxation provision included: • Understanding the management process in identifying tax exposures in different jurisdictions in which the group operates and in estimating tax provision and determining the pricing policy for intra-group transaction among different jurisdictions; • Assessing basis of the management's estimation of tax provision identified and evaluating the historical accuracy of the provision estimated by the management and • Engaging our internal tax experts to assess the sufficiency of tax provision by considering relevant tax rules in different jurisdictions, relevant transfer pricing reports, historical tax assessments, tax arrangement with local tax authorities and correspondence with local tax authorities.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lau King Pak.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	NOTES	2017 US$'000	2016 US$'000
Revenue	5	1,577,270	1,550,864
Cost of sales		(1,307,066)	(1,260,320)
Gross profit		270,204	290,544
Other income	6	26,510	19,352
Other gains and losses	7	(5,486)	18,760
Distribution and selling expenses		(89,107)	(92,614)
Administrative expenses		(81,945)	(86,618)
Research and development costs		(56,679)	(62,048)
Share of result of a joint venture		1,380	1,370
Share of results of associates		(2,844)	43
Gain on disposals of subsidiaries	32	2,185	–
Finance costs		(981)	(531)
Profit before tax		63,237	88,258
Income tax expense	8	(3,547)	(7,044)
Profit for the year	9	59,690	81,214
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		3,120	(1,166)
Reclassification of transaction reserve upon disposals of subsidiaries	32	(2,180)	–
Share of exchange differences of associates and a joint venture		(240)	481
Other comprehensive income (expense) for the year, net of income tax		700	(685)
Total comprehensive income for the year		60,390	80,529
Profit (loss) for the year attributable to:			
Owners of the Company		61,955	81,577
Non-controlling interests		(2,265)	(363)
		59,690	81,214
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		62,946	80,815
Non-controlling interests		(2,556)	(286)
		60,390	80,529
Earnings per share (US$)	12		
– basic		0.078	0.103
– diluted		0.078	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	NOTES	2017 US$'000	2016 US$'000
Non-current assets			
Property, plant and equipment	13	403,655	378,080
Prepaid lease payments	14	21,735	17,271
Investment properties	15	7,128	–
Interests in associates	16	12,308	7,635
Interest in a joint venture	17	9,504	8,031
Deposit paid for acquisition of property, plant and equipment		14,314	48,661
		468,644	459,678
Current assets			
Inventories	18	172,367	210,412
Trade, bills and other receivables	19	429,263	359,673
Prepaid lease payments	14	622	591
Amounts due from associates	20	63,778	24,407
Amount due from a joint venture	21	7,116	11,410
Held for trading investments	23	11,736	23,892
Cash and cash equivalents	24	74,894	82,453
		759,776	712,838
Current liabilities			
Trade and other payables	25	146,301	139,412
Bank borrowings – due within one year	26	60,006	114
Tax liabilities		50,086	51,884
Derivative financial instruments	22	–	5
Financial guarantee contract	35	800	–
		257,193	191,415
Net current assets		502,583	521,423
		971,227	981,101

	NOTES	2017 US$'000	2016 US$'000
Capital and reserves			
Share capital	27	10,160	10,160
Share premium and reserves		961,421	968,760
Equity attributable to owners of the Company		971,581	978,920
Non-controlling interests		(3,619)	(1,063)
Total equity		967,962	977,857
Non-current liabilities			
Bank borrowings – due after one year	26	3,265	3,244
		971,227	981,101

The consolidated financial statements on pages 107 to 189 were approved and authorised for issue by the board of directors on 15 March 2018 and are signed on its behalf by:

Chen Li-Ming, Lawrence
DIRECTOR

Chi Lo-Jen
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000 *(Note 1)*	Capital reserve US$'000 *(Note 2)*	Exchange reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000 *(Note 3)*	Share award reserve US$'000	Accumulated profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total US$'000
As at 1 January 2016	10,160	154,503	45,427	1,146	(4,514)	(2,722)	190	1,450	779,429	985,069	(777)	984,292
Profit (loss) for the year	–	–	–	–	–	–	–	–	81,577	81,577	(363)	81,214
Other comprehensive (expense) income for the year	–	–	–	–	(762)	–	–	–	–	(762)	77	(685)
Total comprehensive (expense) income for the year	–	–	–	–	(762)	–	–	–	81,577	80,815	(286)	80,529
Dividend recognised as distribution *(note 11)*	–	–	–	–	–	–	–	–	(86,964)	(86,964)	–	(86,964)
As at 31 December 2016	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 year	–	–	–	–	–	–	–	–	61,955	61,955	(2,265)	59,690
Other comprehensive income (expense) for the year	–	–	–	–	991	–	–	–	–	991	(291)	700
Total comprehensive income (expense) for the year	–	–	–	–	991	–	–	–	61,955	62,946	(2,556)	60,390
Recognition of equity-settled share-based payment								977	–	977	–	977
Lapse of share award	–	–	–	–	–	–	–	(1,450)	1,450	–	–	–
Dividend recognised as distribution *(note 11)*	–	–	–	–	–	–	–	–	(71,262)	(71,262)	–	(71,262)
As at 31 December 2017	10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	766,185	971,581	(3,619)	967,962

Notes:

(1) The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of (i) Stella International Limited ("Stella International"), (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company in 2007.

(2) The capital reserve arises from the following transactions:

(i) During the year ended 31 December 2007, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International to an employee of the Group by way of gift as an incentive to attract and retain the employee in the Group prior to the group reorganisation.

(ii) During the year ended 31 December 2007, Cordwalner Bonaventure Inc. ("Cordwalner") issued and allotted 1.17% preferred shares in Cordwalner with subscription price US$3,150,000 to Eagle Mate Capital Limited, a company owned by an employee, which will hold these shares on behalf of the employees as an incentive to attract and retain the employee in the Group after the listing of the Company's shares.

These transactions were accounted for as an equity-settled share-based payment transactions in equity, over the vesting period, based on the fair value of the relevant shares at the grant date.

(3) During the year ended 31 December 2008, the Company repurchased an aggregate of 14,870,500 own ordinary shares on the Stock Exchange (as defined in note 1 to the consolidated financial statements) and these repurchased shares were cancelled prior to 31 December 2008. The issued share capital of the Company was reduced by the nominal value of these repurchased shares in the amount of HK$1,487,000 (US$190,000) and the equivalent amount was transferred from accumulated profits to the capital redemption reserve pursuant to 37(4) of the Companies Law (2007 Revision) of the Cayman Islands. The premium paid on the repurchase of these shares in the amount of US$12,795,000 was charged to share premium. The aggregate consideration to repurchase these shares in the amount of US$12,985,000 was deducted from shareholders' equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	NOTE	2017 US$'000	2016 US$'000
OPERATING ACTIVITIES			
Profit before tax		63,237	88,258
Adjustments for:			
Depreciation of property, plant and equipment		37,287	42,218
Depreciation of investment properties		669	–
Write-down (reversal of write-down) of inventories		4,060	(968)
Share of result of a joint venture		(1,380)	(1,370)
Share of results of associates		2,844	(43)
Net gain on changes in fair value of derivative financial instruments		(989)	(116)
Net gain on changes in fair value of held for trading investments		(863)	(1,110)
Impairment loss recognised on other receivables		–	1,650
Gain on disposal of prepaid lease payments		–	(19,188)
Gain on disposals of a subsidiaries		(2,185)	–
Release of prepaid lease payments		920	958
Loss on disposal of property, plant and equipment		3,218	3,376
Finance costs		981	531
Equity-settled share-based payment		977	–
Interest income		(2,068)	(2,619)
Operating cash flows before movements in working capital		106,708	111,577
Decrease (increase) in inventories		9,959	(7,112)
(Increase)/decrease in trade, bills and other receivables		(78,190)	7,070
Decrease in loan receivable		–	840
Increase (decrease) in trade and other payables		1,254	(33,450)
Decrease in held for trading investments		13,019	18,302
Decrease (increase) in derivative financial instruments		989	(667)
Decrease in amount due from a joint venture		4,294	487
(Increase) decrease in amounts due from associates		(7,038)	13,137
Cash generated from operations		50,995	110,184
Income taxes paid		(5,347)	(8,697)
NET CASH FROM OPERATING ACTIVITIES		45,648	101,487
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(34,297)	(48,013)
Acquisition of prepaid lease payments		(4,596)	(1,806)
Deposit paid for acquisition of property, plant and equipment		(4,841)	(26,973)
Proceeds from the disposal of prepaid lease payments		–	12,726
Proceeds from disposals of subsidiaries	32	431	–
Interest received		2,068	2,619
NET CASH USED IN INVESTING ACTIVITIES		(41,235)	(61,447)

	2017 US$'000	2016 US$'000
FINANCING ACTIVITIES		
Interest paid	(981)	(531)
New short-term bank borrowings raised	772,885	959,121
New long-term bank borrowings raised	–	3,358
Repayment of short-term bank borrowings	(713,125)	(974,121)
Repayment of long-term bank borrowings	(123)	(3,351)
Dividend paid	(71,262)	(86,964)
NET CASH USED IN FINANCING ACTIVITIES	(12,606)	(102,488)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,193)	(62,448)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	82,453	145,126
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	634	(225)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, represented by bank balances and cash	74,894	82,453

1. GENERAL

Stella International Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 March 2007 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 6 July 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. Particulars of the principal activities of its principal subsidiaries, associates and a joint venture are set out in notes 37, 16 and 17, respectively.

The consolidated financial statements are presented in United States dollars ("USD"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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 HKFRS 2014 – 2016 cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised to HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC) – Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 – 2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are described below:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be no significant change as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables, amounts due from associates, and amount due from a joint venture. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits at 1 January 2018.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 16 "Leases" *(continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of US$13,147,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposit paid of US$70,000 and refundable rental deposits received of US$2,028,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payment under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of the right-of-use assets. Adjustments to refundable rental deposits received would be considered as advanced lease payments.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 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.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investment(s) in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. USD) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

All borrowing costs for non-qualifying assets are recognised in profit or loss in the period in which they are incurred.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs and termination benefits

Payments to state-managed retirement benefit schemes in The People's Republic of China ("PRC") and the Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the Labour Standards Law (as amendment) in Taiwan are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraws the offer of the termination benefit and when it recognises any related restructuring costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Equity-settled share-based payment transactions

Share option 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 without taking into consideration all non-market vesting conditions 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 vest based on assessment of all relevant non-market vesting conditions. 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. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction and freehold land as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is stated at cost less accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction and freehold land, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Transfer from owner-occupied property to investment property using cost method

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the carrying amount of the property, plant and equipment at the date of transfer is recognised as the cost of the investment property under the cost model.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Impairment on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior year. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 39c.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, amount due from an associate and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than at FVIPI, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 39c.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated impairment of trade receivables

The policy for allowance for bad or doubtful debts of the Group is based on the evaluation of collectability of amount based on the management's estimate. In determining the impairment allowance for trade receivables, the management considers any changes in the creditability of its customers and assesses the recoverable amount of each individual receivables at the end of the reporting period based on objective evidence such as likelihood of collection of debts on an individual basis as well as on a collective basis, with reference to the debtor's payment history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Where the actual future cash flows are less than expected, a material impairment loss/further impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables is approximately US$280,249,000 (2016: US$236,755,000). The allowance for doubtful debts is approximately US$487,000 (2016: US$487,000).

Allowance for inventories

Inventories are stated at the lower of cost and net realisable value. The estimated net realisable value was arrived based on the management's consideration of aged or obsolete, slow-moving, or out-of-season inventories by considering the current market conditions, marketing and promotion plan, historical sales records, ageing analysis and subsequent selling price, and identifies obsolete and slow-moving inventories that are no longer suitable for use in production nor saleable in the market. If the estimated net realisable value is lower than cost, a write-down on inventories is recognised in profit or loss. The Group carried out inventory reviews at the end of the reporting period and made the necessary allowance on obsolete and slow-moving, or out-of -season items so as to write off or write down inventories to their net realisable values. As at 31 December 2017, the carrying amount of inventories was approximately US$172,367,000 net of allowance for inventories of US$16,660,000 (2016: US$210,412,000 net of allowance for inventories of US$17,786,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Useful lives, residual value and impairment of property, plant and equipment and investment properties

The Group's management determines the estimated useful lives, residual value and related depreciation for its property, plant and equipment and investment properties. This estimate is based on the historical experience of the actual useful lives and residual value of property, plant and equipment and investment properties of similar nature and functions. The management will increase the depreciation where useful lives or residual value are expected to be shorter or lower than estimated, or it will write-off or write-down obsolete assets that have been abandoned or sold. Changes in these estimations may have a material impact on the results of the Group, which would be recognised in profit or loss in the year when such change occurs. As at 31 December 2017, the carrying amounts of property, plant and equipment and investment properties are US$403,655,000 (2016: US$378,080,000) and 7,128,000 (2016: nil), respectively.

Provision for income taxes

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes by considering the relevant tax rules in different jurisdictions, relevant transfer pricing reports, historical tax assessments, tax arrangement with local tax authorities and correspondence with local tax authorities. The Group recognises tax liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax provisions in the year in which the outcome becomes known. As at 31 December 2017, the carrying amount of tax liabilities of US$50,086,000 (2016: US$51,884,000).

5. 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 and operating 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

5. SEGMENT INFORMATION *(continued)*

(a) Operating segments

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended 31 December 2017

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales	624,894	882,293	70,083	1,577,270	–	1,577,270
Inter-segment sales	310	25,046	–	25,356	(25,356)	–
Total	625,204	907,339	70,083	1,602,626	(25,356)	1,577,270
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	61,845	122,649	(4,914)	179,580	–	179,580
Unallocated income						
– Interest income on bank balances						722
– Interest income from held for trading investments						581
– Interest income from derivative financial instruments						765
– Rental income						3,233
– Sales of scrap						1,616
– Net gain on changes in fair value of derivative financial instruments						989
– Net gain on changes in fair value of held for trading investments						863
– Others						14,196
Unallocated expenses						
– Research and development costs						(56,679)
– Central administrative costs						(79,515)
– Finance costs						(981)
– Depreciation of investment properties						(669)
Share of result of a joint venture						1,380
Share of results of associates						(2,844)
Profit before tax						63,237

5. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2016

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales	507,669	965,427	77,768	1,550,864	–	1,550,864
Inter-segment sales	1,694	30,746	–	32,440	(32,440)	–
Total	509,363	996,173	77,768	1,583,304	(32,440)	1,550,864
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	58,019	134,850	(1,852)	191,017	–	191,017
Unallocated income						
– Interest income on bank balances						494
– Interest income from held for trading investments						1,424
– Interest income from derivative financial instruments						701
– Rental income						1,206
– Sales of scrap						513
– Net gain on changes in fair value of derivative financial instruments						116
– Net gain on changes in fair value of held for trading investments						1,110
– Others						33,371
Unallocated expenses						
– Research and development costs						(62,048)
– Central administrative costs						(80,528)
– Finance costs						(531)
Share of result of a joint venture						1,370
Share of results of associates						43
Profit before tax						88,258

5. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. 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, sales of scrap, net gain on changes in fair value of derivative financial instruments, net gain on changes in fair value of held for trading investments, certain other income, 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 executives for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	2017 US$'000	2016 US$'000
Segment assets		
Men's footwear	487,645	439,743
Women's footwear	477,494	464,836
Footwear retailing and wholesaling	48,599	56,433
Total segment assets	1,013,738	961,012
Other assets	214,682	211,504
Consolidated assets	1,228,420	1,172,516

	2017 US$'000	2016 US$'000
Segment liabilities		
Men's footwear	84,036	77,001
Women's footwear	53,226	46,672
Footwear retailing and wholesaling	9,039	15,744
Total segment liabilities	146,301	139,417
Other liabilities	114,157	55,242
Consolidated liabilities	260,458	194,659

5. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than investment properties, interests in associates, interest in a joint venture held for trading investments, cash and cash equivalents and unallocated corporate assets; and

- all liabilities are allocated to reportable segments other than bank borrowings, tax liabilities and unallocated corporate liabilities not belonging to any operating segments.

Other segment information

2017

	Men's Footwear US$'000	Women's Footwear US$'000	Footwear retailing and wholesaling US$'000	Unallocated US$'000	Total US$'000
Amounts included in the measure of segment profit or segment assets:					
Additions to non-current assets	38,402	34,666	10,054	7,326	90,448
Release of prepaid lease payments	460	460	–	–	920
Depreciation of property, plant and equipment	13,420	19,951	3,916	–	37,287
Write-down (reversal of write-down) of inventories	3,726	(1,666)	2,000	–	4,060
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Interests in associates	5,692	–	6,616	–	12,308
Interest in a joint venture	9,504	–	–	–	9,504
Share of result of a joint venture	1,380	–	–	–	1,380
Share of results of associates	(5)	–	(2,839)	–	(2,844)
Income tax expense	1,030	2,055	462	–	3,547

5. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Other segment information

2016

	Men's Footwear US$'000	Women's Footwear US$'000	Footwear retailing and wholesaling US$'000	Total US$'000
Amounts included in the measure of segment profit or segment assets:				
Additions to non-current assets	16,225	30,622	7,227	54,074
Release of prepaid lease payments	414	544	–	958
Depreciation of non-current assets	15,858	22,820	3,540	42,218
Write-down (reversal of write-down) of inventories	2,293	1,713	(4,974)	(968)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	6,900	–	735	7,635
Interest in a joint venture	8,031	–	–	8,031
Share of result of a joint venture	1,370	–	–	1,370
Share of results of associates	(6)	–	49	43
Income tax expense	3,042	3,404	598	7,044

(b) Revenue from major products and services

	2017 US$'000	2016 US$'000
Men's footwear	625,204	509,625
Women's footwear	952,066	1,041,239
	1,577,270	1,550,864

5. SEGMENT INFORMATION *(continued)*

(c) Geographical information

The Group's revenue from external customers is presented based on location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets:

	Revenue from external customers		Non-current assets As at 31 December	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
United States of America	741,112	761,096	–	–
United Kingdom	125,976	134,263	–	–
Netherlands	126,396	54,203	–	–
Italy	30,003	24,134	85	100
The PRC (country of domicile)	190,474	202,603	299,171	298,637
Canada	42,402	40,354	–	–
Spain	22,494	21,194	–	–
Japan	38,420	41,546	–	–
Belgium	48,069	49,100	–	–
Germany	31,894	35,027	–	–
South Korea	23,729	22,612	–	–
Australia	16,497	17,123	–	–
Indonesia	–	–	16,125	15,359
Vietnam	–	–	34,403	5,235
Bangladesh	–	–	74,380	70,722
Others	139,804	147,609	44,480	69,625
	1,577,270	1,550,864	468,644	459,678

5. SEGMENT INFORMATION *(continued)*

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017 US$'000	2016 US$'000
Customer A[1]	316,486	312,965
Customer B[1]	274,303	286,571

[1] Revenue from both men's and women's footwear operating segments in aggregate

6. OTHER INCOME

	2017 US$'000	2016 US$'000
Interest income on bank balances	722	494
Interest income from held for trading investments	581	1,424
Interest income from derivative financial instruments	765	701
Rental income	3,233	1,206
Sales of scrap	1,616	513
Government subsidies (Note)	7,213	6,512
Others	12,380	8,502
	26,510	19,352

Note: The amount represents the government subsidiaries received as reimbursement of operating expenses, for which no condition is required to be fulfilled.

7. OTHER GAINS AND LOSSES

	2017 US$'000	2016 US$'000
Loss on disposal of property, plant and equipment	(3,218)	(3,376)
Gain on disposal of prepaid lease payments	–	19,188
Net exchange (loss) gain	(4,120)	1,722
Net gain on changes in fair value of held for trading investments	863	1,110
Net gain on changes in fair value of derivative financial instruments	989	116
	(5,486)	18,760

8. INCOME TAX EXPENSE

	2017 US$'000	2016 US$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	11,783	17,838
Hong Kong Profits Tax	62	279
Other jurisdictions	446	334
	12,291	18,451
Overprovision in prior years:		
PRC EIT	(8,744)	(11,407)
	3,547	7,044

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

Under the law of the PRC on EIT and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% for both years.

Deferred taxation has not been provided in respect of undistributed earnings of the Company's PRC subsidiaries arising after January 1, 2008, because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Stella International Trading (Macao Commercial Offshore) Limited ("SIT (MCO)"), a wholly owned subsidiary of the Group, is exempted from Macao Complementary Tax.

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

8. INCOME TAX EXPENSE *(continued)*

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 US$'000	2016 US$'000
Profit before tax	63,237	88,258
Tax at the applicable PRC EIT rate of 25% (2016: 25%)	15,809	22,065
Tax effect of expenses not deductible for tax purposes	20,676	19,222
Tax effect of income not taxable for tax purposes	(985)	(892)
Tax effect of share of results of associates	(7)	(7)
Tax effect of share of results of a joint venture	(506)	(411)
Effect of tax exemptions granted to SIT (MCO)	(21,332)	(20,293)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,364)	(1,233)
Overprovision in respect of prior years	(8,744)	(11,407)
Income tax expense	3,547	7,044

9. PROFIT FOR THE YEAR

	2017 US$'000	2016 US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(note 10)*	1,517	1,687
Other staff costs	350,879	358,003
Equity-settled share-based payment (included in administrative expenses)	858	–
Retirement benefit scheme contributions, excluding directors	446	3,891
Total staff costs	353,700	363,581
Auditor's remuneration	484	489
Research and development costs	56,679	62,048
Cost of inventories recognised as an expense (including write-down of inventories of US$4,060,000 (2016: reversal of write-down of inventories of US$968,000))*	1,307,066	1,260,320
Depreciation of property, plant and equipment	37,287	42,218
Depreciation of investment properties	699	–
Release of prepaid lease payments	920	958

* Cost of inventories recognised as an expense includes US$265,356,000 and US$22,249,000 (2016: US$264,526,000 and US$26,036,000) relating to staff costs and depreciation expenses respectively, which amount is also included in the respective total amounts disclosed separately above for each of these of expenses.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and the chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance is as follows:

For the year ended 31 December 2017

A) Executive directors

	Jeh-Chung, Jack CHIANG US$'000	Ming-Cheng, Eric CHAO US$'000	Li-Ming, Lawrence CHEN US$'000	Lo-Jen, CHI US$'000	Total 2017 US$'000
Directors' Fees	39	39	39	39	156
Other emoluments					
– salaries and other allowances	77	69	62	62	270
– bonus *(Note)*	134	89	89	360	672
– retirement benefit scheme contributions	1	–	1	–	2
– equity-settled share-based payments	–	–	–	119	119
Sub-total	251	197	191	580	1,219

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

B) Independent non-executive directors

	Johnny CHEN US$'000	Peter BOLLIGER US$'000	Fu-Keung William CHAN US$'000	Chao-Tang Thomas YUE US$'000	Jie LIAN US$'000	Total 2017 US$'000
Fees	61	54	67	68	48	298
Other emoluments						
– salaries and other allowances	–	–	–	–	–	–
– bonus *(Note)*	–	–	–	–	–	–
– retirement benefit scheme contributions	–	–	–	–	–	–
	61	54	67	68	48	298
						1,517

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

For the year ended 31 December 2016

A) Executive directors

	Jeh-Chung, Jack CHIANG US$'000	Ming-Cheng, Eric CHAO US$'000	Li-Ming, Lawrence CHEN US$'000	Lo-Jen, CHI US$'000	Total 2016 US$'000
Directors' Fees	39	39	39	39	156
Other emoluments					
– salaries and other allowances	77	70	62	62	271
– bonus *(Note)*	250	200	200	400	1,050
– retirement benefit scheme contributions	1	–	1	–	2
Sub-total	367	309	302	501	1,479

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

B) Independent non-executive directors

	Johnny CHEN US$'000	Peter BOLLIGER US$'000	Fu-Keung William CHAN US$'000	Chao-Tang Thomas YUE US$'000	Total 2016 US$'000
Fees	52	52	52	52	208
Other emoluments					
– salaries and other allowances	–	–	–	–	–
– bonus *(Note)*	–	–	–	–	–
– retirement benefit scheme contributions	–	–	–	–	–
	52	52	52	52	208
					1,687

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Note: The performance related incentive payment 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 for the two years ended 31 December 2017 and 31 December 2016.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

Mr. Li-Ming, Lawrence CHEN is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Employees

The five highest paid employees in the Group during the year included four (2016: four) directors, details of whose emoluments are set out above. Details of the remuneration for the year of the remaining one (2016: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017 US$'000	2016 US$'000
Salaries, allowances and benefits in kind	130	115
Performance related bonus	122	136
Retirement benefits	1	1
	253	252

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2017	2016
HK$1,500,001 to HK$2,000,000	1	1

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

11. DIVIDENDS

	2017 US$'000	2016 US$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2016 final dividend of HK30 cents per share (2016: 2015 final dividend of HK55 cents per share) paid	30,599	56,290
2016 special dividend of HK10 cents per share (2015: Nil) paid	10,200	–
2017 interim dividend of HK30 cents per share (2016: HK30 cents per share) paid	30,463	30,674
	71,262	86,964

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK30 cents (2016: final dividend in respect of the year ended 31 December 2016 of HK30 cents) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

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

	2017 US$'000	2016 US$'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	61,955	81,577
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	792,601,500	792,601,500
Effect of dilutive potential ordinary shares: Adjustment in relation to share options outstanding	781,762	–
Weighted average number of ordinary share for the purpose of dilutive earnings per share	793,383,262	792,601,500

12. EARNINGS PER SHARE *(continued)*

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year after deducting the shares held in trust for the Company by Teeroy Limited (see note 30).

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 30) and adjusting the potential dilutive effect of the outstanding options during the year ended 31 December 2017.

Diluted earnings per share was not presented for the year ended 31 December 2016 as there was no dilutive ordinary shares in existence during the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$'000	Buildings US$'000	Plant and machinery US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
COST							
As at 1 January 2016	3,373	290,943	237,281	62,541	10,602	37,674	642,414
Exchange adjustments	68	(3,045)	(3,398)	(1,085)	(408)	(1,184)	(9,052)
Additions	–	11,284	13,668	11,907	977	16,238	54,074
Transfer	–	8,073	960	2,682	84	(11,799)	–
Disposals	–	(2,832)	(5,805)	(717)	(833)	(989)	(11,176)
As at 31 December 2016	3,441	304,423	242,706	75,328	10,422	39,940	676,260
Exchange adjustments	283	2,353	2,781	538	205	492	6,652
Additions	–	18,017	19,410	15,801	2,492	17,965	73,685
Transfer	–	6,170	1,096	1,245	–	(8,511)	–
Disposals	–	(4,101)	(4,370)	(1,385)	(1,429)	(833)	(12,118)
Disposals of subsidiaries	–	(1,624)	(2,162)	(799)	(938)	–	(5,523)
Transfer to investment properties	–	(15,260)	–	–	–	–	(15,260)
As at 31 December 2017	3,724	309,978	259,461	90,728	10,752	49,053	723,696
DEPRECIATION							
As at 1 January 2016	–	70,669	146,923	41,311	8,172	–	267,075
Exchange adjustments	–	(1,089)	(1,186)	(816)	(222)	–	(3,313)
Provided for the year	–	14,702	12,244	13,942	1,330	–	42,218
Eliminated on disposals	–	(2,280)	(4,298)	(541)	(681)	–	(7,800)
As at 31 December 2016	–	82,002	153,683	53,896	8,599	–	298,180
Exchange adjustments	–	823	1,033	435	153	–	2,444
Provided for the year	–	12,419	11,812	11,635	1,421	–	37,287
Eliminated on disposals	–	(3,003)	(3,462)	(1,191)	(1,244)	–	(8,900)
Eliminated on disposals of subsidiaries	–	(378)	(451)	(97)	(110)	–	(1,036)
Transfer to investment properties	–	(7,934)	–	–	–	–	(7,934)
As at 31 December 2017	–	83,929	162,615	64,678	8,819	–	320,041
CARRYING VALUES							
As at 31 December 2017	3,724	226,049	96,846	26,050	1,933	49,053	403,655
As at 31 December 2016	3,441	222,421	89,023	21,432	1,823	39,940	378,080

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The following years are used for the depreciation of property, plant and equipment other than construction in progress after considering their respective useful lives:

Freehold land	Indefinite
Buildings	20 years or shorter of the lease terms of the relevant leasehold lands
Plant and machinery	5 – 10 years
Furniture, fixture and equipment	5 years
Motor vehicles	5 years

The Group's freehold land is situated in Taiwan.

The Group has not yet obtained the legal title of the buildings with an aggregate carrying amount of US$5,597,000 (2016: US$6,425,000).

The Group has pledged freehold land and buildings with net book values of approximately US$3,724,000 (2016: US$3,441,000) and US$2,164,000 (2016: US$2,107,000), respectively to secure a bank loan granted to the Group.

14. PREPAID LEASE PAYMENTS

	2017 US$'000	2016 US$'000
Current portion of prepaid lease payments	622	591
Non-current portion	21,735	17,271
	22,357	17,862

During the year ended 31 December 2017, the Group acquired additional prepaid lease payments of US$4,596,000 (2016: US$1,806,000). During the year ended 31 December 2016, the Group disposed prepaid lease payments of US$304,000.

The carrying amount represents upfront payment for land use rights in the PRC, Vietnam and Indonesia. The land is used for business operation.

The Group had fully paid consideration for land use rights in the PRC, Vietnam and Indonesia. However, the Group has not yet obtained some titles of the land use rights in the PRC with an aggregate carrying amount of US$2,644,000 (2016: US$2,734,000). The Group is in the process of obtaining the land use rights certificates.

15. INVESTMENT PROPERTIES

	US$'000
COST	
At 1 January 2016 and 31 December 2016	–
Transfer from property, plant and equipment	7,326
Exchange adjustment	1,035
At 31 December 2017	8,361
DEPRECIATION	
At 1 January 2016 and 31 December 2016	–
Provided for the year	669
Exchange adjustment	564
At 31 December 2017	1,233
CARRYING VALUES	
At 31 December 2017	7,128
At 31 December 2016	–

During the year ended 31 December 2017, the Group has changed its intended use in regards of certain portions of its factories and leased to independent third parties, therefore, related portions of factories are transferred from property, plant and equipment to investment properties at cost of US$7,326,000 upon the commencement of the lease.

The above investment properties, excluding the prepaid lease payments, are depreciated on a straight-line basis over 10 years.

The Group's investment properties are held for leasing purpose under operating leases and are situated in Dongguan.

The fair value of the Group's investment properties at 31 December 2017 was US$28,889,000 (2016: Nil). The fair value has been arrived at based on the valuation carried out by GW Financial Advisory Services Limited, an independent professional valuer which is not connected with the Group.

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar industrial properties in Dongguan and adjusted to take into account the market expectation form property investors to reflect factors specific to the Group's investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

15. INVESTMENT PROPERTIES *(continued)*

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are are as follows:

	Fair value Level 3 US$'000	As at 31.12.2017 US$'000
Factory located in Dongguan	28,889	28,889

16. INTERESTS IN ASSOCIATES

	2017 US$'000	2016 US$'000
Cost of investments in associates – unlisted	34,051	26,200
Share of post-acquisition losses and other comprehensive income, net of dividend received	(17,715)	(14,537)
Impairment of an associate	(4,028)	(4,028)
	12,308	7,635

16. INTERESTS IN ASSOCIATES *(continued)*

As at 31 December 2017 and 2016, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation/ establishment	Principal place of operation	Class of share held	Proportion of nominal value of registered capital/ issued capital held by the Group		Proportion of voting rights held by the Group		Principal activities
					2017	2016	2017	2016	
辛集市寶得福皮業有限公司 Xinji Baodefu Leather Co. Ltd. ("Baodefu") *(Note a)*	Sino-foreign co-operation joint venture	The PRC	The PRC	paid-up-capital	60%	60%	40%	40%	Manufacturing and sales of leather products and footwear
Couture Accessories Limited ("Couture Accessories")	Limited company	Hong Kong	Hong Kong	Ordinary	40%	40%	40%	40%	Footwear wholesaling
Couture Accessories Holding Limited ("Couture Accessories Holding")	Limited companies	Hong Kong	Hong Kong	Ordinary	40% *(Note b)*	–	40% *(Note b)*	–	Footwear wholesaling

Notes:

(a) The Group holds 60% of the registered capital of Baodefu. However, under a shareholders' agreement, the other shareholder controls the composition of the board of directors, where decision on relevant activities of Baodefu is concluded and therefore the Group does not control Baodefu. The Group appointed three over seven of the board of directors of Baodefu, hence the directors of the Company consider that the Group does exercise significant influence over Baodefu and, therefore it is classified as an associate of the Group.

(b) As disclosed in note 32, Max Group acquired 60% interest in the SPV (i.e. Couture Accessories Holding) in accordance with the terms of the Supplemental Agreement (as defined in note 22) on 19 July 2017, Couture Accessories Holding ceased to be a subsidiary of the Group and became an associate of the Group as the Group is able to exercise significant influence over Couture Accessories Holding.

Recognition of the Group's interest in Couture Accessories Holding was initially measured at its fair value, which was determined by GW Financial Advisory Services Limited, an independent professional valuer not connected with the Group.

16. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of associates

Summarised financial information in respect of each of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

Baodefu

	2017 US$'000	2016 US$'000
Current assets	66,014	46,195
Non-current assets	5,589	5,941
Current liabilities	62,117	40,636

	2017 US$'000	2016 US$'000
Revenue	107,532	116,392
Loss for the year	(9)	(9)
Other comprehensive expense for the year	(2,005)	(871)
Total comprehensive expense for the year	(2,014)	(880)

16. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of associates *(continued)*

Baodefu *(continued)*

Reconciliation of the summarised financial information above to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 US$'000	2016 US$'000
Net assets of Baodefu	9,486	11,500
Proportion of the Group's ownership interest in Baodefu	60%	60%
Carrying amount of the Group's interest in Baodefu	5,692	6,900

Couture Accessories

	2017 US$'000	2016 US$'000
Current assets	2,863	3,020
Current liabilities	1,040	1,182

	2017 US$'000	2016 US$'000
Revenue	117	895
Profit for the year	2	122
Other comprehensive expense for the year	(17)	(68)
Total comprehensive (expense) income for the year	(15)	54

16. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of associates *(continued)*

Couture Accessories *(continued)*

Reconciliation of the summarised financial information above to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 US$'000	2016 US$'000
Net assets of Couture Accessories	1,823	1,838
Proportion of the Group's ownership interest in Couture Accessories	40%	40%
Carrying amount of the Group's interest in Couture Accessories	729	735

Couture Accessories Holding

	2017 US$'000
Current assets	49,941
Non-current assets	8,137
Current liabilities	11,862
Non-current liabilities	30,093

	19.7.2017 to 31.12.2017 US$'000
Revenue	32,572
Loss for the period	(3,694)
Other comprehensive income for the period	2,189
Total comprehensive expense for the period	(1,505)

16. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of associates *(continued)*

Couture Accessories Holding *(continued)*

Reconciliation of the summarised financial information above to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 US$'000
Net assets of Couture Accessories Holding	16,123
Proportion of the Group's ownership interest in Couture Accessories Holding	40%
The Group's share of net assets of Conture Accessories Holding	6,449
Financial guarantee	800
Unrealised profit	(1,362)
Carrying amount of the Group's interest in Couture Accessories Holding	5,887

17. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture are as follows:

	2017 US$'000	2016 US$'000
Cost of investment in a joint venture – unlisted	5,547	5,547
Share of post-acquisition profits and other comprehensive income	3,957	2,484
	9,504	8,031

17. INTEREST IN A JOINT VENTURE *(continued)*

Details of the Group's joint venture at the end of the reporting period are as follow:

Name of entity	Form of business structure	Place of incorporation/ establishment	Principal place of operation	Class of share held	Proportion of nominal value of registered capital/ issued capital held by the Group		Proportion of voting rights held by the Group		Principal activities
					2017	2016	2017	2016	
Bay Footwear Limited ("Bay Footwear")	Limited company	Bangladesh	Bangladesh	Ordinary	49%	49%	50%	50%	Manufacturing of footwear

Note: Pursuant to the relevant shareholder agreement, the Group is able to exercise joint control with counterparty over Bay Footwear in the financial and operating policy decisions whereas decisions about the relevant activities require the unanimous consent of both parties. Accordingly, Bay Footwear is regarded as a joint venture of the Group.

Summarised financial information of a joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

Bay Footwear

	2017 US$'000	2016 US$'000
Current assets	35,481	28,492
Non-current assets	14,058	14,003
Current liabilities	30,143	26,106

The above amounts of assets and liabilities include the followings:

	2017 US$'000	2016 US$'000
Cash and cash equivalents	–	–
Current financial liabilities (excluding trade and other payables and provision)	–	–
Non-current financial liabilities (excluding trade and other payables and provision)	–	–

17. INTEREST IN A JOINT VENTURE *(continued)*

Summarised financial information of a material joint venture *(continued)*

Bay Footwear *(continued)*

The above amounts of assets and liabilities include the following:

	2017 US$'000	2016 US$'000
Revenue for the year	63,469	48,445
Profit for the year	2,816	2,795
Other comprehensive income for the year	192	2,103
Total comprehensive income for the year	3,008	4,898
The above profit for the year include followings:		
Income tax expense	(67)	(225)

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the consolidated financial statements:

	2017 US$'000	2016 US$'000
Net assets of Bay Footwear	19,396	16,389
Proportion of the Group's ownership interest in Bay Footwear	49%	49%
Carrying amount of the Group's interest in Bay Footwear	9,504	8,031

18. INVENTORIES

	2017 US$'000	2016 US$'000
Raw materials	46,963	40,787
Work-in-progress	63,529	67,229
Finished goods	61,875	102,396
	172,367	210,412

The directors of the Company have assessed the net realisable values and condition of the Group's inventories as at 31 December 2017 and have considered write-down of inventories of US$4,060,000 (2016: reversal of write-down of inventories of US$968,000) to be appropriate.

19. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its general trade customers. For trade customers with long business relationship, the Group allows a credit period up to 120 days.

The following is an aged analysis of the Group's trade and bills receivables net of allowance for doubtful debts presented based on invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2017 US$'000	2016 US$'000
Trade receivables:		
0 – 30 days	133,102	136,764
31 – 60 days	90,610	74,404
61 – 90 days	30,796	14,660
Over 90 days	25,741	10,927
	280,249	236,755
Bills receivables	526	336
Deposit, other receivables and prepaid expenses	50,088	43,140
Prepayments to suppliers	98,400	79,442
	429,263	359,673

19. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

The movement in the allowance for doubtful debts on other receivables were as follows:

	2017 US$'000	2016 US$'000
Balance at the beginning of year	1,650	–
Impairment loss recognised on other receivables	–	1,650
Balance at the end of year	1,650	1,650

Included in the allowance for doubtful debts on other receivables above with an aggregate balance of US$1,650,000 (2016: US$1,650,000) were individual impaired other receivables. The individually impaired other receivables related to other debtors that were past due or in default of payments and the Group assessed that these other receivables are generally not recoverable. The Group does not hold any collateral over these balances.

The carrying amounts of the remaining other receivables that were neither past due nor impaired relate to other debtors for whom there were no recent history of default.

Included in the Group's trade and bills receivables balance are debtors with aggregate amount of US$18,371,000, US$7,000, US$251,000, US$267,000, US$3,400,000 and US$303,000 (2016: US$8,057,000, US$199,000, US$217,000, US$206,000, US$3,035,000 and US$281,000) which are denominated in Renminbi ("RMB"), Hong Kong dollars ("HKD"), EURO ("EUR"), Indonesian Rupiah ("IDR"), Vietnamese Dong ("VND") and other currencies other than the functional currency of the respective group entities and are exposed to currency risk.

Before accepting a new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. The majority of the trade and bills receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade and bills receivable balances are debtors with aggregate carrying amount of US$15,804,000 (2016: US$8,850,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables based on the invoice dates which are past due but not impaired:

	2017 US$'000	2016 US$'000
31-60 days	8,617	3,248
61-90 days	2,086	1,510
Over 90 days	5,101	4,092
	15,804	8,850

19. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

The movement in the allowance for doubtful debts on trade receivables were as follows:

	2017 US$'000	2016 US$'000
Balance at the beginning of year	487	1,500
Amounts written off as uncollectible	–	(1,013)
Balance at the end of year	487	487

20. AMOUNTS DUE FROM ASSOCIATES

	As at 31 December	
Name of company	2017 US$'000	2016 US$'000
Baodefu (note (i))	25,027	23,975
Couture Accessories (note (i))	425	432
Conture Accessories Holding (note (ii))	38,326	–
	63,778	24,407

Notes:

(i) The amounts due from associates are trade in nature, represently prepayments to associates for purchase of goods. The amounts are unsecured and interest-free.

(ii) The amount due from an associate are trade in nature and aged within 90 days where the group allows credit period of 120 days to the associate. The amount is unsecured and interest-free.

21. AMOUNT DUE FROM A JOINT VENTURE

	As at 31 December	
Name of company	2017 US$'000	2016 US$'000
Bay Footwear	7,116	11,410

The amount due from a joint venture is trade in nature, represently prepayments to a joint venture for purchase of goods. The amount is unsecured and interest-free.

22. DERIVATIVE FINANCIAL INSTRUMENTS

Call option, warrant and put option

On 18 October 2016, the Group entered into an investment agreement (the "Investment 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. The Investment Agreement includes that:

(i) the call option (the "Stella Call Option") granted by the Group to Max Group. Pursuant to which, the Max Group was entitled to acquire 60% interests in a special purpose vehicle (the "SPV") incorporated from the restructuring of the Group's PRC retail business (the "Restructuring"), and the consideration to be the lower of 60% of the consolidated net asset value of the SPV as shown on its unaudited consolidated financial statements specified date as agreed; or US$50,000,000 for the exercise period within 12 months commenced from the date on which the Group notified Max Group of the completion of said restructuring;

(ii) the warrant (the "Max Warrant") to be granted by Max Group to the Group upon to the exercise of the Stella Call Option. Pursuant to which the Group is entitled to subscribe for up to 20% of the enlarged issued share capital of Max Group at any time during the Max Warrant exercise period at the Max Warrant subscription price subject to satisfaction of certain conditions precedent. Such consideration to be determined is based on six times of audited net profit after tax of Max Group for the specific financial years ending 28 February 2019, 2020 or 2021 and the Max Warrant is exercisable within 180 days for each of the specific financial years ending as stated above; and

(iii) the put option (the "Max Put Option") to be granted by Max Group to the Group upon to the exercise of the Stella Call Option. Pursuant to which, if the listing of the shares of Max Group fails to take place within three years after the completion of the subscription of the 20% of the enlarged issued share capital of Max Group pursuant to the exercise of the Max Warrant, the Group may require Max Group to repurchase all of the Max Put Option shares at a consideration in aggregate of (i) the Max Warrant subscription price paid to Max Group; and (ii) an interest accrued on the Max Warrant subscription price at the interest rate of 3% per annum, less (iii) any dividends paid by Max Group since the date of completion of exercise of the Max Warrant. The exercise period of this Max Put Option is the period of six months commencing from the third anniversary date after the date of completion of exercise of the Max Warrant.

The grant of the Stella Call Option resulted in a derivative financial liability of RMB37,000 (equivalent to US$5,000), and was initially recognised in profit or loss at fair value on the date when such derivative contract entered into and subsequently re-measured to its fair value at the end of the reporting period.

The valuations of call option were carried out by Ascent Partners Valuation Service Limited, an independent professional qualified valuer not connected with the Group. The fair values were determined using a binomial option pricing model.

As at 31 December 2016, the Stella Call Option had not yet been exercised by Max Group, and therefore the Max Warrant or Max Put Option had not yet been granted to the Group.

22. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Call option, warrant and put option *(continued)*

On 13 July 2017, the Group entered into a supplemental investment agreement (the "Supplemental Agreement") with the Max Group, to amend certain terms of the Investment Agreement of which 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 as a result 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), which is equal to 60% of the consolidated net asset of value of the SPV, 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.

On 19 July 2017 and 31 December 2017, since Stella Call Option had been exercised by the Max Group, and therefore the Max Warrant and the Max Pat Option were granted to the Group. In the opinion of the directors, the fair values of the Max Warrant and Max Put Option is considered as insignificant with assistance from an independent professional valuer, GW Financial Advisory Service Ltd., which is not connected with the Group.

23. HELD FOR TRADING INVESTMENTS

	2017 US$'000	2016 US$'000
Bonds:		
– listed in Hong Kong	2,176	8,030
– listed overseas	9,560	15,862
	11,736	23,892

The fair values of the above investments were measured with reference to quoted market price.

Included in the Group's held for trading investments are listed bonds of US$2,683,000 (2016: US$8,200,000) which are denominated in RMB and are exposed to currency risk.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash held by the Group and short-term deposits placed in banks and financial institutions that are interest-bearing at market interest rates and have a maturity of three months or less.

Bank balances and cash held in the PRC of US$28,910,000 (2016: US$30,959,000) are subject to foreign exchange control.

Cash and cash equivalents of US$17,871,000, US$1,738,000, US$4,490,000, US$22,000, US$689,000, US$12,662,000 and US$3,496,000 (2016: US$24,437,000, US$2,273,000, US$3,011,000, US$23,000, US$824,000, US$7,192,000 and US$2,341,000) are denominated in RMB, HKD, EUR, Macau Pataca ("MOP"), IDR, VND and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

The bank deposits and balances carry interest rates ranging from 0.01% to 2% (2016: 0.01% to 2%) per annum.

25. TRADE AND OTHER PAYABLES

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

	2017 US$'000	2016 US$'000
Trade payables:		
0 – 30 days	51,496	63,902
31 – 60 days	12,859	7,171
Over 60 days	5,182	19,972
	69,537	91,045
Other payables and accruals	76,764	48,367
	146,301	139,412

The average credit period on purchase of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. The liquidity risk of the Group's trade and other payables are detailed in note 39b.

Included in the Group's trade and other payables balance are creditors with aggregate amount of US$10,954,000, Nil, US$2,741,000, US$13,947,000, US$1,708,000 and US$250,000 (2016: US$10,124,000, US$3,000, Nil, US$12,425,000, US$1,625,000 and US$2,654,000) which are denominated in RMB, HKD, EUR, MOP, IDR and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

26. BANK BORROWINGS

	2017 US$'000	2016 US$'000
Bank borrowings comprised of:		
Bank loan – secured	3,512	3,358
Bank loan – unsecured	59,759	–
	63,271	3,358

The carrying amounts of the above borrowings are repayable*:

	2017 US$'000	2016 US$'000
Within one year	60,006	114
Within a period of more than one year but not exceeding two years	226	228
Within a period of more than two years but not exceeding five years	3,039	3,016
	63,271	3,358
The carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities) not repayable within on year	(59,759)	–
Less: Amounts shown under current liabilities	(247)	(114)
Amounts shown under non-current liabilities	3,265	3,244

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Secured bank loan

Included in bank borrowings was a secured bank loan denominated in New Taiwan dollars amounting to US$3,512,000 (2016: US$3,358,000), which was repayable within 5 years and carrying at benchmark interest rate per month. The effective interest rate during the year (which is equal to contractual interest rate) of this bank borrowing is 1.13% (2016: 1.09%) per annum. It was secured by the Group's freehold land and building with carrying amount of US$3,724,000 and US$2,164,000 as at 31 December 2017 (2016: US$3,373,000 and US$2,171,000). The proceeds are used mainly for general working capital purposes. The balance is shown under current and non-current liabilities based on scheduled repayment dates as at 31 December 2017 and 2016.

26. BANK BORROWINGS *(continued)*

Unsecured bank loan

As at 31 December 2017, included in bank borrowings was an unsecured bank loan denominated in New Taiwan dollars amounting to approximately US$59,590,000 (2016: Nil) which contained a repayment on demand clause and was carrying variable interest rate ranging from 0.5% to 2.15% per annum. The proceeds were used mainly for general working capital purposes.

27. SHARE CAPITAL

	Number of shares	Nominal value	
		HK$'000	US$'000
Ordinary shares of HK$0.10 each			
Authorised:			
As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 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 31 December 2017	794,379,500	79,438	10,160

28. OPERATING LEASES

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 US$'000	2016 US$'000
Within one year	3,862	1,019
In the second to fifth year inclusive	11,504	3,024
Over five years	18,051	615
	33,417	4,658

As at 31 December 2017, all of the properties held had committed tenants within eleven years. Leases were negotiated for terms varying from one to eleven years. Property rental income earned during the year was US$3,233,000 (2016: US$1,206,000).

28. OPERATING LEASES *(continued)*

The Group as lessee

	2017 US$'000	2016 US$'000
Minimum lease payments paid under operating leases during the year:		
– retail stores	2,605	4,301
– other properties	7,104	5,585
	9,709	9,886
Contingent rentals	6,308	13,101
	16,017	22,987

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 US$'000	2016 US$'000
Within one year	4,299	9,052
In the second to fifth year inclusive	8,162	13,259
Over five years	686	1,806
	13,147	24,117

Operating lease payments represent rentals payable by the Group for certain of its factories, office, shops and staff quarters. Leases are negotiated for lease terms of two to twenty years with fixed rentals and/or contingent rentals.

29. CAPITAL COMMITMENTS

	2017 US$'000	2016 US$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	6,607	12,615

30. SHARE-BASED PAYMENTS TRANSACTIONS

Long term incentive scheme

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 was 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 31 December 2017, the Trustee maintained a pool of 1,778,000 (31 December 2016: 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 year ended 31 December 2016, no shares 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.

30. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

Long term incentive scheme *(continued)*

The share options are expected to be vested based on the 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

30. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

Long term incentive scheme *(continued)*

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

For the year ended 31 December 2017

Category of participants	Share options	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	Outstanding as at 31 December 2017
Director						
Chi-Lo Jen	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	–	(13,500)	4,897,000
	2017-B	–	4,910,500	–	(13,500)	4,897,000
	2017-C	–	4,910,500	–	(13,500)	4,897,000
	2017-D	–	4,910,500	–	(13,500)	4,897,000
	2017-E	–	4,910,500	–	(13,500)	4,897,000
		–	27,970,000	–	(67,500)	27,902,500
Exercisable at the end of the year						–
Weighted average exercise price		N/A	HK$11.48	–	–	HK$11.48

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. As at 31 December 2017, the management expected, that both the net profit ratio and the revenue growth ratio of the Group would fall below the prescribed target as described in the terms of option, all relevant share options granted of 5,580,500 shares which were expected to vest on 16 March 2018 is considered as lapsed subsequently.

The valuation of share option was carried out by Ascent Partners Valuation Service Limited, an independent professional valuer which are 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 option life	6 years
Expected dividend yield	28.32%
Risk-free interest rate	1.60%

30. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

Long term incentive scheme *(continued)*

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.

As at 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 22,376,000, representing 2.8% (31 December 2016: Nil) of the shares of the Company in issue on that date.

The estimated fair values of the options granted on that date is HK$37,045,000 (equivalent to US$4,780,000). The Group recognised the total expense of approximately HK$7,573,000 (equivalent to approximately US$977,000 (31 December 2016: Nil) for the year ended 31 December 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 groups 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.

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 year ended 31 December 2017, no shares were granted under the Share Award Plan.

30. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

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 year ended 31 December 2017, no shares of the Company were granted, exercised or cancelled by the Company under the Share Option Scheme.

31. RETIREMENT BENEFIT PLANS

The employees employed in the PRC, Macau, Thailand, Malaysia, Italy, Indonesia and Taiwan are members of the state-managed retirement benefit schemes operated by the governments. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions under the schemes.

The Group operates a Mandatory Provident Fund Scheme for all qualified employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,500 in maximum (per employee per month) of relevant payroll costs to the scheme, which contribution is matched by employees.

The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in other jurisdictions where the group entities operates. Certain employees of the Group eligible for participating in the retirement schemes are entitled to retirement benefits from the schemes. The Group is required to make contributions to the retirement schemes up to time of retirement of the eligible employees, excluding those employees who resigned before their retirements, at a percentage that is specified by the local governments.

32. DISPOSALS OF SUBSIDIARIES

As disclosed in note 22, on 19 July 2017, Max Group exercised the Stella Call Option to acquire 60% interest in the SPV (i.e. Couture Accessories Holding and its subsidiaries) in accordance with the terms of the Supplemental Agreement. Accordingly, Couture Accessories Holding and its subsidiaries ceased to be subsidiaries of the Group and it became an associate of the Group (note 16).

32. DISPOSALS OF SUBSIDIARIES *(continued)*

The net assets of Couture Accessories Holding at the date of disposal is of as follows:

	As at 19 July 2017 US$'000
Consideration received:	
Cash consideration	10,577
Net assets disposed of:	
Property, plant and equipment	4,487
Inventories	28,343
Trade and other receivables	9,446
Bank balances and cash	10,146
Trade and other payables	(2,461)
Amounts due to fellow subsidiaries	(32,333)
	17,628
Gain on disposals of subsidiaries:	
Consideration received	10,577
Derecognition of Stella Call Option *(note 22)*	5
Fair value of the retained 40% equity interest in the Group as an interest in an associate	7,051
Less: Net assets disposed of	(17,628)
Gain on disposal	5
Cumulative exchange differences in respect of the net assets of subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries	2,180
Gain on disposal	2,185
Net cash inflow arising on disposal:	
Cash consideration	10,577
Less: bank balances and cash disposed of	(10,146)
	431

33. RELATED PARTY DISCLOSURES

(I) Related party transactions

The Group had the following transactions with related parties during the year:

Name of company	Nature of transactions	2017 US$'000	2016 US$'000
Baodefu[1]	Purchases of footwear products	87,788	106,055
Couture Accessories[1]	Purchases of footwear products	–	657
	Sales of footwear products	7	306
Bay Footwear[2]	Purchases of footwear products	63,664	49,815
Max Group [3]	Sales of footwear products	885	–
Couture Accessories Holding[1] & [3]	Sales of footwear products	12,077	–

Notes:

(1) Associates of the Company.

(2) A joint venture of the Company.

(3) These transactions constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Further details are included in the Report of the Directors on pages 84 to 100.

(II) Grant of Stella Call Option and Max Warrant

Details of granting of Stella Call Option and Max Warrant are set out in note 22.

(III) Related party balances

Details of balances with related parties are set out in notes 20 and 21.

(IV) Compensation of key management personnel

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

	2017 US$'000	2016 US$'000
Short-term benefits	1,508	1,798
Equity-settled share-based payments	119	–
Post-employment benefits	4	4
	1,631	1,802

The remuneration of directors and the key executive is determined by the Board and its remuneration committee having regard to the performance of individual and market trends.

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

The statement of financial position of the Company as at 31 December 2017 is as follows:

	NOTE	2017 US$'000	2016 US$'000
Non-Current Assets			
Interests in subsidiaries		680,540	530,540
Current Assets			
Amounts due from subsidiaries		265,763	314,635
Bank balances and cash		512	548
Other assets		15	280
		266,290	315,463
Current Liabilities			
Amounts due to subsidiaries		73,137	–
Other payables		622	1,372
		73,759	1,372
Net Current Assets		192,531	314,091
		873,071	844,631
Capital and Reserves			
Share capital		10,160	10,160
Share premium and reserves	*(a)*	862,911	834,471
Total Equity		873,071	844,631

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Note:

(a) Reserves of the Company

	Share premium US$'000	Capital reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000	Share award reserve US$'000	Contribution surplus US$'000	Accumulated profits US$'000	Total US$'000
As at 1 January 2016	154,503	1,146	(2,722)	190	1,450	530,465	139,158	824,190
Profit and total comprehensive income for the year	–	–	–	–	–	–	97,245	97,245
Dividend recognised as distribution	–	–	–	–	–	–	(86,964)	(86,964)
As at 31 December 2016	154,503	1,146	(2,722)	190	1,450	530,465	149,439	834,471
Profit and total comprehensive income for the year	–	–	–	–	–	–	98,725	98,725
Recognition of equity-settled share-based payment	–	–	–	–	977	–	–	977
Lapse of share award	–	–	–	–	(1,450)	–	1,450	–
Dividend recognised as distribution	–	–	–	–	–	–	(71,262)	(71,262)
As at 31 December 2017	154,503	1,146	(2,722)	190	977	530,465	178,352	862,911

35. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had contingent liabilities as follows:

	2017 US$'000	2016 US$'000
Bank guarantees given in lieu of property rental deposits	146	129
Corporate guarantee granted to an associate *(note)*	15,000	–

Note:

As at 31 December 2017, the Group has an outstanding corporate guarantee issued to a bank in respect of banking facilities granted to a associate of approximately US$15,000,000 (2016: Nil). The amounts disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. At the end of the reporting period, an amount of US$800,000 has been recognised in consolidated statement of financial position as financial guarantee liabilities at fair value which is based on the valuation carried out by GW Financial Advisory Services Limited, an independent valuer not connected with the Group.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable US$'000 *Note 11*	Borrowings HK$'000 *Note 26*	Total HK$'000
At 1 January 2017	–	3,358	3,358
Exchange Adjustment	–	276	276
Dividend declared	71,262	–	71,262
Financing cash flows	(71,262)	58,656	(12,606)
Interest expenses	–	981	981
At 31 December 2017	–	63,271	63,271

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries directly and indirectly held by the Company as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company				Proportion of voting power held by the Company				Principal activities
				2017		2016		2017		2016		
				Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	
P.T. Young Tree Industries	Indonesia	Ordinary	RP106,842,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
Stella Europe Trading Limited	Hong Kong	Ordinary	EUR100,000	–	60	–	60	–	60	–	60	Sourcing and distribution of footwear
Stella International Trading (Macao Commercial Offshore) Limited	Macau	Ordinary	MOP200,000	–	100	–	100	–	100	–	100	Sales of footwear
Stella Fashion Group Limited	BVI	Ordinary	US$4	–	100	–	100	–	100	–	100	Investment holding and wholesaling of footwear
Stella Fashion Italia S.R.L.	Italy	Ordinary	EUR10,000	–	60	–	60	–	60	–	60	Sales and distribution of footwear
Stella Fashion SAS	France	Ordinary	EUR1,000,000	–	60	–	60	–	60	–	60	Footwear retailing
Stella International Design Service S.R.L.	Italy	Ordinary	EUR50,000	–	51	–	51	–	51	–	51	Footwear design
Stella Footwear (Sampaguita) Company Limited	BVI	Capital contribution	US$1	–	100	–	100	–	100	–	100	Manufacturing of footwear
Stella Footwear Inc.	BVI	Ordinary	US$3,947	–	100	–	100	–	100	–	100	Investment holding, manufacturing and sales of footwear
Stella International Limited	Vanuatu	Ordinary	US$1	100	–	100	–	100	–	100	–	Investment holding, manufacturing and sales of footwear
Stella International Marketing Company Limited	Malaysia	Ordinary	US$10,000	100	–	100	–	100	–	100	–	Marketing activities
Stella Luna Sol Limited	Hong Kong	Ordinary	HK$1	–	100	–	100	–	100	–	100	Holding of intellectual property rights
Stella Romano Trading Limited	Taiwan	Capital contribution	NTD1,000,000	–	100	–	100	–	100	–	100	Sales of footwear
Stellaluna (Thailand) Co., Ltd.	Thailand	Ordinary	Baht20,000,000	–	70.1	–	70.1	–	70.1	–	70.1	Footwear retailing
Stella Services Limited	Hong Kong	Ordinary	HK$300,000	100	–	100	–	100	–	100	–	Provision of secretary and accounting services
郴州興昂鞋業有限公司[1] (Chenzhou Selena Footwear Company Limited)	The PRC	Capital contribution	US$1,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
東莞興昂鞋業有限公司[1] (Dongguan Stella Footwear Company Limited)	The PRC	Capital contribution	HK$191,810,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
洞口興雄鞋業有限公司[1] (Dongkou Selena Upper Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company				Proportion of voting power held by the Company				Principal activities
				2017		2016		2017		2016		
				Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	
廣西容縣興雄鞋面有限公司[1] (Guangxi Rong Yuan Selena Upper Company Limited)	The PRC	Capital contribution	US$3,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
廣西興鵬鞋業有限公司[1] (Guangxi Shenandoah Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
廣西興萊鞋業有限公司[1] (Guangxi Simona Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
廣西育祥鞋業有限公司[1] (Guangxi Yu Xiang Footwear Company Limited)	The PRC	Capital contribution	US$8,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
懷化興雄鞋業有限公司[1] (Huaihua Selena Footwear Company Limited)	The PRC	Capital contribution	RMB11,124,450	–	100	–	100	–	100	–	100	Manufacturing of footwear
龍川興萊鞋業有限公司[1] (Long Chuan Simona Footwear Company Limited)	The PRC	Capital contribution	HK$220,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
隆回興昂鞋業有限公司[1] (Longhui Stella Footwear Company Limited)	The PRC	Capital contribution	US$25,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
隆回興隆鞋材有限公司[1] (Longhui Stella Footwear Company Limited)	The PRC	Capital contribution	RMB10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
邵陽連泰鞋業有限公司[1] (Shaoyang Liantai Footwear Company Limited)	The PRC	Capital contribution	RMB163,800,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
邵陽縣興昂鞋業有限公司 (Shaoyang Yuan Stella Footwear Co., Ltd.)	The PRC	Capital contribution	RMB30,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
雙峰興昂鞋業有限公司[1] (Shuangfeng Stella Footwear Company Limited)	The PRC	Capital contribution	HK$135,280,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
興記時尚(中國)有限公司 (Stella Fashion (China) Limited)	The PRC	Capital contribution	RMB100,000,000	–	100	–	100	–	100	–	100	Footwear retailing
威縣遠達制鞋有限公司[1] (Wei County Yuanta Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
武宣興萊鞋業有限公司[1] (Weixian Simona Footwear Company Limited)	The PRC	Capital contribution	US$1,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
興業興萊鞋業有限公司[1] (Xingye Simona Footwear Company Limited)	The PRC	Capital contribution	US$4,400,000	–	100	–	100	–	100	–	100	Manufacturing of footwear

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2017 Direct %	2017 Indirect %	2016 Direct %	2016 Indirect %	Proportion of voting power held by the Company 2017 Direct %	2017 Indirect %	2016 Direct %	2016 Indirect %	Principal activities
新化興昂鞋業有限公司[1] (Xinhua Selena Footwear Company Limited)	The PRC	Capital contribution	US$2,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
新寧興雄鞋業有限公司[1] (Xinning Selena Footwear Company Limited)	The PRC	Capital contribution	US$2,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
永州興昂鞋業有限公司[1] (Yongzhou Selena Footwear Company Limited)	The PRC	Capital contribution	RMB6,300,000	–	100	–	100	–	100	–	100	Manufacturing of footwear

Notes:

(1) Wholly foreign-owned enterprise established in the PRC.

The table above lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in the BVI and in Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities of business	Principal place	Number of subsidiaries 2017	2016
Investment holding	BVI	9	9
	Hong Kong	6	6
Footwear trading	BVI	1	–
	Hong Kong	1	1
Inactive	BVI	7	6
	Hong Kong	4	4
		28	26

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during the years.

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

As at 31 December 2017, the bank and cash balances of the subsidiaries in the PRC denominated in RMB amounted to approximately RMB15,811,000 for which conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

The directors of the Company are of the opinion that none of the Group's subsidiaries have non-controlling interests as at 31 December 2017 that are individually material to the Group. Therefore, no further financial information in respect of these subsidiaries with non-controlling interests are presented.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, various reserves and accumulated profits.

The directors of the Company review the capital structure on an on-going basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt.

39. FINANCIAL INSTRUMENTS

39a. Categories of financial instruments

	2017 US$'000	2016 US$'000
Financial assets		
Held for trading investments	11,736	23,892
Loans and receivables (including cash and cash equivalents)	441,174	396,873
	452,910	420,765
Financial liabilities		
Amortised cost	149,393	115,505
Derivative financial instruments	–	5
Financial guarantee contract	800	–
	150,193	115,510

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

Foreign currency risk

The Group's sales are mainly denominated in USD. Its manufacturing operations are mainly located in the PRC and purchase of raw materials and operating expenses are denominated in RMB, EURO, MOP, IDR, VND or USD. Its currency exposures is mainly due to exposure in RMB, EUR, MOP, IDR, VND and HKD against the functional currency of the relevant group companies. In addition, the Group's held for trading investments include listed bonds and funds of US$2,683,000 (2016: US$8,200,000) which are denominated in RMB.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period that are considered significant by management are as follows:

	Liabilities		Assets	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
RMB	10,954	10,124	43,262	42,628
HKD	–	3	1,745	2,472
EUR	2,741	–	4,741	3,228
MOP	13,947	12,425	22	23
IDR	1,708	1,625	1,021	1,030
VND	–	–	16,062	10,227
Other	3,762	2,654	3,795	2,622

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Sensitivity analysis

Foreign currency risk

The Group's sensitivity of fluctuation in HKD is low as HKD denominated monetary assets were held by group entities whose functional currency is USD to which HKD is pegged and thus no sensitivity analysis is presented.

The following table details the Group's sensitivity to a 5% increase and decrease in USD against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The management of the Group expects the movement in functional currency of the relevant group entities against the relevant foreign currencies is 5%. 5% is therefore the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in currencies exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts the translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit for the year where USD strengthen 5% against the relevant currency. For a 5% weakening of USD against the relevant currency, there would be an equal and opposite impact on the profit for the year.

	Profit for the year	
	2017 US$'000	2016 US$'000
RMB	(1,212)	(1,219)
EUR	(75)	(121)
MOP	522	465
IDR	26	22
VND	(602)	(384)

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its short-term deposits placed in banks and financial institutions that are interest-bearing at floating interest rates and variable-rate bank borrowings. It is the Group's policy to keep its loan and deposits at floating rates of interest so as to minimise the fair value interest rate risk.

The Group is also exposed to fair value interest rate risk in relation to a fixed-rate bank borrowings. The directors consider the Group's exposure of the bank borrowings to fair value interest rate risk is not significant as interest bearing bank borrowings have a short repayment period.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates in its variable-rate bank deposits and variable-rate borrowings at the end of the reporting period. The analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis points (2016: 25 basis points) increase or 5 basis points (2016: 5 basis points) decrease is used by the management for the assessment of the possible change in interest rates.

If interest rates had been 25/5 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would increase by approximately US$28,000/decrease by approximately US$6,000 (2016: increase by approximately US$148,000/decrease by approximately US$30,000).

Price risk

The Group is exposed to price risk through its held for trading investments which are measured at fair value at the end of each reporting period. The held for trading investments represent listed bonds and funds carrying fixed interest rates with their market value generally linked to market interest rate. The management manages this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

If the market price for the bonds in held-for-trading investments had been 5% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would have increased/decreased by approximately US$490,000 (2016: US$997,000).

The Group's sensitivity to held-for-trading investments has not changed significantly from the prior year.

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Credit risk

At 31 December 2017 and 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management considers the debtor's payment history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables in determining the allowance for doubtful debts. The Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk related to trade receivables by geographical locations is mainly in North America, which accounted for 59% (31 December 2016: 57%) of the total trade receivables as at 31 December 2017.

Regarding the Group's bank concentration credit risk, 89% (31 December 2016: 88%) of deposits are placed with 10 banks (31 December 2016: 10 banks).

The credit risk on liquid funds and the investments in listed bonds is limited because the counterparties are banks or multinational corporations with high reputation.

The Group has concentration of credit risk on the amounts due from associates and amount due from a joint venture but the credit risk is limited because these associates/joint venture have sufficient assets to cover the liabilities.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Effective interest rate	0 – 30 days or on demand US$'000	31 – 90 days US$'000	90 – 365 days US$'000	1 – 5 years US$'000	>5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2017								
Non-derivative financial liabilities								
Trade and other payables	N/A	68,081	12,859	5,181	–	–	86,121	86,121
Bank borrowings – variable rate	1.8%	59,781	–	–	–	–	59,781	59,760
Bank borrowings – fixed rate	1.1%	21	41	187	3,477	–	3,726	3,512
Financial guarantee contract	N/A	15,000	–	–	–	–	15,000	800
		142,883	12,900	5,368	3,477	–	164,629	150,193

	Effective interest rate	0 – 30 days or on demand US$'000	31 – 90 days US$'000	90 – 365 days US$'000	1 – 5 years US$'000	>5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2016								
Non-derivative financial liabilities								
Trade and other payables	N/A	85,004	10,922	16,221	–	–	112,147	112,147
Bank borrowings – variable rate	1.9%	–	–	114	3,436	–	3,550	3,358
		85,004	10,922	16,335	3,436	–	115,697	115,505
Derivative financial liability								
Call option		5	–	–	–	–	5	5

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. This estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

39. FINANCIAL INSTRUMENTS *(continued)*

39c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) 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).

Financial assets/ financial liabilities	Fair value as at 31 December 2017 US$'000	Fair value as at 31 December 2016 US$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Held-for-trading non-derivative financial assets classified as held for trading investments in the consolidated statement of financial position	Listed bonds: 11,736 (Listed in Hong Kong: 2,176; listed in overseas: 9,560)	Listed bonds: 23,892 (Listed in Hong Kong: 8,030; listed in overseas: 15,862)	Level 1	Quoted bid prices in an active market	N/A	N/A
Call option granted by the Group classified as derivative financial instruments in the consolidated statement of financial position	N/A	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 subsidiaries, and expected dividend yield	2017: N/A (2016: Expected volatility of the share price of a set of comparable companies with similar business nature with the relevant subsidiaries, determined by reference to the historical share price of those companies – 60%)	The higher the volatility, the higher the fair value

There were no transfers between Level 1 and 2 in the period.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

	For the year ended 31 December				
	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	2017 US$'000
RESULTS					
Revenue	1,541,471	1,663,091	1,769,852	1,550,864	1,577,270
Profit for the year	122,816	120,245	120,151	81,214	59,690
Attributable to:					
Equity owners of the Company	122,656	120,701	121,047	81,577	61,955
Non-controlling interests	160	(456)	(896)	(363)	(2,265)
	122,816	120,245	120,151	81,214	59,690

	As at 31 December				
	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	2017 US$'000
ASSETS AND LIABILITIES					
Total assets	1,186,551	1,186,478	1,243,226	1,172,516	1,228,420
Total liabilities	(253,001)	(233,769)	(258,934)	(194,659)	(260,458)
Shareholders' funds	933,550	952,709	984,292	977,857	967,962

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

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Citibank Taiwan Ltd.

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FINANCIAL CALENDAR 2017/2018

2017 Interim Results Announcement	17 August 2017
Payment of Interim Dividend	20 October 2017
2017 Annual Results Announcement	15 March 2018
Closure of Register of Members	15 May 2018 to 18 May 2018
Annual General Meeting	18 May 2018
Payment of Final Dividend	On or about 28 June 2018
2018 Interim Results Announcement	On or about 16 August 2018

In the event of inconsistency, the English version 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