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Stella International Holdings Limited
九 興 控 股 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017 as follows:–

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	NOTES	Six months ended 30 June **2018** ***US$'000*** **(Unaudited)**	 2017 *US$'000* (Unaudited)
Revenue	*3*	**739,253**	762,433
Cost of sales		**(617,416)**	(621,505)
Gross profit		**121,837**	140,928
Other income		**8,957**	12,944
Other gains and losses		**(1,633)**	(2,389)
Distribution and selling expenses		**(30,879)**	(51,330)
Administrative expenses		**(43,826)**	(40,149)
Research and development costs		**(27,297)**	(29,089)
Share of result of a joint venture		**2,508**	1,040
Share of results of associates		**(1,840)**	15
Finance costs		**(1,278)**	(219)
Profit before tax		**26,549**	31,751
Income tax expense	*4*	**(4,537)**	(3,520)

* *For identification purpose only*

	NOTES	Six months ended 30 June 2018 US$'000 (Unaudited)	2017 US$'000 (Unaudited)
Profit for the period	5	**22,012**	28,231
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**(514)**	117
Share of exchange differences of associates and a joint venture		**(266)**	16
Other comprehensive (expense) income for the period, net of income tax		**(780)**	133
Total comprehensive income for the period		**21,232**	28,364
Profit (loss) for the period attributable to:			
Owners of the Company		**22,946**	28,505
Non-controlling interests		**(934)**	(274)
		22,012	28,231
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**22,040**	28,767
Non-controlling interests		**(808)**	(403)
		21,232	28,364
Earnings per share	7		
– Basic *(US$)*		**0.0290**	0.0360
– Diluted *(US$)*		**0.0290**	0.0359

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	30 June 2018 US$'000 (Unaudited)	31 December 2017 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**407,147**	403,655
Prepaid lease payments		**23,217**	21,735
Investment properties		**6,579**	7,128
Interests in associates		**10,449**	12,308
Interest in a joint venture		**11,785**	9,504
Deposit paid for acquisition of property, plant and equipment		**13,862**	14,314
		473,039	468,644
CURRENT ASSETS			
Inventories		**200,311**	172,367
Trade, bills and other receivables	*9*	**493,814**	429,263
Prepaid lease payments		**669**	622
Amounts due from associates	*11*	**55,969**	63,778
Amount due from a joint venture	*12*	**3,727**	7,116
Derivative financial instruments		**434**	–
Held for trading investments	*13*	**10,148**	11,736
Cash and cash equivalents		**66,185**	74,894
		831,257	759,776
CURRENT LIABILITIES			
Trade and other payables	*14*	**137,737**	146,301
Contract liabilities		**1,868**	–
Bank borrowings – due within one year	*15*	**156,800**	60,006
Tax liabilities		**50,824**	50,086
Financial guarantee contract		**821**	800
		348,050	257,193
NET CURRENT ASSETS		**483,207**	502,583
		956,246	971,227

	NOTES	30 June 2018 US$'000 (Unaudited)	31 December 2017 US$'000 (Audited)
CAPITAL AND RESERVES			
Share capital	*16*	**10,160**	10,160
Share premium and reserves		**947,442**	961,421
Equity attributable to owners of the Company		**957,602**	971,581
Non-controlling interests		**(4,427)**	(3,619)
TOTAL EQUITY		**953,175**	967,962
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	*15*	**3,071**	3,265
		956,246	971,227

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company											
	Share capital	**Share premium**	**Merger reserve**	**Capital reserve**	**Exchange reserve**	**Shares held for share award scheme**	**Capital redemption reserve**	**Share award reserve**	**Accumulated profits**	**Sub-total**	**Non–controlling interests**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2017 (audited)	10,160	154,503	45,427	1,146	(5,276)	(2,722)	190	1,450	774,042	978,920	(1,063)	977,857
Profit (loss) for the 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 payments	–	–	–	–	–	–	–	977	–	977	–	977
Lapse of share award	–	–	–	–	–	–	–	(1,450)	1,450	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(71,262)	(71,262)	–	(71,262)
At 31 December 2017 (audited)	10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	766,185	971,581	(3,619)	967,962
Adjustments due to adoption of new standards	–	–	–	–	–	–	–	–	(6,270)	(6,270)	–	(6,270)
At 1 January 2018 (restated)	10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	759,915	965,311	(3,619)	961,692
Profit (loss) for the period	–	–	–	–	–	–	–	–	22,946	22,946	(934)	22,012
Other comprehensive (expense) income for the period	–	–	–	–	(906)	–	–	–	–	(906)	126	(780)
Total comprehensive (expense) income for the period	–	–	–	–	(906)	–	–	–	22,946	22,040	(808)	21,232
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	612	–	612	–	612
Lapse of equity-settled share-based payments	–	–	–	–	–	–	–	(76)	76	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(30,361)	(30,361)	–	(30,361)
At 30 June 2018 (unaudited)	10,160	154,503	45,427	1,146	(5,191)	(2,722)	190	1,513	752,576	957,602	(4,427)	953,175
At 1 January 2017 (audited)	10,160	154,503	45,427	1,146	(5,276)	(2,722)	190	1,450	774,042	978,920	(1,063)	977,857
Profit (loss) for the period	–	–	–	–	–	–	–	–	28,505	28,505	(274)	28,231
Other comprehensive income (expense) for the period	–	–	–	–	262	–	–	–	–	262	(129)	133
Total comprehensive income (expense) for the period	–	–	–	–	262	–	–	–	28,505	28,767	(403)	28,364
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	623	–	623	–	623
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(40,799)	(40,799)	–	(40,799)
At 30 June 2017 (unaudited)	10,160	154,503	45,427	1,146	(5,014)	(2,722)	190	2,073	761,748	967,511	(1,466)	966,045

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(43,237)**	(45,868)
NET CASH USED IN INVESTING ACTIVITIES:		
Deposit paid for acquisition of property, plant and equipment	**(3,788)**	(4,069)
Increase in derivative financial instruments	**(404)**	(1,084)
Purchase of property, plant and equipment	**(24,975)**	(19,468)
Other investing cash flows	**(1,152)**	934
	(30,319)	(23,687)
NET CASH FROM FINANCING ACTIVITIES:		
New short-term bank borrowings raised	**1,926,217**	464,957
Repayment of short-term bank borrowings	**(1,829,412)**	(347,294)
Repayment of long-term bank borrowing	**(124)**	–
Dividend paid	**(30,361)**	(40,799)
Other financing cash flows	**(1,278)**	(219)
	65,042	76,645
Net (decrease) increase in cash and cash equivalents	**(8,514)**	7,090
Cash and cash equivalents at the beginning of period	**74,894**	82,453
Effect of foreign exchange rate changes	**(195)**	29
Cash and cash equivalents at the end of period, represented by bank balances and cash	**66,185**	89,572

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfer of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Manufacturing and sales of men's footwear
- Manufacturing and sales of women's footwear
- Footwear retailing and wholesaling of self-developed brands

The revenue of the Group is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from 1) manufacturing and sales of men's footwear, 2) manufacturing and sales of women's footwear, and 3) footwear retailing and wholesaling of self-developed brands is generally recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products, which also represented the point of time when goods delivered. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of effects arising from initial application of HKFRS 15

There is no impact of transition to HKFRS 15 on accumulated profits at 1 January 2018. The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018*
	Note	*US$'000*	*US$'000*	*US$'000*
Current liabilities				
Trade and other payables	*(a)*	(146,301)	521	(145,780)
Contract liabilities	*(a)*	–	(521)	(521)

* *The amounts in this column are before the adjustments from application of HKFRS 9.*

Note:

(a) As at 1 January 2018, advances from customers of US$521,000 in respect of sales contracts previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Adjustment	Amounts without application of HKFRS 15
	US$'000	*US$'000*	*US$'000*
Current liabilities			
Trade and other payables	(137,737)	(1,868)	(139,605)
Contract liabilities	(1,868)	1,868	–

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Classification and measurement of financial assets (Continued)

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 ***(Continued)***

Classification and measurement of financial assets (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed below.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade, bills and other receivables, amounts due from associates and amount due from a joint venture). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groups.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 ***(Continued)***

Classification and measurement of financial assets *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 ***(Continued)***

Classification and measurement of financial assets *(Continued)*

Significant increase in credit risk (Continued)

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 ***(Continued)***

Classification and measurement of financial assets *(Continued)*

Measurement and recognition of ECL (Continued)

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed below.

Summary of effects arising from initial application of HKFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

Impairment under ECL model

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.

In the current period, the Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of bills and other receivables. bank balances, amounts due from associates and amount due from a joint venture, are measured on 12m ECL basis and there has been no significant increase in credit risk since initial recognition.

For outstanding financial guarantee provided to an associate of US$15,000,000, the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is measured on 12m ECL basis.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

As at 1 January 2018, the additional credit loss allowance of US$6,270,000 has been recognised against accumulated profits. The additional loss allowance is charged against the trade receivables.

All loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables
	US$'000
At 31 December 2017 – HKAS 39	280,249
Amounts remeasured through opening accumulated profits	(6,270)
At 1 January 2018	273,979

Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017	**HKFRS 15**	**HKFRS 9**	**1 January 2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
	(Audited)			(Restated)
Trade, bills and other receivables	429,263	–	(6,270)	422,993
Trade and other payables	(146,301)	521	–	(145,780)
Contract liabilities	–	(521)	–	(521)
Accumulated profits	(766,185)	–	6,270	(759,915)

3. REVENUE AND SEGMENT INFORMATION

Information reported to the chief executive of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of footwear manufactured and on footwear retailing and wholesaling. This is also the basis upon which the Group is organised and managed. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments and operating segments of the Group. The revenue from 1) manufacturing and sales of men's footwear, 2) manufacturing and sales of women's footwear, and 3) footwear retailing and wholesaling of self-developed brands is recognised at a point in time.

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

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

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

3) Footwear retailing and wholesaling of self-developed brands

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

Six months ended 30 June 2018

	Men's footwear *US$'000* (Unaudited)	**Women's footwear** *US$'000* (Unaudited)	**Footwear retailing and wholesaling** *US$'000* (Unaudited)	**Segment total** *US$'000* (Unaudited)	**Eliminations** *US$'000* (Unaudited)	**Consolidated** *US$'000* (Unaudited)
Revenue						
External sales	**290,314**	**427,125**	**21,814**	**739,253**	**–**	**739,253**
Inter-segment sales	**47**	**14,191**	**–**	**14,238**	**(14,238)**	**–**
Total	**290,361**	**441,316**	**21,814**	**753,491**	**(14,238)**	**739,253**
Results						
– Segment results	**31,216**	**59,238**	**561**	**91,015**	**–**	**91,015**
Unallocated income						
– Interest income on bank balances						**142**
– Interest income from held for trading investments						**270**
– Interest income from derivative financial instruments						**28**
– Rental income						**2,620**
– Sale of scrap materials						**844**
– Net gain on changes in fair value of derivative financial instruments						**30**
– Others						**3,215**
Unallocated expenses						
– Net loss on changes in fair value of held for trading investments						**(927)**
– Research and development costs						**(27,297)**
– Central administrative costs						**(42,781)**
– Finance costs						**(1,278)**
Share of result of a joint venture						**2,508**
Share of results of associates						**(1,840)**
Profit before tax						**26,549**

3. REVENUE AND SEGMENT INFORMATION (Continued)

Six months ended 30 June 2017

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

Segment profit represents the profit earned by each segment without allocation of interest income on bank balances, interest income from held for trading investments, interest income from derivative financial instruments, rental income, sale of scrap materials, net gain on changes in fair value of derivative financial instruments, net (loss) gain on changes in fair value of held for trading investments, research and development costs, certain other income, 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.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")	**6,245**	8,438
Hong Kong Profits Tax	**61**	14
Other jurisdictions	**592**	69
	6,898	8,521
Overprovision in prior years:		
PRC EIT	**(2,361)**	(5,001)
	4,537	3,520

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

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

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Stella International Trading (Macao Commercial Offshore) Limited, 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.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Write-down (reversal of write-down) of inventories (included in cost of sales)	**48**	(422)
Loss on disposal of property, plant and equipment	**376**	1,175
Depreciation of property, plant and equipment	**19,674**	18,971
Depreciation of investment properties	**453**	–
Release of prepaid lease payments	**485**	456
Net fair value loss (gain) on held for trading investments (included in other gains and losses)	**927**	(791)
Net fair value gain on derivative financial instruments (included in other gains and losses)	**(30)**	(1,144)
Impairment loss recognised in respect of trade receivables	**1,415**	–
Interest income on bank balances	**(142)**	(216)
Interest income from held for trading investments	**(270)**	(107)
Interest income from derivative financial instruments	**(28)**	(685)

6. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Final dividend declared and paid for 2017 – HK30 cents (2016: HK30 cents) per share	**30,361**	30,599
Special dividend declared and paid for 2017 – Nil (2016: HK10 cents) per share	**–**	10,200
Interim dividend declared subsequent to period end – HK30 cents (2017: HK30 cents) per share	**30,358**	30,463
	60,719	71,262

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2018 of HK30 cents (30 June 2017: HK30 cents) per ordinary share to owners of the Company whose names appeared in the register of members of the Company at the close of business on 14 September 2018.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**22,946**	28,505

	Six months ended 30 June	
	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**792,602**	792,602
Effect of dilutive potential ordinary shares: Adjustment in relation to share options outstanding	**–**	774
Weighted average number of ordinary share for the purpose of dilutive earnings per share	**792,602**	793,376

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period after deducting the shares held in trust for the Company by Teeroy Limited (see note 18).

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 18) and adjusting the potential dilutive effect of the outstanding options.

The computation of diluted earnings per share does not assume the exercise of the Company's share options for the six months ended 30 June 2018 because the exercise price of those share options was higher than the average market price of the Company's share during the period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately US$29,166,000 (30 June 2017: US$29,526,000).

In addition, during the current interim period, the Group paid approximately US$3,788,000 (30 June 2017: US$4,069,000) in deposits for acquisition of property, plant and equipment to expand its manufacturing capacities in the PRC and Vietnam.

The Group has pledged freehold land and buildings with net book values of approximately US$3,640,000 (31 December 2017: US$3,724,000) and US$2,216,000 (31 December 2017: US$2,164,000), respectively to secure a bank loan granted to the Group.

9. TRADE, BILLS AND OTHER RECEIVABLES

The Group generally grants credit period between 60 to 120 days which are agreed with each of its trade customers. The extension of credit period to the customers may be granted on a discretionary basis by considering customer type, the current creditworthiness and the customer's financial condition and payment history with the Group.

The following is an aged analysis of the Group's trade 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:

	30 June 2018	31 December 2017
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Trade receivables:		
0 – 30 days	**161,356**	133,102
31 – 60 days	**107,388**	90,610
61 – 90 days	**45,200**	30,796
Over 90 days	**34,753**	25,741
	348,697	280,249
Bills receivables	**3,352**	526
Deposit, other receivables and prepaid expenses	**47,051**	50,088
Prepayment to suppliers	**94,714**	98,400
	493,814	429,263

9. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts on trade receivables

	30 June 2018 *US$'000* **(Unaudited)**	31 December 2017 *US$'000* (Audited)
Balance at the beginning of the period/year	**487**	487
Remeasurement of loss allowance under expected credit loss ("ECL")	**6,270**	–
Balance at the beginning of the period*/year	**6,757**	487
Impairment loss recognised on trade receivables	**1,415**	–
Balance at end of the period/year	**8,172**	487

* *The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.*

As at 30 June 2018, allowance for doubtful debts on other receivables amounted to US$1,650,000 (31 December 2017: US$1,650,000).

10. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The Group assessed the ECL for the trade receivables individually as at 1 January 2018 and 30 June 2018.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information, including but not limited to expected growth rate of the industry, that is available without undue cost or effort.

During the current interim period, debtors as at 30 June 2018 were assessed individually and impairment allowance of US$1,415,000 were made on these debtors for the current interim period as the directors of the Company considered the outstanding balances were uncollectible.

For the bank balances, no allowance for impairment was made since the directors of the Company consider the probability of default is negligible as such amounts are receivable from or placed in banks having good reputation.

10. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL (Continued)

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was US$15,000,000 as at 30 June 2018. The carrying amount as at 30 June 2018 and the amount recognised during the current interim period in accordance with the Group's accounting policies were US$15,000,000 and US$821,000 respectively. Details of the financial guarantee contracts are set out in Note 19. At the end of the reporting period, the directors of the Company has assessed the past due status of the debts under guarantee, the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12m ECL.

11. AMOUNTS DUE FROM ASSOCIATES

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

12. AMOUNT DUE FROM A JOINT VENTURE

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

13. HELD FOR TRADING INVESTMENTS

	30 June 2018	31 December 2017
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Bonds:		
– listed in Hong Kong	**1,822**	2,176
– listed overseas	**8,326**	9,560
	10,148	11,736

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

14. TRADE AND OTHER PAYABLES

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

	30 June 2018	31 December 2017
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Trade payables:		
0 – 30 days	**65,567**	51,496
31 – 60 days	**14,142**	12,859
Over 60 days	**8,158**	5,182
	87,867	69,537
Other payables and accruals	**49,870**	76,764
	137,737	146,301

15. BANK BORROWINGS

	30 June 2018	31 December 2017
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Bank borrowings comprised of:		
Bank loan – secured	**3,311**	3,512
Bank loans – unsecured	**156,560**	59,759
	159,871	63,271

Secured bank loan

As at 30 June 2018, included in bank borrowings was a secured bank loan denominated in New Taiwan dollars amounting to US$3,311,000 (31 December 2017: US$3,512,000), which was repayable within 5 years and carrying at benchmark interest rate per month. The effective interest rate during the period (which is equal to contractual interest rate) of this bank borrowing is 1.09% (31 December 2017: 1.13%) per annum. It was secured by the Group's freehold land and building with carrying amounts of US$3,640,000 and US$2,216,000 (31 December 2017: US$3,724,000 and US$2,164,000) respectively. The proceeds were used mainly for general working capital purposes. This balance was shown under current and non-current liabilities as at 30 June 2018 and 31 December 2017.

15. BANK BORROWINGS (Continued)

Unsecured bank loans

During the six months ended 30 June 2018, the Group also obtained new bank loans denominated in United States dollars amounting to US$1,926,217,000 and repaid these bank loans of US$1,829,412,000. These loans contained a repayment on demand clause and were carrying interest at variable rate ranging from 0.66% to 2.93% per annum. The proceeds were used mainly for general working capital purposes. This balance was shown under current liabilities.

16. SHARE CAPITAL

	Number of shares	**Nominal value**	
		HK$'000	*US$'000*
Ordinary shares of HK$0.10 each			
Authorised:			
As at 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	5,000,000,000	500,000	63,975
Issued and fully paid:			
As at 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	794,379,500	79,438	10,160

17. CAPITAL COMMITMENTS

	30 June 2018	31 December 2017
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**3,711**	6,607

18. 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 30 June 2018, the Trustee maintained a pool of 1,778,000 shares (31 December 2017: 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.

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 the certain conditions, including (1) the net profit ratio and the revenue growth ratio of the Group for the financial year immediately preceding the relevant vesting date shall meet the targets as prescribed by the Board of Directors for the relevant financial year; and (2) the relevant grantee shall obtain the grade prescribed in the performance appraisal to be conducted and completed by the management before the relevant vesting date in respect of the work performance of the relevant grantee in the financial year immediately preceding that vesting date. Details of the share options granted are set out in the Company's announcement dated 17 March 2017.

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

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

18. SHARE-BASED PAYMENTS TRANSACTIONS (Continued)

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

For the six months ended 30 June 2018

Category of participants	Share options	Outstanding as at 1 January 2018	Granted during the period	Exercised during the period	Forfeited/ lapsed during the period	Outstanding as at 30 June 2018
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	4,897,000	–	–	(4,897,000)	–
	2017-B	4,897,000	–	–	(110,000)	4,787,000
	2017-C	4,897,000	–	–	(110,000)	4,787,000
	2017-D	4,897,000	–	–	(110,000)	4,787,000
	2017-E	4,897,000	–	–	(110,000)	4,787,000
		27,902,500	–	–	(6,020,500)	21,882,000
Exercisable at the end of the period						–
Weighted average exercise price		HK$11.48			HK$11.48	HK$11.48

For the year ended 31 December 2017, the net profit ratio and the revenue growth ratio of the Group fell below the prescribed target as described in the terms of option, all relevant share options of 5,580,500 shares granted which were expected to vest on 16 March 2018 was considered as lapsed subsequently. Accordingly, a total of 5,580,500 share options granted previously were lapsed during the six months ended 30 June 2018.

During the six months ended 30 June 2018, a number of employees resigned and left the Company. Accordingly, the relevant share options of 440,000 shares granted previously to those resigned employees were lapsed during the reporting period.

18. SHARE-BASED PAYMENTS TRANSACTIONS (Continued)

At 30 June 2018, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 21,882,000 representing 2.8% (31 December 2017: 27,902,500 representing 3.5%) of the shares of the Company in issue at that date.

The estimated fair values of the options granted on the date of grant is HK$37,045,000 (equivalent to US$4,780,000). The Group recognised share-based payment expense of approximately HK$4,743,000 (equivalent to approximately US$612,000) (for the six months ended 30 June 2017: HK$4,826,000 (equivalent to approximately US$623,000)) for the six months ended 30 June 2018 in relation to share options granted by the Company.

Share award plan

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

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

During the six months ended 30 June 2018, no shares had been granted under the Share Award Plan.

Share Option Scheme

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

During the six months ended 30 June 2018, no share option of the Company were granted by the Company under the Share Option Scheme.

19. CONTINGENT LIABILITIES

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

	30 June 2018	31 December 2017
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Bank guarantees given in lieu of property rental deposits	**142**	146
Corporate guarantee granted to an associate *(note)*	**15,000**	15,000

Note: As at 30 June 2018, the Group has an outstanding corporate guarantee issued to a bank in respect of banking facilities granted to an associate of approximately US$15,000,000 (31 December 2017: US$15,000,000). 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$821,000 (31 December 2017: US$800,000) has been recognised in condensed 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.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets	Fair value as at 30 June 2018 US$'000 (Unaudited)	Fair value as at 31 December 2017 US$'000 (Audited)	Fair value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
1) Held for trading investments	**Listed bonds: 10,148 (Listed in Hong Kong: 1,822; listed in overseas: 8,326)**	Listed bonds: 11,736 (Listed in Hong Kong: 2,176; listed in overseas: 9,560)	Level 1	Quoted bid prices in an active market	N/A	N/A
2) Dual currency deposits classified as derivative financial instruments	**Assets – 434**	Assets – Nil	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchanges rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A

Fair value measurements and valuation process

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

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

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

21. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June 2018 US$'000 (Unaudited)	2017 US$'000 (Unaudited)
辛集市寶得福皮業有限公司 (Xinji Baodefu Leather Co. Ltd.) [(1)]	Purchase of footwear products	**32,532**	32,294
Couture Accessories Limited [(1)]	Sales of footwear products	**–**	8
Bay Footwear Company Limited [(2)]	Purchase of footwear products	**39,006**	30,620
Max Group Holdings Limited [(3)]	Sales of footwear products	**486**	–
Conture Accessories Holdings Limited [(1) & (3)]	Sales of footwear products	**6,137**	–

Notes:

[(1)] Associates of the Company.

[(2)] A joint venture of the Company.

[(3)] These transactions constitute continuing connected transaction as defined in chapter 14A of the Listing Rules.

(II) Related party balances

Details of balances with related parties are set out in notes 11 and 12.

(III) Compensation of key management personnel

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

	Six months ended 30 June 2018 US$'000 (Unaudited)	2017 US$'000 (Unaudited)
Short-term benefits	**418**	417
Equity-settled share-based payments	**74**	76
	492	493

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

CHAIRMAN'S STATEMENT

In the first half of 2018, demand for our footwear products, across all categories, bounced back further as we continued to successfully calibrate our business to adapt to the changing market. In particular, I am pleased to report the solid utilisation rate at our new factory in Vietnam, which only opened at the end of last year, as we quickly establish ourselves as a major partner for footwear brands tapping the growing market for fashion athletic products.

This enabled us to further push forward our strategy for boosting efficiency and diversifying our manufacturing base, especially our medium-to-long-term goal of achieving a manufacturing base that is evenly split between Mainland China and locations outside of Mainland China.

Our ability to quickly establish leadership in the fashion athletic segment in just a few years comes down to the factors that continue to set Stella apart – our commitment to quality and design, as well as the high level of research and development that we incorporate into all of our footwear products. These factors also underpin our strong industry reputation and our ongoing mission to "make the best shoes".

Elsewhere in the market, demand for our fashion and casual footwear products – which remain core product categories – also recovered as footwear brands adapt to the new marketplace through changes to their product mix. While this, consequently, had an impact on the average selling price of our products, this trend should continue to help support shipment volumes in the second half of this year, as well as our factory utilisation rates.

Despite these positive developments, which should endure all being well, we must continue to take heed of potential external challenges, as well as factors currently impacting our short-term financial performance.

Chief among the former is escalating trade dispute between the United States and China, the trajectory of which is difficult to forecast. While footwear has not been directly targeted yet, we are carefully monitoring the situation and remain committed to working with our customers to support them through any challenges. In the short term, managing currency fluctuations will be a priority, especially if the recent depreciation of the RMB versus the USD (which should offset some of the mismatch experienced in the first half of the year) does not hold.

Looking forward to the second half of 2018, we expect shipment volumes to be further supported by increasing demand for our sports fashion footwear products, as well as more stable demand for our casual and fashion footwear products. We will also continue to refine our manufacturing footprint, which may include additional factory closures in Mainland China adding to the one factory that we shut down in the first half of this year. We will also further develop our branding business in Europe where our three retail brands, *Stella Luna, What For* and *JKJY by Stella*, each uniquely showcases our design and quality production capabilities.

On behalf of the Board, I would like to take this opportunity to thank our customers, business partners and shareholders for their unwavering support during this period. I will also like to express our gratitude to our colleagues for their hard work and service during the interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Model and Strategy

Stella is a leading developer and 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, creative design, 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

Further Recovery in Shipment Volumes and Comparable Revenue

We experienced a moderate bounceback in shipment volumes during the six months under review, which was mostly attributed to the ongoing recovery in demand for our fashion footwear products, increased seasonal ordering activity for our casual footwear products and stabilised ordering activity for our fashion athletic footwear products.

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 six months ended 30 June 2018 decreased by 3.0% to US$739.3 million, compared to US$762.4 million in the corresponding period of last year. However, excluding revenue from our former China retail business and current China wholesale business, our unaudited comparable consolidated revenue for the six months under review improved by 0.8%.

Shipment volumes rose 7.4% to 29.0 million pairs, compared to 27.0 million pairs in the corresponding period of last year. The average selling price ("ASP") of our footwear products fell 6.4% to US$24.9 per pair, compared to US$26.6 per pair in the corresponding period of last year due to changes to our product mix, as well as changes to our customers' product mix.

Fashion footwear was the biggest contributor to our overall revenue during the six months ended 30 June 2018, contributing 33.8% of total revenue. The contributions from casual footwear and fashion athletic products were 31.1% and 32.1% respectively, while the Group's own retail brands accounted for 3.0% of total revenue.

Geographically, North America and Europe remain our two largest markets, accounting for 48.7% and 30.9% of our total revenue during the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 9.9%, Asia (other than the PRC), which accounted for 7.6% and other geographic regions, which accounted for 2.9%.

Branding Business Maintained Retail Sales Growth

Our branding business, anchored by our growing retail business in Europe, achieved retail sales growth of 16.5% and increased revenue to US$9.2 million during the six months ended 30 June 2018. Although the retail business in Europe recorded positive same store sales growth of 16.7% in the first quarter of 2018, online clearance events that aimed to manage inventory in the second quarter of the year affected overall same store sales growth for the six months under review, which decreased by 5.9%. The branding business recorded a loss of US$2.0 million during the period under review.

Improving Underlying Profitability Balanced by RMB Appreciation

Our operating profit decreased by 14.9% to US$26.8 million, compared to US$31.5 million during the corresponding period of last year. The appreciation of the RMB during a substantial part of the six months under review impacted our operating margin and overall profitability, resulting in a 19.6% decline in net profit to US$22.9 million, compared to US$28.5 million during the corresponding period of last year.

Excluding the one-off items, as well as the impact of the RMB appreciation in a substantial part of the first six months of this year, our adjusted operating profit increased by 15.2% to US$42.5 million, while our adjusted net profit increased by 14.2% to US$38.7 million.

Our cash used in operations remained healthy at US$43.2 million for the six months ended 30 June 2018, from US$45.9 million for the corresponding period of last year.

Our return on invested capital was at 6.2% in the six months ended 30 June 2018. On an adjusted basis, excluding the one-off items and foreign exchange effects, our return on invested capital stood at 9.9%.

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

Business Review

Increasing Demand for Fashion Athletic Products

Demand for our fashion athletic footwear products, our main growth driver, stabilised in the second quarter of 2018 after a somewhat soft first quarter. This was supported by higher orders from one of our main customers, which supported the utilisation rate at our new manufacturing facility in Vietnam.

We continued to grow our customer base in this segment, which currently includes world-famous athletic brands, as well as premium and luxury fashion brands that are seeking to enter into the fashion athletic arena. We are already seeing some early-phase contributions from these high-end customers, which could provide a new foundation for our future growth. Leveraging 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.

Further Recovery in Demand For Fashion Footwear Products and Increased Orders for Casual Products

Changes to our customers' product mix resulting from current fashion trends – for example, fewer orders for boots and increased orders for sandals – resulted in higher orders for our fashion products. This change in product mix also reduced some of the cannibalisation from fashion athletic footwear seen last year while further reducing ASP at the same time, which fell to US$24.9 per pair, a decline of 6.4% compared to the corresponding period of last year.

Ongoing Efficiency Gains and Refinement of Global Manufacturing Footprint

We closed another factory in Mainland China in the first six months of the year. This followed a ramp-up of activity of our new manufacturing capabilities in Vietnam.

We are continuing to diversify our manufacturing base as we move closer to our medium-to-long-term goal of achieving a manufacturing base that is evenly split between Mainland China and locations outside of Mainland China. This will allow 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.

In addition to our research and development centres in Dongguan, China and Venice, Italy, our global manufacturing footprint as of 30 June 2018 included facilities in China's Guangdong, Hunan, Guangxi and Hebei provinces, as well as in Vietnam, Indonesia and Bangladesh. The Group has also established footholds in the Philippines and Myanmar, which may lead to the establishment and expansion of manufacturing facilities in these countries sometime in the future.

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.

Impact of External Events

Despite the solid efficiency gains that we achieved during the first half of 2018, our core manufacturing business was impacted by a number of external events.

The strong appreciation of the RMB against the US dollar in a substantial part of the first half of 2018 had a marked impact on our operating margins. Assuming a constant RMB-USD exchange rate, our operating costs would have been US$8.3 million less during the period under review.

Two of our customers – *Nine West* and *Rockport* – entered into Chapter 11 bankruptcy protection in the United States during the six months under review. The combined outstanding trade receivables owed by both companies and their affiliates are around US$21 million, although we are optimistic about recovering at least half of this debt.

Our operations in Vietnam were affected by nationalist protests that took place in June 2018, which had a minor impact on our shipment volume during the first half of the year.

Ordering activity in the six months ended 30 June 2018 was not materially affected by escalating trade tensions between the United States and China.

Development of Branding Business in Europe

We continued to focus on building the global profile and value of our three contemporary retail brands – *Stella Luna, What For and JKJY by Stella*, each of which showcases our unique design and quality production capabilities. We adjusted the size of our retail store network in France and continued to invest in e-commerce channels, while also enhancing our visibility and presence in famous department stores around the world.

Outlook

Stable Volume Growth Expected in Second Half of 2018

We expect our shipment volume to grow reasonably strongly in the second half of the year, supported by an increasing demand for our sports fashion footwear products. We also expect to see more stable demand for our fashion and casual footwear products.

We expect a similar decline in ASP in the second half of the year due to ongoing changes to our product mix and to our customers' product mix.

Continuous Monitoring of Risks to Manufacturing Business

At the beginning of July 2018, the United States and China each imposed trade tariffs on various imports originating in the other country as part of their escalating trade dispute. While these tariffs have yet to target finished footwear products, we will continue to closely monitor the risk that this dispute may pose to our operations.

The value of the RMB against the US dollar also weakened significantly in July 2018, although it is too early to say what impact this may have on our financial performance.

We will also continue to monitor other potential risks to our operations, such as ongoing consolidation among footwear brands, the continued rise of e-commerce and its impact on our customers, and other political risks such as Brexit and developments on the Korean Peninsula. We will continue to work closely with our customers to manage these risks if they arise.

Further Refinement of Manufacturing Footprint and Focus on R&D and Efficiency

We will continue to selectively reduce capacity in some locations in order to improve utilisation and protect margins. We will further invest in our R&D capabilities in order to improve and extend our range of innovative footwear products to deepen our customer relationships. We will also focus on building on the production efficiency achieved in the first half of the year in order to boost our financial performance.

Expanding Outreach to Potential Distributors of Our Retail Brands

Building on the good level of recognition our retail brands have built in France and other markets, we will invest further in expanding their reach, particularly in German-speaking markets.

We will also continue to closely manage the size of our store network in order to closely manage our inventory.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2018, the Group had cash and cash equivalents of approximately US$76.8 million (31 December 2017: US$86.6 million).

As at 30 June 2018, the Group had current assets of approximately US$831.3 million (31 December 2017: US$759.8 million) and current liabilities of approximately US$348.1 million (31 December 2017: US$257.2 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.4 as at 30 June 2018 (31 December 2017: 3.0), an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$159.9 million as at 30 June 2018 (31 December 2017: US$63.3 million).

Foreign Currency Exposure

During the six months ended 30 June 2018, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars and RMB. Currency exposures were mostly in RMB and Hong Kong dollars against the functional currency of the relevant Group company. The mismatch of the Group's currency exposure in RMB against USD was around 15% during the period under review.

Capital Expenditure

Net cash outflows used in investing activities were US$29.9 million during the period under review (for the six months ended 30 June 2017: US$22.6 million), representing an increase of 32.3%. Capital expenditure amounted to approximately US$28.8 million during the period (for the six months ended 30 June 2017: US$23.5 million).

Pledge of Assets

As at 30 June 2018, the Group had pledged US$5.7 million of its assets (31 December 2017: US$5.9 million).

Contingent Liabilities

As at 30 June 2018, the Group had contingent liabilities US$15.1 million (31 December 2017: 15.1 million).

Employees

As at 30 June 2018, the Group had approximately 62,000 employees (31 December 2017: approximately 63,000). 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 attract, develop and retain individuals who are proactive, positive, committed to and passionate about our business.

The Group has continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership 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 of recognising and rewarding the contribution of employees, as well as providing incentives to employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme and a share award plan.

During the six months ended 30 June 2018, our recruitment efforts remained satisfactory, despite the labour shortages at our primary manufacturing locations in China.

REVIEW OF ACCOUNTS BY AUDIT COMMITTEE

The audit committee of the Board has reviewed the interim results of the Group for the six months ended 30 June 2018.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2018. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 14 September 2018. It is expected that the interim dividend will be paid on or about 18 October 2018. In order to qualify for the interim dividend for the six months ended 30 June 2018, 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 September 2018.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders"). The Company has applied the principles and complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018, except for code provisions B.1.5 and E.1.2 of the CG Code, details of which are disclosed below.

For code provision B.1.5 of the CG Code, the Company had not disclosed the details of remuneration payable to members of senior management by band in the annual report of 2017 for observing competitive market practices and respecting individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (the "Chairman") of the Board, had not attended the annual general meeting of the Company held on 18 May 2018 (the "2018 AGM"). Instead, Mr. Chao Ming-Cheng, Eric, the Deputy Chairman of the Board, took the chair at the 2018 AGM, and the chairmans and members of the audit committee, corporate governance committee, remuneration committee and nomination committee attended the 2018 AGM to answer Shareholders' questions. The reason for such arrangement was that the Board had allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, was mainly responsible for managing major customers' relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Chao Ming-Cheng, Eric, was responsible for providing leadership and management to the Board. The Board considers that such allocation of responsibilities between the Chairman and the Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Governance Model

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

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

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

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

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

Hong Kong, 16 August 2018

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