Stella International Holdings Limited

ANNUAL REPORT 2019

Stock Code: 1836

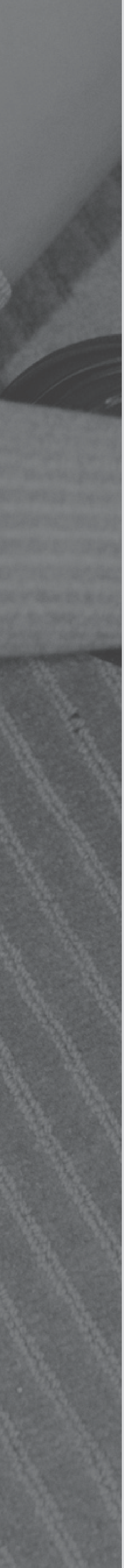
MISSION STATEMENT
OUR CORE VALUES

Stella is dedicated to providing our customers with a wide range of top quality and high-end footwear and leather goods. 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 the Company is caring, respectful and learning.

OUR MISSION:
MAKING THE BEST SHOES

Always seeking to fulfill our promise of delivering outstanding and unique footwear and leather goods, 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 leather 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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MANUFACTURING

BRANDING

Stella Luna What For

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 design, commercialisation 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, sportsfashion footwear. Our client base includes the world's leading sportswear and casual footwear brands, namely, Clarks, Merrell, Nike, Rockport, Timberland, Under Armour and UGG, as well as leading brands in fashion footwear, such as Cole Haan, Kate Spade, Michael Kors and Tory Burch.

We also design, develop and manufacture footwear for a number of high-fashion icons, such as 3.1 Phillip Lim, Alexander Wang, Balenciaga, Balmain, Maison Margiela, Off-White, Prada, Stella McCartney and Via Spiga.

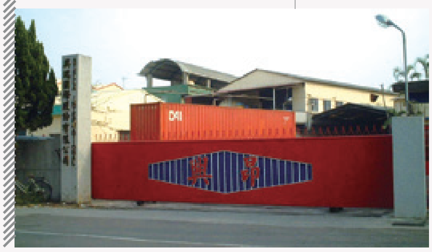
By leveraging our manufacturing expertise and the wide acceptance of Stella's products and industry recognition, we launched our branding business in 2006 under our own brands *Stella Luna and What For*. These brands have successfully expanded into China and Europe's footwear retail markets.

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

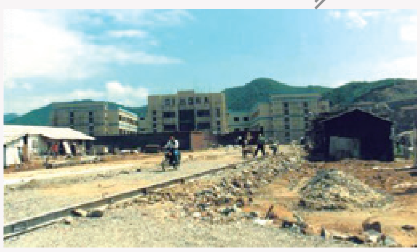
1982

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 casual footwear for leading brands 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.

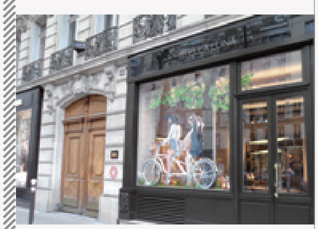
2010

Diversified into inland China.

Expanded our casual footwear production lines in Indonesia.

2011

Retail network of *Stella Luna* exceeded 220 points of sales



2012

Opened *Stella Luna* Store in Paris.

2013

Opened *What For* Store in Paris.

2014

Established footholds in the Philippines expanding our footprint in South East Asia portfolio.

PRIVATE LABEL › **CASUAL/FASHION** › **LUXURY**

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

1999

Established Selena Footwear Factory in Dongguan to expand into premium women's fashion shoes.

2004

Developed and manufactured footwear for high-end brands.

2006

Launched *Stella Luna* flagship store in Shanghai.

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.

2009

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

2015

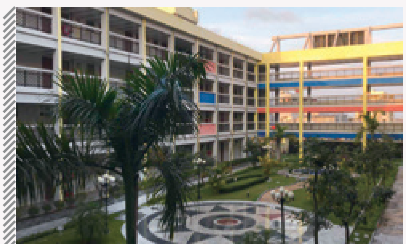
Completion of inland migration strategy - securing more stable labour supply and costs at Italian quality.

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, Barneys New York and Madison.

2017

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



2018

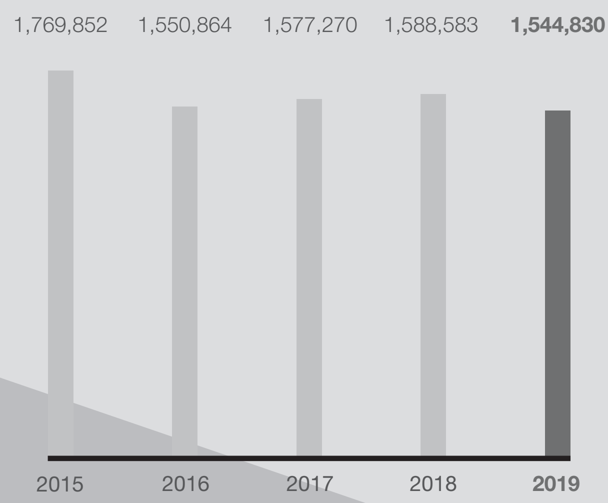
Factory dedicated to fashion sports footwear in Vietnam commenced production.

2019

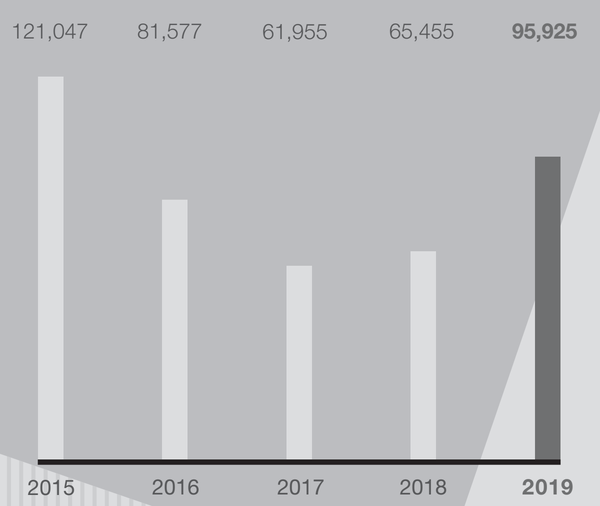
Concluded smooth management succession with Lawrence Chen appointed Chairman and Chi Lo-Jen appointed CEO.

REVENUE AND PROFIT TRENDS

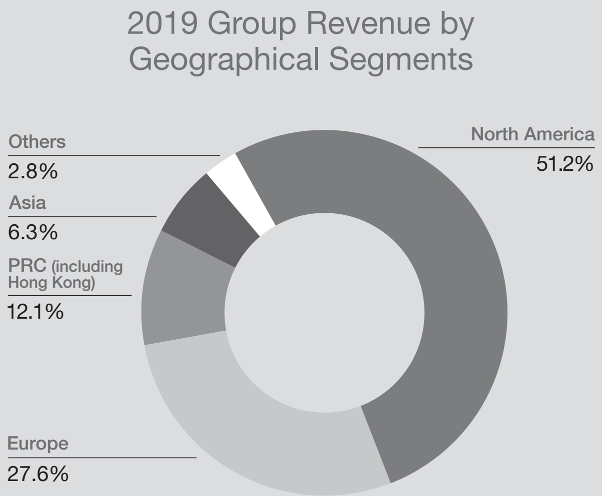
Revenue
US$'000

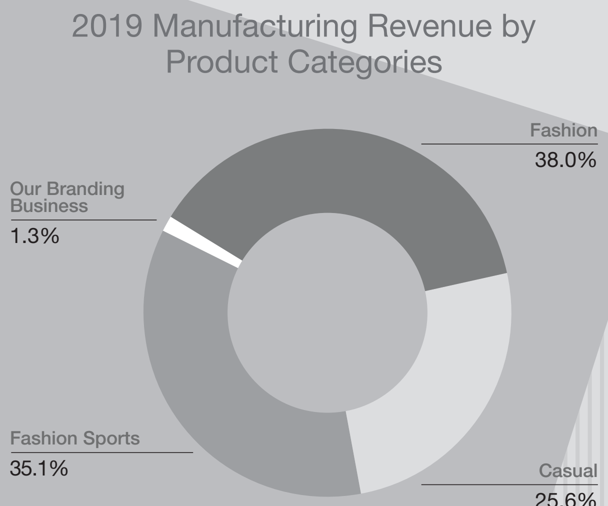


Net profit attributable to shareholders
US$'000

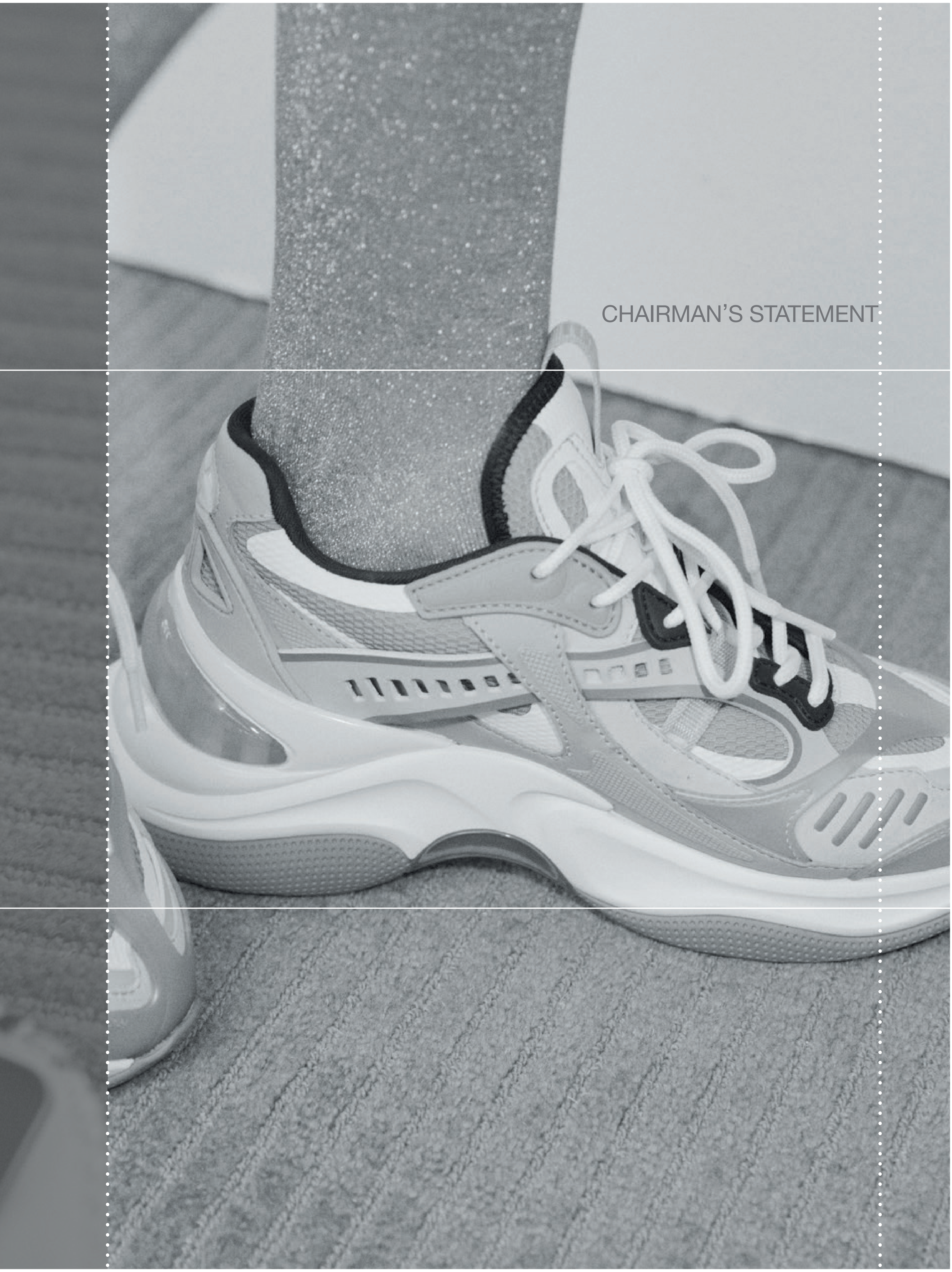


GEOGRAPHICALLY, NORTH AMERICA AND EUROPE CONTINUED TO BE OUR TWO LARGEST MARKETS





OUR MISSION: MAKING THE BEST SHOES



CHAIRMAN'S STATEMENT

MAKING THE BEST SHOES

Dear Shareholders,

2019 was a year in which we made milestone progress in securing our long-term success and profitability with our operating profit and net profit improving significantly during the year under review.

Much of this result was due to the considerable progress we made in migrating capacity from Mainland China to Southeast Asia, including the ramping up of operations at our new manufacturing facility in Vietnam. This would not have been possible without the great dedication and professionalism of our management team who were quickly able to bring our new workforce up to the high quality and efficiency standards that our customers expect.

It is this level of quality and efficiency that continues to enable Stella to be the partner of choice for footwear brands, especially those seeking to navigate to bridge the gap between luxury and sports styles. Our leading position in the fashion sports footwear and fashion footwear markets, and our strong position in the casual footwear market, were further reinforced by our robust product development and commercialisation capabilities, craftsmanship, flexibility and adaptability.

Operational stability will be our primary focus in 2020, while continuing to optimise our margins where possible. We will continue to drive further efficiency improvements and make changes to our product mix. We have entered into the final stage of capacity migration initiative and will further diversity our manufacturing base from China to Southeast Asia.

2020 will also see us integrate our leather goods business into the listed company. Over the past few years, we have been progressively developing a capability for manufacturing high-end handbags and small leather goods for luxury brands looking to outsource the production of these products. Over time, we expect the leather goods business to be a new growth driver for the Group as we add more high-end customers and explore synergies between this business and our footwear manufacturing business.

Through the above strategies, I am confident that Stella is well placed to cope with the various short and long-term challenges we face. As our 2019 financial results testify, our long-term profitability looks assured as a result of our more diversified manufacturing locations and enhanced ability to manage our product mix and customer mix. Our diversified manufacturing footprint is also enabling us to combat the short-term challenges posed by the COVID-19 outbreak.

As always, we will also continue to work hard to further improve our operational efficiency, exceed our customers' expectations and deliver profit and return to our shareholders while continuing to achieve our long-term mission of "making the best shoes".

As our new CEO, Chi Lo-Jen and I reach the end of our first financial year of leading Stella, we wish to congratulate our management team and our colleagues for their hard work in achieving the excellent financial result for 2019 and their continued dedication and commitment during these challenging times.

On behalf of the Board, we would also like to thank our customers, business partners and shareholders for their unwavering support in 2019.

Chen Li-Ming, Lawrence
Chairman
Hong Kong, 19 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

ROBUST GROWTH OF FASHION SPORTS FOOTWEAR CONTINUED

The Board of Directors (the "Board") 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 2019.

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, commercialisation and manufacturing of fashion footwear, fashion sports footwear, casual footwear and leather goods.

Our business is positioned at the high-end of the value chain, offering craftsmanship, creative design, speed to market, and small batch agility. Our commitment to quality has enabled us to attract a growing client base: from premium to high-end, and from fashion to fashion sports and casual brands.

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

FINANCIAL HIGHLIGHTS

Lower Overall Revenue Amid Focus on Margin Improvement and Robust Fashion Sports Footwear Orders

Overall revenue for the full year declined as compared to the previous year, which was mostly attributed to lower overall shipment volumes during the year and the restructuring and consolidation of the Group's retail operations within our branding business. Fashion Sports footwear orders during the year remained robust, while the revenue contribution from our fashion and casual footwear segments remained in line with our expectations as we continued to prioritise margin expansion over shipment volume growth.

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 2019 declined by 2.8% to US$1,544.8 million (2018: US$1,588.6 million). Shipment volumes declined 1.3% to 59.4 million pairs (2018: 60.2 million pairs). The average selling price ("ASP") of our footwear products for the full year was US$25.8 per pair (2018: US$25.8 per pair).

Fashion footwear was the biggest contributor to our manufacturing revenue during the year ended 31 December 2019, contributing 38.0% of total revenue (2018: 36.2%). The contributions from casual footwear and fashion sports products were 25.6% and 35.1% respectively (2018: 29.3% and 32.7%), while the Group's own branded products under branding business accounted for 1.3% (2018: 1.8%).

Geographically, North America and Europe remained our two largest markets, accounting for 51.2% and 27.6% of our total revenue during 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 6.3% and other geographic regions, which accounted for 2.8%.

Consolidation of Branding Business

Our branding business, which is anchored by the retail business of our own branded footwear in Europe, saw a revenue decline by 56.6% to US$7.5 million during the year ended 31 December 2019. Same-store sales for the year under review declined by 44.4%. The fall in revenue was attributed to the restructuring and consolidation of the Group's retail operations in Europe, as well as external events such as the "Yellow Vest" protests in Paris particularly in the first half of the year.

Profitability Improved Further on the Back of Margin Improvement Strategy and Other Initiatives

Our gross profit and operating profit improved significantly during the year as a result of our margin improvement initiatives, namely, improving production efficiency, adjusting production capacity from China to Southeast Asia, and improving our customer mix and product mix.

Our gross profit for the year under review rose 6.0% to US$293.6 million compared to the previous year. Our operating profit rose 55.4% to US$105.5 million, with our operating margin improving from 4.3% to 6.8%. Our adjusted recurring operating margin increased to 8.2%. Our adjusted operating profit refers to operating profit excluding finance costs, tax expenses, and one-off items which are mainly comprised of severance, closure and impairment costs. As a result of the above mentioned, our net profit for the year under review rose 54.2% to US$95.9 million.

Our cash generated from operations increased to US$221.7 million for the year ended 31 December 2019, from US$94.6 million for the year ended 31 December 2018. Free cash flow was strong at US$148.7 million for 2019 (2018: US$38.9 million), representing a significant increase from last year.

Our return on invested capital was at 14.3% for the year ended 31 December 2019. Return on invested capital means adjusted recurring operating profit for the year divided by the average of total assets excluding cash and cash equivalents.

BUSINESS REVIEW

Strong and Sustained Demand for Fashion Sports Footwear

Demand for our fashion sports products continued to grow strongly, with increased orders from our major customer supporting the utilisation level at our new manufacturing facility in Vietnam.

We are also progressively growing our customer base in our fashion sports footwear business, targeting premium and luxury fashion brands that are seeking to enter into the fashion sports market.

We are uniquely capable of serving these brands due to our long history of serving fashion brands and being one of the first in the market to cater to the ongoing convergence between fashion and sports. As more and more major sportswear brands increasingly seek shorter lead-times and smaller batch order for their limited edition, fashion-focused/collectable product lines, we are one of the very few manufacturers who can deliver the responsiveness, premium quality, craftsmenship, design, adaptability and flexibility needed to meet their requirements.

Implemented Differentiated Strategies to Improve Performance of Fashion and Casual Footwear Segments

We continued to actively manage the orders and customer mix of our fashion and casual footwear segments, implementing different initiatives for each business in line with our margin expansion strategy. This resulted in an increase in the ASP for both our fashion and casual footwear products during the year under review although the shipment volumes for both segments were lower.

Growing Market Share at the Premium-end of the Market

Our share of the global premium footwear market had grown to around 11.8% from 11.0% of the previous year (see the following table). This growth was mainly attributable to the further expansion of our brand portfolio as we added new customers, as well as the continued outsourcing of shoe production volume from Western European locations such as Italy and Spain.

The following table shows a summary of production and export price data for major footwear producing countries for the year ended 31 December 2018.

	Production (million pairs)	Export price – leather shoes only (USD/pair)
Italy	184	74
France	21	74
Spain	100	60
Portugal	80	34
Germany	44	41
Great Britain	5	30
Brazil (leather export)	16	24

Ongoing Efficiency Gains and Refinement of Manufacturing Footprint

We closed three factories in Mainland China during the year under review as we continued to ramp-up activity and production efficiency at our manufacturing facilities in the Southeast Asia in line with our margin expansion strategy. This also moved us closer to our medium-to-long-term goal of achieving a manufacturing footprint where a majority of our production capacity will be outside of Mainland China. This will allow us to overcome persistent labour supply and labour cost issues in China while making solid quality and efficiency gains.

In addition to our design and commercialisation centres in Venice, Italy and Dongguan, China, our global manufacturing footprint as of 31 December 2019 included facilities in Guangdong, Hunan and Guangxi provinces in Mainland China, as well as in Vietnam, Indonesia, the Philippines and Bangladesh.

Impact of External Events

Ordering activity during the year ended 31 December 2019 was not adversely affected by the trade tensions between the United States and China and we are continuing to actively monitor the situation.

Development of Branding Business in Europe

We continued to focus on building the global profile and value of our two contemporary retail brands – Stella Luna and What For, each of which showcases our unique design and fashion capabilities.

During the year under review, we continued to consolidate our retail operations in Europe, particularly the size of our retail store network in France, while exploring new distributorships in other European countries and investing further in e-commerce channels. We also continued to enhance the visibility and presence of our retail brands in leading department stores around the world.

OUTLOOK

Focus on Operational Stability

The Group will prioritise operational stability in 2020. Full-year shipment volumes and ASP for 2020 will depend on the extent that prevailing external headwinds – including the impact of the COVID-19 virus outbreak – affects our operations. The full-year ASP for 2020 will also depend on our product mix and our customers' product mix.

We are approaching the final phase of migrating our production capacity from Mainland China to the Southeast Asia. We will continue to drive efficiency improvements and improve our product mix.

Impact of COVID-19 Virus Outbreak and Other External Risks

In terms of the direct impact of the COVID-19 virus outbreak on the Group's manufacturing operations in the first quarter of 2020 in China, we have no manufacturing facilities in Hubei province and only a tiny portion of our workforce comes from Hubei province. 70% of our manufacturing capacity in 2020 is located outside of Mainland China where our factories continued to operate as normal during the Lunar New Year break and throughout the first quarter of 2020.

Within Mainland China, which makes up 30% of our manufacturing capacity, some of our factories in Guangdong experienced a delay in their work resumption as we complied with new guidelines and requirements introduced by the government to avoid the spread of the virus. Our workforce return rate on the first day after Lunar New Year in Mainland China was satisfactory, ranging from 60% to 90% at key factories and improved to over 95% on average in the following weeks. The first quarter of the year is typically the low season for orders compared to the rest of the year.

We have shut down our manufacturing operations in the Philippines for around a month following the government's decision in mid-March to lock down the entire Luzon Island to contain COVID-19 virus. We have already relocated orders assigned there to our factories in other countries.

We will also continue to monitor other potential risks to our operations and work closely with our customers to manage risks as they arise.

Expansion of Manufacturing Footprint in Southeast Asia and Focus on R&D

We recently finalised plans to expand our manufacturing footprint in the Southeast Asia by adding a new location in Indonesia in 2020. This is part of our ongoing strategy to enhance margins.

We will also continue to maintain strict cost control measures, such as closely managing headcounts and working hours to deliver value to our customers.

We will also continue to invest in our research and development capabilities to further improve and extend our range of innovative footwear products, including 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.

Integration of Leather Goods Business into the Listed Group

We have been progressively ramping-up and improving our capability in manufacturing quality leather goods and accessories, such as small leather goods and handbags, to meet growing demand from brands looking to outsource the production of these products. This achievement was an important factor in our decision to incorporate the leather goods manufacturing business into the listed Group during the first half of 2020. We will further explore synergies between the leather goods business and our existing footwear manufacturing customers to bring more high-end customers into the leather goods business.

Strengthen the Distribution for our Branding Business in Europe

We will continue to restructure and strengthen the distribution network for our branding business in Europe following the consolidation of our store network, particularly in France. We will continue to invest in product development, in distribution to markets other than France, and in our online sales capabilities to maintain recognition and the value of our Stella Luna and What For brands.

Invest in the Success of our People

The success of our manufacturing and branding businesses is underpinned by the training and development of new talent. We will also continue to ensure that our industrial relations practices conform to the Group's strict Corporate Social Responsibility standards to uphold morale and to reduce labour turnover.

We will also continue to invest heavily in the training and mentoring of our workforce to further boost their skills and capabilities and improve productivity.

Outreach to Investors

We will continue to maintain our strong communication with investors about our margin-expansion strategies. We also expect our capital requirements to remain modest in 2020 and we remain committed to returning profit to shareholders and provide attractive shareholder returns amidst our ongoing journey towards margin expansion.

For the year under review, the Board has resolved to recommend a final dividend of HK45 cents after considering the Group's free cash flow situation. This will represent a full-year dividend of HK85 cents for 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group remained in a strong financial position throughout 2019, with cash and cash equivalents of about US$68.1 million (2018: US$61.3 million) as at 31 December 2019, representing an increase of 11.1% as compared to the position as at 31 December 2018.

The Group's net cash inflows from operating activities rose to US$221.7 million (2018: US$94.6 million) for the year, representing an increase of 134.4%.

Net cash outflows used in investing activities were US$66.2 million during the year under review (2018: US$47.7 million), representing an increase of 38.8%. Capital expenditure amounted to approximately US$73.0 million (2018: US$55.7 million).

Therefore, free cash flow was US$148.7 million during the year under review (2018: US$38.9 million), representing a significant increase of over 1.8 times compared to the previous year.

Net cash outflows used in financing activities rose to US$149.6 million.

As at 31 December 2019, the Group had current assets of US$659.9 million (2018: US$702.5 million) and current liabilities of about US$166.7 million (2018: US$216.8 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 4.0 as at 31 December 2019, an indication of the Group's high liquidity and healthy financial position.

BANK BORROWINGS

The Group had bank borrowings of US$3.0 million as at 31 December 2019 (2018: US$65.4 million).

FOREIGN CURRENCY EXPOSURE

During the year ended 31 December 2019, 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 in RMB and Hong Kong dollars against US dollars, the functional currency of the relevant Group company.

PLEDGE OF ASSETS

As at 31 December 2019, the Group had pledged US$5.6 million of its assets (31 December 2018: US$5.6 million).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no material contingent liabilities (31 December 2018: 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 high performing supply chain competitiveness. Our brand customers evaluate supply chain performance on product commercialisation, quality, on time delivery and efficiency. The Company has been consistently placed within the top 10 percentile of these vendors' evaluations.

We treasure our alliance with these long-term partners and we will continue to build strategic and fruitful relationships with them to enable continuous improvements in quality, craftsmanship, innovation, speed to market, and small batch production.

EMPLOYEES

As at 31 December 2019, the Group had approximately 44,000 employees (31 December 2018: approximately 44,000). 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 colleagues, to assess the quality of senior management and ultimately to determine appropriate incentives and other human resources development measures. With a view to recognising and rewarding the contribution of employees, as well as providing incentives to employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for the further development of the Group, the Company has adopted a long term incentive scheme and a share award plan.

ENSURE THE PROTECTION OF THE PLANET, SAFETY, HEALTH AND WELL-BEING OF OUR STAKEHOLDERS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stella International Holdings Limited and its subsidiaries (the "Group", or "we/our") endeavour to achieve its mission of delivering outstanding and unique quality footwear, while fufilling its responsibility as a good corporate citizen and supporting sustainability. 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.

This report covered all manufacturing locations, unless specified otherwise. Our manufacturing locations are located in the PRC, Vietnam, Indonesia, Bangladesh and Philippines for the period from 1 January 2019 to 31 December 2019 (the "Reporting Period", the "Financial Year", "2019 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. We also look for continuous improvement in our collection and processing of the data for this report, in addition to our constant efforts in enhancing the efficiency in the consumption of the natural resources so as to reduce its impact to the environment.

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 operations during the reporting period was as follows:

Type of waste	Total (Tonnes)	Intensity (in kg, per pair of shoes)
Hazardous waste	434.2	0.0073
Non-hazardous waste	8,632.0	0.1450

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

- Manage the source of waste produced. All non-hazardous waste and hazardous waste produced during manufacturing activities will be collected, sorted and moved to the designated temporary storage area by site operators;

- The waste produced by the activities in office, laboratory and living quarters is collected and stored by the respective department, and cleared by cleaning staff on a daily basis. Used lamps and batteries are stored in a dedicated location and collected by a special team;

- 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 stored in the specialized waste warehouse is handled by licensed agents. Non-hazardous waste is recycled or reused if possible; those cannot be recycled are disposed of (either landfilled or incinerated) appropriately and handled by solid waste disposal service provider authorised by the government; and

- The Group's CSR department organises regular safety training to strengthen the employees' skills and knowledge at work, as well as awareness of safety protection.

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 121,630.8 tonnes with an intensity of 2.0433 kg CO2e per pair of shoes. We have implemented various 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, Bangladesh and the Philippines.

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 promote water and electricity conservation. 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 measure the usage of energy to monitor our energy consumption, so as to achieve energy conservation, reduction of energy and material consumption, responsible 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	157,364,013 kilowatt hours	2.6436 kilowatt hours
Natural gas	61,206 cubic metres	0.0010 cubic metres
Diesel	1,009,054 litres	0.0170 litres
Petrol (Unleaded)	536,001 litres	0.0090 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 the Group cannot directly control.

The Group has implemented energy conservation and emissions reduction initiatives as follows:

- Use energy-efficient lighting equipment; lights are turned off when staff leaves the premises to save electricity;

- The temperature of air conditioning is adjusted to suit each department's work requirement, and the temperature for the air-conditioning of offices is set at 26℃ during summer;

- The manufacturing units exert stringent management of production equipment with high electricity consumption;

- In addition to regular patrol by electricians, equipment maintenance department monitors and guides each department's energy consumption and rectifies any wastage if identified to avoid electricity wastage;

- Conduct monthly count on electricity consumption and prepare relevant records; if the consumption exceeds the range of the benchmark, the reasons for such will be analysed and take timely remedial actions;

- Prior to purchase of any machinery equipment, respective departments will assess the energy consumption of the equipment, and select the machine types with low energy consumption if conditions allow;

- Conduct monthly count on petrol usage by motor vehicles in our factories;
- Record car mileage, maintain and repair motor vehicles timely to reduce petrol wastage, and
- Implement residual heat recovery system

These measures helped reduce the operating temperature of the air compressor, therefore extending life of machines, in addition to the reduction of the greenhouse effect, energy saving and environmental protection.

Water Management

Total water consumption of the Group during the reporting period was 6,512,260 cubic meters with an intensity of 0.1094 cubic metres water per pair of shoes, water consumption was mainly incurred by the domestic usage at workers' living quarters. There was no water sourcing issue with our Group as we mainly consume municipal water. The Group has implemented the following initiatives to mitigate water consumption:

- Expand the scope of recycled water, to the greatest extent, for greening and for restrooms to increase the recycling rate.
- Conduct monthly review on water consumption and prepare relevant records. If the consumption exceeds the range specified, reasons for such would be analysed for timely remedial actions.
- Install filters at canteen sewage outlets, which are regularly cleaned and replaced. Old filters are forwarded to recycling company.
- Arrange clean and waste water segregation in water discharge, sanitary sewage to run into centralized pipelines for sedimentation treatment, and then be discharged after meeting standards.
- Strengthen employees' education on environmental protection, for example, promote usage of non-phosphate detergent and washing powder.
- Encourage staff to save water in factories, offices as well as in their living quarters by installing water-saving taps and reducing water pressure during holidays to decrease the usage of water.
- Water circulation system across manufacturing process has been widely adopted in the Group's factories to help water recycling and reduce consumption of water.

Use of packaging materials

In 2019, the packaging materials used by the Group were mainly shoeboxes, packing papers, carton boxes and shoe stretchers, reaching a total of 29,167 tonnes with an intensity of 0.4900 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 operational programs for environmental facilities and their respective maintenance schedule to ensure these facilities are in good conditions during operation; and

- Provide technicians on-the-job induction and training programs to promote 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 using carbon filters and UV light equipment.

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 as means to promote meritocracy. We also consider job progression and promotion for performing staff to achieve the ultimate goal of talent retention and development 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 employees are provided with corporate orientation, 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 whistle blowing 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, marriage 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 heavy materials, work in high altitude, cold temperature and cold water. For female staff who is pregnant for over seven months, we do not suggest them to work on night shift nor perform overtime work.

Stella provides regular health checkups to its employees. We also arrange first aid training, allowing our employees to contribute directly to safety in the workplace. We also organised a series of health talks in order to promote disease prevention and awareness of health protection.

Special programmes launched to provide caring and benefits to the employees in our factories during 2019 included:

- Free vision test and eye-glasses for workers in need
- Scholarship to employees' kids with outstanding academic performance
- Subsidies to support home-building and emergency fund for workers in need
- Birthday gifts
- Outstanding employee awards

In 2019, we introduced "Health Enables Returns" programme in our factories to raise the awareness of health care among our employees. It also serves as a tool to help reduce the staff turnover rate and sick leaves, improve the retention rate, and encourage inter-personal relationship among employees. The programme includes a series of health talks, healthcare messages broadcast via social media, free focused body checkup, health ambassadors, health care handbooks and health information sharing sessions.

Social Activities

We organised a series of recreational activities throughout the year, such as sports competitions, outings, interest classes, field trips, birthday parties, barbeque gatherings, and celebration activities for major festivals to enrich our employees' life outside of work. These activities also helped team-building and promoting employee's sense of belonging.

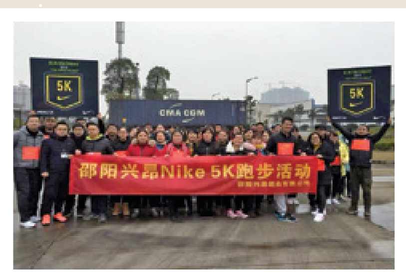
B2 Health and Safety

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:

- Ban the storage of chemicals in our workshops;
- Put up a number of notice boards throughout our workshops to reinforce awareness of workplace safety procedures;
- Conduct regular examination of employee canteens to ensure food safety;
- Conduct regular emergency drills, such as fire drills;
- Conduct regular check and upgrade, if necessary, existing machinery to ensure workplace safety;
- Provide training to our workers the correct way of using and maintaining equipment, and strive to improve the training and innovation capability of technical staff;
- Keep abreast of the latest development of artificial intelligence, and develop new safety equipment;
- Evaluate new specialized equipment and use it, if applicable; and
- Enforced the use of Personal Protective Equipment (PPE) to minimize the risk of occupational disease.



In order to promote safety in our production facilities, prevent and reduce accidents to safeguard the life and property of workers and improve the management of safe production on an ongoing basis, 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 "CSR Internal Training Plan" is 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 safety risks discovered, including installing protection devices (such as widened foot stand to avoid falling upon moving goods, 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 safety examination and proactively facilitate the management of safe production to achieve modernization of safe production in a scientific manner. For example, we will develop equipment that is more user-friendly for operation and is better in terms of ergonomics, as well as machines that can integrate production processes to improve efficiency, thus reflecting the "people-oriented" scientific development approach.

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 awareness on disaster prevention, 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 what they 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 whistle blowing 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 their services and products meeting our requirement, thus enabling us to maintain our quality. We only select suppliers that pursue constant perfection and maintain a high level of 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 competitiveness, quality assurance and after-sale service with a principle of fairness 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 organising union 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 craftsmenship that have gained the attention of internationally renowned luxury and casual brands.

Quality Control for Products

We screen our product offerings carefully and strictly control the safety and quality of our products. We integrate the monitoring of the whole production process with production standardization, and successfully implement quality management in our production facilities. With regard to managing raw materials, 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, their performance, and whether their commitment of 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 providing products of highest quality and the best service to our customers. By being a close partner to our customers, we strive to fulfill their needs with innovative and cost effective solutions. Through empathy, responsiveness and reliability, 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 offering guarantee to the quality of products and services that meet requirements. We also conduct customer 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 factories. 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.

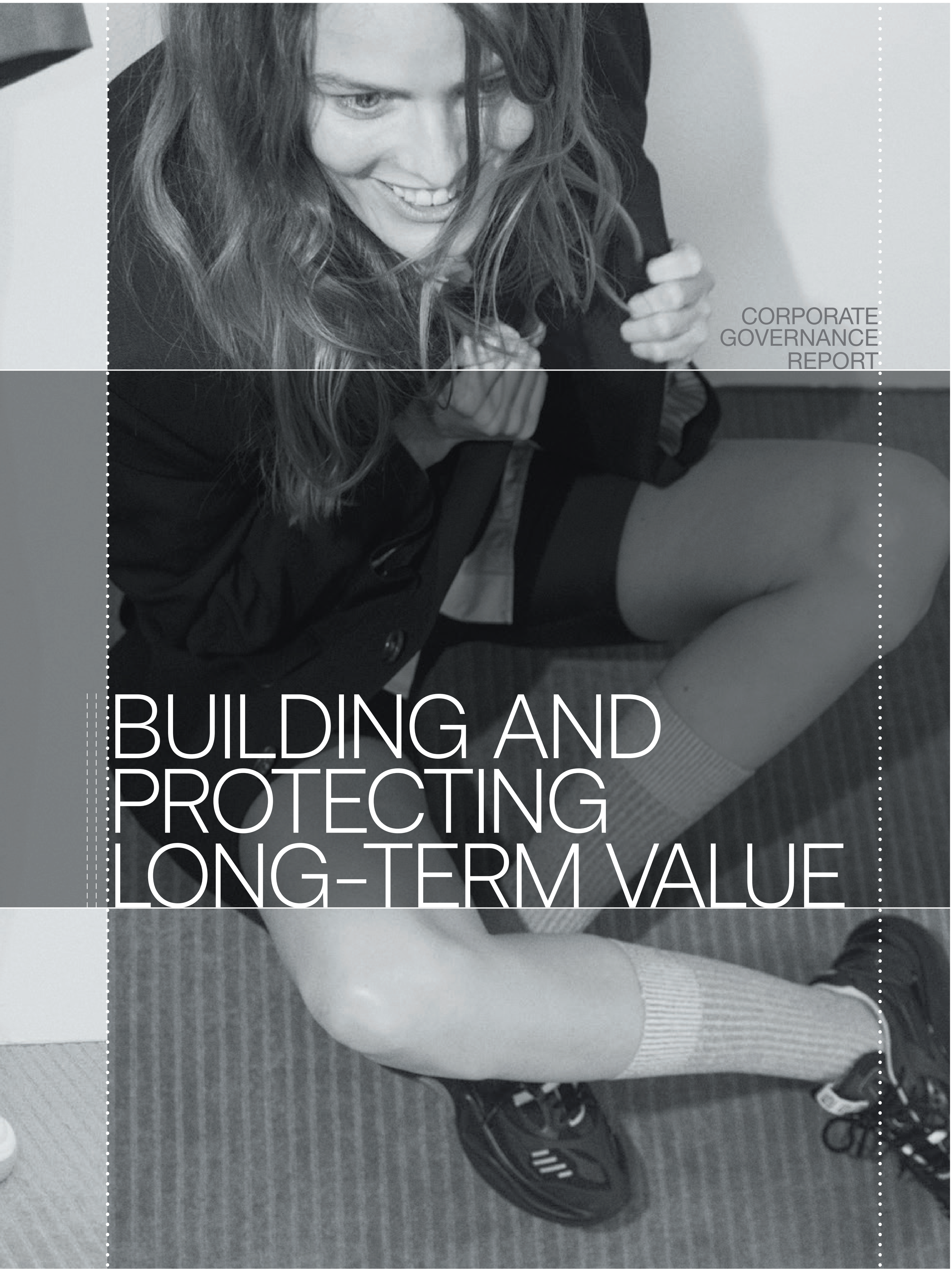
B8 Community Investment

Stella recognizes the responsibility as a corporate citizen and encourages our employees to support community projects and protect the natural environment, on top of its charity donation to those less fortunate, impoverished youth and families. Our staff participated in a number of community service activities during the reporting period, which included:

- Tree planting activities to promote awareness of environmental protection and greening among our employees, as well as to help offsetting some carbon footprints;
- Organized fund raising activities with donation from the Company for local communities' emergency fund;
- Donation of scholarship to high schools in Vietnam and renovation fund to high schools in Bangladesh;
- Visits to orphanages and families in poverty.

CORPORATE GOVERNANCE REPORT

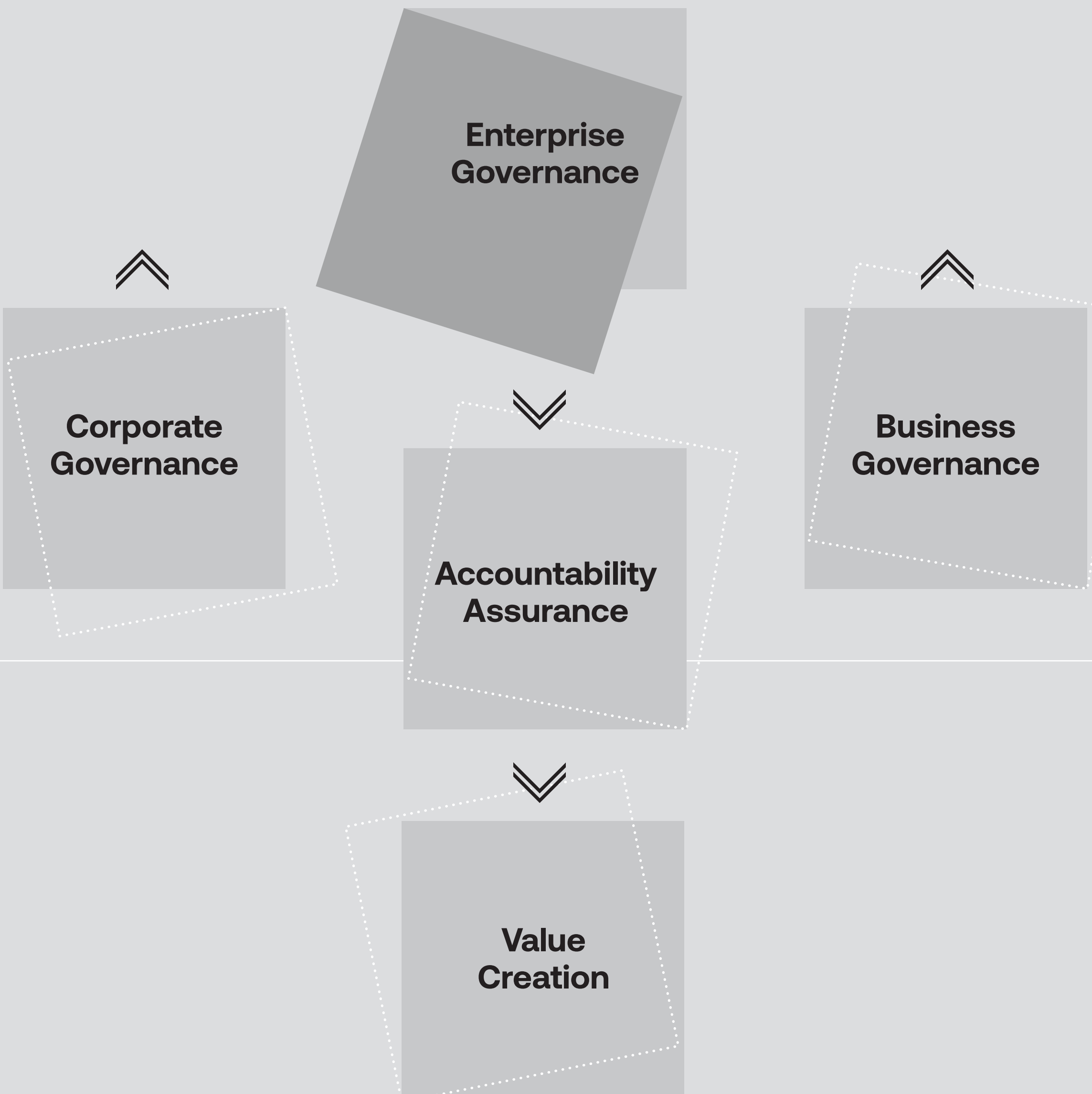
BUILDING AND PROTECTING LONG-TERM VALUE



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 2019 except for code provision B.1.5, details of which are disclosed below. Save for the deviation from code provision B.1.5, 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 2019 are set out below:

Name of Directors — Attendance
Executive Directors
Chen Li-Ming, Lawrence (Chairman) — 7/7
Chi Lo-Jen (Chief Executive Officer) — 7/7

Non-Executive Directors
Chiang Jeh-Chung, Jack — 3/7
Chao Ming-Cheng, Eric — 5/7

Independent Non-executive Directors
Chen Johnny — 4/7
Bolliger Peter — 5/7
Chan Fu Keung, William, BBS — 6/7
Yue Chao-Tang, Thomas — 7/7
Lian Jie — 6/7
Shi Nan Sun — 5/7
Note 1

Relationships among the members of the Board

Chiang Jeh-Chung, Jack is the uncle of 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 2020 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

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 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 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 independent non-executive directors without the presence of other directors.	✓	The 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, experience and diversity of perspectives appropriate to 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 a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional 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.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
A.3.3 The board should state its reasons if it determines that a proposed director is independent notwithstanding that the individual holds cross-directorships or has significant links with other directors through involvements in other companies or bodies.	N/A	

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 non-executive Directors (including the independent non-executive Directors) are appointed for a specific term 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.	✓	

Recommended Best Practices	Compliance	Corporate Governance Practices
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.	✓	

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 six members comprising all independent non-executive Directors, namely, Chen Johnny, Chan Fu Keung, William, *BBS*, Yue Chao-Tang, Thomas, Bolliger Peter, Lian Jie and Shi Nan Sun. The chairman of the Nomination Committee is Chen Johnny. During the year ended 31 December 2019, two Nomination Committee meetings were held and the attendance record is set out below: Name — Attendance Chen Johnny *(Chairman)* — 0/2 Chan Fu Keung, William, *BBS* — 2/2 Yue Chao-Tang, Thomas — 2/2 Bolliger Peter — 1/2 Lian Jie — 1/2 Shi Nan Sun — 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: 1. the process used for identifying the individual and why the board believes the individual should be elected and the reasons why it considers the individual to be independent; 2. if the proposed independent non-executive director will be holding their seventh (or more) listed company directorship, why the board believes the individual would still be able to devote sufficient time to the board; 3. the perspectives, skills and experience that the individual can bring to the board; and 4. how the individual contributes to diversity of the board.	✓	

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 business, 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 Chen Li-Ming, Lawrence *(Chairman)* — A, B, C Chi Lo-Jen *(Chief Executive Officer)* — A, B, C Non-Executive Directors Chiang Jeh-Chung, Jack — A, B, C Chao Ming-Cheng, Eric — A, B, C Independent Non-executive Directors Chen Johnny — A, B, C Bolliger Peter — A, B, C Chan Fu Keung, William, *BBS* — A, B, C Yue Chao-Tang, Thomas — A, B, C Lian Jie — A, B, C Shi Nan Sun — 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 Independent non-executive directors and other 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 2019, the Remuneration Committee had three members comprising all independent non-executive Directors, Chan Fu Keung, William, *BBS*, Yue Chao-Tang, Thomas and Chen Johnny. The chairman of the Remuneration Committee is 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 2019, two Remuneration Committee meetings were held, and the attendance records are set out below:

Name	Attendance
Chan Fu Keung, William, *BBS (Chairman)*	3/3
Yue Chao-Tang, Thomas	3/3
Chen Johnny	1/3

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.

Code Provisions	Compliance	Corporate Governance Practices
B.1.1 The remuneration committee should consult the chairman and/or chief executive about their remuneration 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 them 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 reports.	✗	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 2019.
B.1.7 A significant proportion of executive directors' remuneration should link rewards to corporate and individual performance.	✓	For the year ended 31 December 2019, the executive Directors' performance-based remuneration related to their executive roles constituted 58% 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.	✗	To observe the competitive market practices and to respect individual privacy, the Company did not make such disclosure in its annual report.
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 77 and 107 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' 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, payroll 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 various risk factors 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. Ernst & Young, the Company’s external auditor, reported on matters concerning internal control of the Group for the year ended 31 December 2019 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. Also the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; 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 Yue Chao-Tang, Thomas, Chen Johnny, Chan Fu Keung, William, *BBS*, and 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 2019, three Audit Committee meetings were held, and the attendance records are set out below:

Name	Attendance
Yue Chao-Tang, Thomas *(Chairman)*	3/3
Chen Johnny	1/3
Chan Fu Keung, William, *BBS*	3/3
Lian Jie	3/3

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 in respect of audit services and non-audit services provided to the Group for the year ended 31 December 2019 was US$530,000 and US$167,000 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 two years 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 2019, the Corporate Governance Committee had three members comprising all independent non-executive Directors, namely Bolliger Peter, Chan Fu Keung, William, *BBS* and Yue Chao-Tang, Thomas. The chairman of the Corporate Governance Committee is Bolliger Peter.

During the year ended 31 December 2019, two Corporate Governance Committee meetings were held, and the attendance records are set out below:

Name of Directors	Attendance
Bolliger Peter *(Chairman)*	1/2
Yue Chao-Tang, Thomas	2/2
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 10 May 2019 ("2019 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 2019 AGM was held on 10 May 2019 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 re-elect Directors; (iv) to re-appoint the auditor of the Company; (v) to grant general mandate to Directors to issue additional shares in the Company, not exceeding 5% of the issued share capital; (vi) to grant general mandate to Directors to purchase shares in the Company not exceeding 10% of the issued capital; and (vii) 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.	✓	The Chairman had attended the 2019 AGM and the chairman or member of the Audit Committee, the Corporate Governance Committee, the Remuneration Committee and the Nomination Committee attended the 2019 AGM to answer Shareholders' questions. In addition, Ernst & Young, the Company's external auditor, had attended the 2019 AGM to answer Shareholders' questions. The Directors' attendance record for the 2019 AGM held on 10 May 2019 is set out below: Name of Directors — Attendance Executive Directors Chen Li-Ming, Lawrence *(Chairman)* — 1/1 Chi Lo-Jen *(Chief Executive Officer)* — 0/1 Non-Executive Directors Chiang Jeh-Chung, Jack — 0/1 Chao Ming-Cheng, Eric — 1/1 Independent Non-executive Directors Chen Johnny — 1/1 Bolliger Peter — 0/1 Chan Fu Keung, William, *BBS* — 1/1 Yue Chao-Tang, Thomas — 0/1 Lian Jie — 0/1 Shi Nan Sun — 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 2019 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.1.5 The issuer should have a policy on payment of dividends and should disclose it in the annual report.		The Company has a dividend policy which is disclosed in the Directors' Report of this Annual Report.

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 2019 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 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.	✓	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 Chairman.
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. During to the year under review, there were changes in directors and important executive functions and responsibilities as described in more detail under the paragraph headed "Directors" in the Directors' Report.

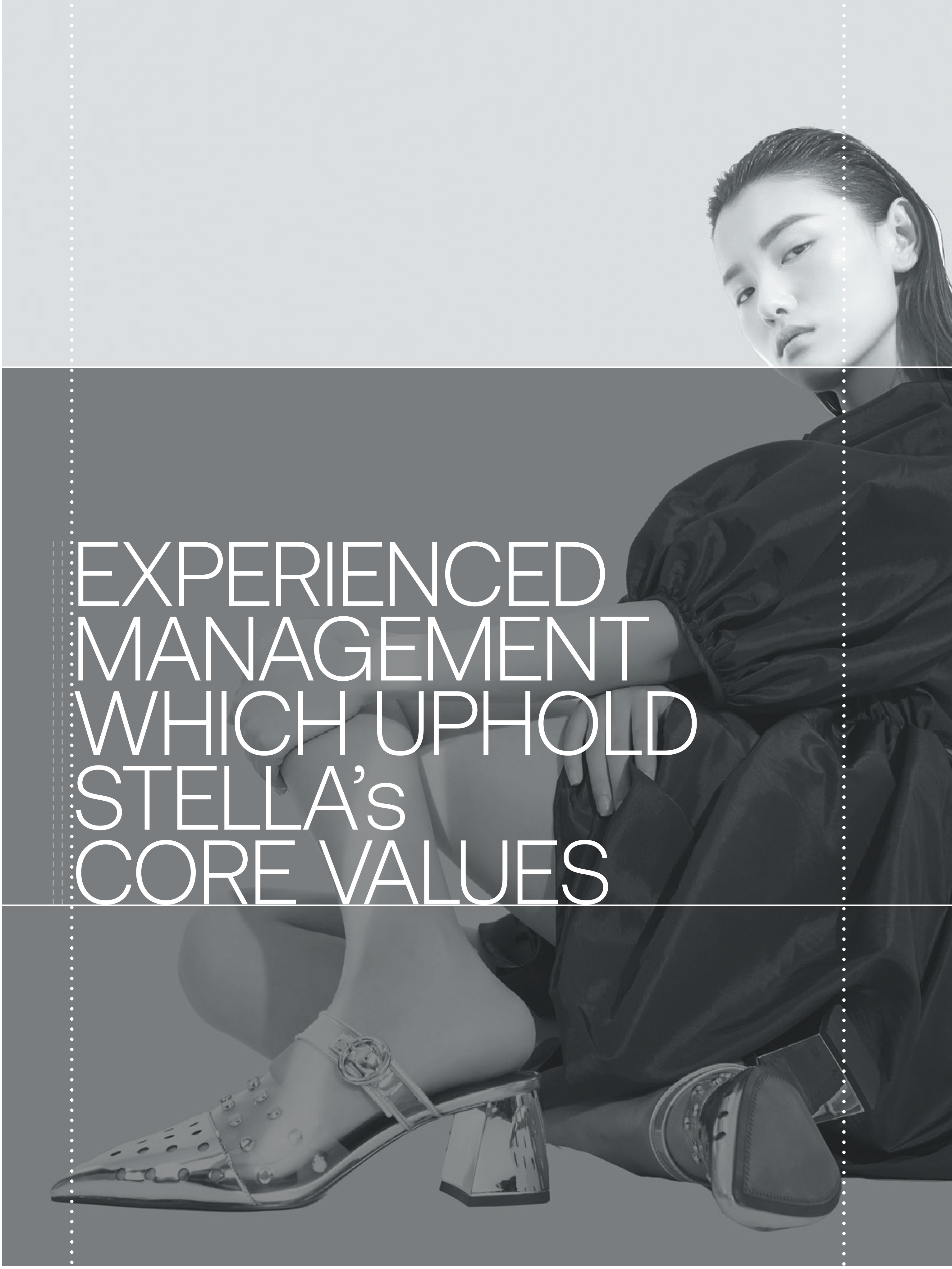
DIRECTORS' AND AUDITOR'S ACKNOWLEDGEMENT

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 statement of the external auditor about its reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on page 107.

EXPERIENCED MANAGEMENT WHICH UPHOLD STELLA's CORE VALUES



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CHEN Li-Ming, Lawrence, aged 59, is the chairman of the Board, an executive Director of the Company and a member 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 35 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, Yang Chen-Ning.

CHI Lo-Jen, aged 48, is an executive Director of the Company and the Chief Executive Officer of the Group and the chairman of the Executive Committee of the Board. Mr. Chi joined the Group in 1995 and has over 25 years of experience in the footwear industry, during which he gained brand exposure in all aspects of the Group's operations including the fashion, causal and fashion athletic businesses. He is currently responsible for supervising the daily operations and business development of the Group's fashion footwear division and branding division. Mr. Chi has been instrumental in expanding the high-fashion customer base for the Group. He also oversees product design and commercialisation. Mr. Chi also took the lead in developing the Group's new fashion athletic footwear business – its main growth driver. Mr. Chi studied mechanical engineering at Carnegie Mellon University in the United States. He is also a director of certain subsidiaries of the Company which are engaged in design and marketing activities, manufacturing and branding business. Mr. Chi is the nephew of the non-executive Director of the Board, Chiang Jeh-Chung, Jack.

NON-EXECUTIVE DIRECTORS

CHIANG Jeh-Chung, Jack, aged 69, is a non-executive Director of the Company. Mr. Chiang has been with the Group since 1982 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 38 years of experience in new product development and management in the footwear industry. He is also a director of a subsidiary of the Company which is a holding company for a number of subsidiaries which are engaged in manufacturing operations. 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.

CHAO Ming-Cheng, Eric, aged 68, is a non-executive Director of the Company. 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 38 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 a subsidiary of the Company which is a holding company for a number of subsidiaries which are engaged in manufacturing operations. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHEN Johnny, aged 60, 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 of Department of Finance and Department of Management at the Hong Kong University of Science and Technology. Mr. Chen joined Zurich Insurance Group ("Zurich") in 2005. He worked in Zurich from March 2005 to February 2015 in multiple senior managerial roles in the Asia-Pacific region. His last position in Zurich was the chairman of the life and general insurance business in China. 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 the Chairman and Executive Director of Convoy Global Holdings Limited (Stock Code: 1019), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Chen is also an independent non-executive director of each of Uni-President China Holdings Ltd. (Stock Code: 220), Alibaba Pictures Group Limited (Stock Code: 1060) and China Travel International Investment Hong Kong Limited (Stock Code: 308) respectively, companies listed on the Main Board of the Stock Exchange. From December 2015 to November 2018, Mr. Chen was an independent non-executive director of China Minsheng Financial Holding Corporation Limited (Stock Code: 245), a company listed on the Main Board of the Stock Exchange. From July 2017 to March 2019, Mr. Chen was an independent non-executive director of China Dongxiang (Group) Co., Ltd. (Stock Code: 3818), a company listed on the Main Board of the Stock Exchange. From June 2010 to February 2019, Mr. Chen was an independent non-executive director of Viva China Holdings Limited (Stock Code: 8032), a company listed on the GEM of the Stock Exchange. Mr. Chen holds a Master of Science Degree in Accounting from the University of Rhode Island and a Bachelor Degree of Accounting from the Johnson & Wales University and is a U.S. certified public accountant. Mr. Chen has been appointed as an independent non-executive Director of the Company since February 2009.

BOLLIGER Peter, aged 75, 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. (Stock Code: NL0010937066), a company listed on the Euronext N.V. 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.

CHAN Fu Keung, William, *BBS*, aged 71, 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 of Hong Kong Limited 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. He is a member of the Remuneration Committee of the West Kowloon Cultural District Authority and a member of Human Resources and Remuneration Committee of Urban Renewal Authority. He was a member of the Hospital Authority Board from December 2012 to November 2018. Currently he is also 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 and a director of CU Medical Centre Limited. Since August 2015, Mr. Chan has been appointed as an independent non-executive director of Analogue Holdings Ltd (Stock Code: 1977), which is a company listed on the Main Board of The Stock Exchange of Hong Kong Limited since July 2019. 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.

YUE Chao-Tang, Thomas, aged 65, 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 40 years. Mr. Yue also holds various positions in the academic field. He is 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.

LIAN Jie, aged 45, is an independent non-executive Director of the Company, and a member of the Audit Committee and the Nomination Committee of the Board. Mr. Lian is currently Co-CEO 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. From 2011 to 2018, Mr. Lian was a non-executive director of China XLX Fertiliser Ltd. (Stock Code: 1866), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). From 2013 to 2018, Mr. Lian was an independent non-executive director of Bosideng International Holdings Limited (Stock Code: 3998), 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.

SHI Nan Sun, aged 68, is an independent non-executive Director of the Company and a member of the Nomination Committee of the Board. Ms. Shi is the founder and the executive director of Film Workshop Co., Ltd. She has over 30 years of experience in the film industry and has produced or co-produced numerous Chinese-language movies, including serving as the executive producer of Infernal Affairs (which was remade into the Hollywood film, The Departed). In addition, Ms. Shi has held senior positions in several entertainment and media companies in Hong Kong, including Cinema City Company Ltd. from 1981 to 1987 as controller with overall responsibility for production, distribution and administration. From 1991 to 1996 she was with the CIM Group, where her responsibilities included the establishment of joint ventures in the PRC and the launch of Chinese Television Network. From 2006 to 2012, Ms. Shi served as a director of Bona Film Group Limited (a company listed on the NASDAQ Stock Market and privatised in May 2016). From 2001 to 2003, she served as an executive director of eSun Holdings Limited (Stock Code: 571), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Ms. Shi was a member of the Hong Kong Tourism Board from April 2013 to March 2019. Ms. Shi is a vice chairman of the End Child Sexual Abuse Foundation. Ms. Shi holds a Bachelor's degree in Statistics and Computing from the Polytechnic of North London. Ms. Shi has been appointed as an independent non-executive Director of the Company since January 2019.

SENIOR MANAGEMENT

Business Division

SMOWTON Dermot, aged 64, 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.

CHEN Tung-Jui, aged 58, 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 34 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business.

YANG Chen-Ning, aged 55, is the General Manager of Overseas Footwear Division of the Group. Mr. Yang joined the Group in 1986. He has over 34 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 Chen Li-Ming, Lawrence, an executive Director.

GILLMAN Charles, aged 58, is the General Manager of Sports Footwear Division of the Group. Mr. Gillman joined the Group in 2018. Prior to joining the Group, he was the senior vice president (worldwide sourcing) at Caleres, Inc. (formerly known as Brown Shoe Company), until 2017 after 35 years of service. He holds a Bachelor of Science degree in Business Administration from the Indiana University.

Corporate Division

LEE Kwok Ming, aged 62, 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.

WEI Joe, aged 47, is the Director of Business Development and Planning of the Group. Mr. Wei joined the Group in 2015. He is currently responsible for enhancing corporate management, developing the Group's global retail and branding business and optimising the Group's investments portfolio. Prior to joining the Group, he held various senior management positions and had proficient experiences in diversified industries including manufacturing, merchandising/procurement, IT consultant, internet computer gaming, e-commerce, retail sales/televised shopping, retail property management, sports management and sponsorship, and husbandry nutrition supply in his professional career. From 2013 to 2015, he served as Vice President (Investment Division) at Chinatrust Commercial Bank. He holds a Bachelor of Science degree in General Management from the Boston University, Boston, United States.


VACANCY
TV

DIRECTORS' REPORT

ENDEAVOUR TO MAINTAIN EFFECTIVE COMMUNICATION WITH SHAREHOLDERS

DIRECTORS' REPORT

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 2019.

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 1 to the consolidated financial statements of the Group for the year ended 31 December 2019.

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.

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company. Our Dividend Policy aims to provide stable and consistent dividends with steady growth when supported by our earnings whilst ensuring that sufficient financial resources can be maintained to fund our business growth. In line with our established practice, our ordinary dividends are paid twice a year with a normal target payout ratio of 70 percent of the Group's profit of the year.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 110.

The Board recommended the payment of a final dividend of HK45 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2019. The proposed final dividend amounting to approximately US$46.1 million, will be paid to Shareholders whose names appear on the register of members of the Company on 22 May 2020, if the proposals are approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on 14 May 2020. It is expected that the final dividend, if approved, will be paid on or about 19 June 2020.

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 22 May 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 11 May 2020 to 14 May 2020 (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 8 May 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended 31 December 2019 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 198.

BANK BORROWINGS

Details of bank borrowings for the year ended 31 December 2019 are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity and note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2019 were US$378.9 million (2018: US$368.8 million).

DIRECTORS

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

Executive Directors:
Chen Li-Ming, Lawrence
Chi Lo-Jen

Non-Executive Directors:
Chiang Jeh-Chung, Jack (redesignated from executive Director to non-executive Director on 21 March 2019)
Chao Ming-Cheng, Eric (redesignated from executive Director to non-executive Director on 21 March 2019)

Independent Non-executive Directors:
Chen Johnny
Bolliger Peter
Chan Fu Keung, William, *BBS*
Yue Chao-Tang, Thomas
Lian Jie
Shi Nan Sun (appointed with effect from 16 January 2019)

In accordance with article 87 (1) of the Company's articles of association, Bolliger Peter, Yue Chao-Teng, Thomas, Chao Ming-Cheng, Eric and Chen Li-Ming, Lawrence will retire by rotation at the forthcoming AGM of the Company.

With effect from 1 January 2019, Chi Lo-Jen has succeeded Chen Li-Ming, Lawrence as the chief executive officer of the Group.

With effect from 21 March 2019 (after publication of the announcement of the annual results for the year ended 31December 2018 of the Company):

(1) Chiang Jeh-Chung, Jack has resigned from his positions as the chairman of the Board and a member of the executive committee of the Board and all other current positions within the Group (other than his directorship of the Company);

(2) Chao Ming-Cheng, Eric has resigned from his positions as the deputy chairman of the Board and a member of the Executive Committee and all other current positions within the Group (other than his directorship of the Company);

(3) Chiang Jeh-Chung, Jack and Chao Ming-Cheng, Eric has each been re-designated as a non-executive Director; and

(4) Chen Li-Ming, Lawrence has succeeded Chiang Jeh-Chung, Jack as the chairman of the Board.

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 2019, 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 2019, 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 supply of footwear products to the CAH Group (as defined below) and Max Branding Group (as defined below), the provision of a guarantee to an associate and the payment of compensation to key management personnel of the Group, none of the related party transactions disclosed in note 34 to the consolidated financial statements constitutes a connected transaction or continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules.

The supply of footwear products to the CAH Group, Max Branding Group and Max Group *(Note)* (as defined below) is subject to the announcement, annual review and reporting requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules, and the Company has duly complied with the applicable requirements in respect thereof. Further details of the transaction are set out in the section headed "Continuing Connected Transactions" below. The other connected transactions or continuing connected transactions mentioned in the paragraph above are fully exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Note: The Group did not supply any Max branded products to Max Group for the year ended 31 December 2019 and therefore no relevant disclosure is made in note 34 to the consolidated financial statements.

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 2019, 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	30,364,612 *(Note 1)*	–	30,603,112	3.85%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	777,000	27,228,227 *(Note 2)*	–	28,005,227	3.52%
Chi Lo-Jen	Beneficial owner	1,783,500	–	2,392,250 *(Note 3)*	4,175,750	0.53%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	331,500	39,597,418 *(Note 4)*	–	39,928,918	5.02%

Notes:

1. These interests were held by Perfect Epoch Limited, the entire issued share capital of which was held by Chao Ming-Cheng, Eric. 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 Blue Diamond Investment Corp, the entire issued share capital of which was held by Chen Li-Ming, Lawrence. Chen Li-Ming, Lawrence was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

3. These interests are Options (as defined in the paragraphs headed "The 2007 Scheme" in the section headed "Other Information" below) granted under the 2007 Scheme (as defined in the paragraphs headed "The 2007 Scheme" in the section headed "Other Information" below, out of which 341,750 Options were vested but not yet exercised).

4. These interests were held by Merci Capital Limited, the entire issued share capital of which was held by Chiang Jeh-Chung, Jack. 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 2019, 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 2019, 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	262,112,214	32.98%
Invesco Hong Kong Limited	Investment manager	40,005,000	5.03%

Save as disclosed above, as at 31 December 2019, 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.

CONTINUING CONNECTED TRANSACTIONS

Supply of Max Branded Products to Max Group

On 19 July 2017, Stella International Trading (Macao Commercial Offshore) Ltd ("SIT (MCO)") (for itself and as trustee for the benefit of the Group) as supplier and Max Group Holdings Limited ("Max Holdings") (for itself and as trustee for the benefit of Max Holdings and its subsidiaries ("Max Group") (excluding Couture Accessories Holding Limited and its subsidiaries ("CAH Group"))) entered into a master manufacturing agreement (the "2017 Master Manufacturing Agreement"), pursuant to which SIT (MCO) shall, and shall from time to time designate and procure other member(s) of the Group to, manufacture and/or supply, label and package the Max branded products for members of the Max Group (excluding the CAH Group). Members of the Max Group (excluding the CAH Group) may from time to time serve written purchase order(s) to SIT (MCO) containing, among others, the specifications of the products; once accepted, the Group shall manufacture and/or supply the Max branded products in strict accordance with the agreed specifications and other terms and conditions of the 2017 Master Manufacturing Agreement and the relevant purchase order(s).

The price for the Max branded products to be supplied shall be calculated on the basis of the cost of manufacture incurred or to be incurred by the Group for such products plus a fixed percentage margin as specified in the 2017 Master Manufacturing Agreement, which is not less than 15%. Max Holdings, 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 Chiang Chih-Chung, who is the brother of Chiang Jeh-Chung, Jack, the then executive Director and chairman of the Board (has been re-designated as non-executive Director and ceased to be the chairman of the Board with effect from 21 March 2019). As such, Max Holdings is an associate of Chiang Jeh-Chung, Jack and connected person of the Company under the Listing Rules, and the transactions contemplated under the 2017 Master Manufacturing Agreement constitute continuing connected transactions of the Company 14A of the Listing Rules.

The Group did not supply any Max branded products to Max Group for the financial year ended 31 December 2019.

Supply of Stella Branded Products to CAH Group

On 19 July 2017, 興記時尚（中國）有限公司 (Stella Fashion (China) Limited*) ("SFC") as supplier and Couture Accessories Holding Limited ("CAH") as distributor entered into an exclusive distribution agreement (the "2017 Exclusive Distribution Agreement"), pursuant to which SFC shall grant the CAH Group the exclusive right to distribute the Stella branded products in the PRC. The CAH Group shall open and operate points of sales, including mono brand stores, shops in shop, outlets, concessionary counters and corners bearing various brands owned by the Group in the PRC to market the Stella branded products. In addition, the CAH Group may distribute and market the Stella branded products in the PRC to franchisees and/or sub-distributors and market and sell the Stella branded products through the internet provided that the destination for delivery of the Stella branded products sold shall be within the PRC. The CAH Group shall not practice any kind of active advertising of the Stella branded products outside the PRC.

The price for any particular Stella branded product to be supplied by SFC shall be calculated on the basis of the ex-factory price charged by the Group for the manufacture of such product and multiplied by a fixed multiplier as specified in the 2017 Exclusive Distribution Agreement applicable to each brand of the Stella branded product. All such fixed multipliers do not exceed two. 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 Holdings. Max Holdings is indirectly owned as to approximately 64.75% by Chiang Chih-Chung, who is the brother of Chiang Jeh-Chung, Jack, an executive Director and chairman of the Board (has been re-designated as non-executive Director and ceased to be the chairman of the Board with effect from 21 March 2019). As such, CAH is an associate of Chiang Jeh-Chung, Jack and connected person of the Company under the Listing Rules, and the transactions contemplated under the 2017 Exclusive Distribution Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Group supplied Stella branded products to CAH Group amounting to RMB139,151,000 (equivalent to approximately US$20,169,000), which did not exceed the aggregate annual cap of RMB200,000,000 (equivalent to approximately US$28,988,000) for the financial year ended 31 December 2019.

Given that the 2017 Exclusive Distribution Agreement shall expire on 31 December 2019, on 20 December 2019, SFC and CAH entered into a new exclusive distribution agreement to renew the 2017 Exclusive Distribution Agreement on substantially the same terms for three years until 31 December 2022.

Supply of What For Products to Max Branding Group

On 21 January 2019, Stella Fashion Group Limited ("SFG") as supplier and Max Branding Limited ("Max Branding") (for itself and as trustee for the benefit of the Max Branding and its subsidiaries (the "Max Branding Group")) as purchaser entered into the exclusive distribution agreement (the "2019 Exclusive Distribution Agreement"), pursuant to which SFG shall grant Max Branding Group the exclusive right to distribute footwear products bearing the trademark "What For" (the "What For Products") in various countries in Europe, Africa and the Middle East. The price for any particular What For Product to be supplied by SFG shall be calculated on the basis of a fixed discount, being not less than 83.6%, as specified in the 2019 Exclusive Distribution Agreement to the then applicable recommended retail price of the What For Product as at the date of the acceptance or confirmation by SFG of the order for the supply of the What For Product.

Max Branding, the issued share capital of which is indirectly owned as to approximately 64.75% by Chiang Chih-Chung, who is the brother of Chiang Jeh-Chung, Jack, the then executive Director and chairman of the Board (has been re-designated as non-executive Director and ceased to be the chairman of the Board with effect from 21 March 2019) As such, Max Branding is an associate of Chiang Jeh-Chung, Jack and connected person of the Company under the Listing Rules, and the transactions contemplated under the 2019 Exclusive Distribution Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Group supplied What For Products to Max Branding Group amounting to EUR1,325,000 (equivalent to approximately US$1,477,000), which did not exceed the aggregate annual cap of EUR3,000,000 (equivalent to approximately US$3,360,000) for the financial year ended 31 December 2019.

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.

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 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:

For the year ended 31 December 2019

Category of participants	Outstanding as at 1 January 2019	Date of grant	Number of Options granted	Exercise period	Exercise price	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2019
Director									
Chi Lo-Jen	–	17 March 2017	–	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	–
	683,500	17 March 2017	–	2019 Vesting Date to 16 March 2023	HK$11.48	–	–	(341,750)	341,750
	683,500	17 March 2017	–	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
	683,500	17 March 2017	–	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
	683,500	17 March 2017	–	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	–	683,500
Employees	–	17 March 2017	–	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	–
	4,177,000	17 March 2017	–	2019 Vesting Date to 16 March 2023	HK$11.48	(351,000)	–	(2,249,000)	1,577,000
	4,177,000	17 March 2017	–	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	(256,500)	3,920,500
	4,177,000	17 March 2017	–	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	(256,500)	3,920,500
	4,177,000	17 March 2017	–	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	(256,500)	3,920,500
Other eligible participants	–	17 March 2017	–	2018 Vesting Date to 16 March 2023	HK$11.48	–	–	–	–
	305,000	17 March 2017	–	2019 Vesting Date to 16 March 2023	HK$11.48	(50,000)	–	(130,750)	124,250
	305,000	17 March 2017	–	2020 Vesting Date to 16 March 2023	HK$11.48	–	–	(50,000)	255,000
	305,000	17 March 2017	–	2021 Vesting Date to 16 March 2023	HK$11.48	–	–	(50,000)	255,000
	305,000	17 March 2017	–	2022 Vesting Date to 16 March 2023	HK$11.48	–	–	(50,000)	255,000

During the year under review, 401,000 shares were exercised and 3,641,000 shares were lapsed under the 2007 Scheme. For the year ended 31 December 2019, as the net profit ratio of the Group fell below the prescribed target as described in the 2007 Scheme, 50% of the Options granted which were expected to vest on 22 March 2019 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 2019, the Trustee maintained a pool of 1,778,000 shares (the "Entrusted Shares") (31 December 2018: 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. 238,434,150 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 ("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 2019.

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$364,880.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest customer and five largest customers accounted for approximately 24.7% and 63.2% of the Group's total revenue for the year ended 31 December 2019 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 2019.

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

During the year 2018, Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst & Young were appointed by the Directors to fill the vacancy so arising. There have been no other changes of auditors in the past three years. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Ernst & Young as auditor of the Company for the year ending 31 December 2020.

The financial statements of the Company for the year ended 31 December 2019 were audited by Ernst & Young.

On behalf of the Board

Chen Li-Ming, Lawrence
Chairman

19 March 2020

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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 (the “Group”) set out on pages 110 to 197, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2019, 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 judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on trade and other receivables	
As at 31 December 2019, trade and other receivables before provision for expected credit losses ("ECLs") of US$12.5 million, amounted to US$426.9 million, representing 37.7% of total assets. The measurement of ECLs required the application of significant judgement and increased complexity which include the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL models (for exposures assessed individually or collectively), such as the expected future cash flows and forward-looking macroeconomic factors. Due to the significance of trade and other receivables and the corresponding uncertainty inherent in such estimates, we considered this as a key audit matter. The significant accounting judgements and estimates and the disclosure of the ECL provision on trade and other receivables are included in notes 3, 20 and 21 to the consolidated financial statements.	Our audit procedures included the assessment of the effectiveness of key controls over the application of the impairment methodology, inputs and assumptions used by the Group in calculating the ECLs. We assessed the Group's ECL models, including the model input, model design and model performance. We reviewed the forward-looking adjustments, including the economic variables and assumptions used. We also assessed and tested the sensitivity of the credit loss provisions to changes in modelling assumptions. We also assessed the adequacy of the financial statement disclosures relating to the Group's exposure to credit risk.
Net realisable value of inventories	
As at 31 December 2019, inventories after provision of US$14.8 million, amount to US$173.1 million, representing 15.3% of total assets. The measurement required significant management judgement in assessing if their net realisable value was lower than the carrying amount of the inventories at the year end. There were also judgements required in determining inventory excess and obsolescence provisions as these were based on forecast inventory usage and sales. The significant accounting judgements and estimates and the disclosure of inventories are included in notes 3 and 19 to the consolidated financial statements.	We attended inventory counts to observe the physical condition of a sample of inventories selected at the year end. We assessed the obsolescence provision policy and compared the provision with historical data and actual and forecast inventory usage. We also assessed the net realisable value by comparing the unit prices of subsequent sales with the unit costs for significant items. We also assessed the adequacy of the financial statement disclosures relating to the Group's inventory provision.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS 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 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, 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 judgement 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 the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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 this independent auditor's report is Lam Wai Ming, Ada.

Ernst & Young
Certified Public Accountants
Hong Kong

19 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
Revenue	5	1,544,830	1,588,583
Cost of sales		(1,251,221)	(1,311,461)
Gross profit		293,609	277,122
Other income	6	25,022	19,284
Other losses, net	6	(2,658)	(754)
Selling and distribution expenses		(63,739)	(60,572)
Administrative expenses		(154,010)	(167,247)
Impairment losses on financial assets, net	8	(1,179)	(5,196)
Finance costs	7	(1,882)	(2,945)
Share of profit of a joint venture		6,977	10,920
Share of losses of associates		(2,099)	(4,305)
Profit before tax	8	100,041	66,307
Income tax expense	9	(4,123)	(4,081)
Profit for the year		95,918	62,226
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		1,719	612
Share of other comprehensive losses of a joint venture and associates		(156)	(530)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		1,563	82
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		97,481	62,308
Profit attributable to:			
Owners of the parent		95,925	65,455
Non-controlling interests		(7)	(3,229)
		95,918	62,226
Total comprehensive income attributable to:			
Owners of the parent		97,557	65,249
Non-controlling interests		(76)	(2,941)
		97,481	62,308
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
– Basic (US$)		0.121	0.083
– Diluted (US$)		0.121	0.083

	Notes	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	400,293	395,142
Investment properties	*15*	5,178	5,980
Right-of-use assets	*16(b)*	35,558	–
Prepaid land lease payments	*16(a)*	–	22,377
Investment in a joint venture	*17*	26,479	20,424
Investments in associates	*18*	1,843	7,679
Deposit for acquisition of property, plant and equipment	*21*	4,147	12,414
Total non-current assets		473,498	464,016
CURRENT ASSETS			
Inventories	*19*	173,088	170,522
Trade and bills receivables	*20*	306,329	345,318
Prepayments, deposits and other receivables	*21*	112,204	122,975
Prepaid land lease payments	*16(a)*	–	652
Financial assets at fair value through profit or loss	*22*	189	1,669
Cash and cash equivalents	*23*	68,061	61,328
Total current assets		659,871	702,464
CURRENT LIABILITIES			
Trade payables	*24*	59,675	58,697
Other payables and accruals	*25*	63,132	49,341
Interest-bearing bank borrowings	*26*	245	62,483
Lease liabilities	*16(c)*	1,851	–
Tax payable		41,829	46,252
Total current liabilities		166,732	216,773
NET CURRENT ASSETS		493,139	485,691
TOTAL ASSETS LESS CURRENT LIABILITIES		966,637	949,707

	Notes	2019 US$'000	2018 US$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*26*	2,750	2,916
Lease liabilities	*16(c)*	4,721	–
Total non-current liabilities		7,471	2,916
Net assets		959,166	946,791
EQUITY			
Equity attributable to owners of the parent			
Share capital	*27*	10,165	10,160
Share premium and reserves	*28*	949,504	943,191
		959,669	953,351
Non-controlling interests		(503)	(6,560)
Total equity		959,166	946,791

Chen Li-Ming, Lawrence
Director

Chi Lo-Jen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Notes	Attributable to owners of the parent											
		Share capital US$'000	Share premium US$'000	Merger reserve US$'000 *(Note 28(a))*	Capital reserve US$'000 *(Note 28(b))*	Exchange reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000 *(Note 28(c))*	Share option reserve US$'000	Retained profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2019		10,160	154,503*	45,427*	1,146*	(4,491)*	(2,722)*	190*	1,151*	747,987*	953,351	(6,560)	946,791
Profit/(loss) for the year		–	–	–	–	–	–	–	–	95,925	95,925	(7)	95,918
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	1,788	–	–	–	–	1,788	(69)	1,719
Share of other comprehensive losses of a joint venture and associates		–	–	–	–	(156)	–	–	–	–	(156)	–	(156)
Total comprehensive income for the year		–	–	–	–	1,632	–	–	–	95,925	97,557	(76)	97,481
Acquisition of non-controlling interests	*30*	–	–	(6,586)	–	–	–	–	–	–	(6,586)	6,133	(453)
Issue of shares		5	653	–	–	–	–	–	(70)	–	588	–	588
Equity-settled share option arrangements		–	–	–	–	–	–	–	855	–	855	–	855
Final 2018 dividend	*12*	–	–	–	–	–	–	–	–	(45,579)	(45,579)	–	(45,579)
Interim 2019 dividend	*12*	–	–	–	–	–	–	–	–	(40,517)	(40,517)	–	(40,517)
At 31 December 2019		10,165	155,156*	38,841*	1,146*	(2,859)*	(2,722)*	190*	1,936*	757,816*	959,669	(503)	959,166
At 1 January 2018		10,160	154,503	45,427	1,146	(4,285)	(2,722)	190	977	742,314	947,710	(3,619)	944,091
Profit/(loss) for the year		–	–	–	–	–	–	–	–	65,455	65,455	(3,229)	62,226
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	324	–	–	–	–	324	288	612
Share of other comprehensive losses of a joint venture and associates		–	–	–	–	(530)	–	–	–	–	(530)	–	(530)
Total comprehensive income for the year		–	–	–	–	(206)	–	–	–	65,455	65,249	(2,941)	62,308
Equity-settled share option arrangements		–	–	–	–	–	–	–	1,234	–	1,234	–	1,234
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	–	(1,060)	1,060	–	–	–
Final 2017 dividend	*12*	–	–	–	–	–	–	–	–	(30,361)	(30,361)	–	(30,361)
Interim 2018 dividend	*12*	–	–	–	–	–	–	–	–	(30,481)	(30,481)	–	(30,481)
At 31 December 2018		10,160	154,503*	45,427*	1,146*	(4,491)*	(2,722)*	190*	1,151*	747,987*	953,351	(6,560)	946,791

* These reserve accounts comprise the consolidated share premium and reserves of US$949,504,000 (2018: US$943,191,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		100,041	66,307
Adjustments for:			
Finance costs	7	1,882	2,945
Share of profit of a joint venture		(6,977)	(10,920)
Share of losses of associates		2,099	4,305
Interest income	6	(832)	(1,148)
Loss on disposal of items of property, plant and equipment	8	2,660	1,177
Fair value (gains)/losses, net:			
Derivative financial instruments	6	1,724	(16)
Financial assets at fair value through profit or loss	6	(13)	1,293
Depreciation of property, plant and equipment	8	41,113	40,261
Depreciation of investment properties	8	717	809
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	8	3,139	895
Impairment of property, plant and equipment	8	–	2,298
(Reversal of)/impairment of trade receivables	8	(1,461)	3,265
Impairment of other receivables	8	2,640	1,931
(Reversal of)/provision of write-down of inventories	8	(1,915)	1,551
Equity-settled share option expense	29	855	1,234
		145,672	116,187
Increase in inventories		(1,138)	(3,657)
Decrease/(increase) in trade and bills receivables		45,981	(13,015)
Decrease in prepayments, deposits and other receivables		22,704	15,075
Decrease in financial assets at fair value through profit or loss		1,493	8,774
Decrease in trade payables		(7,265)	(118)
Increase/(decrease) in other payables and accruals		26,133	(20,919)
(Decrease)/increase in derivative financial instruments		(1,724)	16
Cash generated from operations		231,856	102,343
Interest paid		(272)	–
Taxes paid		(8,101)	(7,776)
Net cash flows from operating activities		223,483	94,567
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	6	832	1,148
Dividends received from associates and joint venture		4,506	–
Purchases of items of property, plant and equipment		(65,066)	(51,894)
Acquisition of prepaid land lease payments		–	(2,273)
Acquisition of right-of-use assets		(6,931)	–
Acquisition of non-controlling interests	30	(453)	–
Deposit paid for acquisition of property, plant and equipment		(1,046)	(1,587)
Proceeds from disposal of property, plant and equipment		1,930	6,899
Net cash flows used in investing activities		(66,228)	(47,707)

	Notes	2019 US$'000	2018 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		562,751	2,696,113
Repayment of bank loans		(625,215)	(2,693,866)
Principal portion of lease payments		(1,829)	–
Dividends paid		(86,096)	(60,842)
Interest paid	7	(1,610)	(2,945)
Proceeds from issue of shares		588	–
Net cash flows used in financing activities		(151,411)	(61,540)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		5,844	(14,680)
Cash and cash equivalents at beginning of year		61,328	74,894
Effect of foreign exchange rate changes, net		889	1,114
CASH AND CASH EQUIVALENTS AT END OF YEAR		68,061	61,328
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	46,444	51,502
Time deposits with original maturity of less than three months when acquired	23	21,617	9,826
Cash and cash equivalents		68,061	61,328

1. CORPORATE AND GROUP INFORMATION

Stella International Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal place of business of the Company is located at Flat C, 20/F, MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacturing and sale of footwear
- trading of footwear
- investment holding

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Stella International Limited	Vanuatu	US$1	100	–	Investment holding, manufacturing and sale of footwear
Stella International Marketing Company Limited	Malaysia	US$10,000	100	–	Marketing activities
Stella Services Limited	Hong Kong	HK$300,000	100	–	Provision of secretary and accounting services
P.T. Young Tree Industries	Indonesia	RP106,842,000,000	–	100	Manufacturing of footwear
Stella Fashion Group Limited	The British Virgin Islands ("BVI")	US$4	–	100	Investment holding and wholesaling of footwear
Stella Footwear (Sampaguita) Company Limited	BVI	US$1	–	100	Manufacturing of footwear
Stella Footwear Inc.	BVI	US$3,947	–	100	Investment holding, manufacturing and sale of footwear
Stella International Trading (Macao Commercial Offshore) Limited	Macau	MOP200,000	–	100	Sale of footwear

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Stella Luna Sol Limited	Hong Kong	HK$1	–	100	Holding of intellectual property rights
Stella Romano Trading Limited	Taiwan	NTD1,000,000	–	100	Sale of footwear
郴州興昂鞋業有限公司 ("Chenzhou Selena Footwear Company Limited")*	The People's Republic of China (the "PRC")/ Mainland China	US$1,000,000	–	100	Manufacturing of footwear
洞口興雄鞋業有限公司 ("Dongkou Selena Upper Company Limited")*	The PRC/ Mainland China	US$10,000,000	–	100	Manufacturing of footwear
東莞興昂鞋業有限公司 ("Dongguan Stella Footwear Company Limited")*	The PRC/ Mainland China	HK$191,810,000	–	100	Manufacturing of footwear
廣西容縣興雄鞋面有限公司 ("Guangxi Rong Yuan Selena Upper Company Limited")*	The PRC/ Mainland China	US$3,000,000	–	100	Manufacturing of footwear
廣西興鵬鞋業有限公司 ("Guangxi Shenandoah Footwear Company Limited")*	The PRC/ Mainland China	US$10,000,000	–	100	Manufacturing of footwear
廣西興萊鞋業有限公司 ("Guangxi Simona Footwear Company Limited")*	The PRC/ Mainland China	US$10,000,000	–	100	Manufacturing of footwear
廣西育祥鞋業有限公司 ("Guangxi Yu Xiang Footwear Company Limited")*	The PRC/ Mainland China	US$8,000,000	–	100	Manufacturing of footwear
懷化興雄鞋業有限公司 ("Huaihua Selena Footwear Company Limited")*	The PRC/ Mainland China	RMB11,134,500	–	100	Manufacturing of footwear

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
龍川興萊鞋業有限公司 ("Long Chuan Simona Footwear Company Limited")*	The PRC/ Mainland China	HK$220,000,000	–	100	Manufacturing of footwear
隆回興昂鞋業有限公司 ("Longhui Stella Footwear Company Limited")*	The PRC/ Mainland China	US$25,000,000	–	100	Manufacturing of footwear
隆回興隆鞋材有限公司 ("Longhui Situla Footwear Company Limited")*	The PRC/ Mainland China	RMB10,000,000	–	100	Manufacturing of footwear
邵陽連泰鞋業有限公司 ("Shaoyang Liantai Footwear Company Limited")*	The PRC/ Mainland China	RMB163,800,000	–	100	Manufacturing of footwear
邵陽縣興昂鞋業有限公司 ("Shaoyang Yuan Stella Footwear Co., Ltd.")*	The PRC/ Mainland China	RMB30,000,000	–	100	Manufacturing of footwear
雙峰興昂鞋業有限公司 ("Shuangfeng Stella Footwear Company Limited")*	The PRC/ Mainland China	HK$135,280,000	–	100	Manufacturing of footwear
興記時尚(中國)有限公司 ("Stella Fashion (China) Limited")*	The PRC/ Mainland China	RMB100,000,000	–	100	Footwear retailing
威縣遠達制鞋有限公司 ("Wei County Yuanta Footwear Company Limited")*	The PRC/ Mainland China	US$10,000,000	–	100	Manufacturing of footwear
武宣興萊鞋業有限公司 ("Weixian Simona Footwear Company Limited")*#	The PRC/ Mainland China	US$1,000,000	–	100	Manufacturing of footwear
興業興萊鞋業有限公司 ("Xingye Simona Footwear Company Limited")*	The PRC/ Mainland China	US$4,400,000	–	100	Manufacturing of footwear

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
新化興昂鞋業有限公司 ("Xinhua Selena Footwear Company Limited")*	The PRC/ Mainland China	US$2,000,000	–	100	Manufacturing of footwear
新寧興雄鞋業有限公司 ("Xinning Selena Footwear Company Limited")*	The PRC/ Mainland China	US$2,000,000	–	100	Manufacturing of footwear
永州興昂鞋業有限公司 ("Yongzhou Selena Footwear Company Limited")*	The PRC/ Mainland China	RMB6,300,000	–	100	Manufacturing of footwear
Stellaluna (Thailand) Co., Ltd.	Thailand	Baht20,000,000	–	70.1	Footwear retailing
Stella Fashion Italia S.R.L.^	Italy	EUR10,000	–	100	Sale and distribution of footwear
Stella Fashion SAS^	France	EUR1,000,000	–	100	Footwear retailing
Stella Europe Trading Limited^	Hong Kong	EUR100,000	–	100	Sourcing and distribution of footwear
Stella International Design Service S.R.L.	Italy	EUR50,000	–	51	Footwear design

* Registered as a wholly-foreign-owned enterprise under PRC law.
# Deregistered during the year.
^ Ownership changed from 60% to 100% during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These consolidated financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for variance items of properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and separately disclosed in the consolidated statements of financial position. The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019.

For the other leases, the right-of-use assets amounting to US$23,029,000 in respect of the prepaid land lease payments were recognised based on the carrying amount as if the standard had always been applied.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Impact on transition *(continued)*

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease)
	US$'000
Assets	
Increase in right-of-use assets	30,150
Decrease in prepaid land lease payments	(23,029)
Decrease in prepayments, deposits and other receivables	(336)
Increase in total assets	6,785

	Increase/(decrease)
	US$'000
Liabilities	
Increase in lease liabilities	6,785
Increase in total liabilities	6,785

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	US$'000
Operating lease commitment as at 31 December 2018	9,767
Less: Commitments relating to short term leases and those leases with a remaining lease term ended on or before 31 December 2019	(272)
Commitments relating to leases of low-value assets	(127)
	9,368
Weighted average incremental borrowing rate as at 1 January 2019	4.1%
Discounted operating lease commitments as at 1 January 2019	6,785
Lease liabilities as at 1 January 2019	6,785

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and a joint venture is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint venture are eliminated to the extent of the Group's investments in the associates or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or a joint venture is included as part of the Group's investments in associates or a joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and a joint venture *(continued)*

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	Over the shorter of the lease terms of the relevant leasehold lands and 5%
Plant and machinery	10% to 20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use assets (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis at 5% per annum to write off the cost of investment properties over their estimated useful lives.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Lease (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	20 to 50 years
Buildings	1 to 26 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Lease (applicable from 1 January 2019) *(continued)*

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments).

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately disclosed in consolidated statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either as an operating lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and bills receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and bills receivables that do not contain a significant financing component are measured at the transaction price determined under HKFRS 15 *Revenue from Contracts with Customers* in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through arrangement"; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on probability of default, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate.

All financial liabilities are recognised initially at fair value, and in case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement of financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in “Impairment of financial assets”; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries and associates and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Other income

Interest income is recognised on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instruments or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognised on a time proportion basis over the lease terms.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

Pension schemes (continued)

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Payments to state-managed retirement benefit schemes in jurisdictions other than the PRC are charged as expenses when employees have rendered service entitling them to the contributions.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 12 to the consolidated financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These consolidated financial statements are presented in United States dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint venture and associates are currencies other than the United States dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss is translated into United States dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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 and liabilities within the next financial year, are described below.

Write-down of inventories to net realisable value

Management reviews the condition of inventories of the Group and writes down the carrying amounts of obsolete and slow-moving inventories items which are identified as no longer suitable for sale or use to their respective net realisable values. The Group estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Write-down of inventories to net realisable value (continued)

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been made. The carrying amount of inventories at 31 December 2019 was US$173,088,000 (2018: US$170,522,000).

Provision for expected credit losses on trade and other receivables

The measurement of expected credit losses under HKFRS 9 on trade and other receivables requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses, and the assessment of a significant increase in credit risk for other receivables. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. As at 31 December 2019, trade and other receivables before provision for ECLs of US$12.5 million, amounted to US$426.9 million.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The significant estimates involved in the determination of the inputs applied in the ECL models include: the Group's internal credit grading, which assigns probabilities of default to the individual grades; the segmentation of trade receivables based on risk characteristics of the customers and by geographical location when their ECL is assessed on a collective basis; development of ECL models, including the various formulas and the choice of inputs over determination of loss given default of the credit exposures; determination of associations between macroeconomic scenarios and, economic inputs, such as nonfarm payroll, purchasing manager index and volatility index, and the effect on probabilities of default, exposures at default and losses given default; and selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

– the men's footwear segment engages in the sale and manufacture of men's footwear

– the women's footwear segment engages in the sale and manufacture of women's footwear

– the footwear retailing and wholeselling segment engages in the sale of self-developed brands

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, rental income, income from sales of scrap, fair value gains/(losses) from the Group's financial instruments, research and development costs, depreciation of investment properties, non-lease-related finance costs, share of profit/(losses) of a joint venture and associates as well as unallocated corporate income, expenses, gains and losses are excluded from such measurement.

Segment assets exclude investment properties, investments in a joint venture and associates, financial assets at fair value through profit or loss, cash and cash equivalents and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2019

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Segment revenue (note 5)				
Sales to external customers	588,647	925,322	30,861	1,544,830
Intersegment sales	–	19,376	–	19,376
	588,647	944,698	30,861	1,564,206
Reconciliation:				
Elimination of intersegment sales				(19,376)
Revenue				1,544,830
Segment results	82,951	150,929	(9,544)	224,336
Reconciliation:				
Interest income				832
Corporate and other unallocated income and gains				20,385
Corporate and other unallocated expenses and losses				(143,902)
Finance costs (other than interest on lease liabilities)				(1,610)
Profit before tax				100,041
Segment assets	469,918	261,874	54,702	786,494
Reconciliation:				
Corporate and other unallocated assets				346,875
Total assets				1,133,369
Segment liabilities	106,907	11,778	8,107	126,792
Reconciliation:				
Corporate and other unallocated liabilities				47,411
Total liabilities				174,203
Other segment information				
Share of profit of a joint venture	6,977	–	–	6,977
Share of losses of associates	(747)	–	(1,352)	(2,099)
Impairment of trade receivables, net	(86)	(1,389)	14	(1,461)
Impairment of other receivables, net	2,025	609	6	2,640
Depreciation of property, plant and equipment	19,102	21,360	651	41,113
Depreciation of right-of-use assets	2,255	618	266	3,139
Write-down of inventories, net	(3,148)	(897)	2,130	(1,915)
Income tax expense	1,291	2,080	752	4,123
Investment in a joint venture	26,479	–	–	26,479
Investments in associates	1,247	–	596	1,843
Capital expenditure*	66,712	6,222	109	73,043

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets and deposits for acquisition of property, plant and equipment.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Segment revenue (note 5)				
Sales to external customers	604,142	925,078	59,363	1,588,583
Intersegment sales	106	27,329	–	27,435
	604,248	952,407	59,363	1,616,018
Reconciliation:				
Elimination of intersegment sales				(27,435)
Revenue				1,588,583
Segment results	69,912	144,582	(6,089)	208,405
Reconciliation:				
Interest income				1,148
Corporate and other unallocated income and gains				28,901
Corporate and other unallocated expenses and losses				(169,202)
Finance costs				(2,945)
Profit before tax				66,307
Segment assets	528,582	383,718	49,211	961,511
Reconciliation:				
Corporate and other unallocated assets				204,969
Total assets				1,166,480
Segment liabilities	72,349	32,204	5,634	110,187
Reconciliation:				
Corporate and other unallocated liabilities				109,502
Total liabilities				219,689
Other segment information				
Share of profit of a joint venture	10,920	–	–	10,920
Share of losses of associates	–	–	(4,305)	(4,305)
Impairment of trade receivables, net	910	1,891	464	3,265
Impairment of other receivables, net	–	1,931	–	1,931
Depreciation of property, plant and equipment	18,709	20,223	1,329	40,261
Amortisation of prepaid land lease payments	447	448	–	895
Write-down of inventories, net	(725)	(275)	2,551	1,551
Impairment of property, plant and equipment	–	–	2,298	2,298
Income tax expense	1,137	2,364	580	4,081
Investment in a joint venture	20,424	–	–	20,424
Investments in associates	5,692	–	1,987	7,679
Capital expenditure*	38,929	16,795	30	55,754

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

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2019 US$'000	2018 US$'000
United States of America ("USA")	748,525	766,000
The PRC	186,455	157,553
United Kingdom ("UK")	86,162	112,992
Netherlands	99,413	122,993
Canada	35,591	37,223
Belgium	62,754	59,976
Japan	40,794	39,032
Switzerland	53,928	48,513
Other countries	231,208	244,301
	1,544,830	1,588,583

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

(b) Non-current assets

	2019 US$'000	2018 US$'000
The PRC	236,625	285,009
Bangladesh	15,311	14,609
Vietnam	132,079	87,689
Indonesia	24,289	18,168
Other countries	65,194	58,541
	473,498	464,016

The non-current asset information above is based on the location of the assets.

4. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers

Revenue derived from sales of footwear to customers which accounted for 10% or more of the Group's revenue is set out below:

	2019 US$'000	2018 US$'000
Derived from sales by men's footwear and women's footwear segments:		
Customer A	381,420	348,054
Customer B	250,685	225,382

5. REVENUE

An analysis of revenue is as follows:

	2019 US$'000	2018 US$'000
Revenue from contracts with customers		
Sales of men's footwear	588,647	604,142
Sales of women's footwear	956,183	984,441
	1,544,830	1,588,583

5. REVENUE *(continued)*

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Type of goods				
Sales of men's footwear	588,647	–	–	588,647
Sales of women's footwear	–	925,322	30,861	956,183
Total revenue from contracts with customers	588,647	925,322	30,861	1,544,830
Geographical markets				
USA	312,625	435,693	207	748,525
UK	20,049	66,061	52	86,162
Netherlands	38,245	61,168	–	99,413
The PRC	65,510	100,549	20,396	186,455
Canada	12,296	23,295	–	35,591
Belgium	28,603	34,151	–	62,754
Japan	16,713	23,957	124	40,794
Switzerland	30	53,891	7	53,928
Other countries	94,576	126,557	10,075	231,208
Total revenue from contracts with customers	588,647	925,322	30,861	1,544,830
Timing of revenue recognition				
Goods transferred at a point in time	588,647	925,322	30,861	1,544,830
Total revenue from contracts with customers	588,647	925,322	30,861	1,544,830
Revenue from contracts with customers				
External customers	588,647	925,322	30,861	1,544,830
Intersegment sales	–	19,376	–	19,376
	588,647	944,698	30,861	1,564,206
Intersegment adjustments and eliminations	–	(19,376)	–	(19,376)
Total revenue from contracts with customers	588,647	925,322	30,861	1,544,830

5. REVENUE *(continued)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information *(continued)*

For the year ended 31 December 2018

Segments

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholeselling US$'000	Total US$'000
Type of goods				
Sales of men's footwear	604,142	–	–	604,142
Sales of women's footwear	–	925,078	59,363	984,441
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583
Geographical markets				
USA	308,379	445,810	11,811	766,000
UK	27,476	85,181	335	112,992
Netherlands	56,047	66,946	–	122,993
The PRC	56,093	76,305	25,155	157,553
Canada	13,727	23,496	–	37,223
Belgium	30,313	29,663	–	59,976
Japan	17,282	21,381	369	39,032
Switzerland	105	48,408	–	48,513
Other countries	94,720	127,888	21,693	244,301
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583
Timing of revenue recognition				
Goods transferred at a point in time	604,142	925,078	59,363	1,588,583
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583
Revenue from contracts with customers				
External customers	604,142	925,078	59,363	1,588,583
Intersegment sales	106	27,329	–	27,435
	604,248	952,407	59,363	1,616,018
Intersegment adjustments and eliminations	(106)	(27,329)	–	(27,435)
Total revenue from contracts with customers	604,142	925,078	59,363	1,588,583

5. REVENUE *(continued)*

Revenue from contracts with customers *(continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

6. OTHER INCOME AND OTHER LOSSES, NET

	2019 US$'000	2018 US$'000
Other income		
Bank interest income	350	259
Interest income from financial assets at fair value through profit or loss	482	860
Interest income from derivative financial instruments	–	29
Rental income	4,210	4,740
Sales of scrap	1,399	1,738
Government subsidies*	7,725	6,961
Others	10,856	4,697
	25,022	19,284
Other losses, net		
Loss on disposal of items of property, plant and equipment	(2,660)	(1,177)
Foreign exchange differences, net	1,713	1,700
Fair value (loss)/gains, net:		
Derivative financial instruments	(1,724)	16
Financial assets at fair value through profit or loss	13	(1,293)
	(2,658)	(754)

* Government subsidies have been received from the PRC local government authorities as reimbursement of operating expenses. There are no unfulfilled conditions or contingencies relating to these subsidies.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 US$'000	2018 US$'000
Interest on bank loans	1,610	2,945
Interest on lease liabilities	272	–
	1,882	2,945

8. PROFIT BEFORE TAX

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

	Notes	2019 US$'000	2018 US$'000
Cost of inventories sold		1,253,136	1,309,910
Depreciation of property, plant and equipment	*14*	41,113	40,261
Depreciation of investment properties	*15*	717	809
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	*16(a), 16(d)*	3,139	895
Research and development costs		56,254	53,571
Minimum lease payments under operating leases		–	5,784
Lease payments not included in the measurement of lease liabilities	*16(d)*	576	–
Contingent rents under operating leases		–	6,382
Auditors' remuneration		530	474
Employee benefits expenses (excluding directors' and chief executive's remuneration (note 10)):			
Wages and salaries		314,739	363,502
Equity-settled share option expense		855	1,085
Pension scheme contributions		754	759
Severance pay and other related costs		25,856	34,168
		342,204	399,514
Impairment of financial assets:			
Impairment of trade receivables, net	*20*	(1,461)	3,265
Impairment of other receivables, net	*21*	2,640	1,931
		1,179	5,196

8. PROFIT BEFORE TAX *(continued)*

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

	Note	2019 US$'000	2018 US$'000
Impairment of property, plant and equipment	*14*	–	2,298
Write-down of inventories, net		(1,915)	1,551
Loss on disposal of items of property, plant and equipment		2,660	1,177
Foreign exchange differences, net		(1,713)	(1,700)

9. INCOME TAX

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2018: 25%) during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Macau Complementary Tax has been provided at the rate of 12% (2018: 12%) on the estimated assessable profits arising in Macau during the year. Pursuant to 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 entitled to the exemption of Macau Complementary Tax.

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

	2019 US$'000	2018 US$'000
Current – PRC		
Charge for the year	15,144	14,887
Overprovision in prior years	(11,560)	(11,331)
Current – Hong Kong	–	60
Current – Elsewhere	539	465
	4,123	4,081

9. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Group is mainly domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rates, are as follows:

	2019 US$'000	2018 US$'000
Profit before tax	100,041	66,307
Tax at the statutory tax rate at 25%	25,010	16,577
Lower tax rates for subsidiaries operating in other jurisdictions	(1,327)	(1,959)
Adjustments in respect of current tax of previous periods	(11,560)	(11,331)
Profits and losses attributable to a joint venture and associates	(1,931)	(1,654)
Income not subject to tax	(11,752)	(20,548)
Expenses not deductible for tax	2,921	9,788
Tax losses not recognised	2,762	13,208
Tax charge at the Group's effective rate at 4.12% (2018: 6.2%)	4,123	4,081

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, the Group will retain all of the distributable profits of the subsidiaries in the PRC for its operation in Mainland China and no dividend will be declared in foreseeable future. Hence, no provision for withholding tax was made. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately US$35,214,000 at 31 December 2019 (2018: US$32,445,000).

The Group has tax losses arising in Hong Kong of US$2,483,000 (2018: US$2,255,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of US$19,194,000 (2018: US$17,961,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Chief executive's and directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 US$'000	2018 US$'000
Fees	497	454
Other emoluments:		
Salaries, allowances and benefits in kind	617	266
Performance related bonuses*	1,800	1,800
Equity-settled share option expense	104	149
Pension scheme contributions	1	2
	2,522	2,217
	3,019	2,671

* Certain executive directors of the Company are entitled to bonus payments which are 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 years ended 31 December 2019 and 31 December 2018.

A director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the consolidated financial statements. The fair value of such options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above director's remuneration disclosures.

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 US$'000	2018 US$'000
Mr. Chen Johnny	61	61
Mr. Bolliger Peter	54	54
Mr. Chan Fu Keung, William	67	67
Mr. Yue Chao-Tang, Thomas	68	68
Mr. Lian Jie	52	52
Ms. Shi Nan Sun	43	–
	345	302

There was no other emolument payable to the independent non-executive directors during the year (2018: Nil).

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors and the chief executive

	Notes	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Equity-settled share option expense US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
2019							
Executive directors:							
Mr. Chen Li-Ming, Lawrence	(c)	38	61	400	–	1	500
Chief executive:							
Mr. Chi Lo-Jen	(b)	38	410	500	104	–	1052
Non-Executive directors:							
Mr. Chiang Jeh-Chung, Jack	(a)	38	77	500	–	–	615
Mr. Chao Ming-Cheng, Eric	(a)	38	69	400	–	–	507
		152	617	1,800	104	1	2,674
2018							
Executive directors:							
Mr. Chiang Jeh-Chung, Jack	(a)	38	77	500	–	1	616
Mr. Chao Ming-Cheng, Eric	(a)	38	67	400	–	–	505
Mr. Chi Lo-Jen	(b)	38	61	500	149	–	748
		114	205	1,400	149	1	1,869
Chief executive:							
Mr. Chen Li-Ming, Lawrence	(c)	38	61	400	–	1	500
		152	266	1,800	149	2	2,369

Notes:

(a) Mr. Chiang Jeh-Chung, Jack, and Mr. Chao Ming-Cheng, Eric, were re-designated from executive directors to non-executive directors of the Company with effect from 21 March 2019.

(b) Mr. Chi Lo-Jen was appointed as chief executive officer with effect from 1 January 2019.

(c) Mr. Chen Li-Ming, Lawrence, resigned as chief executive officer with effect from 1 January 2019 but remained as an executive director 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.

During the year, no remuneration was paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office (2018: Nil). There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2018: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors and the chief executive (2018: three directors and the chief executive), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining one (2018: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2019 US$'000	2018 US$'000
Salaries, allowances and benefits in kind	263	130
Performance related bonuses	115	122
Pension scheme contributions	1	1
	379	253

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	1	–
	1	1

12. DIVIDENDS

	2019 US$'000	2018 US$'000
Interim – HK40 cents (2018: HK30 cents) per ordinary share	40,517	30,481
Final – HK45 cents per ordinary share for 2018 (2018: HK30 cents per ordinary share for 2017)	45,579	30,361
	86,096	60,842

A final dividend of HK45 cents per share amounting to approximately HK$357,651,225 (equivalent to US$46,071,000) in respect of the year ended 31 December 2019 (2018: HK45 cents per share amounting to approximately HK$357,470,775 (equivalent to US$45,579,000)) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 792,703,248 (2018: 792,601,500) in issue during the year.

The calculation of the diluted earnings per share amount for the year ended 31 December 2019 is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The computation of diluted earnings per share does not assume the exercise of the Company's share options for the year ended 31 December 2018 because the exercise price of those share options was higher than the average market price of the Company's share during that year.

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

	2019 US$'000	2018 US$'000
Profit attributable to ordinary equity holder of the parent, used in basic earnings per share	95,925	65,455

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	792,703,248	792,601,500
Effect of dilution – weighted average number of ordinary shares:		
Share options	1,150,290	–
	793,853,538	792,601,500

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$'000	Buildings US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
At 1 January 2018, net of accumulated depreciation	3,724	226,049	96,846	26,050	1,933	49,053	403,655
Additions	2,390	2,034	23,384	4,521	176	19,822	52,327
Depreciation provided during the year	–	(14,743)	(17,095)	(7,783)	(640)	–	(40,261)
Transfers	–	19,666	2,185	1,031	36	(22,918)	–
Disposals/write-off	–	(3,650)	(3,529)	(196)	(142)	(559)	(8,076)
Impairment	–	–	–	(2,298)	–	–	(2,298)
Exchange realignment	(127)	(8,008)	(567)	(862)	(47)	(594)	(10,205)
At 31 December 2018 and 1 January 2019, net of accumulated depreciation and impairment	5,987	221,348	101,224	20,463	1,316	44,804	395,142
Additions	589	4,814	28,661	3,263	159	27,580	65,066
Depreciation provided during the year	–	(15,334)	(18,049)	(7,223)	(507)	–	(41,113)
Transfers	–	(1,104)	19,017	10,959	1,417	(30,289)	–
Disposals/write-off	–	(7)	(4,207)	(297)	(71)	(19)	(4,601)
Exchange realignment	–	(820)	(737)	242	193	(13,079)	(14,201)
At 31 December 2019, net of accumulated depreciation and impairment	6,576	208,897	125,909	27,407	2,507	28,997	400,293

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

	Freehold land US$'000	Buildings US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
At 1 January 2018:							
Cost	3,724	309,978	259,461	90,728	10,752	49,053	723,696
Accumulated depreciation	–	(83,929)	(162,615)	(64,678)	(8,819)	–	(320,041)
Net carrying amount	3,724	226,049	96,846	26,050	1,933	49,053	403,655
At 31 December 2018 and 1 January 2019:							
Cost	5,987	315,593	270,715	93,565	9,963	44,804	740,627
Accumulated depreciation and impairment	–	(94,245)	(169,491)	(73,102)	(8,647)	–	(345,485)
Net carrying amount	5,987	221,348	101,224	20,463	1,316	44,804	395,142
At 31 December 2019:							
Cost	6,576	327,559	255,164	73,813	8,558	28,997	700,667
Accumulated depreciation and impairment	–	(118,662)	(129,255)	(46,406)	(6,051)	–	(300,374)
Net carrying amount	6,576	208,897	125,909	27,407	2,507	28,997	400,293

At 31 December 2019, certain of the Group's freehold land and buildings with a net carrying amount of approximately US$3,695,000 and US$1,923,000, respectively (2018: US$3,597,000 and US$1,983,000) were pledged to secure general banking facilities granted to the Group (note 26).

During the year ended 31 December 2019, there was no impairment loss recognised. During the year ended 31 December 2018, the Group recognised impairment loss of US$2,298,000 for the furniture and fixtures of certain retail stores located in France related to the footwear retailing and wholeselling segment, of which in opinion of directors, the recoverable amount was nil.

15. INVESTMENT PROPERTIES

	2019 US$'000	2018 US$'000
Carrying amount at 1 January	5,980	7,128
Exchange realignment	(85)	(339)
Depreciation	(717)	(809)
Carrying amount at 31 December	5,178	5,980

The Group's investment properties consist of 10 industrial properties in the PRC and are depreciated on a straight-line basis at 5% per annum. The Group's investment properties were valued on 31 December 2019 based on valuations performed by Roma Appraisals Limited, an independent professionally qualified valuer, at US$36,150,000 (2018: US$35,840,000). Each year, management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 16 to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the fair value disclosed above:

	Fair value measurement as at 31 December 2019 using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Industrial properties	–	–	36,150	36,150

15. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Industrial properties	–	–	35,840	35,840

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

The Group has determined that the highest and best use of the industrial properties at the measurement date is their current use.

The fair value was determined based on the discounted cash flow method. Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 24 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between three months and 26 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside of the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	US$'000
Carrying amount at 1 January 2018	22,357
Additions	2,273
Recognised in profit or loss during the year	(895)
Exchange realignment	(706)
Carrying amount at 31 December 2018	23,029
Analysed into:	
Current portion	652
Non-current portion	22,377
	23,029

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments US$'000	Properties US$'000	Total US$'000
As at 1 January 2019	23,029	7,121	30,150
Additions	6,931	1,616	8,547
Depreciation provided for the year	(1,070)	(2,069)	(3,139)
As at 31 December 2019	28,890	6,668	35,558

16. LEASES *(continued)*

The Group as a lessee *(continued)*

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 US$'000
Carrying amount at 1 January	6,785
New leases	1,616
Accretion of interest recognised during the year	272
Payments	(2,101)
Carrying amount at 31 December	6,572
Analysed into:	
Current portion	1,851
Non-current portion	4,721
Carrying amount at 31 December	6,572

The maturity analysis of lease liabilities was as follows:

	2019 US$'000
Analysed into:	
On demand or no later than 1 year	1,888
1 to 5 years	5,611
Over 5 years	617
	8,116

16. LEASES *(continued)*

The Group as a lessee *(continued)*

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 US$'000
Interest on lease liabilities	272
Depreciation charge of right-of-use assets	3,139
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	
– cost of sales	493
Expense relating to leases of low-value assets	
– administrative expenses	82
Total amount recognised in profit or loss	3,986

The Group as a lessor

The Group leases its investment properties (note 15) consisting of 10 industrial properties in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was US$4,210,000 (2018: US$4,740,000), details of which are included in note 6 to the consolidated financial statements.

At the end of the reporting period, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 US$'000	2018 US$'000
Within one year	4,027	4,079
After one year but within two years	4,157	2,663
After two years but within three years	2,985	2,660
After three years but within four years	3,136	1,984
After four years but within five years	3,166	771
After five years	13,193	16,227
	30,664	28,384

17. INVESTMENT IN A JOINT VENTURE

	2019 US$'000	2018 US$'000
Share of net assets	26,479	20,424

The Group's trade payable balance due to the joint venture is disclosed in note 24 to the consolidated financial statements.

Particulars of the Group's material joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Bay Footwear Limited ("Bay Footwear")	Registered capital of 219,924 shares	Bangladesh	49	50	49	Manufacturing of footwear

The Group's shareholding in the joint venture is held through wholly-owned subsidiaries of the Company.

Bay Footwear, which is considered a material joint venture of the Group, acts as the Group's manufacturer of quality footwear products in Bangladesh and is accounted for using the equity method.

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

The following table illustrates the summarised financial information in respect of Bay Footwear adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2019 US$'000	2018 US$'000
Current assets	113,411	57,767
Non-current assets	15,950	14,058
Current liabilities	(75,323)	(30,143)
Net assets	54,038	41,682
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	49%	49%
Carrying amount of the investment	26,479	20,424
Revenue	86,738	88,426
Depreciation and amortisation	(2,264)	(1,219)
Interest expenses	(418)	(265)
Profit for the year	14,238	22,285
Total comprehensive income for the year	14,238	22,285
Dividend received	922	–

18. INVESTMENTS IN ASSOCIATES

	2019 US$'000	2018 US$'000
Share of net assets	1,843	7,679

The Group's trade receivable balances with the associates are disclosed in note 20 to the consolidated financial statements.

18. INVESTMENTS IN ASSOCIATES *(continued)*

Particulars of associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Xinji Baodefu Leather Co., Ltd. ("Baodefu")	Ordinary shares	The PRC/ Mainland China	60	Manufacturing and sale of leather products and footwear
Couture Accessories Holding Limited ("Couture Accessories Holding")	Ordinary shares	BVI	40	Footwear wholeselling
Couture Accessories Limited	Ordinary shares	HK	40	Footwear wholeselling

The Group's shareholdings in the associates are held through wholly-owned subsidiaries of the Company.

Baodefu

Baodefu, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the manufacturing and sale of leather products and footwear products and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Baodefu adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 US$'000	2018 US$'000
Current assets	26,785	62,591
Non-current assets	11,664	5,299
Current liabilities	(36,372)	(58,404)
Net assets	2,077	9,486
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	60%	60%
Carrying amount of the investment	1,247	5,692
Revenue	54,437	86,350
(Loss)/profit for the year	(749)	8
Other comprehensive loss for the year	(113)	(8)
Dividend received	3,584	–

18. INVESTMENTS IN ASSOCIATES *(continued)*

Couture Accessories Holding

Couture Accessories Holding, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the retailing of footwear products and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Couture Accessories Holding adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 US$'000	2018 US$'000
Current assets	58,147	74,796
Non-current assets	4,055	2,496
Current liabilities	(38,992)	(52,549)
Non-current liabilities	(24,986)	(22,000)
Net (liabilities)/assets	(1,776)	2,743
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	40%	40%
Group's share of the asset of the associate	–	1,097
Unrealised profit	–	206
Carrying amount of the investment	–	1,303
Revenue	91,887	113,791
Loss for the year	(5,618)	(10,665)
Other comprehensive income/(loss) for the year	1,099	(1,310)

The following table illustrates the aggregate financial information of the Group's associate that is not individually material:

	2019 US$'000	2018 US$'000
Share of the associate's loss for the year	(45)	(44)
Share of the associate's total comprehensive loss	(43)	(45)
Carrying amount of the Group's investment in the associate	596	684

19. INVENTORIES

	2019 US$'000	2018 US$'000
Raw materials	38,391	43,908
Work in progress	55,791	58,076
Finished goods	78,906	68,538
	173,088	170,522

20. TRADE AND BILLS RECEIVABLES

	2019 US$'000	2018 US$'000
Trade receivables	313,071	352,003
Impairment	(6,742)	(8,203)
	306,329	343,800
Bills receivable	–	1,518
	306,329	345,318

The Group's trading terms with its customers are mainly on credit. The credit periods are range from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of customers, there is no significant concentration of credit risk. The Group does not hold any collateral over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's associates of US$67,251,000 (2018: US$63,535,000), with provision for expected credit losses amounted to US$4,449,000 (2018: Nil), which are repayable on credit terms similar to those offered to the major customers of the Group.

20. TRADE AND BILLS RECEIVABLES *(continued)*

An ageing analysis of the trade and bills receivables as at the end of each reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 US$'000	2018 US$'000
Within 1 month	181,608	192,332
1 to 2 months	82,846	90,612
2 to 3 months	27,932	39,312
Over 3 months	13,943	23,062
	306,329	345,318

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

	2019 US$'000	2018 US$'000
At beginning of the year	8,203	487
Effect of adoption of HKFRS 9	–	8,210
At beginning of the year (restated)	8,203	8,697
(Reversal of)/impairment losses, net (note 8)	(1,461)	3,265
Amounts written off as uncollectible	–	(3,759)
At end of year	6,742	8,203

An impairment analysis is performed at each reporting date by assigning an internal credit rating with reference to the historical record of the Group and comparing it with comparable companies with published credit ratings to determine the probability of default. Loss given default is estimated based on market information and is adjusted to reflect the effect of credit enhancement and other information of the specific debtors. The loss rate is then adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

20. TRADE AND BILLS RECEIVABLES *(continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables:

As at 31 December 2019

Class of credit rating	Notes	Expected credit loss rate* %	Gross carrying amount US$'000	Expected credit losses US$'000
Class 1	(i)	0.02-1.22	291,530	1,083
Class 2	(ii)	0.25-0.77	427	1
Class 3	(iii)	0.11-0.78	12,701	17
Class 4	(iv)	–	–	–
Class 5	(v)	11.03-100.00	8,413	5,641
Total			313,071	6,742

* The range of the expected credit loss rate is due to different geographical locations of the customers.

Notes:

(i) Class 1 customers maintain active business with the Group and have a good repayment history. Receivables were not yet past due.

(ii) Class 2 customers have no recent transactions with the Group but have a good repayment history. Receivables were not yet past due.

(iii) Class 3 customers have past due receivables but the Group expects that the receivables can be recovered.

(iv) Class 4 customers have past due receivables and the Group expects high risk of irrecoverability for the receivables.

(v) Class 5 customers have past due receivables and the Group has substantial evidence of irrecoverability for the receivables.

20. TRADE AND BILLS RECEIVABLES *(continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables: *(continued)*

As at 31 December 2018

Class of credit rating	*Notes*	Expected credit loss rate* %	Gross carrying amount US$'000	Expected credit losses US$'000
Class 1	*(i)*	0.02-1.67	328,100	959
Class 2	*(ii)*	0.4	150	1
Class 3	*(iii)*	0.16-0.75	14,854	28
Class 4	*(iv)*	–	–	–
Class 5	*(v)*	11.01-100	8,899	7,215
Total			352,003	8,203

* The range of the expected credit loss rate is due to different geographical locations of the customers.

Notes:

(i) Class 1 customers maintain active business with the Group and have a good repayment history. Receivables were not yet past due.

(ii) Class 2 customers have no recent transactions with the Group but have a good repayment history. Receivables were not yet past due.

(iii) Class 3 customers have past due receivables but the Group expects that the receivables can be recovered.

(iv) Class 4 customers have past due receivables and the Group expects high risk of irrecoverability for the receivables.

(v) Class 5 customers have past due receivables and the Group has substantial evidence of irrecoverability for the receivables.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 US$'000	2018 US$'000
Non-current		
Deposits for acquisition of property, plant and equipment	4,147	12,414
Current		
Prepayments	3,650	1,072
Deposits	497	645
Other receivables	113,824	140,500
	117,971	142,217
Loss allowance	(5,767)	(19,242)
	112,204	122,975

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

	2019 US$'000	2018 US$'000
At beginning of the year	19,242	1,650
Effect of adoption of HKFRS 9	–	15,661
At beginning of the year (restated)	19,242	17,311
Impairment losses, net (note 8)	2,640	1,931
Amount written off as uncollectible	(16,115)	–
At end of year	5,767	19,242

Deposits and other receivables mainly represent rental deposits and receivables from third parties. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default based on historical record of the Group and the loss given default based on geographical locations. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

As at 31 December 2019 and 2018, there was no other receivable due from Class 4 parties (as defined in note 20 to the financial statements).

As at 31 December 2019, allowance for impairment of other receivables was mainly provided for Class 5 parties (as defined in note 20 to the financial statements). Other receivables due from Class 5 parties before provision for ECL amounted to US$5,515,000 (2018: US$22,416,000) as at 31 December 2019. The ECL rates ranged from 34.76% to 100% (2018: 37.76% to 100%).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 US$'000	2018 US$'000
Listed debt investments, at fair value	189	1,669

The above debt investments at 31 December 2019 were classified as financial assets at fair value through profit or loss as they were held for trading.

23. CASH AND CASH EQUIVALENTS

	2019 US$'000	2018 US$'000
Cash and bank balances	46,444	51,502
Time deposits	21,617	9,826
Cash and cash equivalents	68,061	61,328

At the end of the reporting period, the Group's cash and bank balances denominated in Renminbi ("RMB") amounted to US$19,208,000 (2018: US$7,228,000). The RMB is not freely convertible into other currencies, however, under China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the reporting period, based on the invoice date, is as follows:

	2019 US$'000	2018 US$'000
Within 1 month	47,190	42,297
1 to 2 months	8,701	10,094
Over 2 months	3,784	6,306
	59,675	58,697

Included in the trade payables are trade payables of US$12,655,000 (2018: US$1,185,000) due to a joint venture which are repayable within 90 days, and have credit terms similar to those offered by the joint venture to its major customers.

Trade payables are non-interest-bearing and are normally settled on a credit term of 60 days.

25. OTHER PAYABLES AND ACCRUALS

	Notes	2019 US$'000	2018 US$'000
Refund liabilities		5,867	3,585
Other payables	*(a)*	2,122	7,272
Accruals		54,748	38,092
Financial guarantee contracts	*(b)*	395	392
		63,132	49,341

Notes:

(a) Other payables are non-interest-bearing and have an average credit term of three months.

(b) The financial guarantee contracts represent guarantees given to banks in connection with facilities granted to an associate. The associate's banking facilities granted by the banks were US$15,000,000 (2018: US$15,000,000), of which US$10,000,000 (2018: US$10,000,000) was utilised by the associate. The Group does not hold any collateral or other credit enhancements over the guarantees.

The Group does not provide financial guarantees except for limited circumstances. All guarantees are approved by the Group's Chief Financial Officer.

26. INTEREST-BEARING BANK BORROWINGS

	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	US$'000	Effective interest rate %	Maturity	US$'000
Current						
Bank loans – unsecured	–	–	–	3.75-4.90	On demand	62,245
Bank loans – secured	1.11	2020	245	1.12	2019	238
			245			62,483
Non-current						
Bank loans – secured	1.11	2021	2,750	1.12	2021	2,916
			2,995			65,399

The maturity of the above bank borrowings is as follows:

	2019 US$'000	2018 US$'000
Analysed into:		
Bank loans:		
Within one year or on demand	245	62,483
In the second year	2,750	238
In the third to fifth years, inclusive	–	2,678
	2,995	65,399

Notes:

(a) Except for the secured bank loan which has an effective interest rate of 1.11% and denominated in New Taiwan dollars, all borrowings are denominated in US$.

(b) The Group's bank borrowings are secured by mortgages over the Group's freehold land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately US$3,695,000 and US$1,923,000 (2018: US$3,597,000 and US$1,983,000), respectively.

27. SHARE CAPITAL

	2019 US$'000	2018 US$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.1 each	63,975	63,975
Issued and fully paid:		
794,780,500 ordinary shares of HK$0.1 each (2018: 794,379,500 ordinary shares of HK$0.1 each)	10,165	10,160

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital US$'000
At 1 January 2018, 31 December 2018, and 1 January 2019	794,379,500	10,160
Share options exercised (Note)	401,000	5
At 31 December 2019	794,780,500	10,165

Note:

The subscription rights attaching to 401,000 share options were exercised at the subscription price of HK$11.48 per share (note 29), resulting in the issue of 401,000 shares for a total cash consideration, before expenses of US$588,000. An amount of US$5,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

28. SHARE PREMIUM AND RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity on page 113 of the financial statements.

(a) 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.

(b) The capital reserve represents the contribution by certain shareholders related to equity-settled share-based payments to employees of the Group during the year ended 31 December 2017.

(c) The capital redemption reserve represents the nominal value of repurchased shares which were cancelled during the year ended 31 December 2008.

29. SHARE OPTION SCHEME

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 are vested. As at 31 December 2019, the Trustee maintained a pool of 1,778,000 (31 December 2018: 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.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by all the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at the date of offer or with an aggregate value (based on the price of the Company's shares at the date of offer) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than six years from the date of offer of the share options or the expiry date of the Old Scheme, if earlier.

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 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.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

29. SHARE OPTION SCHEME *(continued)*

Long term incentive scheme (continued)

Details of the share options granted and outstanding under the Old Scheme during the year were as follows:

	Share options	Date of grant	Exercise price HK$	Vesting date	Exercise period	Outstanding as at 1.1.2018	Forfeited/ lapsed during year	Outstanding as at 31.12.2018	Exercised during the year	Forfeited/ lapsed during the year	Outstanding as at 31.12.2019
Director											
Mr. Chi Lo-Jen	2017-A	17.3.2017	11.48	16.3.2018	16.3.2018 to 16.3.2023	683,500	(683,500)	–	–	–	–
	2017-B	17.3.2017	11.48	22.3.2019	22.3.2019 to 16.3.2023	683,500	–	683,500	–	(341,750)	341,750
	2017-C	17.3.2017	11.48	20.3.2020	20.3.2020 to 16.3.2023	683,500	–	683,500	–	–	683,500
	2017-D	17.3.2017	11.48	2021 vesting date	2021 vesting date to 16.3.2023	683,500	–	683,500	–	–	683,500
	2017-E	17.3.2017	11.48	2022 vesting date	2022 vesting date to 16.3.2023	683,500	–	683,500	–	–	683,500
						3,417,500	(683,500)	2,734,000	–	(341,750)	2,392,250
Employees and other eligible participants:											
In aggregate	2017-A	17.3.2017	11.48	16.3.2018	16.3.2018 to 16.3.2023	4,897,000	(4,897,000)	–	–	–	–
	2017-B	17.3.2017	11.48	22.3.2019	22.3.2019 to 16.3.2023	4,897,000	(415,000)	4,482,000	(401,000)	(2,379,750)	1,701,250
	2017-C	17.3.2017	11.48	20.3.2020	20.3.2020 to 16.3.2023	4,897,000	(415,000)	4,482,000	–	(306,500)	4,175,500
	2017-D	17.3.2017	11.48	2021 vesting date	2021 vesting date to 16.3.2023	4,897,000	(415,000)	4,482,000	–	(306,500)	4,175,500
	2017-E	17.3.2017	11.48	2022 vesting date	2022 vesting date to 16.3.2023	4,897,000	(415,000)	4,482,000	–	(306,500)	4,175,500
						24,485,000	(6,557,000)	17,928,000	(401,000)	(3,299,250)	14,227,750
Total						27,902,500	(7,240,500)	20,662,000	(401,000)	(3,641,000)	16,620,000
Exercisable at the end of the year								20,662,000			16,620,000
Weighted average exercise price (HK$ per share)*						11.48	11.48	11.48	11.48	11.48	11.48

* The exercise price of the share options is subject to adjustment in the case of changes in the Company's share capital.

The weighted average share price at the date of exercise for share options exercised during the year was HK$11.48 (2018: HK$11.48) per share.

29. SHARE OPTION SCHEME *(continued)*

Long term incentive scheme (continued)

No share options were granted during the year ended 31 December 2019. The Group recognised a share option expense of US$855,000 (2018: US$1,234,000) during the year ended 31 December 2019.

At the end of the reporting period, the Company had 16,620,000 share options outstanding under the Old Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 16,620,000 additional ordinary shares of the Company and additional share capital of US$213,000 and share premium of US$24,248,000 (before issue expenses).

Subsequent to the year ended 31 December 2019, a total of 270,250 share options were lapsed.

At the date of approval of these financial statements, the Company had 16,349,750 share options outstanding under the Old Scheme, which represented approximately 2.1% of the Company's shares in issue as at that date.

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 2019, no shares were granted under the Share Award Plan.

Share option scheme

On 19 May 2017, the Company adopted a new share option scheme (the "New Share Option Scheme") pursuant to which shares of the Company 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. The New 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 2019, no share option of the Company were granted, exercised or cancelled by the Company under the New Share Option Scheme.

30. ACQUISITION OF INTEREST IN SUBSIDIARIES WITHOUT CHANGE IN CONTROL

During the year, the Group acquired the remaining 40% equity interests in Stella Fashion SAS and its subsidiary, and remaining 40% equity interests in Stella Europe Trading at cash considerations of EUR400,000 (equivalent to US$453,000) and EUR1 (equivalent to US$1) respectively. The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

	US$'000
Carrying amount of non-controlling interests acquired	(6,133)
Consideration paid for non-controlling interests	(453)
Loss on acquisition recognised directly in equity	(6,586)

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of US$1,616,000 and US$1,616,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

(b) Changes in liabilities arising from financing activities:

2019

	Lease liabilities US$'000	Bank loans US$'000
At 1 January 2019	6,785	65,399
Changes from financing cash flows:		
Principal portion of lease payments	(1,829)	–
New bank loans	–	562,751
Repayment of bank loans	–	(625,215)
Interest paid included in financing activities	–	(1,610)
New leases	1,616	–
Foreign exchange movement	–	60
Interest expense	272	1,610
Interest expense classified as operating cashflows	(272)	–
At 31 December 2019	6,572	2,995

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(b) Changes in liabilities arising from financing activities: *(continued)*

2018

	Bank loans US$'000
At 1 January 2018	63,271
Changes from financing cash flows:	
New bank loans	2,696,113
Repayment of bank loans	(2,693,866)
Interest paid included in financing activities	(2,945)
Foreign exchange movement	(119)
Interest expense	2,945
At 31 December 2018	65,399

(c) Total cash outflow for leases

The total cash overflow for leases included in statement of cash flow is as follow:

	2019 US$'000
Within operating activities	848
Within financing activities	1,829
	2,677

32. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank borrowings are included in note 26 to the financial statements.

33. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 US$'000	2018 US$'000
Contracted, but not provided for:		
Plant and equipment	2,270	8,423

33. COMMITMENTS *(continued)*

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its factories, offices, shops and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 20 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 US$'000
Within one year	4,038
In the second to fifth years, inclusive	5,529
Over five years	200
	9,767

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2019 US$'000	2018 US$'000
Associates:			
Sales of products	*(i)*	20,169	24,455
Purchases of products	*(ii)*	47,176	66,990
Joint venture:			
Purchases of products	*(ii)*	85,992	86,627
Max Branding Group:			
Sales of footwear products	*(iii)*	1,477	–

34. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

(i) The sales to the associates were made according to the published prices and conditions offered to the major customers of the Group, except that a longer credit period of up to six months is normally granted. The sales to the CAH Group also constitute continuing connected transactions, as defined in Chapter 14A of the Listing Rules amounting to US$20,169,000 (2018: US$24,455,000).

(ii) The purchases from the associates and the joint venture were made according to the published prices and conditions offered by the associates and the joint venture to their major customers.

(iii) The sales constitute continuing connected transactions, as defined in Chapter 14A of the Listing Rules.

(b) Other transactions with related parties

The Group has guaranteed banking facilities granted to an associate amounting to US$15,000,000 (2018: US$15,000,000) as at the end of the reporting period, which US$10,000,000 (2018: US$10,000,000) was utilised by the associate, as further detailed in note 25(b) to the financial statements.

(c) Outstanding balances with related parties:

Details of the Group's trade balances with its joint ventures and associates as at the end of the reporting period are disclosed in notes 20 and 24 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2019 US$'000	2018 US$'000
Short term employee benefits	3,293	2,774
Post-employment benefits	2	3
Equity-settled share option expense	104	149
Total compensation paid to key management personnel	3,399	2,926

Further details of directors' and the chief executive's emoluments are included in note 10 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at fair value through profit or loss US$'000	Financial assets at amortised cost US$'000	Total US$'000
Trade and bills receivables	–	306,329	306,329
Financial assets included in prepayments, deposits and other receivables	–	108,057	108,057
Financial assets at fair value through profit or loss	189	–	189
Cash and cash equivalents	–	68,061	68,061
	189	482,447	482,636

Financial liabilities

	Financial liabilities at amortised cost US$'000
Trade payables	59,675
Financial liabilities included in other payables and accruals	2,121
Lease liabilities	6,572
Interest-bearing bank borrowings	2,995
	71,363

35. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2018

Financial assets

	Financial assets at fair value through profit or loss US$'000	Financial assets at amortised cost US$'000	Total US$'000
Trade and bills receivables	–	345,318	345,318
Financial assets included in prepayments, deposits and other receivables	–	121,903	121,903
Financial assets at fair value through profit or loss	1,669	–	1,669
Cash and cash equivalents	–	61,328	61,328
	1,669	528,549	530,218

Financial liabilities

	Financial liabilities at amortised cost US$'000
Trade payables	58,697
Financial liabilities included in other payables and accruals	7,232
Interest-bearing bank borrowings	65,399
	131,328

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Financial assets				
Financial assets at fair value through profit or loss	189	1,669	189	1,669
Financial liabilities				
Interest-bearing bank borrowings (note 26)	2,995	65,399	2,895	65,381

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals and financial guarantee contract given to banks in connection with facilities granted to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the executive directors and the Audit Committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2019 were assessed to be insignificant.

The fair values of listed debt investments are based on quoted market prices.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
As at 31 December 2019				
Financial assets at fair value through profit or loss	189	–	–	189
As at 31 December 2018				
Financial assets at fair value through profit or loss	1,669	–	–	1,669

Liabilities for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
As at 31 December 2019				
Interest-bearing bank borrowings	–	2,895	–	2,895
As at 31 December 2018				
Interest-bearing bank borrowings	–	65,381	–	65,381

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instrument comprises cash and cash equivalents. The main purpose of this financial instrument is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, trade payables and other payables which arise directly from its operations.

The main risks arising from the Group's financial instrument are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The interest rates and terms of repayment of interest-bearing bank borrowings are disclosed in note 26 to the financial statements. Other financial assets and liabilities of the Group do not have material interest rate risk. Interest-bearing bank borrowings, cash and bank balances, and short-term deposits are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expenses are credited or charged to profit or loss as incurred.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings and cash and cash equivalents).

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax	
		2019 US$'000	2018 US$'000
RMB	25	48	5
HKD	25	3	(133)
EUR	25	10	5
IDR	25	1	2
VND	25	3	3
TWD	25	(6)	–
RMB	(5)	(10)	(1)
HKD	(5)	(1)	27
EUR	(5)	(2)	(1)
IDR	(5)	–	–
VND	(5)	(1)	(1)
TWD	(5)	1	–

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 96% (2018: 97%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, while approximately 73% (2018: 86%) of cost were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit before tax.

	Change in foreign currency rate %	Increase/ (decrease) in profit before tax US$'000
2019		
If US$ weakens against RMB	5	2,388
If US$ strengthens against RMB	(5)	(2,388)
If US$ weakens against EUR	5	315
If US$ strengthens against EUR	(5)	(315)
If US$ weakens against MOP	5	200
If US$ strengthens against MOP	(5)	(200)
If US$ weakens against IDR	5	18
If US$ strengthens against IDR	(5)	(18)
If US$ weakens against VND	5	68
If US$ strengthens against VND	(5)	(68)
2018		
If US$ weakens against RMB	5	3,714
If US$ strengthens against RMB	(5)	(3,714)
If US$ weakens against EUR	5	795
If US$ strengthens against EUR	(5)	(795)
If US$ weakens against MOP	5	3
If US$ strengthens against MOP	(5)	(3)
If US$ weakens against IDR	5	41
If US$ strengthens against IDR	(5)	(41)
If US$ weakens against VND	5	68
If US$ strengthens against VND	(5)	(68)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Finance Department.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	US$'000	US$'000	US$'000	US$'000	US$'000
Trade receivables*	–	–	–	313,071	313,071
Financial assets included in prepayments, deposits and other receivables	99,766	8,542	5,516	–	113,824
Cash and cash equivalents					
– Not yet past due	68,061	–	–	–	68,061
Guarantees given to a bank in connection with facilities granted to an associate					
– Facilities not yet drawn by an associate	5,000	–	–	–	5,000
– Facilities drawn by an associate					
– Not yet past due	10,000	–	–	–	10,000
	182,827	8,542	5,516	313,071	509,956

* For trade receivables which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	US$'000	US$'000	US$'000	US$'000	US$'000
Trade receivables*	–	–	–	352,003	352,003
Bills receivable					
– Not yet past due	1,518	–	–	–	1,518
Financial assets included in prepayments, deposits and other receivables	116,935	1,794	22,416	–	141,145
Cash and cash equivalents					
– Not yet past due	61,328	–	–	–	61,328
Guarantees given to a bank in connection with facilities granted to an associate					
– Facilities not yet drawn by an associate	5,000	–	–	–	5,000
– Facilities drawn by an associate					
– Not yet past due	10,000	–	–	–	10,000
	194,781	1,794	22,416	352,003	570,994

* For trade receivables which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2019			
	On demand or no later than 1 year US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Trade payables	59,675	–	–	59,675
Other payables	2,121	–	–	2,121
Interest-bearing bank borrowings	277	2,765	–	3,042
Lease liabilities	1,888	5,611	617	8,116
Guarantees given to banks in connection with facilities granted to an associate	10,000	–	–	10,000
	73,961	8,376	617	82,954

	2018			
	On demand or no later than 1 year US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Trade payables	58,697	–	–	58,697
Other payables	7,232	–	–	7,232
Interest-bearing bank borrowings	62,517	2,962	–	65,479
Guarantees given to banks in connection with facilities granted to an associate	10,000	–	–	10,000
	138,446	2,962	–	141,408

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is debt divided by equity. Debt includes interest-bearing bank borrowings. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2019 US$'000	2018 US$'000
Debt	2,995	65,399
Equity	959,669	953,351
Gearing ratio	0.3%	6.9%

38. EVENT AFTER THE REPORTING PERIOD

The outbreak of coronavirus disease 2019 ("COVID-19") has spread to various countries and regions, including China, Hong Kong, Vietnam, USA and UK in early 2020. It has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the COVID-19 on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of this report. However, the actual impacts may differ from these estimates as the situation continues to evolve, and further information becomes available.

39. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	680,540	680,540
Total non-current assets	680,540	680,540
CURRENT ASSETS		
Amounts due from subsidiaries	462,540	364,101
Deposits and other receivables	15	18
Cash and cash equivalents	229	197
Total current assets	462,784	364,316
CURRENT LIABILITIES		
Other payables	759	572
Amounts due to subsidiaries	222,513	135,056
Total current liabilities	223,272	135,628
NET CURRENT ASSETS	239,512	228,688
NET ASSETS	920,052	909,228
EQUITY		
Share capital	10,165	10,160
Reserves (Note)	909,887	899,068
Total equity	920,052	909,228

Chen Li-Ming, Lawrence
Director

Chi Lo-Jen
Director

39. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium US$'000	Capital reserve US$'000	Share held for share award scheme US$'000	Capital redemption reserve US$'000	Share award reserve US$'000	Contribution surplus US$'000	Retained profits US$'000	Total US$'000
As at 1 January 2018	154,503	1,146	(2,722)	190	977	530,465	178,352	862,911
Total comprehensive income for the year	–	–	–	–	–	–	95,765	95,765
Equity-settled share option arrangements	–	–	–	–	1,234	–	–	1,234
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(1,060)	–	1,060	–
Final 2017 dividend	–	–	–	–	–	–	(30,361)	(30,361)
Interim 2018 dividend	–	–	–	–	–	–	(30,481)	(30,481)
As at 31 December 2018 and 1 January 2019	154,503	1,146	(2,722)	190	1,151	530,465	214,335	899,068
Total comprehensive income for the year	–	–	–	–	–	–	95,477	95,477
Issue of shares	653	–	–	–	(70)	–	–	583
Equity-settled share option arrangements	–	–	–	–	855	–	–	855
Final 2018 dividend	–	–	–	–	–	–	(45,579)	(45,579)
Interim 2019 dividend	–	–	–	–	–	–	(40,517)	(40,517)
As at 31 December 2019	155,156	1,146	(2,722)	190	1,936	530,465	223,716	909,887

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2020.

	For the year ended 31 December				
	2015	2016	2017	2018	2019
	US$'000	US$'000	US$'000	US$'000	US$'000
RESULTS					
Revenue	1,769,852	1,550,864	1,577,270	1,588,583	1,544,830
Profit for the year	120,151	81,214	59,690	62,226	95,918
Attributable to:					
Equity owners of the Company	121,047	81,577	61,955	65,455	95,925
Non-controlling interests	(896)	(363)	(2,265)	(3,229)	(7)
	120,151	81,214	59,690	62,226	95,918

	As at 31 December				
	2015	2016	2017	2018	2019
	US$'000	US$'000	US$'000	US$'000	US$'000
ASSETS AND LIABILITIES					
Total assets	1,243,226	1,172,516	1,228,420	1,166,480	1,133,369
Total liabilities	(258,934)	(194,659)	(260,458)	(219,689)	(174,203)
Shareholders' funds	984,292	977,857	967,962	946,791	959,166

CORPORATE INFORMATION AND FINANCIAL CALENDAR 2019/2020

BOARD OF DIRECTORS

Executive Directors
CHEN Li-Ming, Lawrence, *Chairman*
CHI Lo-Jen, *Chief Executive Officer*

Non-executive Directors
CHIANG Jeh-Chung, *Jack*
CHAO Ming-Cheng, *Eric*

Independent Non-Executive Directors
CHEN Johnny
BOLLIGER Peter
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas
LIAN Jie
SHI Nan Sun

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

CHI Lo-Jen, *Chairman*
CHEN Li-Ming, Lawrence

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

CHI Lo-Jen
KAN Siu Yim, Katie

CHIEF FINANCIAL OFFICER

LEE Kwok Ming, Don

COMPANY SECRETARY

KAN Siu Yim, Katie

LEGAL ADVISER

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1 Connaught Place, Hong Kong

AUDITORS

Ernst & Young
22/F, CITIC Tower,
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PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
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Grand Cayman KY1-1110
Cayman Islands

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STOCK CODE

1836

WEBSITE

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CORPORATE INFORMATION AND FINANCIAL CALENDAR 2019/2020

FINANCIAL CALENDAR 2019/2020

2019 Interim Results Announcement	22 August 2019
Payment of Interim Dividend	18 October 2019
2019 Annual Results Announcement	19 March 2020
Closure of Register of Members	11 May 2020 to 14 May 2020
Annual General Meeting	14 May 2020
Payment of Final Dividend	On or about 19 June 2020
2020 Interim Results Announcement	On or about 20 August 2020

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*