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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 JUNE 2022

Highlights:

- Revenue increased by 18.9% with support from 9.4% growth in shipment volume
- Average Selling Price (“ASP”) increased by 7.8% mainly due to higher raw material costs
- Net profit increased to US\$60.2 million, significantly improved from US\$32.2 million for the same period last year
- Continued to enhance customer portfolio, esp. in Sports, Luxury and Fashion categories
- Production capacity almost fully utilised during the period under review
- Operating profit margin increased to 8.3%, an improvement of 3.1 percentage points compared to that of same period last year
- Continued investment in Indonesia as part of our long-term margin expansion plan and capacity diversification strategies
- Declared interim dividend of HK42 cents, representing a payout ratio of about 70%

* For identification purpose only

The board (the “Board”) of directors (the “Directors”) of Stella International Holdings Limited (“Stella” or the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022 (the “period under review” or the “six months under review”), together with the comparative figures for the corresponding period in 2021 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended 30 June	
		2022 <i>US\$'000</i> (Unaudited)	2021 <i>US\$'000</i> (Unaudited)
REVENUE	4	827,193	695,465
Cost of sales		(663,279)	(556,421)
Gross profit		163,914	139,044
Other income		6,596	6,632
Other gains and losses, net		(4,864)	(8,872)
Selling and distribution expenses		(21,068)	(20,462)
Administrative expenses		(75,285)	(78,341)
Impairment losses on financial assets, net		(2,005)	(4,886)
Share of profit of a joint venture		1,284	3,234
Operating profit before changes in fair value of financial instruments		68,572	36,349
Net fair value (loss)/gain on financial instruments		(15)	7
Operating profit after changes in fair value of financial instruments		68,557	36,356
Interest income		345	518
Interest expense		(462)	(186)
PROFIT BEFORE TAX	5	68,440	36,688
Income tax expense	6	(8,213)	(4,477)
PROFIT FOR THE PERIOD		60,227	32,211

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2022

		Six months ended 30 June	
	Note	2022 US\$'000 (Unaudited)	2021 US\$'000 (Unaudited)
OTHER COMPREHENSIVE (LOSS)/INCOME			
<i>Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		<u>(9,275)</u>	<u>4,290</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		<u>(9,275)</u>	<u>4,290</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>50,952</u>	<u>36,501</u>
Profit/(loss) attributable to:			
Owners of the parent		60,547	31,132
Non-controlling interests		<u>(320)</u>	<u>1,079</u>
		<u>60,227</u>	<u>32,211</u>
Total comprehensive income/(loss) attributable to:			
Owners of the parent		51,285	35,641
Non-controlling interests		<u>(333)</u>	<u>860</u>
		<u>50,952</u>	<u>36,501</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	8		
– Basic (in US cents)		7.64	3.93
(equivalent to HK cents)		<u>59.77</u>	<u>30.47</u>
– Diluted (in US cents)		7.64	3.93
(equivalent to HK cents)		<u>59.77</u>	<u>30.44</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Notes</i>	30 June 2022 US\$'000 (Unaudited)	31 December 2021 US\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	395,502	410,258
Investment properties		3,810	4,455
Right-of-use assets		83,798	90,398
Investment in a joint venture		39,180	37,896
Investments in associates		608	608
Financial assets at fair value through profit or loss	11	10,000	10,000
Deposits for acquisition of property, plant and equipment		11,544	4,241
Pledged bank deposits		5,468	5,467
		<hr/>	<hr/>
Total non-current assets		549,910	563,323
CURRENT ASSETS			
Inventories		256,285	226,189
Trade receivables	10	338,584	328,544
Prepayments, deposits and other receivables		76,683	44,919
Financial assets at fair value through profit or loss	11	48	63
Cash and cash equivalents		76,371	135,170
		<hr/>	<hr/>
Total current assets		747,971	734,885
CURRENT LIABILITIES			
Trade payables		92,441	88,624
Other payables and accruals		121,557	124,955
Interest-bearing bank borrowings		247	265
Lease liabilities		4,317	4,809
Tax payable		44,463	38,909
		<hr/>	<hr/>
Total current liabilities		263,025	257,562
NET CURRENT ASSETS		<hr/> 484,946	<hr/> 477,323
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 1,034,856	<hr/> 1,040,646

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2022

	30 June 2022 US\$'000 (Unaudited)	31 December 2021 US\$'000 (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	7,161	7,449
Lease liabilities	<u>13,207</u>	<u>16,476</u>
 Total non-current liabilities	 <u>20,368</u>	 <u>23,925</u>
 Net assets	 <u><u>1,014,488</u></u>	 <u><u>1,016,721</u></u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	10,155	10,155
Share premium and reserves	<u>986,540</u>	<u>988,440</u>
 Non-controlling interests	 <u>996,695</u> <u>17,793</u>	 998,595 <u>18,126</u>
 Total equity	 <u><u>1,014,488</u></u>	 <u><u>1,016,721</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	<i>Note</i>	US\$'000	US\$'000
		(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		68,440	36,688
Depreciation of property, plant and equipment	5	23,580	24,411
Depreciation of investment properties	5	440	398
Depreciation of right-of-use assets	5	6,284	2,872
Other adjustments		9,961	(1,159)
		<hr/>	<hr/>
Operating profit before changes in working capital		108,705	63,210
Changes in working capital		(72,114)	(68,654)
Other operating cash flows		(3,058)	(3,864)
		<hr/>	<hr/>
Net cash flows generated from/(used in) operating activities		33,533	(9,308)
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		345	518
Purchases of items of property, plant and equipment		(24,854)	(21,622)
Deposit paid for acquisition of items of property, plant and equipment		(7,339)	(115)
Proceeds from disposal of property, plant and equipment		248	8
Increase in pledged bank deposits		–	(5,462)
		<hr/>	<hr/>
Net cash flows used in investing activities		(31,600)	(26,673)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		55,989	5,000
Repayment of bank loans		(56,113)	–
Dividends paid		(56,646)	–
Interest paid		(462)	(186)
Principal portion of lease payments		(3,969)	(2,263)
Shares repurchased		–	(1,300)
		<hr/>	<hr/>
Net cash flows (used in)/generated from financing activities		(61,201)	1,251
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(59,268)	(34,730)
Cash and cash equivalents at beginning of period	135,170	108,667
Effect of foreign exchange rate changes, net	469	2,694
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>76,371</u>	<u>76,631</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	81,839	82,093
Less: Pledged bank deposits with original maturity of more than three months when acquired	<u>(5,468)</u>	<u>(5,462)</u>
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	<u>76,371</u>	<u>76,631</u>

NOTES:

1. BASIS OF PREPARATION

The interim condensed consolidated financial information have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The interim condensed consolidated financial information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

These interim condensed consolidated financial information 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 unaudited interim condensed consolidated financial information are presented in United States dollars (“US\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and the basis of preparation adopted in the preparation of these interim condensed consolidated financial information are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and impact of the revised HKFRSs are described below: (Continued)

- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

3. OPERATING SEGMENT INFORMATION

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

- the manufacturing segment engages in the sale and manufacture of footwear and handbag
- the footwear retailing and wholesaling 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/(loss) before tax except that interest income, fair value losses from the Group's financial instruments, share of profits/(losses) of a joint venture and an associate as well as unallocated corporate income, expenses, gains and losses are excluded from such measurement.

Segment assets exclude financial assets at fair value through profit or loss, pledged deposits, and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings 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.

3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2022 (Unaudited)

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Segment revenue			
Sales to external customers	821,508	5,685	827,193
Intersegment sales	<u>3,764</u>	<u>–</u>	<u>3,764</u>
	<u>825,272</u>	<u>5,685</u>	<u>830,957</u>
Reconciliation:			
Elimination of intersegment sales			<u>(3,764)</u>
Revenue			<u>827,193</u>
Segment results	79,503	(5,826)	73,677
Reconciliation:			
Corporate and other unallocated income			42
Corporate and other unallocated expenses, gains and losses			(6,431)
Share of result of a joint venture			<u>1,284</u>
Operating profit before changes in fair value of financial instruments			68,572
Net fair value loss on financial instruments			<u>(15)</u>
Operating profit after changes in fair value of financial instruments			68,557
Interest income			345
Interest expense			<u>(462)</u>
Profit before tax			<u>68,440</u>

3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2021 (Unaudited)

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Segment revenue			
Sales to external customers	688,037	7,428	695,465
Intersegment sales	<u>4,455</u>	<u>–</u>	<u>4,455</u>
	<u><u>692,492</u></u>	<u><u>7,428</u></u>	<u><u>699,920</u></u>
Reconciliation:			
Elimination of intersegment sales			<u>(4,455)</u>
Revenue			<u><u>695,465</u></u>
Segment results			
	40,892	(3,820)	37,072
Reconciliation:			
Corporate and other unallocated income			6
Corporate and other unallocated expenses, gains and losses			(3,963)
Share of result of a joint venture			<u>3,234</u>
Operating profit before changes in fair value of financial instruments			36,349
Net fair value gain on financial instruments			<u>7</u>
Operating profit after changes in fair value of financial instruments			36,356
Interest income			518
Interest expense			<u>(186)</u>
Profit before tax			<u><u>36,688</u></u>

3. OPERATING SEGMENT INFORMATION (Continued)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2022 and 31 December 2021, respectively.

	30 June 2022 US\$'000 (Unaudited)	31 December 2021 US\$'000 (Audited)
Segment assets		
Manufacturing	1,212,412	1,213,401
Retailing and wholesaling	<u>33,281</u>	<u>32,031</u>
	1,245,693	1,245,432
Others	<u>52,188</u>	<u>52,776</u>
	<u>1,297,881</u>	<u>1,298,208</u>
Segment liabilities		
Manufacturing	278,005	276,111
Retailing and wholesaling	<u>1,339</u>	<u>820</u>
	279,344	276,931
Others	<u>4,049</u>	<u>4,556</u>
	<u>283,393</u>	<u>281,487</u>

4. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June 2022 US\$'000 (Unaudited)	2021 US\$'000 (Unaudited)
Revenue from contracts with customers	<u>827,193</u>	<u>695,465</u>

4. REVENUE (Continued)

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2022 (Unaudited)

Segments

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Types of goods			
Sales of footwear and handbag	<u>821,508</u>	<u>5,685</u>	<u>827,193</u>
Geographical markets			
Asia	68,071	–	68,071
Europe	196,416	1,243	197,659
North America	429,073	–	429,073
The People's Republic of China (the "PRC")	105,874	4,442	110,316
Other countries	<u>22,074</u>	<u>–</u>	<u>22,074</u>
Total revenue from contracts with customers	<u>821,508</u>	<u>5,685</u>	<u>827,193</u>
Timing of revenue recognition			
Goods transferred at a point in time	<u>821,508</u>	<u>5,685</u>	<u>827,193</u>

4. REVENUE (Continued)

Disaggregated revenue information for revenue from contracts with customers (Continued)

For the six months ended 30 June 2021 (Unaudited)

Segments

	Manufacturing <i>US\$'000</i>	Retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Types of goods			
Sales of footwear and handbag	<u>688,037</u>	<u>7,428</u>	<u>695,465</u>
Geographical markets			
Asia	45,434	62	45,496
Europe	146,499	1,857	148,356
North America	344,435	–	344,435
The PRC	137,368	5,509	142,877
Other countries	<u>14,301</u>	<u>–</u>	<u>14,301</u>
Total revenue from contracts with customers	<u>688,037</u>	<u>7,428</u>	<u>695,465</u>
Timing of revenue recognition			
Goods transferred at a point in time	<u>688,037</u>	<u>7,428</u>	<u>695,465</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	662,696	556,053
Depreciation of property, plant and equipment	23,580	24,411
Depreciation of investment properties	440	398
Depreciation of right-of-use assets	6,284	2,872
Net fair value loss/(gain) on financial assets at fair value through profit or loss	15	(7)
Severance payments and other related costs	854	4,802
Government subsidies related to COVID-19*	(6)	(84)
Impairment losses of financial assets, net [#]	2,005	4,886
Write-down of inventories, net	583	368
Bank interest income	(168)	(214)
Interest income from financial assets at fair value through profit or loss	(177)	(304)
Write-off of property, plant and equipment	5,142	7,038
(Gain)/loss on disposal of items of property, plant and equipment	(73)	342
Loss on work stoppage	1,948	–
Foreign exchange differences, net	(2,154)	1,492
	<u> </u>	<u> </u>

* *Government subsidies represent subsidies granted to the Group by the local governmental authority for the business support of prevention and control of the coronavirus ("COVID-19") outbreak. There are no unfulfilled conditions or contingencies relating to these grants.*

Impairment losses of financial assets included impairments of trade receivables and other receivables.

6. INCOME TAX

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax (“CIT”) rate of 25% (six months ended 30 June 2021: 25%) during the six months ended 30 June 2022.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary are 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% (six months ended 30 June 2021: 12%) on the assessable profits arising in Macau during the period.

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

	Six months ended 30 June	
	2022 US\$'000 (Unaudited)	2021 US\$'000 (Unaudited)
Charge for the period:		
– PRC	5,386	2,579
– Macau	2,545	1,372
– Elsewhere	282	526
	<u>8,213</u>	<u>4,477</u>

7. DIVIDENDS

	Six months ended 30 June	
	2022 US\$'000 (Unaudited)	2021 US\$'000 (Unaudited)
Final declared and paid – HK56 cents (2021: Nil) per ordinary share	56,646	–
Interim – HK42 cents (2021: HK21 cents) per ordinary share	<u>42,507</u>	<u>21,371</u>
	<u>99,153</u>	<u>21,371</u>

On 18 August 2022, the board of directors (“the Board”) declared an interim dividend of HK42 cents per ordinary share, amounting to approximately US\$42,507,000.

8. 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 six months ended 30 June 2022 attributable to ordinary equity holders of the parent of US\$60,547,000 (six months ended 30 June 2021: US\$31,132,000), and the weighted average number of ordinary shares of 792,200,500 (six months ended 30 June 2021: 792,141,577) in issue during the period.

During the six months ended 30 June 2021, the calculation of the diluted earnings per share was based on the profit for the period 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 in issue during that period, as 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 Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 because the exercise price of the share options granted to directors, employees and other eligible participants was higher than the average market price of the Company's shares during the period.

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

	Six months ended 30 June	
	2022	2021
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent, used in basic and diluted earnings per share calculation	<u>60,547</u>	<u>31,132</u>
	Six months ended 30 June	
	Number of shares	
	2022	2021
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	792,200,500	792,141,577
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>–</u>	<u>684,975</u>
	<u>792,200,500</u>	<u>792,826,552</u>

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired items of property, plant and equipment of US\$24,854,000 (six months ended 30 June 2021: US\$21,622,000). In addition, the Group has disposed of and written off certain items of property, plant and equipment with an aggregate carrying amount of US\$5,317,000 (six months ended 30 June 2021: US\$7,388,000) for cash proceeds of US\$248,000 (six months ended 30 June 2021: cash proceeds of US\$8,000), resulting in an aggregate loss of US\$5,069,000 (six months ended 30 June 2021: US\$7,380,000).

10. TRADE RECEIVABLES

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

	30 June 2022 US\$'000 (Unaudited)	31 December 2021 US\$'000 (Audited)
Within 1 month	177,899	141,809
1 to 2 months	90,412	84,689
2 to 3 months	35,732	43,508
3 to 6 months	11,664	23,542
6 to 12 months	4,997	13,880
Over 1 year	17,880	21,116
	<u>338,584</u>	<u>328,544</u>

The Group's trading terms with its customers are mainly on credit. The standard payment terms are generally 30 days and selected customers up to 90 days.

Included in the Group's trade receivables are amounts due from the Group's associates of US\$24,476,000 (31 December 2021: US\$50,489,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	30 June 2022 US\$'000 (Unaudited)	31 December 2021 US\$'000 (Audited)
Unlisted preferred shares, at fair value	<i>(a)</i>	10,000	10,000
Listed debt investments, at fair value	<i>(b)</i>	48	63
		10,048	10,063
Non-current assets		10,000	10,000
Current assets		48	63
		10,048	10,063

Notes:

- (a) On 30 September 2021, the Group purchased 3,252,561 series B preferred shares with conversion right of an unlisted company which was incorporated in the Cayman Island with a principal activity of fashion development at a consideration of US\$10,000,000.

The investment was classified as financial assets at fair value through profit or loss and measured at fair value at initial recognition and at the end of each reporting period. Management considered the investment would not be convertible within the next 12 months and classified it as non-current assets. During the six months ended 30 June 2022, no fair value change was recognised in profit or loss.

- (b) The above debt investments were classified as financial assets at fair value through profit or loss as they were held for trading.

CHAIRMAN'S STATEMENT

2022 turns out to be more challenging than anticipated. Geopolitical events have exacerbated existing inflationary pressures that were already building up in the global supply chain.

We have weathered this storm well so far, as we continue to implement and benefit from our margin-accretive strategies. We operated at close-to-full utilisation during the period under review, as a result of our earlier decision to enhance our customer portfolio with our Sports and Luxury categories. Our Fashion category also recovered very strongly with volumes surpassing pre-pandemic levels.

Moreover, the geographic diversity of our manufacturing base ensured stable operations, despite the return of strict COVID restrictions in some parts of Asia.

In a nutshell, we are performing in line with our expectations, along with our strategies to better capitalise on business opportunities that match our unique capabilities.

The long-term path for our future sustainable growth and profitability remains clear. However, in the shorter term, conditions are hazier. While demand for our products remained robust in the first half of 2022, the visibility is not certain for the rest of the year. As inflation and higher interest rates start to impact consumer sentiment, demand for some of our products may be less promising in the subsequent months when compared to the earlier plan set at the beginning of the year.

But the long-term fundamentals of our business remain strong. Huge growth potential remains around the crossover point between sports and fashion footwear and at the high-end athleisure market. Our unique design and product development capabilities continue to help us win new customers.

At the same time, we are constantly improving our long-term cost base and operational efficiency. The development of our new manufacturing facility in Solo, Indonesia remains on track to deliver additional capacity next year in a very competitive manner. We are also committed to growing together with our largest partner in ways that underscore our unparalleled capabilities, unique strengths and commitment to “making the best shoes”.

Most of all, we remain fully committed to providing returns to our shareholders. In line with our long-standing 70% payout ratio, I am pleased to share that the Board has resolved to declare an interim dividend of HK42 cents per ordinary share.

As we continue to push forward with our growth strategies, I would like to take this opportunity to thank our customers, business partners, employees and shareholders for their sustained support during the interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Board”) of Stella International Holdings Limited (“Stella” or the “Company”) is pleased to present the interim results of the Group for the six months ended 30 June 2022.

Business review

In the first half of 2022, our revenue increased further, supported by a strong bounce back in our Fashion segment to above pre-pandemic levels, as well as continued growth in our Sports and Luxury segments. As a result of this high demand, capacity utilisation remained high, similar to the second half of 2021. More importantly, our operating profit during the period improved significantly year-on-year as a result of our improved operational performance. This outcome is in line with our ongoing margin-expansion strategy, which focuses on capitalising on business opportunities that match our unique capabilities to improve our product and customer mix.

Our long-term capacity expansion and diversification initiatives remained on track as we continue to ramp up our new factory in Solo, Indonesia.

The key financial performance indicators of the Company include revenue growth, gross profit and operating profit. An analysis of these indicators during the six months ended 30 June 2022 are as below:

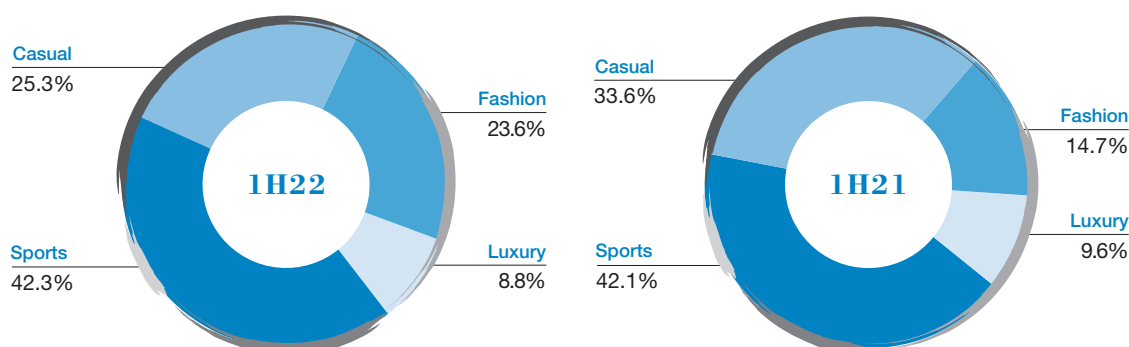
Revenue

The Group’s consolidated revenue for the six months ended 30 June 2022 increased by 18.9% to US\$827.2 million, compared to US\$695.5 million in the same period of last year. This was mostly attributable to increased orders within our manufacturing business with shipment volumes increasing by 9.4% to 29.0 million pairs, compared to 26.5 million pairs in the same period of last year, led by our Fashion, Sports and Luxury footwear segments.

The ASP of our footwear products increased by 7.8% to US\$27.8 per pair during the period under review, compared to US\$25.8 per pair in the same period of last year, which was mostly driven by higher raw material costs as well as changes to our product mix and customer mix.

In terms of product category, demand for our Sports category, one of our main growth drivers, increased by 18.7% on a like-for-like basis and accounted for 42.3% of total manufacturing revenue (first half of 2021: 42.1%). With the support of new customers, revenue attributed to our Luxury category increased by 7.8% year-on-year, in line with our expectations, and accounted for 8.8% of total manufacturing revenue (first half of 2021: 9.6%).

Manufacturing Revenue by Product Categories for First Half of 2022 & 2021



Demand from existing customers in the Fashion category bounced back strongly and together with new customers added during the period, revenue attributed to this category increased by 90.1% year-on-year and accounted for 23.6% (first half of 2021: 14.7%) of total manufacturing revenue. Revenue attributed to our Casual category declined by 11.1%, accounting for 25.3% (first half of 2021: 33.6%) of total manufacturing revenue. This was a result of our strategic capacity reallocation among product categories and softer demand from some Casual customers.

Geographically, North America and Europe remained our two largest markets, accounting for 51.9% and 23.9% of our total revenue during the period under review. This was followed by the PRC (including Hong Kong), which accounted for 13.3%, Asia (other than the PRC), which accounted for 8.2% and other geographic regions, which accounted for 2.7%.

Revenue attributed to our branding business (which consists of our retail business in Europe and the wholesale business for our own retail footwear brand *Stella Luna*) dropped by 23.5% to US\$5.7 million during the period under review. The branding business' overall performance was affected by weakness in the wholesale business resulting from COVID restrictions implemented in the PRC during the period under review, particularly in Shanghai.

Gross profit

Our gross profit for the period under review increased by 17.9% to US\$163.9 million, compared to US\$139.0 million in the same period of last year. Our gross profit margin was 19.8%, remaining stable, compared to a gross profit margin of 20.0% in the same period of last year, as further upward support from an improved customer and product mix was offset by higher costs related to raw materials and increased freight cost.

Operating profit

Our reported operating profit¹ for the period under review increased by 89.0% to US\$68.6 million, compared to US\$36.3 million in the same period of last year. This increase was supported by the higher revenue and shipment volumes, an enhanced customer mix, and better operating leverage.

Net results

Due to the factors outlined above, the Group recorded a net profit of US\$60.2 million, compared to US\$32.2 million in the same period of last year.

Strong net cash position

We continuously assess the credit risk of our customer portfolio to reduce our risk exposure. As a result of our dedicated efforts in managing credit risk and cash flow, we posted a net cash position of US\$69.0 million as at 30 June 2022, compared to a net cash position of US\$68.8 million as at 30 June 2021. Therefore, the Group's net gearing ratio² was -6.8%, as at 30 June 2022 compared to -7.2% as at 30 June 2021.

Outlook

The rapidly changing macroeconomic and geopolitical environment is clouding our order book visibility for the second half of the year although we remain cautiously optimistic about seeing a moderate increase in full-year shipment volumes compared to 2021. Some factories may also see a lower utilisation rate in the subsequent months as certain customers adopt a more cautious approach.

Some customers are facing inventory issues, including those in Luxury category, and the impact will be more likely to be reflected in the second half of 2022. Nevertheless, the Group continued to add new customers although their orders are still small and ramping up.

ASP is likely to be flat in the second half of the year as inflation started to creep in. Therefore the growth of ASP will be moderate for the full year. However, this will not be reflected in our gross profit margin as a result of our cost-plus business model. Higher logistics costs related to raw materials as well as lower capacity utilisation in selected factories may also weigh on our gross profit margin in the second half of the year.

We are committed to our major long-term capacity expansion projects, with the ramp-up of our new manufacturing facility in Solo, Indonesia, remaining on track. We also remain committed to our previously announced plan to invest in a new manufacturing facility in another part of Indonesia for our major Sports customer. This reflects the long-term commitment between Stella and this customer and their recognition of our unparalleled capabilities, unique strengths and differentiation. That said, we have slowed down some planned smaller-scale capacity expansions at our existing production facilities in light of the changing external environment.

¹ Reported operating profit is the Group's operating profit before changes in fair value of financial instruments.

² Net gearing ratio = net debt/shareholder equity.

We continue to pursue lateral growth through the building of our handbag business although a further decline in the macroeconomic environment may pressure the operating deleverage of this business which is still in its development phase. Our priority continues to be enhancing the product quality and efficiency of this business, while gradually introducing it to more of our high-end customer base.

By capitalising on each of the initiatives above, we will continue to create value and generate higher returns for our shareholders.

Cash return to shareholders

As we work towards implementing our strategies, we remain committed to returning profit and providing attractive returns to our shareholders. After considering the Group's free cash flow situation, the Board has resolved to declare an interim dividend of HK42 cents per ordinary share for the six months ended 30 June 2022.

Liquidity, financial resources and capital structure

As at 30 June 2022, the Group had cash and cash equivalents of approximately US\$76.4 million (31 December 2021: US\$135.2 million; 30 June 2021: US\$76.6 million).

In the six months ended 30 June 2022, net cash inflows from operations was US\$33.5 million, compared to net cash outflows of US\$9.3 million used in operations for the corresponding period of 2021.

Net cash outflows used in investing activities were US\$31.6 million during the period under review (for the six months ended 30 June 2021: US\$26.7 million), representing an increase of 18.4%. Capital expenditure amounted to approximately US\$32.2 million during the period under review (for the six months ended 30 June 2021: US\$21.7 million).

As at 30 June 2022, the Group had current assets of approximately US\$748.0 million (31 December 2021: US\$734.9 million) and current liabilities of approximately US\$263.0 million (31 December 2021: US\$257.6 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.8 as at 30 June 2022 (31 December 2021: 2.9), an indication of the Group's high liquidity and healthy financial position.

Bank borrowings

The Group had bank borrowings of US\$7.4 million as at 30 June 2022 (31 December 2021: US\$7.7 million).

The Group maintained a net cash position of US\$69.0 million as at 30 June 2022 (31 December 2021: US\$127.5 million; 30 June 2021; US\$68.8 million). Therefore, the Group's net gearing ratio² was -6.8% as at 30 June 2022 compared to -7.2% as at 30 June 2021.

² Net gearing ratio = net debt/shareholder equity.

Foreign currency exposure

During the six months ended 30 June 2022, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars and RMB. Currency exposures were mostly in RMB and Hong Kong dollars against US dollars, the functional currency of the Group.

Pledge of assets

As at 30 June 2022, the Group had pledged US\$11.0 million of its assets (31 December 2021: US\$11.4 million).

Contingent liabilities

As at 30 June 2022, the Group had no contingent liabilities (31 December 2021: 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 consistently places 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 30 June 2022, the Group had approximately 43,360 employees (31 December 2021: approximately 42,500). 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 Programme" 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 attract suitable personnel for the further development of the Group, the Company has adopted a long-term incentive scheme and a share award plan.

EVENTS AFTER THE REPORTING PERIOD

There are no events causing material impact on the Group from the end of the reporting period to the date of this announcement.

REVIEW OF ACCOUNTS BY AUDIT COMMITTEE

The audit committee of the Board has reviewed the interim results of the Group, including the accounting treatment adopted by the Company for the six months ended 30 June 2022, with no disagreement.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK42 cents per ordinary share for the six months ended 30 June 2022. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 13 September 2022. It is expected that the interim dividend will be paid on or about 23 September 2022. In order to qualify for the interim dividend for the six months ended 30 June 2022, 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 13 September 2022.

CORPORATE GOVERNANCE

Compliance with Corporate Governance Code

The Board and management of the Group are committed to achieving high standards of corporate governance through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders"). The Company has applied the principles and complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2022. Further information on the Company's corporate governance practices is set out in the corporate governance report in the Company's 2021 annual report, which is available on the Company's website.

Governance Model

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

Model Code for Securities Transactions by Directors (the “Model Code”)

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2022.

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 period ended 30 June 2022.

By the order of the Board
Stella International Holdings Limited
Chen Li-Ming, Lawrence
Chairman

Hong Kong, 18 August 2022

As at the date of this announcement, the executive Directors are Mr. Chen Li-Ming, Lawrence, Mr. Chi Lo-Jen, Mr. Gillman Charles Christopher and Mr. Chiang Yi-Min, Harvey; and the independent non-executive Directors are Mr. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, BBS, Mr. Yue Chao-Tang, Thomas and Ms. Shi Nan Sun.