Annual Report 2007
九興控股有限公司*
年報

Stock Code 股份代號：1836

* for identification purpose only 僅供識別

Mission Statement

Our Core Values

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

Our Mission: To Make the BEST Shoes

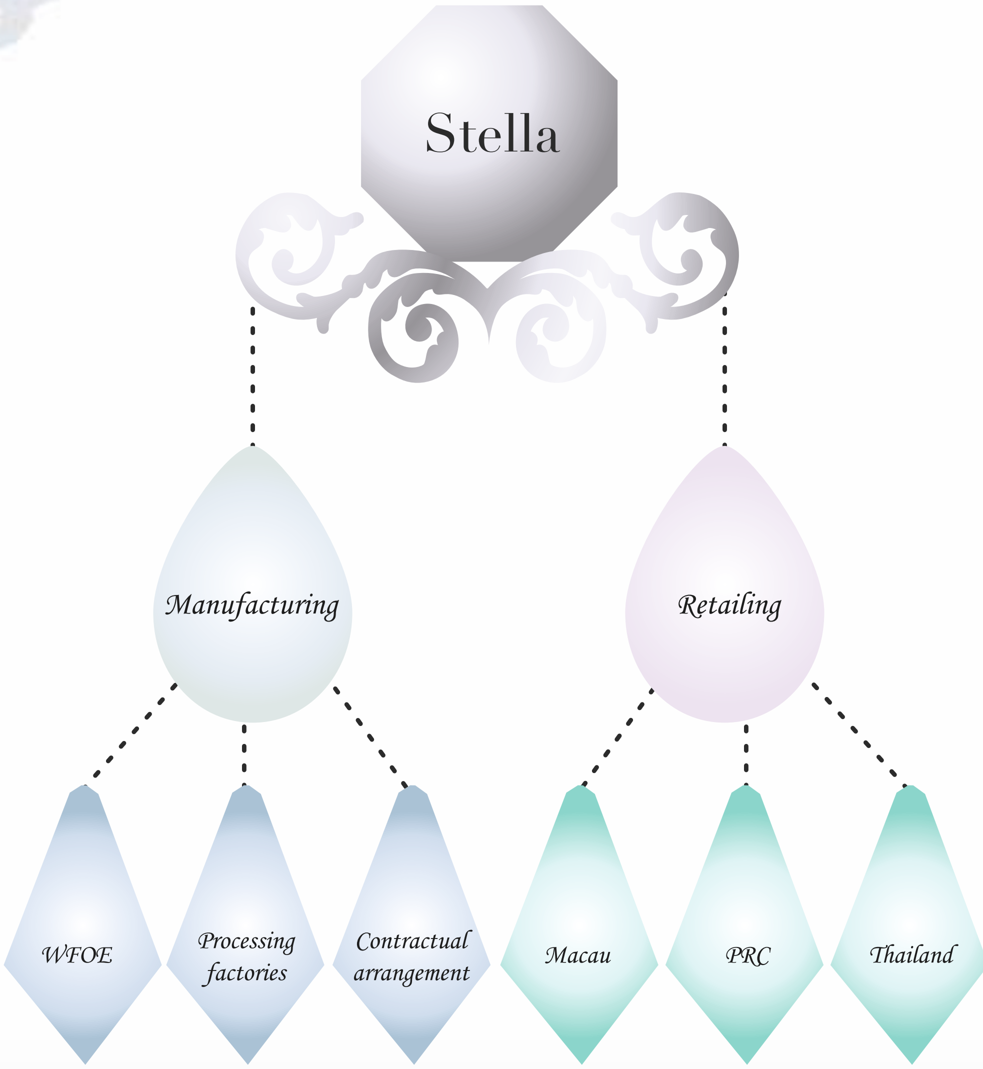
Always seeking to fulfill our promise of delivering outstanding and unique footwear, we are guided at all times by our unwavering motto of "making the best shoes" and missions of:

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

Contents

In the event of inconsistency, the English text shall prevail over the Chinese text

Corporate Structure



Corporate Profile

Stella is a leading developer and manufacturer of quality footwear products and was listed on The Stock Exchange of Hong Kong Limited on 6 July 2007. While making casual, fashion and private label footwear for our customers and brand owners, we also offer them a one-stop shop that combines the elements of design, development and manufacturing.

Since 1982, Stella has developed strong working relationships with many of the world's top brand names to produce quality shoes. Its impressive client base includes six of the world's top ten casual footwear companies, namely, Clarks, Deckers, ECCO, Rockport, Timberland and Wolverine, as well as leading companies in fashion footwear, such as Cole Haan, Kenneth Cole, Guess and Nine West.

The Company also designs, develops and manufactures footwear for several high-fashion brands such as Celine, Christian Lacroix, Donna Karan New York, Emilio Pucci, Enzo Angiolini, Givenchy, Kenzo, Loewe, Marc by Marc Jacobs, Marciano, Paul Smith, Sigerson Morrison and Via Spiga.

By leveraging its manufacturing expertise, the wide acceptance of Stella's products and industry recognition, We have also begun our retail operation and have successfully expanded into footwear retail market in China since 2006 through its own brands *Stella Luna* and *What For*.

Milestones

Branding /Retail

Engineering & Development

Assembly

Components Manufacturing

Value Chain

2007

As of 31 December 2007

A total of 47.7 million pairs of footwear were manufactured/ Total turnover reached US$937.2 million.

Number of Stella Luna stores reached 67 in China, and 6 in Thailand. 10 What For stores were opened in China.

July 2007

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

6 July 2007

Listed on The Stock Exchange of Hong Kong Limited.

2004

Developed and manufactured footwear for high-end brands such as Celine, Christian Lacroix, Donna Karan New York, Emilio Pucci, Givenchy, Kenzo, Loewe and Marc by Marc Jacobs.

1999

Established Selena Footwear Factory in Dalingshan, Dongguan to cope with our increased production and range of women's fashion shoes.

1995

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

1991

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

2006

Launched retail operation and opened the flagship Stella Luna store in Shanghai.

Further extended Dongguan Stella Footwear Factory to manufacture men's casual and fashion footwear.

2003

Established and extended Dongguan Stella Footwear Factory in Dalingshan, Dongguan, a wholly foreign-owned enterprise, for the manufacture of women's casual and fashion footwear.

2000

Established Longchuan Simona Footwear Factory in Longchuan, Heyuan as a wholly foreign-owned enterprise in the PRC.

1998

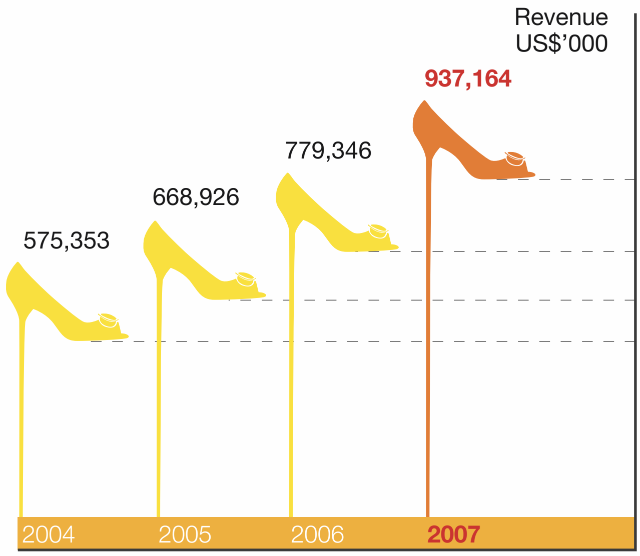
Expanded production capacity in China with the expansion of Seville Footwear Factory.

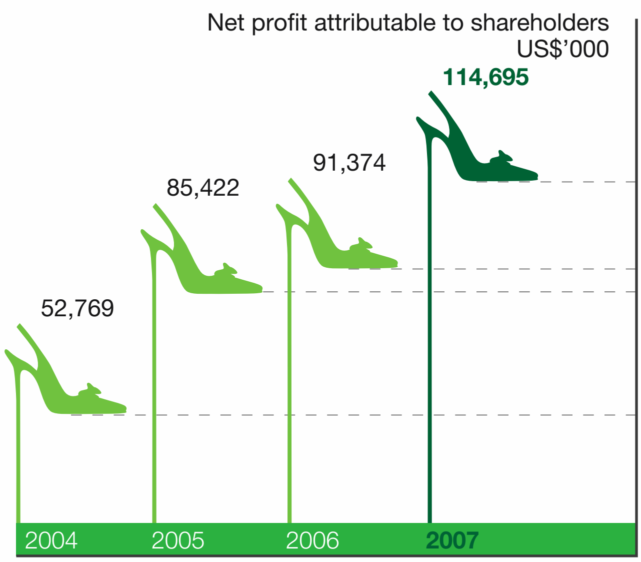
Entered into an exclusive finished footwear supply arrangement with Golden Star Company Limited for the manufacture of men's casual and fashion footwear in Vietnam.

1982

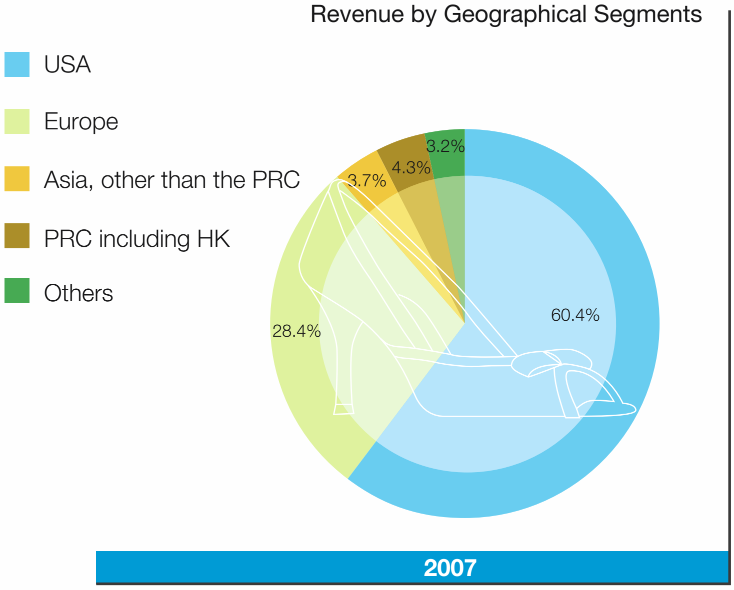
Founded in Taiwan by Messrs. Jimmy Chen, Jack Chiang and Eric Chao to produce women's footwear for US retail customers.

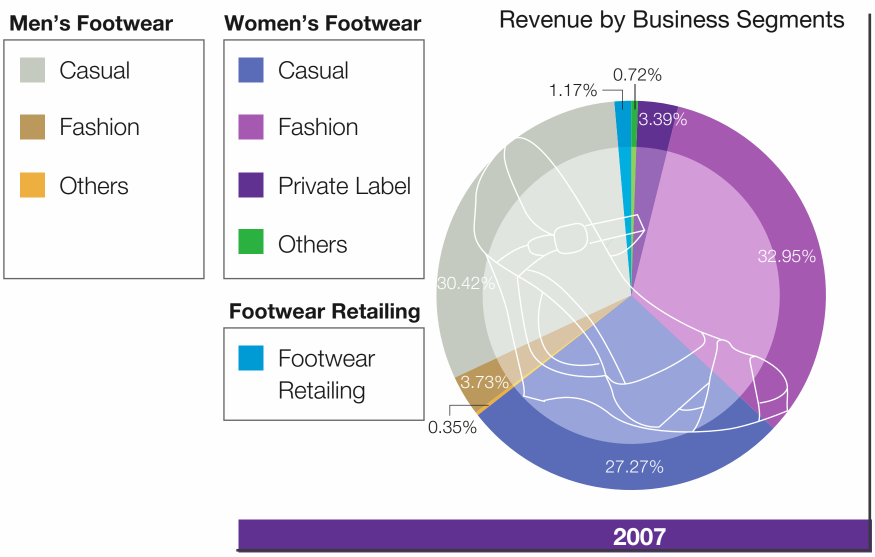
Financial Highlights





Financial Highlights





Chairman's Statement

Our philosophy is to grow through our customers' successes

Chairman's Statement

Dear Shareholders,

I am pleased to present the first annual report of Stella International Holdings Limited ("Stella" or the "Company") together with its subsidiaries (the "Group") since our listing on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 July 2007.

2007 was an important milestone for us, marking the 25th anniversary of the founding of Stella by Jimmy Chen, Eric Chao and myself in Taiwan in 1982. In 1991, we commenced our first footwear manufacturing operations in Dongguan, China. Today, Stella is firmly established as one of the leading retailers in China's lady fashion footwear market.

I am delighted that fiscal year 2007 produced another record-breaking year for Stella, recording remarkable performances in sales and market growth. Total revenue grew by 20.3% to US$937.2 million from US$779.3 million, while net profits reached US$114.7 million compared to US$91.4 million in the previous year. This represents year-on-year growth of 25.5%. As a result of our strong financial performance, the board of directors (the "Board") of the Company recommends a final dividend of HK$0.6 per share to our shareholders.

Business Overview

Our performance in 2007 has strengthened the foundation that will enable the Group to sustain its success over the long term. We continued to expand our manufacturing facilities, enhance design and development capabilities and broaden our value-added services and product portfolio in order to increase customer satisfaction.

Chairman's Statement

Our philosophy is to grow through our customers' successes. Stella is an integral partner for our international high-fashion brands at each stage of the manufacturing process. Our efficient and flexible manufacturing facilities have the unique capability to produce orders in small, customised batches and allow us to improve productivity and shorten delivery lead-time to increase customer satisfaction. We offer new and stylish products with greater emphasis on product design and functionality, while maintaining the high quality that our customers demand. Ultimately, these core competences enable our customers to gain sales and market share with their consumers, and improve each brand's competitiveness in the marketplace.

We have made exciting progress in our retail operations. Robust retail sales growth and margin expansion have strengthened our vision for our retail expansion initiative. In its first year of operation since its launch in March 2006, Stella Luna has exceeded expectations in terms of market penetration and shop operating figures. Currently, we own and operate a total of 80 Stella Luna retail stores. Of these, 70 are located in the PRC. These include the Stella Luna flagship store on Shanghai's Huaihai Road, boutique stores in Raffles City and Grand Gateway, and concessionary stores in popular department stores located in 28 major cities in the PRC. The remaining 10 retail stores are in Bangkok and Phuket in Thailand.

Encouraged by the strong performance of Stella Luna, we are committed to unlock the fuller potential of our PRC retailing business by introducing the What For brand targeting the contemporary and lifestyle market segment in July 2007. Currently, there are 17 What For stores located in China. Following ready acceptance of the two brands, I am delighted to report the retail business is almost at breakeven at the operating profit level in its first full year of operation.

Given the success of our initial public offering, which allowed us to access the international capital market and brought us a new source of capital resources, we are well positioned to capture a larger market share of the growing footwear manufacturing and retailing industry in China.

Chairman's Statement

Future Outlook

Our manufacturing initiatives have enjoyed a high level of success, which has been reflected in our sales growth and improved profitability. Despite market uncertainty brought about by the recent subprime crisis, Stella has the right strategies in place, and will continue to expand at a steady pace and perform well in the next few years.

The casual and fashion footwear segment, being the largest category in the global footwear industry, has experienced faster growth than any other footwear segment in recent years. We expect this worldwide demand for both women's and men's fashion footwear will continue to grow. As a leading developer and manufacturer of quality footwear products, Stella is able to capitalise on the ongoing trend for European footwear manufacturers to outsource its manufacturing to Asian destinations such as the PRC, to fuel our business growth.

Looking ahead, we plan to leverage on our core competencies in design and development to attract more fashion footwear brands and their customers. Stella will continue to expand its production capacity in China and Vietnam in order to meet global market demand for high-quality stylish footwear products. We will also continue our strategy of upgrading production facilities to enhance product quality and expand our offering. These improvements will help boost the manufacturing capabilities and operating efficiency of the Group so as to sustain our competitive advantage and future growth.

As the China domestic retail market is growing at a rapid pace and the purchasing power of middle to upper class mainland consumers continues to increase, we have leveraged on various market opportunities in order to achieve further expansion and profitability. We will continue to cultivate our retail brands Stella Luna and What For by extending their network coverage, increasing their brand awareness and enriching their market penetration in China. In addition to building our own brands, Stella will continue to explore more cooperation opportunities with renowned brand with an aim to establishing Stella as a leading retailer in the footwear industry in Greater China.

Appreciation

Lastly, on behalf of everyone in the Stella family, I want to extend our appreciation to Jimmy for all his contribution and achievement at Stella for the last 25 years. I express my sincere gratitude to our customers and business partners for their unremitting support, as well as to my colleagues and staff for their passion, persistence and proactivity. I would also like to thank all shareholders and the Board for their unwavering support and confidence.

CHIANG Jeh-Chung, Jack
Chairman
Hong Kong, 27 March 2008


Management Discussion and Analysis

Stella achieved record results in 2007

Turnover and net profit surged
20.3% and 25.5% respectively

Management Discussion and Analysis

Listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 July 2007, Stella International Holdings Limited ("Stella" or the "Company") together with its subsidiaries (the "Group") is pleased to present its first annual report.

Financial Highlights

For the year ended 31 December 2007, the Group recorded revenue of US$937.2 million, representing year-on-year growth of 20.3%, while net profit attributable to shareholders grew by 25.5% year-on-year to US$114.7 million. Excluding the one-time expenses of US$4.0 million associated with the listing of the Company on the Stock Exchange, the net profit attributable to shareholders would have increased by over 30% to US$118.7 million. Basic earnings per share increased by 5.8% year-on-year to US$0.165.

During the year under review, the Group's shipment totaled 47.7 million pairs, increased by 9.9% from 43.4 million pairs sold in 2006. The average selling price per pair ("ASP") was US$19.3 (2006: US$17.8), representing a year-on-year gain of 8.4%.

The Group maintained rapid business growth during the year under review despite the challenging operating environment. The Group's gross profit for the year was US$221.0 million. This increase of 33.4% over the previous year was a result of the Group's strategy of enhancing product mix with a focus on women fashion footwear, coupled with our superior economies of scale as well as our continued efforts towards prudent cost control with regard to raw material and manufacturing costs. The gross profit margin was 23.6%, representing an improvement of 2.3 percentage points over 2006. In addition, operating EBIT margin improved to 11.5%, as compared to 10.9% in the previous year. The improvement on profit margins was attributable to improvement in sales mix, higher operational efficiencies and the implementation of cost control measures.

The Group's strategy to focus on women fashion footwear lifted the women's fashion footwear business to 33.5% of the Group's total revenue and became the largest business segment in 2007 and was followed by men's and women's casual footwear, which contributed 30.5% and 27.5% respectively of the total revenue. The men's fashion footwear and women's private label business generated 3.8% and 3.5% of the total revenue respectively. Finally, the Group's retail business represented 1.2% of the total revenue and reached US$10.9 million in 2007 for an increase of 3.2 times over that in 2006.

Geographically, North America and Europe continued to be the Group's two largest markets, with 60.4% and 28.4% respectively of the Group's total revenue for the year under review, being derived from sales to customers in these regions. They were followed by Asia (3.7%), the PRC and Hong Kong (4.3%), and other geographical regions (3.2%).

The board of directors (the "Board") of the Company has proposed the payment of a final dividend of HK$0.6 per share for the year ended 31 December 2007. Together with the interim dividend of HK$0.3 paid, total dividend for the year will amount to HK$0.9 per share.

Management Discussion and Analysis

Business Review

Manufacturing Business

The Group continued to achieve significant growth with our ability to provide integrated, value-added services to our customers at the design and development stages, making us an integral partner for our customers at each stage of the manufacturing process. Our high-quality manufacturing capabilities and value-added services led to an increase in orders from existing customers, as well as the addition of new high-end international brand customers which fueled the volume growth and helped the Group continue to gain market share.

Despite keen competition in the industry and rising raw material costs, our gross profit margin was maintained at a healthy level of 23.6% on the back of improved product mix, production efficiency and economies of scale of our facilities. The Group has also recorded a steady growth in ASP primarily due to value added services in manufacturing high-quality footwear in small and customised orders to meet the needs of our brand customers.

Furthermore, both our own and contracted manufacturing and production facilities, which are located in Guangdong, China, and Vietnam, continued to operate at full capacity.

The Group also made efforts to further improve the mix of product offerings and strengthen our design and development capabilities. To keep abreast of the latest market trends, the Group has actively participated in numerous international trade fairs and exhibitions. The Group strives to build on our competitive strengths in order to better focus our manufacturing efforts on the fast-growing and highly profitable men's and women's fashion and casual segments.

Retail Business

During the year under review, the Group has established a strong foothold in China's retail market in order to further capture the opportunities brought about by the rapidly growing economy and the increasing purchasing power in the PRC.

Management Discussion and Analysis

The Group's retail business continued to perform well. As at 31 December 2007, the Group owned and operated 73 Stella Luna stores, of which 67 were located in 22 major cities in the PRC and the rest being in Bangkok and Phuket in Thailand, and 10 What For retail stores in the PRC.

Retail sales of the Group's two brands, Stella Luna and What For, amounted to approximately US$10.5 million and US$0.4 million of the Group's total revenue respectively.

The robust growth of the retail business was mainly attributable to the following factors. The Stella Luna brand continued to be well received by the mid to high-end fashion market and was a tremendous success in every aspect, especially in the primary cities. The Group's other brand, What For, which is aimed at the contemporary and lifestyle market segment, has received overwhelming response from its targeted customers since its launch in Shanghai in July 2007. The fast acceptance of these brands has also greatly facilitated broad coverage and deep penetration of the target market over a short period of time.


Prospects

Manufacturing Business

Despite the challenging business environment, the Group achieved satisfactory growth in the manufacturing business and we are confident to sustain such growth in 2008. Looking forward, management is prudently optimistic about the business environment in the market given that the market consolidation and outsourcing trend will continue.

The Group plans to maintain a prudent approach towards expanding our manufacturing capacity. The construction of the new manufacturing facility in Huizhou in the PRC is on schedule and is expected to commence operation in the second half of 2008. This new facility is expected to produce two million pairs of footwear in 2008, increasing the total capacity of the Group by approximately 4.4%. In addition, expansion plans have been put into motion for the Vietnam facilities. It is expected to have an annual production capacity of 12 million pairs in Vietnam by 2010.

In October 2007, the Group also set up a cooperative joint venture in Hebei in the PRC with an independent third party which is engaged in the tannery business. The joint venture, which is owned by the Group as to 40% and by the business partner as to 60%, is engaged in footwear manufacturing and is hosted at the tannery factory. It is expected that production will commence early in 2008 with the capacity to manufacture 1.6 million pairs of shoes in 2008 and 3.8 million pairs in 2009.

The Group is devoting increasing resources to improving product development and broadening our product categories in order to meet our customers' needs and market demand, and is at the same time expanding our customer base. The Group will also continue to introduce products with higher than average selling price and implement effective cost-saving measures to enhance the profitability of the Group.

Retail Business

The Group's retailing business in China has established a strong foundation. Its growth will be further driven by the rapidly growing China economy and the resulting stronger spending power of urban consumers. In view of this, the Group will take the opportunity to expand the retail business network aggressively over the next few years.

Leveraging on the knowledge gained in the local operating environment, the Group targets to speed up its expansion in terms of the number of stores, aiming to reach a total of 200 retail points in prime locations in the PRC by the end of 2008. In addition, the Group also plans to adopt a franchising scheme to accelerate the expansion of its What For brand in second and third tier cities in 2009.

The Group will continue to place strong emphasis on the same store sales growth across the region while also improving its operating efficiency. The Group will also put more efforts and resources into the marketing of its popular Stella Luna and What For brands in China in order to increase their brand awareness.

Management Discussion and Analysis

Strategic Cooperation and Brand Management Initiatives

It is anticipated that the high-end fashion footwear market will grow at a fast pace, and the fashion footwear market will continue to grow steadily in the region. To further capture the business opportunity created by the booming retail industry in Asia, and in the Greater China region, the Group, in particular, plans to bring international high-end footwear brands to the market. The Group is currently under negotiations with strategic partners and renowned brand owners for which the Group will become the exclusive brand distributor in Greater China. Leveraging our long-term business relationships with world-class branded partners, our local expertise in the consumer sector and our excellent design and development capabilities, Stella is well positioned to seize the opportunity to firmly establish Stella as a leading retailer in the footwear industry in Greater China.

Mergers and Acquisitions

The Group has currently earmarked approximately HK$1,800 million (US$230 million) of the net proceeds of the recent global offering for potential acquisitions of footwear and related accessories, brands and businesses.

In this endeavor, the Group's current priority is to acquire production plants and facilities to complement its current manufacturing business and to create an overall synergy with the business as well. The Group is in discussion with several potential targets. This will aid the Group to further expand its production capacity quickly while enhancing its product offerings and maintaining a high level of production efficiency.

Use of Proceeds from Initial Public Offering

The Company issued 195,000,000 shares at HK$15.50 per share by way of global offering (as set out in details in the listing prospectus (the "Prospectus") on 6 July 2007 and 29,250,000 shares upon the exercise of the over-allotment option at HK$15.50 per share on 26 July 2007. The Company intends to apply the net proceeds of approximately HK$3,357 million in accordance with the proposed allocation as stipulated in the Prospectus.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2007, the Group had cash and cash equivalents of about US$407.0 million (31 December 2006: US$73.7 million) with zero bank borrowing (31 December 2006: Nil).

As at 31 December 2007, the Group had current assets of US$686.9 million (31 December 2006: US$408.3 million) and current liabilities of about US$123.6 million (31 December 2006: US$123.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 5.6 as at 31 December 2007 which indicated the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group did not have any bank borrowings as at 31 December 2007 (31 December 2006: Nil).

Foreign Exchange Exposure

The majority of the Group's sales, purchase and operating expenses were denominated in RMB, HK dollars and US dollars. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year under review.

Management Discussion and Analysis

Capital Expenditure

During the year under review, the Group's total capital expenditure amounted to approximately US$23.2 million, of which approximately US$21.0 million was used in the production capacity expansion and approximately US$2.2 million was used in the retail network expansion.

Pledge of Assets

As at 31 December 2007, the Group had not pledged any of its assets.

Contingent Liabilities

As at 31 December 2007, the Group had no material contingent liabilities.

Employees

As at 31 December 2007, the Group had approximately 25,000 employees (31 December 2006: 24,254). The Group cultivates a caring, sharing and learning culture among the employees and believes that human resources are significant assets to the Group's development and expansion. The Group seeks to attract, train and retain individuals who are energetic, committed with a passion for our business. We will also continue to build a strong management team internally through effective training and promotion programs. The Group adopts a remuneration system based on employees' performance, skill and knowledge, together with reference to the remuneration benchmarks in the industry and prevailing market conditions.

Corporate Social Responsibility

In addition to pursuing its own business expansion, Stella International Holdings Limited ("Stella" or the "Company") puts significant emphasis on sharing its success with society in return. The Company is dedicated to spreading love and care with the aspiration of serving communities in need. Stella plays an active role in the local communities, fulfilling its commitment to the underprivileged as one aspect of its corporate social responsibility. During the year under review, the Company regularly organised and performed a number of community services as detailed below.

To bring hope and care to the needy while enhancing social interaction and mutual understanding between Stella and the local communities, the Company organised several visits to underprivileged communities in Mainland China. In March 2007, the Company went to Xinxiang in Henan Province, and donated 8,000 sets of uniforms to families in need. Volunteers also served and assisted these families by way of personal visits, talking to the disabled and visiting their homes.

Stella makes every effort to be a model of good corporate citizenship, also by means of extending help in society together with its treasured customers. In June 2007, the Company partnered with Timberland, a well-known footwear manufacturer, and the Office of Poverty in Baokang, Hubei Province, China in donating some 38,000 school uniforms to students of Ningyuan Prevocational and Technical Institute and another 33,630 items of clothing in Baokang, as well as assisting the needy in other ways.

Apart from donating uniforms in person, Stella also paid visits to several other schools in different communities to understand more about their learning environment. To make improvements right away, Stella offered assistance in maintaining the school facilities. In October 2007, 50 volunteers from the Company went to Ninh Giang private high school in Ninh Giang District, Hai Duong Province, Vietnam and helped to repaint the gates and teaching buildings of the school, and clear up gardens and wasteland.

Together with staff from Clarks, another famous footwear brand, the Company visited the Haiphong School for the Visually Impaired in Vietnam in November 2007. They helped the disabled students there by building special writing desks, constructing height-changeable desks and chairs, installing new ceilings in corridors, donating sports uniforms and sponsorship for their Paralympics.


Corporate Governance Report

Stella advocates a governance model which combines both corporate governance and business governance in order to build long-term interests for the Group

Corporate Governance Report

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 to ensure and enhance a high standard of corporate governance practices through increasing transparency, accountability, better risk assessment and mitigation. We believe that high standard 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.

To facilitate more effective implementation of corporate governance practices, a corporate governance committee (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. The Corporate Governance Committee has four members comprising a non-executive Director, Mr. SHIH Takuen, Daniel, two independent non-executive Directors, Mr. CHU Pao-Kuei and Mr. HUNG John Terence, *SBS, JP* and an executive Director, Mr. CHEN Jiann-Min, Jimmy.[1] The chairman of the Corporate Governance Committee is Mr. SHIH Takuen, Daniel.

The principal roles and functions of the Corporate Governance Committee, as disclosed in more detail in its terms of reference, include the review of the corporate governance practices of the Company and monitoring compliance with the relevant requirements under the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and any applicable laws and regulations and monitoring each of the audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") of the performance of their respective duties and obligation in accordance with their respective terms of reference, the Listing Rules and any applicable laws and regulations.

The Corporate Governance Committee meeting was held once in 2007 and the attendance rate is 75%. In the meeting, the following work has been performed:

(i) adopted a compliance manual of the Company (the "Compliance Manual") [2];

(ii) reviewed the disclosures made in the interim report before publication;

(iii) determined the respective responsibilities of the chairman of the Board ("Chairman") and the chief executive officer of the Group ("Chief Executive Officer");

Notes:

1: On 19 March 2008, due to health reasons, Mr. CHEN Jiann-Min, Jimmy tendered his resignation as non-executive Director, the chairman of the Board and a member of the Corporate Governance Committee of the Company with immediate effect.

2: In order to ensure strict and continuous compliance with the applicable laws, rules and regulations, the Company has adopted various guidelines, policies and procedures which are included primarily in the Company's Compliance Manual and the terms of reference of various Board committees.

(iv) determined the respective scope of matters for the Board and the management; and

(v) devised communication policy with the Shareholders.

To maximise the transparency of the Group and to appreciate that quarterly reporting is a recommended best practice, the Company has adopted quarterly reporting commencing from the third quarterly results for the nine months ended 30 September 2007. The Company has also announced its business development for the fourth quarter 2007 on a voluntary basis.

Compliance with Code on Corporate Governance Practices

The Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules since it was listed on the Stock Exchange on 6 July 2007 ("Listing Date") up until 31 December 2007. The Group upholds a high standard of corporate governance and the Directors believe that the Company has exceeded the Code in various aspects as described in more detail later in this report.

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

Code Provisions	Compliance	Corporate Governance Practices
A. Directors		
A.1 The Board **Principle** The Board assumes the responsibility for leadership and control of the Company, and is collectively responsible for the success of the Company by directing and supervising the Company's affairs. The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing which was first proposed by the Corporate Governance Committee then approved by the Board in August 2007. 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 addition, the Board has established various Board committees to discharge their respective responsibilities set out in their respective terms of reference.		

Code Provisions	Compliance	Corporate Governance Practices
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.	N/A As the Company was only listed on the Stock Exchange on 6 July 2007, only two full Board meetings were held in the second half of 2007. To ensure compliance with the Code, the Board will meet regularly for at least four times a year at approximately quarterly intervals starting from year 2008 in order to strengthen leadership and control of the Company.	The Directors' attendance records are set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. CHEN Jiann-Min, Jimmy (Chairman) [(1)] — 2/2 Mr. CHIANG Jeh-Chung, Jack (Chief Executive Officer) [(2)] — 2/2 Mr. CHAO Ming-Cheng, Eric — 2/2 Mr. SHIEH Tung-Pi, Billy — 2/2 Mr. CHI Lo-Jen, Stephen — 2/2 **Non-executive Director** Mr. SHIH Takuen, Daniel — 2/2 **Independent Non-executive Directors** Mr. CHU Pao-Kuei — 2/2 Mr. NG Hak-Kim — 2/2 Mr. HUNG John Terence — 2/2 Note: (1) Mr. CHEN Jiann-Min, Jimmy was re-designated from an executive Director to a non-executive Director on 9 January 2008. On 19 March 2008, Mr. CHEN tendered his resignation as non-executive Director, the Chairman and a member of the Corporate Governance Committee of the Company effective immediately. (2) Mr. CHEN Li-Ming, Lawrence was appointed as an executive Director of the Company and succeeded Mr. CHIANG Jeh-Chung, Jack as the Chief Executive Officer with effect from 9 January 2008. **Relationships among the members of the Board** Mr. CHIANG Jeh-Chung, Jack is the uncle of Mr. CHI Lo-Jen, Stephen, and is the brother-in-law of Mr. SHIEH Tung-Pi, Billy. Mr. CHEN Li-Ming, Lawrence is the brother of Mr. CHEN Jiann-Min, Jimmy. Mr. SHIH Takuen, Daniel is the brother-in-law of both Mr. CHEN Jiann-Min, Jimmy and CHEN Li-Ming, Lawrence. Save as aforementioned, there is no family relationship between any of the Directors, nor is there any financial, business or other material or relevant relationships among the members of the Board.
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 meeting.	✓	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.

Corporate Governance Report

Code Provisions	Compliance	Corporate Governance Practices
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.	✓	At least 14 days formal notice has been given to all Directors for regular Board meetings. Regular Board meetings in 2008 have already been scheduled to ensure compliance with the Code and to facilitate Directors' attendance.
A.1.4 All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	✓	All Directors have full access to the advice and services of the company secretary of the Company ("Company Secretary"), compliance advisor and legal and professional consultants of the Company, whenever necessary, to ensure compliance with applicable laws, rules and regulations, and corporate governance practices.
A.1.5 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and such minutes 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 version of which are available for the Directors' inspection at the Company's principal place of business.
A.1.6 Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of board meetings 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 version of the minutes is circulated to all Directors for record.
A.1.7 There should be a procedure agreed by the board to enable directors to seek independent advice at the issuer's expense. The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the issuer.	✓	Directors have been advised in the Directors' appointment letters that they are entitled to seek external independent legal advice at the Company's expense after consultation with the Chairman. No request was made by any Director for such independent professional advice during the year under review.
A.1.8 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 not be dealt with by way of circulation or by a committee but a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	✓	Directors declare their interest, if any, in matters before Board meetings, or if such matters are dealt with by written resolutions, in such resolutions.

Corporate Governance Report

Recommended Best Practices	Compliance	Corporate Governance Practices
A.1.9 An issuer should arrange appropriate insurance cover in respect of legal action against its directors.	✓	A "Directors and Officers Liability Insurance Policy" has been arranged to cover the liability of Company's Directors and officers.
A.1.10 Board committees should adopt the principles, procedures and arrangements set out in A.1.1 to A.1.8 under the Code	✓	The Board committees of the Company, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee were established in June 2007 and an investor relations committee (the "Investor Relations Committee") was set up in August 2007 as well. All Board committees have principally adopted the same principles, procedures and arrangements set out in A.1.1 to A.1.8 under the Code.

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 which was first proposed by the Corporate Governance Committee then approved by the Board in August 2007. The respective responsibilities borne by the Chairman and the Chief Executive Officer are:

Chairman's responsibilities:
- Determine broad strategic direction.
- Responsible for macro oversight of management.
- Ensure that all Directors are properly briefed on issues arising at Board meetings.
- Responsible for ensuring that Directors receive adequate information, which must be complete and reliable, in a timely manner.
- Provide leadership for the Board.
- Ensure the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner.
- Responsible for drawing up and approving agenda for each Board meeting taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda (may delegate such responsibility to Company Secretary).
- Ensure good corporate governance practices and procedures are established.
- Encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the issuer.
- Hold meetings annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present.
- Ensure that appropriate steps are taken to provide effective communication with the Shareholders and that views of the Shareholders are communicated to the Board as a whole.
- Facilitate the effective contribution from non-executive Directors in particular and ensure constructive relations between executive and non-executive Directors.

Chief Executive Officer's responsibilities:
- Responsible for strategic planning of different business functions.
- Day-to-day management and operation of the Group.

Corporate Governance Report

Code Provisions	Compliance	Corporate Governance Practices
A.2.1 The roles of chairman and chief executive officer 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 since the Listing Date. 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 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 adequate information, which must be complete and reliable, in a timely manner.	✓	The information and/or analysis required for the Board's consideration and decision making are included in Board papers that are normally sent to Directors' for their review in a timely manner.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
A.2.4 One important role of the chairman is to provide leadership for the board. The chairman should ensure that the board works effectively and discharges 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 taking into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda.	✓	Such roles are set out in writing and have been complied with.
A.2.5 The chairman should take responsibility for ensuring that good corporate governance practices and procedures are established.	✓	The Chairman was appointed as a member of the Corporate Governance Committee to ensure that high standard of corporate governance practices are established and complied with in the Company.
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 the board acts in the best interests of the issuer.	✓	This is set out in writing and has been complied with.

Recommended Best Practices	Compliance	Corporate Governance Practices
A.2.7 The chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.	N/A	As the Company was only listed on the Stock Exchange on 6 July 2007, the Chairman will try to schedule separate meetings with non-executive Directors at least annually to fulfil the compliance with the Code.
A.2.8 The chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that views of shareholders 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 facilitate the effective contribution of non-executive directors in particular and ensure 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 and various Board committee meetings.

A.3 Board composition

Principle

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, the policy of selection and nomination of Directors has been established and set out in writing which was first proposed by the Nomination Committee then approved by the Board in August 2007. Its policy statement is:

Directors are selected and nominated based on their experience, competencies, skills, geographical network capabilities and cross-border experiences in pursuit of maintaining a Board of diversified background and competencies, in order to contribute to more effective Board deliberations and business directions of the Group.

There is a balanced composition of executive and non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. 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.

Code Provisions	Compliance	Corporate Governance Practices
A.3.1 The independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the issuer.	✓	The composition of the Board, by category, is disclosed in all corporate communications.

Corporate Governance Report

Recommended Best Practices	Compliance	Corporate Governance Practices
A.3.2 An issuer should appoint independent non-executive directors representing at least one-third of the board.	✓	During the year under review, the Board consisted of a total of nine Directors, comprising five executive Directors, one non-executive Director and three non-executive Directors, such that independent non-executive Directors represented one-third of the Board. Due to the appointment of an additional executive Director with effect from 9 January 2008, the Board has delegated the Nomination Committee to identify a suitable qualified individual to be nominated for an independent non-executive Director, such that the number of independent non-executive Directors will represent at least one-third of the Board.
A.3.3 An issuer should maintain on its 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 an updated list of its Directors identifying their role and function and whether they are independent non-executive directors.

A.4 Appointments, re-election and removal

Principle
There are in place the procedures for the selection and nomination of new Directors to the Board, which were first proposed by the Nomination Committee then approved by the Board in August 2007. The procedures are:

(i) appointments of Directors to be first reviewed by the Nomination Committee;
(ii) the recommendations of the Nomination Committee shall then be proposed to the Board for approval.

Code Provisions	Compliance	Corporate Governance Practices
A.4.1 Non-executive Directives should be appointed for a specific term, subject to re-election. 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.	✓ ✓	The term of Directors' (including non-executive Directors') appointment, which was reviewed by the Nomination Committee and approved by the Board in August 2007, is as below; (i) Directors shall be appointed for a term of three years; (ii) Directors appointed, either to fill casual vacancy or as addition to the existing Board, shall hold office until the first general meeting of members after their first appointment and be subject to re-election at such meeting; (iii) at each annual general meeting one-third of the Directors shall retire from office by rotation at least once every three years. Retiring Directors shall be eligible for re-election at such meeting.

Recommended Best Practices	Compliance	Corporate Governance Practices
A.4.3 If an independent non-executive director serves more than nine years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders.	N/A	As the Company was only listed on the Stock Exchange on 6 July 2007, no independent non-executive Director has served for more than nine years.

Corporate Governance Report

Recommended Best Practices	Compliance	Corporate Governance Practices
A.4.4 Issuers should establish a nomination committee. A majority of the members of the nomination committee should be 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 has four members comprising three independent non-executive Directors, Mr. HUNG John Terence, *SBS, JP*, Mr. CHU Pao-Kuei and Mr. NG Hak-Kim, *JP* and a non-executive Director, Mr. SHIH Takuen, Daniel. The chairman of the Nomination Committee is Mr. HUNG John Terence, *SBS, JP*. Nomination Committee meeting was held once in 2007 and the attendance rate is 100%. In the meeting, the following work has been performed: (i) established a policy of selection and nomination of Directors; (ii) established the procedures for selection and nomination of Directors; and (iii) determined the term of Directors' appointment.
A.4.5 The nomination committee should be established with specific written terms of reference which deal clearly with the committee's authority and duties.	✓	The Nomination Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties. The principal duties of the Nomination Committee include the review of the structure, size and composition of the Board, making recommendations to the Board on the selection and nomination of directors and the assessment of the independence of independent non-executive Directors.
A.4.6 The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board.	✓	The terms of reference of the Nomination Committee is posted on the website of the Company. A copy of the terms of reference is made available on request.
A.4.7 The nomination committee should be provided with sufficient resources to discharge its duties.	✓	The Nomination Committee has been provided with sufficient resources to discharge its duties.
A.4.8 Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe the individual should be elected and the reasons why they consider the individual to be independent.	N/A	No general meeting was held in 2007 to consider the election of an independent non-executive director.

Corporate Governance Report

A.5 Responsibilities of directors Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.		
Code Provisions	**Compliance**	**Corporate Governance Practices**
A.5.1 Every newly appointed director of any issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.	✓	All newly appointed Directors have received a comprehensive, formal and tailored induction on the first occasion of their appointments conducted by the Company's legal advisors, and subsequently Directors' training was provided to the full Board by the Company's compliance advisor, and all non-executive Directors have been briefed by the Company's executive Directors and senior management on the Group's business. This is to ensure that they have proper understanding of the operations and business of the Group and that they are aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other relevant regulatory requirements and the governance practices of the Company.
A.5.2 The functions of non-executive directors should include the following: (a) bring an independent judgement on strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings; (b) take the lead when conflicts of interests arise; (c) serve on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinise issuer's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance.	✓	The non-executive Directors have exercised independent judgement on issues discussed at Board meetings. They also scrutinise the Company's performance by reviewing the business and financial performance update at regular Board meetings and following up any outstanding issues after such meetings. Non-executive Directors serve on various Board committees, and each non-executive Director has chaired at least one Board committee.
A.5.3 Every director should ensure that he can give sufficient time and attention to the affairs of the issuer and should not accept the appointment if he cannot do so.	✓	The attendance rate of Board meetings during the year is 100%. All executive Directors have in-depth industry knowledge and established track record, whose interests are aligned with the Company. The 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.

Code Provisions	Compliance	Corporate Governance Practices
A.5.4 Directors must comply with the Model Code set out in Appendix 10 to the Listing Rules and the board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.	✓	The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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. All the Directors confirmed that they have complied with the required standard set out in the Model Code from the Listing Date until 31 December 2007. It was set out in the Compliance Manual 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 Treasurer Group Financial Controller Company Secretary Divisional Head of Women's Footwear Divisional Head of Men's Footwear Divisional Head of Retail Business
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
A.5.5 All directors should participate in a programme of continuous professional development and the issuer should be responsible for arranging and funding a suitable development programme.	✓	The Company shall be responsible for arranging and funding a suitable continuous professional development programme to Directors when such programme is in place.
A.5.6 Each director should disclose to the issuer at the time of this appointment, and on a periodic basis, the number and nature of offices held in public companies or organisations and other significant commitments.	✓	Directors disclose to the Company at the time of appointment and at least annually their offices held in public companies or organisations and other significant commitments.
A.5.7 Non-executive directors 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.	✓	Please refer to the disclosure made under A.5.3 in this report.
A.5.8 Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	✓	Please refer to the disclosure made under A.5.3 in this report.

A.6 Supply of and access to information **Principle** Directors have been provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.		
Code Provisions	**Compliance**	**Corporate Governance Practices**
A.6.1 In respect of regular board meetings, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the board meeting date or board committee meeting (or such other period as agreed).	✓	Board papers are sent to Directors for review at such period as agreed before the Board/Board committee meetings date.
A.6.2 Management has an obligation to supply the board and its committees with adequate information, which must be complete and reliable, in a timely manner to enable it to make informed decisions. Directors should make further enquiries and require more information than is volunteered by management where necessary. The board and each director 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 answer all questions of the Board on the matters discussed at such meetings. Directors have separate and independent access to the Company's senior management, including the head of internal audit, to keep abreast of business activities, financial performance, internal audit and internal control progress in the Group.
A.6.3 All directors are entitled to have access to board papers and related materials in proper form and quality. Where queries are raised by directors, steps must be taken to respond as promptly and fully as possible.	✓	Please refer to the disclosure made under A.6.2 in this report.

B. Remuneration of Directors and Senior Management		
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 own remuneration.		
Code Provisions	**Compliance**	**Corporate Governance Practices**
B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.	✓	The Company established the Remuneration Committee pursuant to a resolution of all Directors passed on 15 June 2007. The Remuneration Committee has three members comprising two independent non-executive Directors, Mr. NG Hak-Kim, *JP*. and Mr. CHU Pao-Kuei and a non-executive Director, Mr. SHIH Takuen, Daniel. The chairman of the Remuneration Committee is Mr. NG Hak-Kim, *JP*. Remuneration Committee meeting was held once in 2007 and the attendance rate is 100%. In the meeting, the following work has been performed: (i) established Directors' and senior management's remuneration policy; (ii) established the procedures for setting policy on executive Directors' remuneration; and (iii) determined the overall human resources strategy; and (iv) considered major factors which should be taken into account when implementing the long-term incentive scheme; The Remuneration Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties.
B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	✓	The procedure for setting policy on executive Directors' remuneration is as follows: (i) management to make recommendation to the Remuneration Committee on the executive Directors' remuneration; (ii) Remuneration Committee then reviews these recommendations (with access to professional advice if considered necessary) and proposes the final remuneration package to the Board for approval; (iii) No Director or any of its associates is involved in deciding his or her own remuneration.

Corporate Governance Report

Code Provisions	Compliance	Corporate Governance Practices
B.1.3 The terms of reference of the remuneration committee should include: (a) to make recommendations to the board on the issuer's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for remuneration policy; (b) to determine specific remuneration packages of executive directors and senior management; (c) to review and approve performance-based remuneration; (d) to review and approve the compensation payable to executive directors and senior management in connection with loss or termination of office or appointment; (e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct; (f) to ensure that no director is involved in deciding his own remuneration.	✓	The terms of reference of the Remuneration Committee has followed closely the Code requirements.
B.1.4 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.		The terms of reference of the Remuneration Committee is posted on the website of the Company. A copy of the terms of reference is made available on request.
B.1.5 The remuneration committee should be provided with sufficient resources to discharge 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.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
B.1.6 A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.	✓	For the year ended 31 December 2007, the executive Directors' performance based remuneration related to their executive roles constitutes more than 77% in average of the total remuneration.
B.1.7 Issuers should disclose details of any remuneration payable to members of senior management on an individual and named basis in their annual reports and accounts.	X	

Corporate Governance Report

Recommended Best Practices	Compliance	Corporate Governance Practices
B.1.8 Where the board resolves to approve any remuneration or compensation arrangements which the remuneration committee has previously resolved not to approve, the board must disclose the reasons for its resolution in its next annual report.	N/A	No such incident happened for the year ended 31 December 2007.
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 such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	✓	Presentation of business review and financial analysis of the Group is made to the Board at Board meetings on a quarterly basis.
C.1.2 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 auditors' report on the financial statements. The directors should prepare the accounts on a going concern basis. When the directors are aware of material uncertainties that may cast significant doubt on the issuer's going concern, such uncertainties should be clearly and prominently set out and discussed in the Corporate Governance Report.	✓	Directors and auditors have stated their responsibilities on pages 49 and 69 respectively of the annual report. The Board is responsible for the preparation of financial statements of the Company and ensure 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. Directors are not aware of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.
C.1.3 The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	✓	Compliance advisor and legal advisors are consulted to ensure that disclosures in financial reports, announcements and any other reports and statements have presented a balance, clear and understandable assessment.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.1.4 An issuer should announce and publish quarterly financial results within 45 days after the end of the relevant quarter.	✓	The Company has adopted quarterly reporting commencing from the third quarterly results for the nine months ended 30 September 2007.

Corporate Governance Report

Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.1.5 Once an issuer decides to announce and publish its quarterly financial results, it should continue to adopt quarterly reporting for each of the first 3 and 9 months periods of subsequent financial years. Where the issuer decides not to announce and publish its financial results for a particular quarter, it should publish an announcement to disclose the reasons for such decision.	✓	The Company intends to continue to adopt quarterly report for the subsequent financial years.
C.2 Internal controls **Principle** The Board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.		
Code Provisions	**Compliance**	**Corporate Governance Practices**
C.2.1 The directors should at least annually conduct a review of the effectiveness of the internal control system of the issuer and its subsidiaries and report to the shareholders that they have done so in their Corporate Governance Report.	✓	The effectiveness of the internal control system and specifically, the progress of internal audit (in various operating aspects such as fixed assets, sales, purchase, wage and production) are reviewed, and their respective weaknesses are identified, at the regular Audit Committee meetings. The findings at such meetings are reported subsequently at Board meetings. This enables the Directors to assess the effectiveness of the internal control system, which helps managing enterprise risks and improving its mitigation framework. The internal control procedures of the Group include strategic control, management control and business process control. The internal control objectives are determined to safeguard the integrity of business process (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 to maintain a high standard of corporate governance. The internal control functions are vested in the internal audit team which reports directly to the Audit Committee, the chief operating officer and the qualified accountant of the Company. Deloitte Touche Tohmatsu, the Company's external auditors, reported on internal control for the year ended 31 December 2007 in accordance with Hong Kong Standards on Auditing to the Audit Committee.

Recommended Best Practices	Compliance	Corporate Governance Practices
C.2.2 The board's annual review should consider: (a) the changes since the last annual review in the nature and extent of significant risks; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control system; (c) the extent and frequency of the communication of the results of the monitoring to the board which enables it to build up a cumulative assessment of the state of control in the issuer and the effectiveness with which risk is being managed; (d) the incidence of significant control failings or weakness; and (e) the effectiveness of the issuer's processes relating to financial reporting and Listing Rule compliance.	✓	The Company's review has generally covered the aspects as referred to in C.2.2 of the Code.
C.2.3 Issuers should disclose as part of the Corporate Governance Report a narrative statement how they have complied with the code provisions on internal control during the reporting period.	✓	Please refer to the disclosure made under C.2.1 in this report.
C.2.4 Issuers should ensure that their disclosure provide meaningful information and do not give a misleading impression.	✓	Please refer to the disclosure made under C.2.1 in this report.
C.2.5 Issuers without an internal audit function should review the need for one on an annual basis and should disclose the outcome of such review in the issuers' Corporate Governance Report.	N/A	The Company has in place an internal audit function to discharge the duties mentioned in C.2.1 in this report.

C.3 Audit Committee

Principle
The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

The Company established the Audit Committee pursuant to a resolution of all Directors passed on 15 June 2007. The Audit Committee has three members comprising all independent non-executive Directors, namely Mr. CHU Pao-Kuei, Mr. NG Hak-Kim, *JP*., and Mr. HUNG John Terence, *SBS, JP*. The chairman of the Audit Committee is Mr. CHU Pao-Kuei.

Audit Committee meetings were held in August 2007 (the "August Meeting") and in November 2007 (the "November Meeting") and the attendance rate is 100%. In the August Meeting, the following major work has been performed:

(A) Reporting matters:
- (i) reviewed the financial reporting system;
- (ii) reviewed the internal control procedures;
- (iii) reviewed the internal audit function; and
- (iv) reviewed the risk management system;

(B) Discussion matters:
- (i) reviewed and discussed the interim results for the six months ended 30 June 2007;

In the November Meeting, the following major work has been performed:

(A) Reporting matters:
- (i) reviewed the progress of internal audit;
- (ii) reviewed auditors' audit planning for 2007.

(B) Discussion matters:
- (i) reviewed and discussed the quarterly results for the three months and nine months ended 30 September 2007.

In November 2007, a forum was held to discuss the practical discharging of the duties of Audit Committee. The forum was chaired by Mr. CHU Pao-Kuei, the chairman of the Audit Committee and was participated by various senior members of the management of the Company including the chief operating officer, the chief financial officer, the finance manager and the head of the internal audit. The following matters were discussed at the forum:

- (i) Directors' duties and responsibilities;
- (ii) preparation of agenda for audit committee meetings;
- (iii) communication with internal audit department;
- (iv) communication with risk management department; and
- (v) communication with chief financial officer of the Company.

External Auditors and Auditors' Remuneration
The remuneration paid/payable to the external auditors of the Company in respect of audit services provided to the Group for the year ended 31 December 2007 is US$601,000.

Corporate Governance Report

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 audit committee should be sent to all members of the committee for their comment and records respectively within a reasonable time after the meeting.	✓	The Company Secretary is responsible for preparing minutes of all Audit Committee meetings and such minutes are 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 Directors for record.
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for a period of 1 year commencing on 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 the later.	✓	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.
C.3.3 The terms of reference of the audit committee should include at least the following areas: (a) Relationship with the issuer's auditors; (b) Review of financial information of the issuer; (c) Oversight of the issuer's financial reporting system and internal control procedures.	✓	The Audit Committee was established with specific written terms of reference which have complied with the Code requirements. The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations.
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.	✓	The terms of reference is posted on the website of the Company. A copy of the terms of reference is made available on request.
C.3.5 Where the board disagrees with the audit committee's views in the selection, appointment, resignation or dismissal of the external auditors, 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.
C.3.6 The audit committee should be provided with sufficient resources to discharge 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, internal control system and risk management system to facilitate the process of making appropriate recommendations and proposals.

Corporate Governance Report

Recommended Best Practices	Compliance	Corporate Governance Practices
C.3.7 The terms of reference of the audit committee should also require the audit committee: (a) to review arrangements by which employees of the issuer may 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 such 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 Code.
D. Delegation by the Board		
D.1 Management functions **Principle** The Company has established a formal schedule of matters specifically reserved to the Board for its decision. The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing which was first proposed by the Corporate Governance Committee then approved by the Board in August 2007. Such separation of responsibilities have 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 powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the issuer.	✓	Management meetings are held periodically where executive Directors and heads and senior management of respective business division are present and clear directions are given as to the powers of management.
D.1.2 An issuer should formalise the functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.	✓	Please refer to the disclosure made under A.1 in this report.

Recommended Best Practices	Compliance	Corporate Governance Practices
D.1.3 An issuer should disclose the division of responsibility between the board and management to assist those affected by corporate decisions to better understand the respective accountabilities and contributions of the board and management.	✓	Executive Directors assume day-to-day management functions in their respective business divisions in the Group so that division of responsibilities between the Board and the management is fully aware of by those affected by corporate decisions in each business division.
D.1.4 Directors should clearly understand delegation arrangements in place. To that end, issuers should have formal letters of appointment for directors setting out the key terms and conditions relative to their appointment.	✓	The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing which was first proposed by the Corporate Governance Committee then approved by the Board in August 2007.
D.2 Board Committees **Principle** Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.		
Code Provisions	**Compliance**	**Corporate Governance Practices**
D.2.1 Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	✓	The Board committees were established with their respective specific terms of reference. Please refer to the descriptions under A.4.5, B.1.1, C.3.3 and E.1 in this report.
D.2.2 The terms of reference of board committees should require such committees 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.

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 spokesmen 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.

The Company established the IR Committee pursuant to a Board resolution passed on 31 August 2007 with the objective of enhancing communication with the Shareholders, providing greater transparency and quality of disclosure within the legal and regulatory framework. The IR Committee has three members comprising one independent non-executive Director, Mr. HUNG John Terence, *SBS, JP*, one executive Director, Mr. CHI Lo-Jen, Stephen and the chief financial officer of the Company, Mr. LEE Kwok Ming, Don. The chairman of the IR Committee is Mr. HUNG John Terence, *SBS, JP*.

IR Committee meeting was held once in 2007 and the attendance rate is 100%. In the meeting, the following work has been performed:

(i) identify the spokesmen of the Company;
(ii) devise a policy as regards to providing sponsorship/donations as far as corporate social responsibility is concerned;
(iii) determine the role of investor relations/public relations consultant; and
(iv) propose to provide a guideline in corporate disclosure policy;

Code Provisions	Compliance	Corporate Governance Practices
E.1.1 In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	N/A	No general meeting was held since the Listing Date and up to 31 December 2007. However, the Company shall endeavour to comply with this Code requirement in the forthcoming annual general meeting which will be held on 7 May 2008.
E.1.2 The chairman of the board should attend the annual general meeting and arrange the chairman of audit, remuneration and nomination committees to be available to answer questions at the annual general meeting. The chairman of the independent board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	N/A	No annual general meeting was held since the Listing Date and up to 31 December 2007. However, the Company shall endeavour to comply with this Code requirement in the forthcoming annual general meeting which will be held on 7 May 2008.

E.2 Voting by Poll **Principle** The Company should regularly inform Shareholders of 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 disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in rule 13.39(4). In particular, pursuant to rule 13.39(3), the chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.	N/A	No general meeting was held in since the Listing Date and up to 31 December 2007. However, the Company shall endeavour to comply with this Code requirement in the forthcoming annual general meeting which will be held on 7 May 2008.
E.2.2 The issuer should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The issuer should ensure that votes cast are properly counted and recorded.	N/A	No general meeting was held in since the Listing Date and up to 31 December 2007. However, the Company shall endeavour to comply with this Code requirement in the forthcoming annual general meeting which will be held on 7 May 2008.
E.2.3 The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of: — (a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.	N/A	No general meeting was held in since the Listing Date and up to 31 December 2007. However, the Company shall endeavour to comply with this Code requirement in the forthcoming annual general meeting which will be held on 7 May 2008.

Corporate Governance Report

Directors' and Auditors' 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 system of internal control of the Group.

The external auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year under review.

Biographies of Directors and Senior Management

We have a dedicated senior
management team
with in-depth industry knowledge
and an established track record,
and an experienced
non-executive board
of diversified background and
competencies.

Biographies of Directors and Senior Management

Executive Directors

Mr. CHIANG Jeh-Chung, Jack, aged 57, is the Chairman of the Board and an Executive Director of the Company. Mr. Chiang has been with the Group since 1983 and is one of the founders of the Group. He is responsible for the Group's design, development, marketing and customer relationship. Mr. Chiang has over 25 years of experience in new product development and management in the footwear industry. He is the uncle of a fellow Director, Mr. Chi Lo-Jen, Stephen, and is the brother-in-law of a fellow Director of the Company, Mr. Shieh Tung-Pi, Billy. He is one of the shareholders of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also the director of Stella International Marketing Company Limited and 興記九興貿易(上海)有限公司 (Stella Luna Fashion Inc.), both of which are subsidiaries of the Company.

Mr. CHAO Ming-Cheng, Eric, aged 56, is an 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 25 years of experience in management in the footwear industry. He holds a Bachelor of Commerce degree from the Tunghai University, Taiwan. He is one of the shareholders of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also the director of 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.), a subsidiary of the Company.

Mr. CHEN Li-Ming, Lawrence, aged 47, is an Executive Director of the Company and the Chief Executive Officer of the Group. Mr. Chen has been with the Group since 1985. He has been responsible for the Group's corporate management. He has over 22 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. Mr. Chen is the brother-in-law of the Non-executive Director, Mr. SHIH Takuen, Daniel. He is the sole director and one of the shareholders of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also the director of N.O.I. Holding Company Limited, N.O.I. (Macau) Company Limited, Stella Luna Fashion (HK) Limited, Stella Luna Sol Limited, Stella Services Limited, 東莞興昂鞋業有限公司 (Dongguan Stella Footwear Co. Ltd.), 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.) and 興記九興貿易(上海)有限公司 (Stella Luna Fashion Inc.), all of which are subsidiaries of the Company.

Mr. SHIEH Tung-Pi, Billy, aged 50, is an Executive Director of the Company and the Chief Operating Officer of the Group. Mr. Shieh has been with the Group since 1982. Mr. Shieh has over 25 years of experience in the footwear industry. He holds a Certificate of Tourism Management from the Tansui Institute of Industrial and Business Administration (now the Aletheia University), Taiwan. Mr. Shieh is the brother-in-law of the Chairman of the Board, Mr. Chiang Jeh-Chung, Jack. He is one of the shareholders of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also the director of Stella Footwear Inc. and 東莞興昂鞋業有限公司 (Dongguan Stella Footwear Co. Ltd.) both of which are subsidiaries of the Company.

Mr. CHI Lo-Jen, Stephen, aged 36, is an Executive Director of the Company. Mr Chi joined the Group in 1995 and is the Chief Operating Officer of the Women's Footwear Business Division of the Group. He is responsible for the supervision of the daily operations and business development of women's footwear business. Mr. Chi is also responsible for product design and development. He has over 12 years of experience in the footwear industry. Mr. Chi is the nephew of the Chairman of the Board, Mr. Chiang Jeh-Chung, Jack. He is one of the shareholders of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Biographies of Directors and Senior Management

Non-Executive Director

SHIH Takuen, Daniel, ***Ph.D***, aged 56, is the Deputy Chairman of the Board, a Non-executive Director and the chairman of the Corporate Governance Committee of the Company. Mr. Shih holds a Bachelor in Electrical Engineering degree and a Master of Science degree from the Tatung Institute of Technology (now the Tatung University), Taiwan and the University of Cincinnati, the United States, respectively. Mr. Shih is the brother-in-law of the Executive Director, Mr. Chen Li-Ming, Lawrence. Mr. Shih is currently the chairman of PepsiCo (China) Investment Ltd. He is one of the shareholders of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. Mr. Shih has been appointed as a Non-executive Director since June 2007.

Independent Non-Executive Directors

Mr. CHU Pao-Kuei, aged 76, is an Independent Non-executive Director and the chairman of the Audit Committee of the Company. Mr. Chu studied at the National Taiwan University. He is one of the founders of KPMG Taiwan, and was also a partner of KPMG International. Mr. Chu has been a managing partner in charge of the tax department of KPMG Taiwan for over 20 years. Currently he is an independent director of Yuanta Commercial Bank Company Limited (元大商業銀行股份有限公司), a supervisor of Zurich Insurance (Taiwan) Ltd. (蘇黎世產物保險股份有限公司), a supervisor of Sesoda Corporation (東碱股份有限公司) and an independent supervisor of ReaLy Development & Construction Corp. (綠意開發股份有限公司). He currently is appointed as an external member of the Securities Listings Review Committee of the Taiwan Stock Exchange Corporation. In addition, Mr. Chu was a member for the following committees in Taiwan: the Finance and Taxation Group of Economic Reform Committee of the Executive Yuan, the Gre Tai Securities Market Committee of Taipei Securities Association and the Transportation Fare Committee of the Ministry of Transportations and Communications. Before he retired in 2005, Mr. Chu has been a member of the Taiwan Provincial Association of Certified Public Accountants, Republic of China, and a member of Taipei Certified Public Accountants Association since 1967. Mr. Chu has been appointed as an Independent Non-executive Director of the Company since June 2007.

Mr. NG Hak-Kim, ***JP***, aged 55, is an Independent Non-executive Director and the chairman of the Remuneration Committee of the Company. Mr. Ng holds a Bachelor of Social Science degree from the Chinese University of Hong Kong and a Master of Social Science degree from the University of Hong Kong. He is a fellow of Hong Kong Institute of Directors, the chairman of Human Capital Management Consulting Ltd. and Adjunct Professor at the Hong Kong Baptist University. Mr. Ng was the President of the World Federation of Personnel Management Associations from 2000 to 2002 and has been the President of Asia Pacific Federation of Human Resource Management for three years and Hong Kong Institute of Human Resource Management for five years. He has been in the human resource profession for over 25 years. Prior to his last role up to January 2007 as Head of Human Resources for Macquarie Securities Asia, he had extensive human resources management experience with multinational corporations including JPMorgan Chase, Jardine Fleming, AT&T and Citibank, N.A. and industrial corporation including Motorola. His professional and community service include, among others, serving as the Deputy Council Chairman and chairman of Staff Committee of the Hong Kong Institute of Education, a Council member and Chairman of HR Committee of the HK Examination and Assessment Authority, a Council member and the Ex-Chairman of Remuneration Committee of Hong Kong Housing Society, and a member of Council and Finance Committee and Chairman of Audit Sub-Committee of Hong Kong Housing Authority. Mr. Ng has been appointed as an Independent Non-executive Director of the Company since June 2007.

Biographies of Directors and Senior Management

Mr. HUNG John Terence, ***SBS, JP***, aged 69, is an Independent Non-executive Director, the chairman of the Nomination Committee and the Investor Relations Committee of the Company. Prior to his retirement in 2002, Mr. Hung was a managing director of Wheelock and Company Limited and an executive director of The Wharf (Holdings) Limited where he was responsible for corporate development of the Wheelock Group and the Wharf Group, and in particular, worldwide institutional banking, capital market fundraising and investor relations. Mr. Hung joined the Wheelock/Wharf group in 1967 and held directorships in seven of its listed companies including Wheelock and Company Limited, The Wharf (Holdings) Limited, i-CABLE Communications Limited, Lane Crawford International Limited, Marco Polo Developments Limited, Joyce Boutique Holdings Limited and Realty Development Corporation Company Limited. After his retirement from the Wheelock/Wharf conglomerate, Mr. Hung remained active in business and private ventures, engaging in corporate investment and consultancies and acting as intermediary for cross-border investments between mainland China and international companies. Mr. Hung is a Fellow of the Hong Kong Management Association. Furthermore, he was the President of the Hong Kong Cricket Club for ten years, the chairman of the Hong Kong Sports Development Board and a member of the general committee of the Hong Kong General Chamber of Commerce. Mr. Hung has been an independent non-executive director of Cheuk Nang (Holdings) Limited, a company listed on the Stock Exchange from September 2004 until October 2006 when he resigned. Mr. Hung has been appointed as an Independent Non-executive Director since June 2007.

Senior Management

Mr. LEE Kwok Ming, aged 50, is the Chief Financial Officer and qualified accountant of the Company. 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. From 2004 to 2005, he was the executive director of Vitop Bioenergy Holdings Limited and the independent non-executive director of TravelSky Technology Limited. Since 2004, he has been the independent non-executive director of Lianhua Supermarket Holdings Co., Ltd. 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.

Mr. CHEN Tung-Po, aged 51, is the Vice President of the Women's Footwear Business Division of the Group. Mr. Chen has been with the Group since 1983. He has over 24 years of experience in the footwear industry. Mr. Chen is the brother of a member of the senior management of the company, Mr. Chen Tung-Jui. He is also the director of Selena Footwear Inc. and 東莞興昂鞋業有限公司 (Dongguan Stella Footwear Co. Ltd.), both of which are subsidiaries of the Company.

Biographies of Directors and Senior Management

Mr. CHANG Ching-Hung, aged 47, is the Vice President of the Men's Footwear Business Division of the Group. Mr. Chang has been with the Group since 1985. Mr. Chang has over 21 years of experience in the footwear industry. He holds a Bachelor of Civil Engineering degree from the Chung Yuan Christian University, Taiwan. He is also the director of 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.), a subsidiary of the Company.

Mr. CHEN Tung-Jui, aged 46, is the Vice President of the Men's Footwear Business Division of the Group. Mr. Chen has been with the Group since 1985. He has over 22 years of experience in the footwear industry. Mr. Chen is the brother of a member of the senior management of the Company, Mr. Chen Tung-Po.

Mr. HUANG Wei Ming, Buddy, aged 38, is the Chief Operating Officer of the Men's Footwear Business Division of the Group. Mr. Huang has been with the Group since 1993. Mr. Huang has over 14 years of experience in the footwear industry. He holds a Bachelor of Arts degree in Liberal Arts and Sciences with a major in International Business from the San Diego State University, the United States.

Mr. CHANG Chen-Ou, aged 51, is the Deputy General Manager of the Men's Footwear Business Division of the Group. Mr. Chang joined the Group in 1994. Mr. Chang has over 22 years of experience in the footwear industry. He holds a Certificate of International Trade from the Tansui Institute of Industrial and Business Administration (now the Aletheia University), Taiwan.

Mr. CHU Chao-Min, aged 48, is the Deputy General Manager of Men's Footwear Business Division of the Group. Mr. Chu joined the Group in 1996 and he was assigned to Vietnam in 2002 to supervise the Group's production there. Prior to joining the Group, he served in various footwear companies such as 東立產業股份有限公司 (Tong Li Realty Ltd.). Mr. Chu has over 14 years of experience in the footwear industry. He holds a Bachelor of Commerce degree from the Feng Chia University, Taiwan.

Mr. TSENG Chung-Chieh, aged 51, is the Head of Trading Division of the Group. Mr. Tseng joined the Group in 2000 and was appointed to the current position in 2006. Prior to joining the Group, he served as country manager in China of Harbor Footwear Group, Ltd.. Mr. Tseng has over 13 years of experience in the footwear industry. He holds a Certificate of Business Administration from the Kuochi Commercial Junior College, Taiwan.

Ms. HSIEH Ju-Yun, aged 47, is the Deputy General Manager of Retail Business of the Group. Ms. Hsieh joined the Group in 2005, and prior to joining that, she worked with 永琦百貨事業股份有限公司 (Evergreen Department Store Ltd.), 立佳國際股份有限公司 (Li Jia International Ltd.) and 昇華國際股份有限公司 (Shin Hwa International Ltd.). Ms. Hsieh has over 21 years of experience in the retail industry. She holds a Certificate of Fashion Design from the Shih Chien College of Home Economics and Economics (now the Shih Chien University), Taiwan.


Directors' Report

Directors' Report

The board (the "Board") of directors (the "Directors") are pleased to present their annual report and the audited consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

Corporate Reorganisation

The Company was incorporated in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 5 March 2007. Pursuant to the Group's reorganisation (the "Reorganisation") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 13 June 2007. Details of the Reorganisation are set out in Appendix VI to the Company's prospectus dated 22 June 2007.

Principal Activities

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements for the year ended 31 December 2007.

Results and Dividend

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 71.

The Directors recommend the payment of a final dividend of HK$0.6 per ordinary share to shareholders (the "Shareholders") listed on the register of members of the Company on 2 May 2008, amounting to approximately US$62.4 million. It is expected that the final dividend will be paid on or about 23 May 2008.

Closure of Register of Members

The register of members of the Company will be closed from 5 May 2008 to 7 May 2008 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend for the year ended 31 December 2007 and attending and voting at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch 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 4:00 pm on 2 May 2008.

Directors' Report

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

Share Capital

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

Reserves

Details of movements in reserves of the Company during the year are set out in the statement of changes in equity of the Group and notes 28 and 29 to the consolidated financial statements.

Distributable Reserves

The Company's reserves available for distribution to shareholders as at 31 December 2007 were US$722.6 million (2006: US$439.3 million).

Directors

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

Executive Directors:

Mr. CHEN Jiann-Min, Jimmy	(appointed on 5 March 2007)
Mr. CHIANG Jeh-Chung, Jack	(appointed on 15 June, 2007)
Mr. CHAO Ming-Cheng, Eric	(appointed on 15 June, 2007)
Mr. SHIEH Tung-Pi, Billy	(appointed on 15 June, 2007)
Mr. CHI Lo-Jen, Stephen	(appointed on 15 June, 2007)

Non-executive Director:

Mr. SHIH Takuen, Daniel	(appointed on 15 June, 2007)

Independent Non-executive Directors:

Mr. CHU Pao-Kuei	(appointed on 15 June, 2007)
Mr. NG Hak-Kim, *JP*	(appointed on 15 June, 2007)
Mr. HUNG John Terence, *SBS, JP*	(appointed on 15 June, 2007)

Directors' Report

Subsequent to the balance sheet date, Mr. CHEN Jiann-Min, Jimmy was re-designated from an executive Director to a non-executive Director on 9 January 2008. On 19 March 2008, due to health reasons, Mr. CHEN Jiann-Min, Jimmy tendered his resignation as non-executive Director, the chairman of the Board and a member of the corporate governance committee of the Company with immediate effect. Besides, Mr. CHEN Li-Ming, Lawrence was appointed as an executive Director of the Company and Chief Executive Officer of the Group with effect from 9 January, 2008. Mr. SHIH Takuen, Daniel will also be re-designated as an Executive Director with effect from 1 May 2008.

In accordance with article 86(3) of the Company's articles of association, Mr. CHEN Li-Ming, Lawrence will hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with article 87 of the Company's articles of association, Mr. CHIANG Jeh-Chung, Jack, Mr. CHAO Ming-Cheng, Eric and Mr. CHI Lo-Jen, Stephen will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

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

Directors' Interests in Contracts of Significance

Save for the related party transactions disclosed in note 36 to the consolidated financial statements, no contract to which the Company, its ultimate holding company or any of the subsidiaries of the Company was a party, and in which Directors of the Company had, at any time during the year, whether directly or indirectly, an interest, (being, in either case, in the opinion of the Directors, a contract of significance in relation to the Company's business and in which the Director's interest is or was material), subsisted during or at the end of the year.

Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" 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

Each of the independent non-executive Directors of the Company has confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Listing Rules"). 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 2007, 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 ("SFO")), 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 for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules were as follows:

Director	Name of associated corporation	Number and class of shares	Approximate percentage of shareholding	Capacity/ Nature of Interest
CHEN Jiann-Min, Jimmy ("CHEN Jimmy")	Cordwalner Bonaventure Inc.	139,307 ordinary shares	13.93% (Note 1)	Beneficial owner and interests of spouse
CHAO Ming-Cheng, Eric ("CHAO Eric")	Cordwalner Bonaventure Inc.	113,694 ordinary shares	11.37% (Note 2)	Beneficial owner and interests of spouse
CHIANG Jeh-Chung, Jack	Cordwalner Bonaventure Inc.	76,000 ordinary shares	7.60%	Beneficial owner
SHIEH Tung-Pi, Billy	Cordwalner Bonaventure Inc.	37,506 ordinary shares	3.75%	Beneficial owner
CHI Lo-Jen, Stephen	Cordwalner Bonaventure Inc.	23,125 ordinary shares	2.31%	Beneficial owner
SHIH Takuen, Daniel	Cordwalner Bonaventure Inc.	6,536 ordinary shares	0.65%	Beneficial owner

Notes:

1. This includes about 6.33% of the relevant class of shares issued in Cordwalner Bonaventure Inc. of Ms. PAN Hsing-I, the spouse of CHEN Jimmy, which is deemed to be interested by CHEN Jimmy for the purpose of Part XV of the SFO.

2. This includes about 3.77% of the relevant class of shares issued in Cordwalner Bonaventure Inc. of Mrs. CHAO Tracy, the spouse of CHAO Eric, which is deemed to be interested by CHAO Eric for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares and debentures 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 for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules.

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

As at 31 December 2007, the interests and short positions of the substantial 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	585,000,000	72.29%

Save as disclosed above, as at 31 December 2007, 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 and short position in the shares and underlying shares of the Company that were required to be recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO.

Connected Transactions and Continuing Connected Transactions

Certain related party transactions as disclosed in note 36 to the consolidated financial statements also constituted continuing connected transactions within the meaning of the Listing Rules. Details of such transactions are summarised below:—

Exempt Continuing Connected Transaction

Purchase of machinery from Shenandoah Trading Co. Ltd. ("Shenandoah") (Item 1)

Connected person: Shenandoah, which is a trading company based in Taiwan, is our connected person, since the controlling group of shareholders of Shenandoah (holding in aggregate more than 30% of its issued share capital) include Mr. CHEN Jiann-Min, Jimmy, Mr. CHIANG Jeh-Chung, Jack and Mr. CHAO Ming-Cheng, Eric, all of whom are also Directors and shareholders of our controlling shareholder, Cordwalner Bonaventure Inc. for the year ended 31 December 2007.

Connected transaction: The ongoing purchase of such machinery by the Group from Shenandoah as governed under a framework purchase agreement with Shenandoah which has expired on 31 December 2007 constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules.

Purchase in 2007: The Group purchased machinery from Shenandoah amounting to US$312,000, which did not exceed the aggregate annual cap of US$500,000 for the financial year ended 31 December 2007.

Continuing Connected Transactions Exempt from Independent Shareholders' Approval Requirements

Lease of office from 東莞興泰鞋材有限公司 (Sanford International Co. Ltd.) ("Sanford") (Item 2)

Connected person: Sanford is 50% owned ultimately by Mr. CHEN Jiann-Min, Jimmy and 50% owned ultimately by Mr. CHEN Li-Ming, Lawrence. Since Sanford is an associate (as defined under the Listing Rules) of Mr. CHEN Jiann-Min, Jimmy who was our Director for the year ended 31 December 2007, it is therefore a connected person of the Company.

Connected transaction: On 21 May 2007, the Group entered into a tenancy agreement with Sanford for a term of three years effective from 1 January 2007 to 31 December 2009 and renewable for a three-year term. Pursuant to such tenancy agreement, Sanford agreed to lease office premises with a gross floor area of 940.18 sq.m. located at 中國上海黃埔區北海路八號二十層 (20th Floor, 8 Beihai Road, Huangpu District, Shanghai, China). The leased premises are used as the office of 興記九興貿易(上海)有限公司 (Stella Luna Fashion Inc.) in Shanghai, which is responsible for the Group's retail business in the PRC.

Rent in 2007: The Group paid RMB472,000 as rental for the tenancy (exclusive of water and electricity charges, gas fees, maintenance and property fees and other fees in relation to the utilisation of the premises), which did not exceed the aggregate annual cap of RMB676,920 for the financial year ended 31 December 2007.

Lease of factory from 惠州興昂鞋業有限公司 (Huizhou Stella Footwear Co. Ltd.) ("Huizhou Stella") (Item 3)

Connected person: Huizhou Stella is 50% owned ultimately by Mr. CHEN Jiann-Min, Jimmy and 50% owned ultimately by Mr. CHEN Li-Ming, Lawrence. Since Huizhou Stella is an associate (as defined under the Listing Rules) of Mr. CHEN Jiann-Min, Jimmy who was our Director for the year ended 31 December 2007, Huizhou Stella is therefore a connected person of the Company.

Connected transaction: On 21 May 2007, the Group entered into a tenancy agreement with Huizhou Stella for a term of three years effective from the date of establishment of the Group's new factory in Huizhou and renewable for a three-year term. Pursuant to such tenancy agreement, Huizhou Stella agreed to lease the industrial premises located at 中國惠州市惠城區馬安鎮新湖工業園 (Xinhu Industrial Park, Maan County, Huicheng District, Huizhou, China). The leased premises are used as the Group's new factory in Huizhou.

Rent in 2007: The aggregate annual cap for the financial year ended 31 December 2007 is RMB5,400,000. The Group had not paid any rental for the tenancy during the year.

Purchase of lasts from 東莞興和塑膠制品有限公司 (Sabina Footwear Co. Ltd.) ("Sabina") (Item 4)

Connected person: Sabina is 50% owned ultimately by Mr. CHEN Jiann-Min, Jimmy and 50% owned ultimately by Mr. CHEN Li-Ming, Lawrence. Since Sabina is an associate (as defined under the Listing Rules) of Mr. CHEN Jiann-Min, Jimmy who was our Director for the year ended 31 December 2007, Sabina is therefore a connected person of the Company.

Connected transaction: The ongoing purchase of lasts by the Group from Sabina as governed under a framework purchase agreement with Sabina expiring on 31 December 2009 and renewable for a three-year term constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules.

Purchase in 2007: The Group purchased lasts from Sabina amounting to US$2,157,000, which did not exceed the aggregate annual cap of US$2,600,000 for the financial year ended 31 December 2007.

Purchase of molds from 東莞興立精密模具有限公司 (Sincerely International Ltd.) ("Sincerely") (Item 5)

Connected person: Sincerely is 50% owned ultimately by Mr. CHEN Jiann-Min, Jimmy and 50% owned ultimately by Mr. CHEN Li-Ming, Lawrence. Since Sincerely is an associate (as defined under the Listing Rules) of Mr. CHEN Jiann-Min, Jimmy who was our Director for the year ended 31 December 2007, Sincerely is therefore a connected person of the Company.

Connected transaction: The ongoing purchase of molds by us from Sincerely as governed under a framework purchase agreement with Sincerely expiring on 31 December 2009 and renewable for a three-year term constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules.

Purchase in 2007: The Group purchased molds from Sincerely amounting to US$3,383,000, which did not exceed the aggregate annual cap of US$3,900,000 for the financial year ended 31 December 2007.

Non-exempt Continuing Connected Transactions

Purchase of tannery from 興昂制革(惠州)有限公司 (Simona Tannery Co. Ltd.) ("Simona Tannery") (Item 6)

Connected person: Simona Tannery is 50% owned ultimately by Mr. CHEN Jiann-Min, Jimmy and 50% owned ultimately by Mr. CHEN Li-Ming, Lawrence. Since Simona Tannery is an associate (as defined under the Listing Rules) of Mr. CHEN Jiann-Min, Jimmy who was our Director for the year ended 31 December 2007, Simona Tannery is therefore a connected person of the Company.

Connected transaction: The ongoing purchase of leather and other tannery products by the Group from Simona Tannery as governed under a framework purchase agreement with Simona Tannery expiring on 31 December 2009 and renewable for a three-year term constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules.

Purchase in 2007: The Group purchased leather and other tannery products from Simona Tannery amounting to US$25,975,000, which did not exceed the aggregate annual cap of US$32,800,000 for the financial year ended 31 December 2007.

Purchase of tannery and soles from Shenandoah (Item 7)

Connected person: As described under Item 1, Shenandoah is the connected person of the Company.

Connected transaction: The ongoing purchase of materials by the Group from Shenandoah as governed under a framework purchase agreement with Shenandoah which has expired on 31 December 2007 constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules.

Purchase in 2007: The Group purchased raw materials used for the manufacture of footwear, which include tannery and soles, from Shenandoah amounting to US$16,693,000, which did not exceed the aggregate annual cap of US$16,800,000 for the financial year ended 31 December 2007.

Purchase of sole materials from Sanford (Item 8)

Connected person: As described under Item 2, Sanford is the connected person of the Company.

Connected transaction: The ongoing purchase of sole materials by the Group from Sanford as governed under a framework purchase agreement with Sanford expiring on 31 December 2009 and renewable for a three-year term constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules.

Purchase in 2007: The Group purchased sole materials from Sanford amounting to US$7,927,000, which did not exceed the aggregate annual cap of US$11,900,000 for the financial year ended 31 December 2007.

Purchase of sole materials from 東莞興騰鞋材有限公司 (Dongguan Xintan Footwear Co. Ltd.) ("Xintan") (Item 9)

Connected person: Xintan is 50% owned ultimately by Mr. CHEN Jiann-Min, Jimmy and 50% owned ultimately by Mr. CHEN Li-Ming, Lawrence. Since Xintan is an associate (as defined under the Listing Rules) of Mr. CHEN Jiann-Min, Jimmy who was our Director for the year ended 31 December 2007, it is therefore a connected person of the Company.

Connected transaction: The ongoing purchase of sole materials by the Group from Xintan as governed under a framework purchase agreement with Xintan expiring on 31 December 2009 and renewable for a three-year term constitutes a continuing connected transaction under Rule 14A.14 of the Listing Rules.

Purchase in 2007: The Group purchased sole materials from Xintan amounting to US$7,181,000, which did not exceed the aggregate annual cap of US$17,300,000 for the financial year ended 31 December 2007.

Waivers from Compliance with Announcement and Independent Shareholders' Approval Requirements

For the continuing connected transaction described under Item 1 above, each of the percentage ratios (other than profit ratio), calculated by reference to Rule 14.07 of the Listing Rules, where applicable, is expected on an annual basis to be less than 0.1%. Accordingly, these transactions qualify under Rule 14A.33(3) of the Listing Rules as de minimis transactions that are exempt from the reporting, announcement and independent shareholders' approval requirements.

Under the Listing Rules, the continuing connected transactions described in Items 2 — 5 (Items 2 and 3 on an aggregated basis and Items 4 and 5 on an aggregated basis) above would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules; and Items 6 to 9 (on an aggregated basis) above would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the prior independent shareholders' approval requirements set out in Rule 14A.48 of the Listing Rules.

The Company has applied to the Stock Exchange for a waiver for the above connected transactions as described in Items 2 — 9 from strict compliance with the requirements under Rule 14A.42(3) of the Listing Rules and the Stock Exchange had granted such waiver to the Company from compliance with the announcement and independent shareholders' approval requirements in relation to these transactions.

Report of the auditors on certain procedures in respect of the continuing connection transactions of the Group to the Board

Pursuant to Chapter 14A.38 of the Listing Rules, the Board has engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive Directors have, for the purpose of Rule 14A.37 of the Listing Rules, reviewed the continuing connected transactions and the report of the auditors and have confirmed that the aforesaid continuing connected transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 promotion programs. The Group adopts a remuneration system based on employees' individual performance, skill and knowledge, together with reference to the Company's operating results and comparable market statistics.

The emoluments of the Directors are first reviewed by the remuneration committee of the Company 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 Company, remuneration benchmarks in the industry, and prevailing market conditions.

Long Term Incentive Scheme

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the shareholders of the Company passed on 15 June 2007 and was adopted by a resolution of the Board on 15 June 2007 and as further amended by a resolution of the duly authorised committee of the Board on 18 June 2007. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the 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 promote the success of the Group.

The Board may, at its discretion and on such terms as it may think fit, grant an employee, a director and any shareholder of any members of the Group or any holder of any securities issued by any member of the Group an award ("Award"), either by way of option ("Option") to subscribe for shares of the Company ("Shares"), an award of Shares or a grant of a conditional right to acquire Shares as it may determine in accordance with the terms of the Scheme.

The basis of eligibility of any participant to the grant of any Award shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

The Scheme shall be valid and effective for a period of 10 years commencing from 6 July 2007, after which period no further Awards may be offered or granted. The Board shall, subject to the rules of the Scheme and the Listing Rules, have the right to determine, among others, the exercise price of an Option, the minimum period for which the Award must be held before its vesting, performance, operating and financial targets and other criteria to be satisfied before the vesting of an Award and other terms and conditions of an Award, provided that, in respect of an Award of Option, the exercise price of an Option shall be a price determined by the Board at its absolute discretion but shall not be less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer; or (iii) the nominal value of the Shares on the date of offer. An offer of an Award must be accepted within twenty-one (21) days from the date of the offer, together with a remittance in favour of the company in an amount specified in the offer as being the consideration for the grant. To the extent that the offer is not accepted within the prescribed time period, it will be deemed to have been irrevocably declined.

Subject to the Listing Rules, the overall limit on the number of Shares subject to Awards from time to time under the Scheme and any other schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time (i.e. 242,775,000 Shares as at the date of this annual report). The total number of Shares issued and to be issued upon exercise of Options or vesting of Awards granted and to be granted to each participant or grantee (including exercised, cancelled and outstanding Options, and vested and outstanding Awards) in any 12-month period shall not exceed 1% of the Shares in issue at the offer date. Any further grant of Awards in excess of the above limit must be subject to shareholders' approval by ordinary resolution in general meeting. The Board will determine the minimum period, if any, for which an Award must be held before it vests and any other conditions in relation to dealing with Shares on vesting. Where any offer proposed to be made to a substantial shareholder or an independent non-executive director of the Company or any of his associates would result in the total number of Shares issued or to be issued to satisfy Awards already granted or to be granted to such person in any 12-month period up to and including the date of offer: (i) representing in aggregate over 0.1% of the Shares in issue at the date of offer; and (ii) having an aggregate value, based on the closing price of the Shares at the date of offer, in excess of HK$5 million, then such offer and any acceptance thereof must be subject to approval of the shareholders in general meeting taken on a poll.

Since the Scheme has become effective upon the Company's listing of its shares on the Stock Exchange on 6 July 2007 (the "Listing Date"), no share options were granted, exercised or cancelled by the Company under the Scheme during the year under review and there are no outstanding share options under the Scheme as at 31 December 2007.

Title Certificates

The outstanding title certificates in respect of the substantial majority of the business premises under 東莞興昂鞋業有限公司 (Dongguan Stella Footwear Co. Ltd.) as referred to in the prospectus of the Company had been obtained during the year of 2007.

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.

Directors' Report

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.

Major Customers and Suppliers

The aggregate revenue attributable to the Group's largest customer and five largest customers accounted for approximately 17.1% and 59.9% of the Group's total revenue for the year ended 31 December 2007 respectively.

The aggregate purchase attributable to the Group's largest supplier and five largest suppliers accounted for approximately 6.0% and 20.6% of the Group's total purchases for the year ended 31 December 2007 respectively.

None of the Directors or any of their 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 or five largest suppliers.

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

Since the listing of the Company's shares on the main board of Stock Exchange on 6 July 2007 until 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Auditor

A resolution will be proposed to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

CHIANG Jeh-Chung, Jack
Chairman

27 March 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF STELLA INTERNATIONAL HOLDINGS LIMITED

(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 121, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 US$'000	2006 US$'000
Revenue	7	**937,164**	779,346
Cost of sales		**(716,149)**	(613,686)
Gross profit		**221,015**	165,660
Other income	8	**15,911**	15,007
Selling and distribution costs		**(38,549)**	(31,666)
Administrative expenses		**(45,750)**	(28,876)
Research and development costs		**(33,025)**	(26,403)
Share of results of an associate		**(89)**	—
Finance costs	9	**(297)**	(91)
Profit before tax		**119,216**	93,631
Income tax expense	10	**(4,593)**	(2,257)
Profit for the year	11	**114,623**	91,374
Attributable to:			
Equity holders of the Company		**114,695**	91,374
Minority interests		**(72)**	—
		114,623	91,374
Dividends	13	**251,241**	21,787
Earnings per share - Basic (US$)	14	**0.165**	0.156

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 US$'000	2006 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**158,165**	144,647
Prepaid lease payments - non-current portion	16	**8,527**	9,452
Interest in an associate	17	**1,911**	—
Deposit paid for acquisition of property, plant and equipment		**1,197**	584
		169,800	154,683
CURRENT ASSETS			
Inventories	18	**97,888**	77,908
Trade and other receivables	19	**174,119**	127,976
Prepaid lease payments - current portion	16	**239**	228
Amounts due from related companies	20	**—**	78,653
Amount due from an associate	21	**7,129**	—
Investments held for trading	22	**—**	49,850
Derivative financial instruments	23	**595**	—
Cash and cash equivalents	24	**406,960**	73,673
		686,930	408,288
CURRENT LIABILITIES			
Trade and other payables	25	**115,553**	105,563
Amounts due to related companies	26	**—**	15,083
Derivative financial instruments	23	**343**	—
Tax payable		**7,714**	3,004
		123,610	123,650
NET CURRENT ASSETS		**563,320**	284,638
		733,120	439,321
CAPITAL AND RESERVES			
Share capital	27	**10,350**	—
Share premium and reserves		**722,647**	439,321
Equity attributable to equity holders of the Company		**732,997**	439,321
Minority interests		**123**	—
		733,120	439,321

The consolidated financial statements on pages 71 to 121 were approved and authorised for issue by the board of directors on 27 March 2008 and are signed on its behalf by:

CHIANG Jeh-Chung, Jack
Director

CHAO Ming-Cheng, Eric
Director

Consolidated Statements of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company								
	Share capital US$'000	**Share premium** US$'000	**Merger reserve** US$'000 (Note 28)	**Capital reserve** US$'000 (Note 29)	**Exchange reserve** US$'000	**Accumulated profits** US$'000	**Total** US$'000	**Minority interests** US$'000	**Total** US$'000
At 1 January 2006	–	45,440	–	–	7,618	322,960	376,018	–	376,018
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	(6,284)	–	(6,284)	–	(6,284)
Profit for the year	–	–	–	–	–	91,374	91,374	–	91,374
Total recognised income and expense for the year	–	–	–	–	(6,284)	91,374	85,090	–	85,090
Dividend recognised as distribution	–	–	–	–	–	(21,787)	(21,787)	–	(21,787)
At 31 December 2006	–	45,440	–	–	1,334	392,547	439,321	–	439,321
Exchange difference on translation of foreign operations recognised directly in equity	–	–	–	–	200	–	200	–	200
Profit for the year	–	–	–	–	–	114,695	114,695	(72)	114,623
Total recognised income and expense for the year	–	–	–	–	200	114,695	114,895	(72)	114,823
Arising from group reorganisation	13	(45,440)	45,427	–	–	–	–	–	–
Issue of shares at premium through initial public offerings	2,494	384,084	–	–	–	–	386,578	–	386,578
Issue of shares at premium through exercise of the over-allotment option	374	57,612	–	–	–	–	57,986	–	57,986
Issue of shares by capitalisation of share premium account	7,469	(7,469)	–	–	–	–	–	–	–
Transaction costs attributable to issue of new shares	–	(15,688)	–	–	–	–	(15,688)	–	(15,688)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	195	195
Recognised of equity-settled share-based payment expenses	–	–	–	1,146	–	–	1,146	–	1,146
Dividend recognised as distribution	–	(251,241)	–	–	–	–	(251,241)	–	(251,241)
At 31 December 2007	10,350	167,298	45,427	1,146	1,534	507,242	732,997	123	733,120

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 US$'000	2006 US$'000
OPERATING ACTIVITIES		
Profit before tax	**119,216**	93,631
Adjustments for:		
Depreciation of property, plant and equipment	**15,284**	13,006
Dividend income	**(96)**	(197)
Allowance for trade receivables	**—**	504
Interest expense	**297**	91
Interest income	**(10,089)**	(4,450)
Loss on changes in fair value of investments held for trading	**—**	2,346
Share of results of an associate	**89**	—
Gain on changes in fair value of derivative financial instruments	**(252)**	—
Loss on disposal of property, plant and equipment	**241**	961
Release of prepaid lease payments	**301**	226
Share-based payment expenses	**1,146**	—
Allowance for inventories	**1,632**	291
Operating cash flows before movements in working capital	**127,769**	106,409
Increase in prepaid lease payments	**—**	(360)
Increase in inventories	**(21,612)**	(12,891)
Increase in investments held for trading	**—**	(9,580)
Increase in trade and other receivables	**(46,143)**	(13,389)
Increase in amounts due from related companies	**—**	(19,696)
Increase in trade and other payables	**4,231**	11,035
Decrease in amounts due to related companies	**(15,130)**	(10,337)
NET CASH FROM OPERATING ACTIVITIES	**49,115**	51,191
INVESTING ACTIVITIES		
Interest received	**10,089**	4,450
Dividend received	**96**	197
Purchase of property, plant and equipment	**(22,575)**	(23,891)
Investment in an associate	**(2,000)**	—
Advance to an associate	**(7,129)**	—
Deposit paid for acquisition of property, plant and equipment	**(1,197)**	(584)
Proceeds from disposal of property, plant and equipment	**424**	1,749
NET CASH USED IN INVESTING ACTIVITIES	**(22,292)**	(18,079)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 US$'000	2006 US$'000
FINANCING ACTIVITIES		
Proceeds from initial public offerings	**444,564**	—
New bank borrowings raised	**120,000**	—
Capital contribution from minority shareholders	**195**	—
Share issue expenses paid	**(15,688)**	—
Dividend paid	**(122,738)**	(21,787)
Repayment of bank borrowings	**(120,000)**	—
Interest paid	**(297)**	(91)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**306,036**	(21,878)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**332,859**	11,234
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**73,673**	63,167
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**428**	(728)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by	**406,960**	73,673
Bank balances and cash	**364,539**	51,784
Deposits placed in financial institutions	**42,421**	21,889
	406,960	73,673

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. General

The Company is a public limited company incorporated in Cayman Islands under the Companies Law as an exempted company with limited liability on 5 March 2007 and its share are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 6 July 2007. Its ultimate and immediate holding company is Cordwalner Bonaventure Inc. ("Cordwalner") which is incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company acts as an investment holding company. Particulars of the principal activities of its subsidiaries and associate are set out in notes 38 and 17 respectively.

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

2. Group reorganisation and basis of presentation of consolidated financial statements

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (herein collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 13 June 2007. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 22 June 2007 (the "Prospectus").

The consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement are prepared as if the group structure upon the Group Reorganisation had been in existence throughout the year ended 31 December 2006 and 2007 or since the respective dates of incorporation/establishment of the relevant entity, where this is a shorter period. The consolidated balance sheet as at 31 December 2006 presents the assets and liabilities of the companies now comprising the Group which had been incorporated/established as at the balance sheet date as if the group structure upon the Group Reorganisation had been in existence at that date. The Group Reorganisation completed on 13 June 2007 was to intersperse the Company between Cordwalner, the immediate holding company, and Stella International Limited ("Stella International"), N.O.I. Holding Company Limited, Stella International Marketing Company Limited and Stella Luna Sol Limited.

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRS's")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new or revised standards, amendment or interpretations that have been issued but are not yet effective:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) - INT 12	Service Concession Arrangements[4]
HK(IFRIC) - INT 13	Customer Loyalty Programmes[5]
HK(IFRIC) - INT 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 March 2007

[4] Effective for annual periods beginning on or after 1 January 2008

[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

4. Significant accounting policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The consolidated financial statements have been prepared in accordance with the accounting policies set out below, which conform with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

4. Significant accounting policies *(continued)*

Revenue recognition

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

Revenue from sale of goods sold is recognised when the goods are delivered and title has passed.

Interest income from financial assets including financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the relevant leases.

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the Group's rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

4. Significant accounting policies *(continued)*

Impairment losses on assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior year. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. Significant accounting policies *(continued)*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

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

4. Significant accounting policies *(continued)*

Leasing *(continued)*

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the terms of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease terms.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight line basis.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into held for trading investments and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

4. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Held for trading investments

A financial asset is classified as held for trading if:

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

At each balance sheet date subsequent to initial recognition, held for trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, amount due from an associate and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than held for trading investments, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

4. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities

Financial liabilities including trade and other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivatives financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Significant accounting policies *(continued)*

Share-based payment transactions

Shares granted by the shareholders to employees

The fair value of services received determined by reference to fair value of shares granted at the grant date is recognised as an expense on a straight line basis over the vesting period, with a corresponding increase in equity (capital reserve).

At each balance sheet date, the Group revises its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to capital reserve.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

5. Capital risk management

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

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

6. Financial instruments

6a. Categories of financial instruments

	2007 **US$'000**	2006 US$'000
Financial assets		
Investments held for trading	**–**	49,850
Loans and receivables (including cash and cash equivalents)	**566,347**	266,983
Derivative instruments	**252**	—
Financial liabilities		
Amortised cost	**111,048**	120,498

6b. Financial risk management objectives and policies

The Group's major financial instruments include bank balances, bank deposits, deposits placed in financial institutions, trade and other receivables, trade and other payables, amounts due from/to related companies, amount due from an associate and investments held for trading. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group mainly operates in the PRC, and exposure in exchange rate mainly arises from fluctuation on foreign currencies against the functional currency of the relevant group companies, including Renminbi and Hong Kong dollars. As Hong Kong dollars is linked to United States dollars, the currency risk is considered insignificant. The Group entered into certain foreign exchange forward contracts to manage the currency exposure. The Group also entered into other foreign exchange forward contracts for speculative purpose.

6. Financial instruments *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets (including trade and other receivables and cash and cash equivalents) and monetary liabilities (including trade and other payables) at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Renminbi	**34,639**	30,682	**36,288**	17,941
Hong Kong dollars	**31**	—	**231,609**	7,724
Other	**402**	—	**3,758**	4,250

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in United States dollars against Renminbi. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where United States dollars strengthen 5% against the Renminbi. For a 5% weakening of United States dollars against Renminbi, there would be an equal and opposite impact on the profit for the year.

	Impact Renminbi	
	2007	2006
	US$'000	US$'000
Increase (decrease) in profit for the year	**82**	(637)

6. Financial instruments *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to bank deposits carrying fixed interest rates and cash flow interest rate risk in relation to short-term deposits placed in banks and financial institutions that are interest-bearing at market interest rates. The directors consider the Group's exposure of the bank deposits to fair value interest rate risk is not significant as interest bearing bank deposits are within short maturity period.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates in its variable-rate bank deposits at the balance sheet date. For variable rate bank deposits, the analysis is prepared assuming the amount of deposits outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used by the management for the assessment of the possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by US$2,026,000 (2006: US$363,000).

Other price risk

(i) Equity price risk

The Group is exposed to equity price risk through its held for trading investments, which are measured at fair value at each balance sheet date.

For the equity price risk, management manages this exposure by maintaining a portfolio of investments with different risk profiles. During the year ended 31 December 2007, the Group has disposed of all the held for trading investments.

(ii) Forward foreign exchange rate risk

The Group's derivative financial instruments also exposed the Group to market bid forward foreign exchange rates.

6. Financial instruments *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Sensitivity analysis

If the market bid forward foreign exchange rate of Renminbi against US dollars had been 5% higher/lower, profit for the year ended 31 December 2007 would increase/decrease by US$ 387,000 (2006: increase/decrease by US$ nil) as a result of the changes in the market bid forward foreign exchange rate of Renminbi against US dollars.

Credit risk

At 31 December 2007 and 2006, failure to the Group's maximum exposure to credit risk which cause a financial loss to the Group due to discharge an obligation by the counterparties and financial guarantees provided by the Group, respectively, is arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 35.

In order to minimise the credit risk, management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

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

6. Financial instruments *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

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

	0 - 30 days US$'000	31 - 90 days US$'000	91 - 365 days US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2007					
Non-derivative financial liabilities					
Trade and other payables	51,895	55,756	3,397	111,048	111,048
Derivatives settled net					
Foreign exchange forward contracts	–	–	343	343	343
Derivatives settled gross					
Foreign exchange forward contracts					
- inflow	–	–	(15,838)	(15,838)	(15,838)
- outflow	–	–	15,243	15,243	15,243
	–	–	(595)	(595)	(595)
As at 31 December 2006					
Non-derivative financial liabilities					
Trade and other payables	41,713	41,475	22,227	105,415	105,415
Amount due to related companies	–	–	15,083	15,083	15,083
	41,713	41,475	37,310	120,498	120,498

6. Financial instruments *(continued)*

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

7. Revenue and segmental information

Business segments

For management purposes, the Group is currently organised into three operating divisions:

Men's footwear	— manufacturing and sales of men's footwear
Women's footwear	— manufacturing and sales of women's footwear
Footwear retailing	— retailing of footwear

These divisions are the basis on which the Group reports its primary segmental information.

7. Revenue and segmental information *(continued)*

Business segments *(continued)*

Segmental information about these businesses is presented below.

For the year ended 31 December 2007

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing US$'000	Eliminations US$'000	Consolidated US$'000
CONSOLIDATED INCOME STATEMENT					
REVENUE					
External sales	323,335	602,900	10,929	—	937,164
Inter-segment sales	—	4,239	—	(4,239)	—
Total	323,335	607,139	10,929	(4,239)	937,164
Inter-segment sales are charged at prevailing market rates					
RESULTS					
Segment results	50,016	129,566	(465)	—	179,117
Unallocated corporate income					15,911
Unallocated corporate expenses					(75,515)
Finance costs					(297)
Profit before tax					119,216
Income tax expense					(4,593)
Profit for the year					114,623

As at 31 December 2007

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing US$'000	Eliminations US$'000	Consolidated US$'000
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	227,750	196,396	15,587	—	439,733
Interest in an associate	1,319	592	—		1,911
Unallocated corporate assets					415,086
Consolidated total assets					856,730
LIABILITIES					
Segment liabilities	55,631	56,508	270	—	112,409
Unallocated corporate liabilities					11,201
Consolidated total liabilities					123,610
OTHER INFORMATION					
Capital additions	10,747	10,262	2,150	—	23,159
Depreciation of property, plant and equipment	8,466	6,524	294	—	15,284
Release of prepaid lease payments	61	240	—	—	301
Loss on disposal of property, plant and equipment	73	168	—	—	241

7. Revenue and segmental information *(continued)*

Business segments *(continued)*

For the year ended 31 December 2006

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing US$'000	Eliminations US$'000	Consolidated US$'000
CONSOLIDATED INCOME STATEMENT					
REVENUE					
External sales	350,259	426,486	2,601	—	779,346
Inter-segment sales	—	1,567	—	(1,567)	—
Total	350,259	428,053	2,601	(1,567)	779,346
Inter-segment sales are charged at prevailing market rates					
RESULTS					
Segment results	50,713	80,674	(1,327)	—	130,060
Unallocated corporate income					11,017
Unallocated corporate expenses					(47,355)
Finance costs					(91)
Profit before tax					93,631
Income tax expense					(2,257)
Profit for the year					91,374
As at 31 December 2006					
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	189,095	188,883	4,843	—	382,821
Unallocated corporate assets					180,150
Consolidated total assets					562,971
LIABILITIES					
Segment liabilities	48,660	47,666	2,664	—	98,990
Unallocated corporate liabilities					24,660
Consolidated total liabilities					123,650
OTHER INFORMATION					
Capital additions	15,783	9,729	128	—	25,640
Depreciation of property, plant and equipment	7,946	5,044	16	—	13,006
Release of prepaid lease payments	77	149	—	—	226
Loss on disposal of property, plant and equipment	245	716	—	—	961

7. Revenue and segmental information *(continued)*

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2007 **US$'000**	2006 US$'000
The United States	**566,242**	485,520
Europe	**266,428**	221,153
Asia, other than the PRC	**34,346**	25,703
The PRC, including Hong Kong	**39,794**	22,923
Others	**30,354**	24,047
	937,164	779,346

Over 90% of the identifiable assets of the Group are located in the PRC. Therefore, no analysis on carrying amount of segment assets or additions to property, plant and equipment is presented.

8. Other income

	2007 **US$'000**	2006 US$'000
Interest income on bank balances	**9,543**	1,619
Interest income on debentures	**546**	2,831
Total interest income	**10,089**	4,450
Dividend income	**96**	197
Net gain on fair value changes of investments held for trading	**1,495**	—
Investment income	**11,680**	4,647
Compensation income	**—**	3,700
Net gain on changes in fair value of derivative financial instruments	**252**	—
Rental income	**3,735**	3,723
Sales of scrap materials	**—**	1,360
Others	**244**	1,577
	15,911	15,007

8. Other income *(continued)*

Investment income analysed by category of assets is as follows:

	2007 **US$'000**	2006 US$'000
Loan and receivables (including bank balances and cash)	**9,543**	1,619
Investments held for trading	**2,137**	3,028
	11,680	4,647

9. Finance costs

	2007 **US$'000**	2006 US$'000
Interests on bank overdrafts and bank loans wholly repayable within five years	**297**	91

10. Income tax expense

	2007 **US$'000**	2006 US$'000
Tax charge represents:		
PRC Foreign Enterprise Income Tax ("FEIT")	**4,593**	2,257

No provision for Hong Kong Profits Tax has been made as the Group's profit neither arised in, nor derived from Hong Kong during the year.

Taxation arising on other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Long Chuan Simona Footwear Company Limited 龍川興萊鞋業有限公司 was subject to FEIT at the rate of 12% for both years.

Dongguan Stella Footwear Company Limited 東莞興昂鞋業有限公司 was exempted from FEIT for the year ended 31 December 2006 and is subject to FEIT at rate of 12% for the year ended 31 December 2007.

10. Income tax expense *(continued)*

Stella Luna Fashion Inc. 興記九興貿易(上海)有限公司 was subject to FEIT at rate of 33% for the year ended 31 December 2007.

The income of Stella International and Selena Footwear Inc. derived from production, business operations and other sources in the PRC are subject to FEIT at rate of 33%.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law Implementation. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries of the Group from 1 January 2008.

The tax charge for the year can be reconciled to the profit before tax as follows:

	2007	2006
	US$'000	US$'000
Profit before tax	**119,216**	93,631
Tax at the applicable PRC FEIT rate of 12%	**14,306**	11,236
Tax effect of expenses not deductible for tax purposes (note 1)	**5,726**	8,006
Tax effect of income not taxable for tax purposes (note 2)	**(15,226)**	(14,169)
Effect of tax holidays granted to the PRC subsidiaries	**–**	(2,816)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(213)**	–
Tax charge for the year	**4,593**	2,257

Notes:

1. Tax effect of expenses not deductible mainly represents the subcontracting charges and operating expenses in the PRC with payment receipts but no invoices for tax deduction claim under the relevant tax jurisdictions.

2. Tax effect of income not taxable is the investment income and income of Stella International which are not assessable under the relevant tax jurisdictions. As Stella International has no fixed place to carry out the operation, it subcontracted and engaged other companies as services providers to perform supporting activities and remunerate them with the service fee.

11. Profit for the year

	2007 **US$'000**	2006 US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (Note 12)	**3,060**	3,329
Other staff costs	**118,301**	105,218
Share-based payment expenses	**1,113**	—
Retirement benefit scheme contributions, excluding directors	**1,262**	733
Total staff costs	**123,736**	109,280
Allowance for inventories	**1,632**	291
Allowance for trade receivables	**—**	504
Auditor's remuneration	**601**	1
Cost of inventories recognised as expenses	**714,517**	613,395
Depreciation of property, plant and equipment	**15,284**	13,006
Listing expenses charged to consolidated income statement	**2,840**	—
Loss on changes in fair value of investments held for trading	**—**	2,346
Loss on disposal of property, plant and equipment	**241**	961
Net exchange loss	**740**	476
Release of prepaid lease payments	**301**	226

12. Directors' and employees' emoluments

Details of the emoluments paid or payable to each of the directors are as follows:

	Jiann-Min, Jimmy CHEN US$'000	**Jeh-Chung, Jack CHIANG** US$'000	**Ming-Cheng, Eric CHAO** US$'000	**Lo-Jen, Stephen CHI** US$'000	**Tung-Pi, Billy SHIEH** US$'000	**Takuen, Daniel SHIH** US$'000	**Pao-Kuei CHU** US$'000	**Hak Kim NG, *JP*** US$'000	**John Terence HUNG, *SBS, JP*** US$'000	**2007** US$'000
2007										
Fee	32	32	32	32	32	32	32	32	32	288
Other emoluments										
- salaries and other allowances	77	77	69	62	62	–	–	–	–	347
- bonus	638	821	436	348	136	–	–	–	–	2,379
- retirement benefit scheme contributions	4	4	3	–	2	–	–	–	–	13
Share-based payment expenses	–	–	–	33	–	–	–	–	–	33
	751	934	540	475	232	32	32	32	32	3,060

	Jiann-Min, Jimmy CHEN US$'000	Jeh-Chung, Jack CHIANG US$'000	Ming-Cheng, Eric CHAO US$'000	Lo-Jen, Stephen CHI US$'000	Tung-Pi, Billy SHIEH US$'000	Takuen, Daniel SHIH US$'000	Pao-Kuei CHU US$'000	Hak Kim NG, *JP* US$'000	John Terence HUNG, *SBS, JP* US$'000	2006 US$'000
2006										
Fee	–	–	–	–	–	–	–	–	–	–
Other emoluments										
- salaries and other allowances	92	92	51	54	32	–	–	–	–	321
- bonus	1,667	1,006	31	152	152	–	–	–	–	3,008
- retirement benefit scheme contributions	–	–	–	–	–	–	–	–	–	–
	1,759	1,098	82	206	184	–	–	–	–	3,329

12. Directors' and employees' emoluments *(continued)*

Employees

The five highest paid individuals of the Group for the year included four directors (2006: four) of the Company whose emoluments are set out above. The emoluments of the remaining individual are as follows:

	2007 **US$'000**	2006 US$'000
Employee		
- salaries and other allowances	**432**	657
- retirement benefit scheme contributions	**2**	—
- share-based payment expenses	**294**	—
	728	657

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

13. Dividends

	2007 **US$'000**	2006 US$'000
Dividends recognised as distribution during the year		
Interim - HK30 cents per share (2006: Nil)	**31,241**	—
Dividend paid by Stella International *(Note i)*	**—**	21,787
Special dividend *(Note ii)*	**220,000**	—
	251,241	21,787

13. Dividends *(continued)*

Notes:

i. The dividend was paid by Stella International for the year ended 31 December 2006 to its then shareholders prior to the Group Reorganisation.

ii. A special dividend of US$220 million was paid to the shareholders of the Company prior to the listing of the Company's shares on the Stock Exchange.

The final dividend of HK60 cents per share has been proposed by the Directors and is subject to approval by the shareholders of the Company in the upcoming annual general meeting.

14. Earnings per share

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 **US$'000**	2006 US$'000
Profit for the year and earnings for the purposes of basic earnings per share	**114,623**	91,374

	2007	2006
Weighted average number of ordinary shares for the purposes of basic earnings per share	**693,906,164**	585,000,000

The calculations of basic earnings per share for the year ended 31 December 2006 and 2007 were based on the Company's 585,000,000 shares deemed to be issued throughout the year assuming the Group Reorganisation had been effective and the capitalisation of 584,000,000 shares had been existed on 1 January 2006.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during both years.

15. Property, plant and equipment

	Buildings	Plant and machinery	Furniture, fixture and equipment	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST						
At 1 January 2006	66,228	85,657	6,923	4,488	10,036	173,332
Exchange adjustments	1,435	1,153	82	56	255	2,981
Additions	1,337	17,183	2,288	671	4,161	25,640
Transfer	9,446	1,670	113	—	(11,229)	—
Disposals/written off	—	(4,378)	(353)	(462)	—	(5,193)
At 31 December 2006	78,446	101,285	9,053	4,753	3,223	196,760
Exchange adjustments	3,939	3,199	274	135	172	7,719
Additions	1,494	12,545	3,746	303	5,071	23,159
Transfer	1,730	3,721	1,123	—	(6,574)	—
Disposals/written off	(316)	(483)	(111)	(585)	—	(1,495)
At 31 December 2007	85,293	120,267	14,085	4,606	1,892	226,143
DEPRECIATION						
At 1 January 2006	11,008	25,212	2,995	1,936	—	41,151
Exchange adjustments	102	283	30	24	—	439
Provided for the year	3,169	8,049	1,198	590	—	13,006
Eliminated on disposals	—	(1,851)	(266)	(366)	—	(2,483)
At 31 December 2006	14,279	31,693	3,957	2,184	—	52,113
Exchange adjustments	379	857	106	69	—	1,411
Provided for the year	3,640	9,359	1,665	620	—	15,284
Eliminated on disposals	(39)	(468)	(102)	(221)	—	(830)
At 31 December 2007	18,259	41,441	5,626	2,652	—	67,978
CARRYING VALUES						
At 31 December 2007	67,034	78,826	8,459	1,954	1,892	158,165
At 31 December 2006	64,167	69,592	5,096	2,569	3,223	144,647

15. Property, plant and equipment *(continued)*

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

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

The Group has not yet obtained the legal title of the building with an aggregate carrying amount of US$11,523,000 (2006: US$11,957,000).

16. Prepaid lease payments

	2007 **US$'000**	2006 US$'000
Current portion of prepaid lease payments	**239**	228
Non-current portion	**8,527**	9,452
	8,766	9,680

The carrying amount represents upfront payment for medium-term land use rights in the PRC.

The Group had paid substantially full consideration for land use rights in the PRC. However, the Group has not yet obtained the title of the land use rights with an aggregate carrying amount of US$2,060,000 (2006: US$2,115,000). The carrying amount of prepaid lease payments included above of US$1,461,000 (2006: US$1,495,000) was paid for land use rights under the name of Sanford International Limited, a company under the control of the key management personnels of the Group.

17. Interest in an associate

	2007 US$'000	2006 US$'000
Cost of investment in an associate - unlisted	**2,000**	—
Share of post-acquisition losses	**(89)**	—
	1,911	—

As at 31 December 2007, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of establishment/principal place of operation	Class of share held	Proportion of nominal value of registered capital held by the Group	Principal activities
辛集市寶得福皮業有限公司	Sino-foreign equity joint venture	The PRC	Capital injection	40%	Manufacture and sales of leather products

The summarised financial information in respect of the Group's associate is set out below:

	2007 US$'000
Total assets	**12,196**
Total liabilities	**(7,419)**
Net assets	**4,777**
Group's share of net assets of an associate	**1,911**
Revenue	**—**
Loss for the year	**(223)**
Group's share of results of an associate for the year	**(89)**

18. Inventories

	2007 US$'000	2006 US$'000
Raw materials	**36,415**	28,097
Work-in-progress	**33,518**	28,893
Finished goods	**27,955**	20,918
	97,888	77,908

19. Trade and other receivables

The Group generally allows an average credit period of 30 to 90 days to its trade customers.

The aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	2007 US$'000	2006 US$'000
Trade receivables:		
0 - 30 days	**97,296**	75,762
31 - 60 days	**34,415**	25,918
61 - 90 days	**7,830**	4,331
Over 90 days	**6,572**	3,932
	146,113	109,943
Less: allowance for doubtful debts	**—**	(504)
	146,113	109,439
Other receivables	**28,006**	18,537
	174,119	127,976

19. Trade and other receivables *(continued)*

Included in the Group's trade and other receivables balance are debtors with aggregate amount of US$21,293,000, US$49,000 and US$275,000 (2006: US$6,178,000, US$ nil and US$ nil) which are denominated in Renminbi, Hong Kong dollars and other currencies respectively and are exposed to currency risk.

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$37,840,000 (2006: US$26,445,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2007 **US$'000**	2006 US$'000
31-60 days	**26,173**	20,277
61-90 days	**5,095**	2,740
Over 90 days	**6,572**	3,428
	37,840	26,445

Movement in the allowance for doubtful debts

	2007 **US$'000**	2006 US$'000
Balance at beginning of the year	**504**	—
Impairment loss recognised on receivables	**—**	504
Amount written off as uncollectible	**(504)**	—
Balance at end of the year	**—**	504

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of US$504,000 as at 31 December 2006. The impairment recognised represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount. The Group does not hold any collateral over these balances.

20. Amounts due from related companies

Name of company	As at 31 December		Maximum amount outstanding for year ended 31 December	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
東莞興騰鞋材有限公司	**–**	1,183	**1,183**	1,183
Sincerely International Limited	**–**	11,495	**11,495**	16,636
興昂制革(惠州)有限公司	**–**	28,298	**28,298**	35,957
Sanford International Limited	**–**	16,916	**16,916**	16,916
東莞興和塑膠制品有限公司	**–**	15,963	**15,963**	15,963
Stella Investment Overseas Limited	**–**	4,798	**4,798**	4,798
	–	78,653		

The above companies are controlled by the key management personnel of the Group.

The balances were unsecured, interest-free and repayable on demand. All balances were fully settled during the year.

21. Amount due from an associate

Name of company	**2007**	2006
	US$'000	US$'000
辛集市寶得福皮業有限公司	**7,129**	–

The balance is unsecured, interest-free and repayable on demand.

22. Investments held for trading

	2007 US$'000	2006 US$'000
Equity securities listed in Hong Kong	–	418
Equity securities listed elsewhere	–	6,718
Credit-linked notes	–	3,516
Equity-linked notes	–	5,207
Mutual funds	–	13,206
Debentures	–	20,785
	–	49,850

The above instruments were mainly a portfolio of identified financial instruments that were managed together and for short-term profit-taking.

23. Derivative financial instruments

	2007		2006	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Forward foreign exchange contracts	595	343	—	—

The Group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. Those contracts selling US$ and buying RMB will be settled in gross, while the remaining contracts will be settled on net basis.

23. Derivative financial instruments *(continued)*

At 31 December 2007, details of the outstanding forward foreign exchange contracts to which the Group is committed is as follows:

Notional amount	Maturity	Exchange rates
Sell US$2,000,000	25 April 2008	RMB/US$7.3390
Sell US$2,000,000	27 May 2008	RMB/US$7.3105
Sell US$2,000,000	25 June 2008	RMB/US$7.2847
Sell US$2,000,000	18 July 2008	RMB/US$7.2770
Sell US$2,000,000	18 August 2008	RMB/US$7.2500
Sell US$2,000,000	18 September 2008	RMB/US$7.2250
Sell US$2,000,000	14 October 2008	RMB/US$7.1940
Sell US$2,000,000	21 November 2008	RMB/US$6.9697
Buy US$2,000,000	25 April 2008	RMB/US$7.2480
Buy US$2,000,000	27 May 2008	RMB/US$7.2115
Buy US$2,000,000	25 June 2008	RMB/US$7.1795
Buy US$2,000,000	18 July 2008	RMB/US$7.1700
Buy US$2,000,000	18 August 2008	RMB/US$7.1366
Buy US$2,000,000	18 September 2008	RMB/US$7.1033
Buy US$2,000,000	14 October 2008	RMB/US$7.0750
Buy US$2,000,000	21 November 2008	RMB/US$6.8350

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on forward rate obtained from banks for equivalent instruments at the balance sheet date.

24. Cash and cash equivalents

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

Bank balances and cash held in the PRC of US$56,209,000 (2006: US$10,946,000), were subject to foreign exchange control.

Cash and cash equivalents of US$14,995,000, US$231,560,000 and US$3,483,000 (2006: US$11,763,000, US$7,724,000 and US$4,250,000) are denominated in Renminbi, Hong Kong dollars and other currencies respectively and are exposed to currency risk.

The bank deposits carry fixed interest rates ranging from 3.19% to 5.04% (2006: 4.07% to 5.10%) per annum.

25. Trade and other payables

The aged analysis of the Group's trade payables at the balance sheet date is as follows:

	2007	2006
	US$'000	US$'000
Trade payables:		
0 - 30 days	**54,255**	31,033
31 - 60 days	**7,095**	26,972
Over 60 days	**10,856**	9,469
	72,206	67,474
Other payables	**43,347**	38,089
	115,553	105,563

Included in the Group's trade and other payables balance are creditors with aggregate amount of US$34,639,000, US$31,000 and US$402,000 (2006: US$30,682,000, US$nil and US$nil) which are denominated in Renminbi, Hong Kong dollars and other currencies respectively and are exposed to currency risk.

26. Amounts due to related companies

Name of company	**2007**	2006
	US$'000	US$'000
東莞市長安統來刀模加工廠	**–**	17
興鵬國際股份有限公司	**–**	15,066
	–	15,083

The above companies are controlled by the key management personnel of the Group.

The balances are unsecured, interest-free and repayable on demand. All the above balance aged within 30 days.

27. Share capital

		Number of shares	Nominal value	
			HK$'000	US$'000
Ordinary of HK$0.1 each				
Authorised:				
At 1 January 2007		—	—	—
Increase on incorporation	(i)	3,800,000	380	49
Increase in authorised share capital	(ii)	4,996,200,000	499,620	63,926
At 31 December 2007		5,000,000,000	500,000	63,975
Issue and fully paid:				
Authorised:				
At 1 January 2007		—	—	—
Allotted and issued on incorporation	(i)	1	—	—
Issue of shares on the Group Reorganisation	(iii)	999,999	100	13
Allotment to sole shareholder	(iv)	584,000,000	58,400	7,469
Issue by initial public offerings	(v)	195,000,000	19,500	2,494
Issue on exercise of over-allotment option	(v)	29,250,000	2,925	374
At 31 December 2007		809,250,000	80,925	10,350

The balance of the share capital at 31 December 2006 represents the share capital of Stella International before the Group Reorganisation.

27. Share capital *(continued)*

Notes:

(i) The Company was incorporated with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each. As at the date of incorporation, 1 share of HK$0.10 was alloted and issued.

(ii) Pursuant to the resolutions passed by the sole shareholder of the Company on 15 June 2007, the authorised share capital of the Company was increased from HK$380,000 to HK$500,000,000 by the creation of an additional 4,996,200,000 ordinary shares of HK$0.10 each. The new shares rank pari passu in all respects with the then existing shares.

(iii) On 13 June 2007, the Company issued 999,999 shares of HK$0.10 each for the acquisition of entire shareholding in (i) Stella International, (ii) Stella International Marketing Company Limited, (iii) Stella Luna Sol Limited pursuant to the Group Reorganisation. These new shares ranked pari passu in all respects with the then exisitings shares.

(iv) On 5 July 2007, the Company allotted and issued 584,000,000 ordinary shares of HK$0.10 each as fully paid to the sole shareholder by the capitalisation of an amount of HK$58,400,000 in the share premium account of the Company.

(v) On 5 July 2007, the Company issued a total of 195,000,000 ordinary shares of HK$0.10 each at the price of HK$15.50 per share by means of initial public offerings. On 26 July 2007, the Company issued additional 29,250,000 ordinary shares of HK$0.10 each at the price of HK$15.50 per share by means of full exercise of the over-allotment option as set out in the Prospectus.

28. Merger reserve

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, (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to the Group Reorganisation.

29. Capital reserve

The capital reserve represents the fair value of those shares of the relevant companies granted by the shareholder to the employees at grant date as share-based payments for the following transactions:

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

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

These transactions have been accounted for as an equity-settled share-based payment transaction in equity, over the vesting period, based on the fair value of the relevant shares at the grant date. Details of the share-based payment transactions are set out in note 32.

30. Operating leases

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007	2006
	US$'000	US$'000
Within one year	**251**	329
In the second to fifth year inclusive	**56**	326
	307	655

All of the properties held have committed tenants for the next two years. Leases are negotiated for term varying from one to four years.

30. Operating leases *(continued)*

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2007 **US$'000**	2006 US$'000
Properties	**1,521**	207

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007 **US$'000**	2006 US$'000
Within one year	**2,831**	1,655
In the second to fifth year inclusive	**3,954**	3,585
Over five years	**736**	793
	7,521	6,033

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

31. Capital commitments

	2007 **US$'000**	2006 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**546**	1,181

32. Share-based payment transactions

Long Term Incentive Scheme

The Company's share option scheme (the "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 will expire on 14 June 2017. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Insofar as the Rules Governing the Listing of Securities on The Stock Exchange ("Listing Rules") require and subject to paragraph 12.6 of the Scheme, where any offer proposed to be made to a director or a chief executive or a substantial shareholder or a connected person of the company or any of his, her or its associates must be approved by all the independent non-executive directors (excluding an independent non-executive director who is the proposed grantee).

At 31 December 2007, no options had been granted under the Scheme. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

0.2% Common Share Interest

During the year, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International Limited to an employee of the Group by way of gift, as an incentive to attract and retain the employee to the Group prior to the Group Reorganisation. Upon the Group Reorganisation, the employee then held direct interest in 2000 shares of the ultimate holding company of the Group, Cordwalner which can be converted to 1,152,000 shares of the Company.

Under the 0.2% Common Share Interest Scheme, 25% of shares will be converted by the employee in five equal tranches on the dates falling on the expiry of 12 months, 24 months, 36 months, 48 months, and 60 months after the listing of the Company. 75% of shares will be converted by the employee upon his retirement. Based on the information provided by the Group, it is estimated to be converted in 2022. Such share conversion right is not transferable and restricted to sale at any time.

This transaction has been accounted for as an equity-settled share-based payment transaction and the Group measured the services rendered by the employee, and recognised the expense in the consolidated income statement with a corresponding increase in capital reserve based on the fair value of the shares at the grant date of 30 March 2007.

32. Share-based payment transactions *(continued)*

1.17% Preferred Share Interest

During the year, the ultimate holding company of the Group, Cordwalner, adopted an incentive scheme for its employee to attract and retain in the Group after the listing of the Company's shares on the Stock Exchange. Preferred shares ("Preferred shares") represented 1.17% of the total no. of shares of Cordwalner.

Under the 1.17% Preferred Share Interest Scheme, pursuant to the investment agreement dated 9 April 2007 signed by Cordwalner and Eagle Mate Capital Limited, a company owned by an outsider which acted as the nominee of the existing shareholders of Cordwalner, 11,846 Preferred Shares of no par value to be allotted and issued by Cordwalner with subscription price of US$3,150,000 paid by certain employees will be converted into 6,825,950 shares of the Company falling the six months after the listing of the Company and such share conversion is mandatory in the employee's perspective.

The conversion can be effected by a dividend-in-kind of such number of shares as shall be attributable to the respective preferred shareholders' pro rata interest in Cordwalner.

After the conversion, the shares of the Company held by Eagle Mate Capital Limited will be vested in four equal tranches to certain employees on the dates which falling the expiration of 12 months, 24 months, 36 months and 48 months after the listing date. Before the respective conversion dates, the employees are entitled to voting and dividend rights. If the employee ceases employment with the Company during the vesting period, no further right would be granted except for those associated with shares already vested and the remaining subscription fee will be returned. Such share conversion right is not transferable to any third party at any time.

This transaction has been accounted for as an equity-settled share-based payment transaction and the Group measured the services rendered by the employees, and recognised the expense in the consolidated income statement with a corresponding increase in capital reserve based on the fair value of the shares at the grant date of 9 April 2007.

The fair value of the 0.2% Common Share Interest and 1.17% Preferred Share interest incentive scheme were determined by Sallmanns (Far East) Limited, an independent valuer by reference to the certain indicated values of periodic benefits of ownership of the shares of the Company using the Income Approach of valuation. It is based on the principle that an informed buyer would pay no more for the scheme than an amount equal to the present worth of anticipated future benefits from the same or substantially similar scheme with a similar risk profile. The major assumptions are summarised as follows;

1. Cordwalner has no liquidation or winding up in next two years and it will carry out the redemption policies.

32. Share-based payment transactions *(continued)*

1.17% Preferred Share Interest *(continued)*

2. Based on the best estimate by the management, the probability for successful initial public offerings is assumed to be 70% as at date of grant.

3. Dividend yield is assumed to be 3% by referencing to the historical dividend policy.

The Group recognised the total expense of US$1,146,000 for the year ended 31 December 2007 in relation to share-based equity instrument granted by the Company.

33. Retirement benefit plans

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

34. Major non-cash transactions

During the year, a special dividend as set out in note 13 was settled by (i) transfer of the investments held for trading of US$49,850,000 and (ii) offsetting the amount due from related companies of US$78,653,000.

35. Contingent liabilities

At 31 December 2006, the Group had given guarantees of approximately US$10,000,000 to a bank in respect of banking facilities granted to Simona Tanning Inc., a company under the control of the directors of the Company. Such guarantees have been released during the year.

36. Related party disclosures

(I) Related party transactions

Name of company	Nature of transactions	**2007 US$'000**	2006 US$'000
興昂制革(惠州)有限公司[1]	Purchase of materials	**25,975**	12,144
Sincerely International Limited[2]	Purchase of consumables	**3,383**	2,623
東莞興和塑膠制品有限公司[1]	Purchase of materials	**2,157**	1,140
	Purchase of machinery	**13**	—
Sanford International Limited[2]	Purchase of consumables	**7,927**	9,281
	Rental income	**238**	276
	Rental expenses	**64**	—
興鵬國際股份有限公司[1]	Purchase of materials	**16,693**	20,503
	Purchase of machinery	**312**	1,139
東莞市長安統來刀模加工廠[2]	Purchase of materials	**3,194**	3,041
	Purchase of machinery	**—**	151
	Rental income	**91**	87
東莞興騰鞋材有限公司[2]	Purchase of materials	**7,181**	—
	Sale of machinery	**91**	—

[1] Companies under the control of the directors of the Company
[2] Companies under the control of key management personnel of the Group

During both years, the Group occupied a building of Sanford International Limited without paying any consideration.

36. Related party disclosures *(continued)*

(I) Related party transactions *(continued)*

In July 2000, the Group entered into an agreement with an independent third party to rent factory buildings for a period of ten years with a fixed monthly rental of RMB530,000. These factory buildings were occupied and the rent expenses were borne by Sanford International Limited during the both years. The Group's commitments under this operating lease were included in note 30. This lease arrangement was terminated in May 2007.

(II) Related party balances

Details of the Group's outstanding balances with related parties are set out on the consolidated balance sheets and in notes 20 and 26.

(III) Credit facilities

As at 31 December 2006, credit facilities of US$20,000,000 of the Group and Simona Tanning Inc. together were guaranteed by Mr. Chen Jiann-Min, Jimmy, a director of the Company, and Mr. Chen Li-Ming, Lawrence, a key management personnel of the Company. In addition, the Group had given corporate guarantee of US$10,000,000 to secure the banking facilities granted to Simona Tanning Inc., as at 31 December 2006 as disclosed in note 35. The personal guarantee by the director and the key management personnel and the corporate guarantee has been released during the year.

(IV) Compensation of key management personnel

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

	2007	2006
	US$'000	US$'000
Short-term benefits	**3,446**	3,986
Long-term benefits	**15**	—
Share-based payment expenses	**327**	—
	3,788	3,986

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

37. Balance sheet of the Company

The balance sheet of the Company as at 31 December 2007 is as follows:

	Note	2007 US$'000
Total assets		**807,740**
Total liabilities		**(1,281)**
		806,459
Capital and reserves		
Share capital		**10,350**
Share premium and reserves	(a)	**796,109**
		806,459

Note:

(a) Reserves of the Company

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Contribution surplus US$'000	Accumulated profit US$'000	Total US$'000
At 5 March 2007 (date of incorporation)	—	—	—	—	—	—
Profit for the year	—	—	—	—	97,200	97,200
Arising from group reorganisation	13	—	—	530,465	—	530,478
Issue of shares at premium through initial public offerings	2,494	384,084	—	—	—	386,578
Issue of shares at premium through exercise of the over-allotment option	374	57,612	—	—	—	57,986
Issue of shares by capitalisation of share premium account	7,469	(7,469)	—	—	—	—
Transaction costs attributable to issue of new shares	—	(15,688)	—	—	—	(15,688)
Recognition of equity-settled share-based payment expenses	—	—	1,146	—	—	1,146
Dividend recognised as distribution	—	(251,241)	—	—	—	(251,241)
At 31 December 2007	10,350	167,298	1,146	530,465	97,200	806,459

38. Particulars of subsidiaries of the Company

Details of the Company's subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	Interest holdings Direct %	Interest holdings Indirect %	Principal activities
Stella International Limited	Vanuatu	Ordinary	US$1	100	–	Investment holding, manufacturing and sales of footwear
Dongguan Stella Footwear Co., Ltd. 東莞興昂鞋業有限公司[1]	The PRC	Capital contribution	HK$191,010,000[3]	–	100	Manufacturing of footwear
Longchuan Simona Footwear Co., Ltd. 龍川興萊鞋業有限公司[1]	The PRC	Capital contribution	HK$155,300,000	–	100	Manufacturing of footwear
N.O.I. Holding Company Limited	BVI	Ordinary	US$4	100	–	Investment holding
Selena Footwear Inc.	BVI	Ordinary	US$1	–	100	Marketing, research and development activities
Stella Footwear Inc.	BVI	Ordinary	US$3,947[3]	–	100	Investment holding, manufacturing and sales of footwear
Stella Luna Fashion Inc. 興記九興貿易(上海)有限公司[1]	The PRC	Ordinary	US$3,000,000	–	100	Footwear retailing
Stella International Marketing Company Limited	Malaysia	Ordinary	US$10,000	100	–	Marketing activities
Stella Luna Sol Limited	Hong Kong	Ordinary	HK$1	100	–	Holding of intellectual property rights
Stellaluna (Thailand) Co., Ltd.	Thailand	Ordinary	20,000,000 Baht	–	70.1	Footwear retailing
N.O.I. (Macau) Company Limited[2]	Macau	Ordinary	MOP$2,500,000	–	100	Footwear retailing
Stella Services Limited[2]	Hong Kong	Ordinary	HK$1	100	–	Provision of secretarial and accounting services

Note:

(1) Dongguan Stella Footwear Co Ltd, Longchuan Simona Footwear Co., Ltd and Stella Luna Fashion Inc are wholly foreign-owned enterprises established in the PRC.

(2) These subsidiaries were incorporated during the year.

(3) The registered capital of these subsidiaries has been increased during the year.

Financial Summary

	For the year ended 31 December			
	2004 US$'000	2005 US$'000	2006 US$'000	**2007 US$'000**
RESULTS				
Revenue	575,363	668,926	779,346	**937,164**
Profit for the year	52,769	85,422	91,374	**114,623**
Attributable to:				
Equity holders of the Company	52,769	85,422	91,374	**114,695**
Minority interests	—	—	—	**(72)**
	52,769	85,422	91,374	**114,623**

	As at 31 December			
	2004 US$'000	2005 US$'000	2006 US$'000	**2007 US$'000**
ASSETS AND LIABILITIES				
Total assets	401,891	486,689	562,971	**856,730**
Total liabilities	(83,494)	(110,671)	(123,650)	**(123,610)**
Shareholders' funds	318,397	376,018	439,321	**733,120**

Notes:

1. The financial information for each of the three years ended 31 December 2006 has been prepared as if the group structure upon the Group Reorganisation, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for the three years ended 31 December 2006, and the assets and liabilities as at 31 December 2004, 2005 and 2006 have been extracted from the Company's prospectus dated 22 June 2007.

2. The results for the year ended 31 December 2007, and the assets and liabilities as at 31 December 2007 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 71 and 72, respectively, of the annual report.

Corporate Information and Key Dates

Board of Directors

Executive Directors

CHIANG Jeh-Chung, Jack, Chairman
CHAO Ming-Cheng, Eric
CHEN, Li-Ming, Lawrence, Chief Executive Officer
SHIEH Tung-Pi, Billy, Chief Operating Officer
CHI Lo-Jen, Stephen

Non-executive Director

SHIH Takuen, Daniel, Deputy Chairman

Independent Non-executive Directors

CHU Pao-Kuei
NG Hak Kim, *JP*
HUNG John Terence, *SBS, JP*

Audit Committee

CHU Pao-Kuei (Chairman)
NG Hak Kim, *JP*
HUNG John Terence, *SBS, JP*

Corporate Governance Committee

SHIH Takuen, Daniel (Chairman)
CHU Pao-Kuei
HUNG John Terence, *SBS, JP*

Investor Relations Committee

HUNG John Terence, *SBS, JP* (Chairman)
CHI Lo-Jen, Stephen
LEE Kwok Ming

Nomination Committee

HUNG John Terence, *SBS, JP* (Chairman)
CHU Pao-Kuei
NG Hak Kim, *JP*
SHIH Takuen, Daniel

Remuneration Committee

NG Hak Kim, *JP* (Chairman)
CHU Pao-Kuei
SHIH Takuen, Daniel

Authorised Representatives

SHIEH Tung-Pi, Billy
KAN Siu Yim

Qualified Accountant

LEE Kwok Ming

Company Secretary

KAN Siu Yim

Compliance Adviser

Anglo Chinese Corporate Finance, Limited

Legal Advisers

Chiu & Partners
Vincent T.K. Cheung, Yap & Co.

Auditors

Deloitte Touche Tohmatsu

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Chinatrust Commercial Bank, Kowloon Branch
DBS Bank (Hong Kong) Limited, Hong Kong Branch

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 705
Grand Cayman KY1-1107, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Registered Office

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

Principal Place of Business in Hong Kong

Suites 3003-04, 30/F, Tower 2, The Gateway
25 Canton Road, Tsimshatsui, Kowloon, Hong Kong

Stock Code

1836

Website

www.stella.com.hk

Key Dates

Closure of Register of Members

5 May 2008 to 7 May 2008
(both days inclusive)

Payment of Final Dividend

23 May 2008

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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

Annual Report 2017