Stock Code : 1836

Stella International Holdings Limited

Annual Report 2008

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

Corporate Structure

Stella

- **Manufacturing**
  - Wholly foreign-owned enterprise
  - Processing factories
  - Contractual arrangement
- **Retailing**
  - The Greater China
  - Thailand

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.

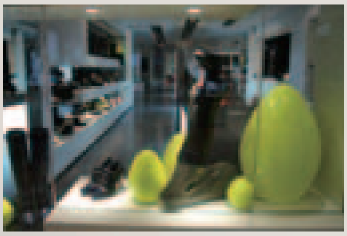
The Company also designs, develops and manufactures footwear for several high-fashion brands such as Celine, Christian Lacroix, Donna Karan New York, Emilio Pucci, Enzo Angiolini, Givenchy, Kenzo, Loewe, Marc by Marc Jacobs, Marciano, Paul Smith, Sigerson Morrison and Via Spiga.

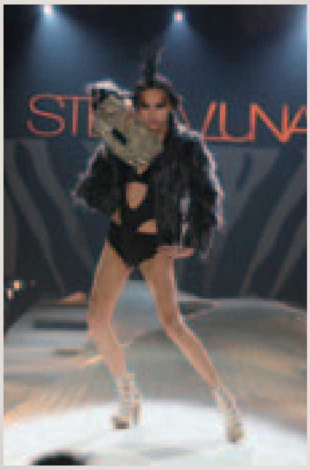
By leveraging its manufacturing expertise, the wide acceptance of Stella's products and industry recognition, We have also begun our retail operation and have successfully expanded into footwear retail market in China since 2006 through its own brands *Stella Luna* and *What For*.

Milestones

Value Chain

Branding / Retail < Engineering & Development < Assembly < Components Manufacturing





2008

Revenue exceeded US$1 billion

Annual manufacturing capacity reached 50 million pairs

Opened the 100th Stella Luna Stores. Number of What For stores reached 60.

2007

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

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

2006

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

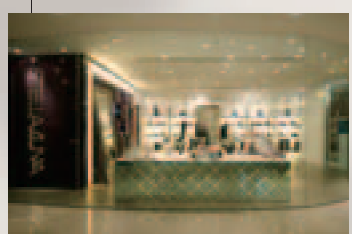
Further extended Dongguan Stella Footwear Factory to manufacture men's casual and fashion footwear.

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.

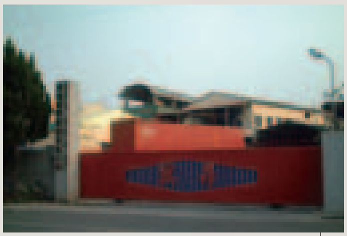
2003

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.



Product

Fashion / Luxury ‹ Casual ‹ Private Label



2000
Established Longchuan Simona Footwear Factory in Longchuan, Heyuan as a wholly foreign-owned enterprise in the PRC.

1999
Established Selena Footwear Factory in Dalingshan, Dongguan to cope with our increased production and range of women's fashion shoes.

1998
Expanded production capacity in China with the expansion of Seville Footwear Factory.

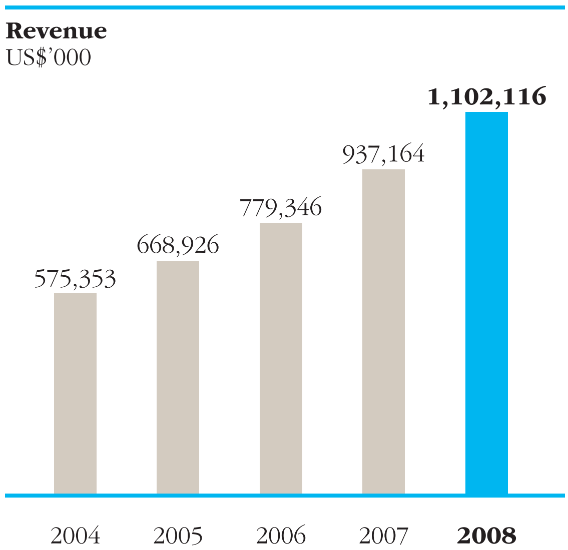
Entered into an exclusive finished footwear supply arrangement with Golden Star Company Limited for the manufacture of men's casual and fashion footwear in Vietnam.

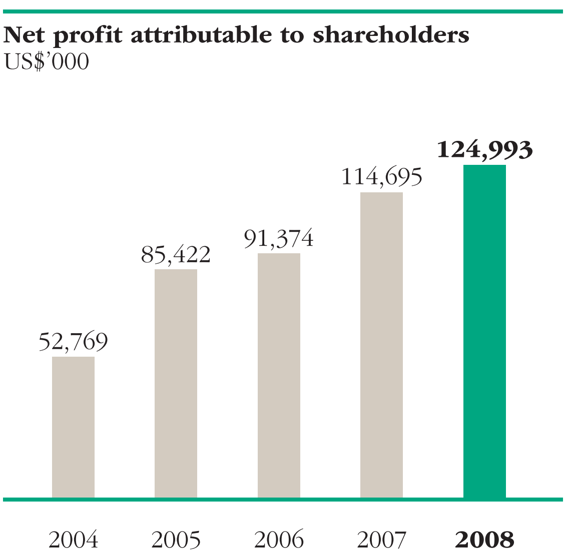
1995
Established Seville Footwear Factory in Changan, Dongguan for the development and manufacture of men's casual footwear for leading companies like Clarks, Rockport, Timberland and Wolverine.

1991
Commenced China operations with the establishment of the Stella Footwear Factory in Changan, Dongguan.

1982
Founded in Taiwan by Messrs. Jimmy Chen, Jack Chiang and Eric Chao to produce women's footwear for US retail customers.

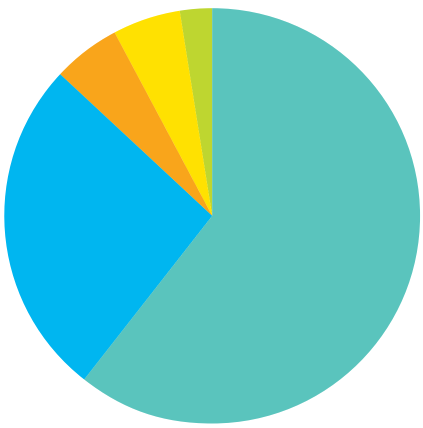
Financial Highlights





Financial Highlights

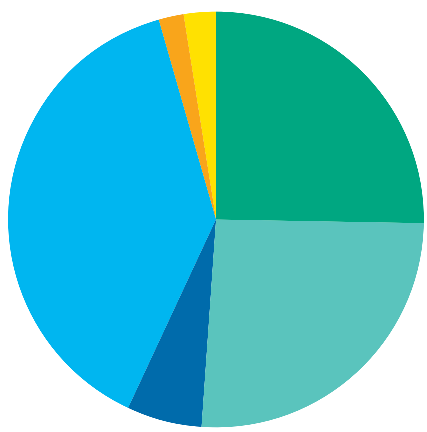
2008 Revenue by Geographical Segments



60.8%	North America
26.4%	Europe
5.2%	The PRC (including Hong Kong)
5.1%	Asia (other than the PRC)
2.5%	Others

2008 Revenue by Business Segments

Men's		Women's
25.3%	Casual	26.0%
5.9%	Fashion	38.5%
	Private label	1.9%
	Retail	2.4%



Chairman's Statement

Our mission: "making the best shoes"

Chairman's Statement

Dear Shareholders,

2008 was an unforgettable year by all measures. The successful staging of the Beijing Olympics helped show China to the world the strong and modernised nation that it is today.

The global economy, however, has undergone stark changes brought about by the financial crisis in the second half of 2008. Consumer confidence in the U.S. and Europe, which are our key markets, was gripped by fears of a deepening recession and rising unemployment. At the same time, natural disasters such as snowstorms and earthquakes in China, together with escalating production costs and the appreciation of Renminbi, contributed to a tough operating environment for manufacturers and exporters in China.

This volatile operating environment has created challenges for all players in the industry and may even have changed the rules of the game. While manufacturers are faced with the prospect of downsizing their workforce, retailers are placing smaller purchase orders with relatively short lead-time for delivery. Consumers on the other hand are tightening their spending.

It was the worst of times, it was the best of times. Despite the economic downturn, Stella continued to maintain a satisfactory performance with revenue exceeding US$1 billion during the 2008 financial year. It was attributable to Stella's continuous effort in upholding its core value of empathy, responsiveness and dependability while offering excellent manufacturing services to our brand partners and customers. We have maintained our core competencies in producing quality and stylish footwear products in small batches. We take pride in our flexible and highly efficient supply chain service which enables short manufacturing lead-time from concept development to product delivery. These core competencies further enhance our corporate competitiveness and strengthen our relationships with international high-fashion brands.

Chairman's Statement

Moving up the value chain has always been the winning strategy of Stella. Thanks to the management system and marketing strategies we have put in place in the last three years, the Company has been able to enjoy overwhelming success in the market in terms of brand recognition and operating performance. In view of the success of *Stella Luna* and *What For* in China and in accomplishing our Greater China strategy, during the year we have extended our foothold to other territories in China, including Taiwan, to capture the huge opportunity in the affordable luxury women footwear market in the region.

However, 2009 is another challenging year for every economy and industry. Market visibility remains low in terms of sales and profitability. Despite the uncertainty in the coming year, we will focus on recalibrating the business to further enhance competitiveness with a view to consolidating our leading position in the market. We are confident that Stella will be able to weather the storm with our business and operating strategies, which include maintaining high standards of product quality, implementing stringent cost control measures, and enhancing production efficiency, to remain competitive.

No matter how tough it is going to be, we have only one mission: "making the best shoes". We have strived to offer world-class manufacturing service and are dedicated to achieving growth through our customers' successes.

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers and business partners for their unwavering support during such difficult times. In addition, I would also like to take this opportunity to thank all my colleagues and staff for their contribution and unyielding commitment to Stella.

Chiang Jeh-Chung, Jack
Chairman
Hong Kong, 20 March 2009

Management Discussion and Analysis

Revenue and net profit increased 17.6% and 9.0% respectively

Management Discussion and Analysis

The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

FINANCIAL HIGHLIGHTS

Sustained Business Growth Despite Challenging Environment

The economic downturn around the world brought about by the subprime mortgage crisis in the U.S. and credit crunch has led to drastic changes in the global economic landscape, and created an uncertain business environment in Asia. In spite of the challenging market conditions, the Group was able to sustain business growth and achieve satisfactory results during the year, as we continued to strengthen value-added services and maintain our competitive edge.

During the year under review, the Group recorded a total revenue of US$1,102.1 million, representing a year-on-year growth of 17.6%, while net profit attributable to equity holders of the Company grew by 9.0% year-on-year to US$125.0 million. The satisfactory performance was attributable to an increase in average selling price ("ASP") driven by a better sales mix, organic growth in women's and men's fashion footwear businesses as well as stable demand for quality shoes from our premium global brand owners and customers. Basic earnings per share decreased by 6.1% year-on-year to US$0.155 (2007: US$0.165), based on the weighted average number of ordinary shares of 807,227,902 shares in 2008 (2007: 693,906,164 shares).

Despite market uncertainties and slow consumer spending in the U.S. and Europe, the Group's total shipment maintained at 48.4 million pairs in 2008, representing a slight increase of 1.4% compared with 47.7 million pairs sold in 2007. Thanks to our excellent craftsmanship and value-added services, the overall ASP improved to US$22.2 per pair, representing a year-on-year growth of 15.0%.

The Group achieved sustained growth and was able to maintain healthy margins. Gross profit for the year amounted to US$262.6 million, representing an increase of 18.8% over 2007 (2007: US$221.0 million). Our continued effort to move up the value chain from components manufacturing, assembly, engineering and design to branding and retailing was recognised and rewarded.

Management Discussion and Analysis

In spite of rising overheads and production costs, gross profit margin was maintained at 23.8% for the year under review (2007: 23.6%), and was attributable to the improved mix of product offerings. Net profit margin for the year dropped slightly by 0.9 percentage points to 11.3%.

During the year under review, all our business segments performed well. The Group's women's fashion footwear business, which contributed 38.5% to the Group's total revenue (2007: 33.5%), continued to be the largest business segment in 2008, followed by women's and men's casual footwear business, making up 26.0% (2007: 27.5%) and 25.3% (2007: 30.5%) of overall revenue respectively. Contribution from men's fashion segment increased from 3.7% of total revenue in the previous year to 5.9% in 2008.

Geographically, North America and Europe continued to be the Group's two largest markets, accounting for 60.8% and 26.4% respectively of the Group's total revenue for the reporting year, followed by the PRC (including Hong Kong) at 5.2%, Asia (other than the PRC) at 5.1% and other geographical regions at 2.5%

Management Discussion and Analysis

BUSINESS REVIEW

Higher Flexibility, Greater Competitiveness

Our high standard manufacturing capabilities and value-added services have made the Group resilient to the economic slowdown. Amid the below trend demand growth and upward pressure on manufacturing costs, we were able to sustain growth momentum and achieve satisfactory performance.

In times of low market visibility, Stella's unique value-added and quality skill-based services, which include short lead time, small batch production, and innovative design and development capabilities, allow our customers to enjoy higher flexibility and be more competitive in this current volatile market, and simultaneously enable us to achieve a higher ASP than the industrial average. During the reporting year, orders from existing major customers increased, with the addition of new high-end international brand customers which further fueled our sales growth.

An Integral Partner for Leading International Brands

During the year under review, our top five customers accounted for 62.4% of our total revenue (2007: 59.9%). Stella's dedication and quality service has made us the integral partner of many of the world's top brands. Currently, our client base includes six of the world's top ten casual footwear companies and several leading footwear brands. We also develop and manufacture footwear for a number of revered high-fashion brands and well-known large chain store retailers.

Enhanced Manufacturing Competencies

To further strengthen our core competency, the Group continued to improve its product offerings and strengthen its design and development capabilities during the year. We also exercised stringent cost control and made a dedicated effort to explore new production techniques and substitution materials to keep production costs stable.

During the year under review, the Group's manufacturing facilities in Guangdong, China and Vietnam continued to operate at full capacity. In late 2008, the Group, as a purchaser, entered into a processing agreement with Huizhou Stella Footwear Co., Ltd., as a supplier, under which the supplier has agreed to process and manufacture footwear products ordered by the Group on an exclusive basis by utilising the production capacity at the new manufacturing facility in Huizhou, which commenced its operation in the second half of 2008. This processing arrangement is aligned with our strategy to boost production capability and the manufacturing facility in Huizhou will serve initially as a subcontracting facility for our Dongguan factories. With the new facilities in operation, the Group's annual manufacturing capacity has reached 50 million pairs. In August 2008, the Group acquired 40% of the issued share capital of Cosmic Gold Enterprise Corp., which is principally engaged in the footwear manufacturing business, to further expand the Group's production capability. This initiative will further expand the Group's total annual production capacity by two million pairs, and hence support the Group's future development by ensuring sufficient production capacity to meet customers' demand in the long run.

Management Discussion and Analysis

Thriving Retail Business

Our retail business maintained strong growth and achieved encouraging results for the year ended 31 December 2008. During the year, we embarked on an aggressive store expansion plan and further strengthened our foothold and market position in the consumer market in the Greater China region.

Our two retail brands, *Stella Luna* and *What For*, received overwhelming response in the consumer market and achieved an impressive year-on-year sales growth of 144.0%, with total sales revenue reaching US$26.6 million in 2008. Gross profit and operating profit surged 67.0% and 59.9% to US$17.8 million and US$3.2 million respectively in 2008. Same-store sales also recorded significant growth of 82.1% during 2008 on robust consumer spending, together with our successful marketing initiatives and enhanced operational efficiency. The retail business contributed 2.4% to the Group's total revenue in 2008 compared to 1.2% in the previous year.

As of 31 December 2008, the Group owned and operated a total of 113 *Stella Luna* stores, of which 95 stores were located in the major cities in the PRC, 14 in Thailand, 1 in Macau and 3 in Taiwan. The number of *What For* stores in the PRC increased by almost five folds to 60 during the year.

Strategic Alliance with Deckers

Riding on the success of the *Stella Luna* and *What For* brands, the Group established a joint venture with Deckers Asia Pacific Limited ("Deckers") in July 2008 for the opening of retail stores and wholesale distribution of footwear under the UGG Australia® brand in the PRC. During the year, the joint venture launched its first UGG retail store in Beijing, which was well received by its target customers. We believe this strategic alliance with Deckers will enable Stella to leverage on our design, development and manufacturing capabilities and our distribution network in Greater China, thus enable us to increase our presence in the consumer sector throughout Greater China.

BUSINESS OUTLOOK

Continue to Move Up the Value Chain

Looking forward, the uncertain economic climate is likely to continue to affect the demand for footwear globally, but Stella is confident that it can maintain its competitiveness by moving up the value chain and adopting stringent cost-control measures.

Strengthen Our Competitive Edge

In 2009, we will focus on strengthening our competitive edge and consolidate our leadership position in developing and manufacturing quality footwear products. We will further expand our product offerings to customers and brand owners, and to enhance our product quality and craftsmanship. At the same time, we will take on prudent development strategy and cost-control measures to stabilise costs and sustain growth. In face of escalating manufacturing costs in the PRC, we are exploring more cost-effective locations for the possible relocation of our production facilities.

Further Expand Our Foothold

Despite the global financial turmoil, the Chinese retail market is continuing to rise to higher horizon. The management believes that China's footwear market will continue to experience robust growth in the coming years on the back of a healthy and steadily growing economy. In view of this, Stella will further expand into the PRC market to capture opportunities in the mid to upper market segment. We will also endeavor to tap into the growing market of affordable luxury footwear in the Asia Pacific region.

In 2009, we target to set up an additional 25 *Stella Luna* stores and 40 *What For* stores in the Asia Pacific region to further expand our retail network. At the same time, we will continue to focus on increasing same-store growth by improving our operational efficiency.

Encouraged by the success of our first strategic partnership with Deckers, we will continue to explore other potential strategic partnerships to create more value and synergistic benefits to our existing business.

We believe those strategies and comprehensive business plans will leave the Group well-positioned to overcome any challenges ahead and capitalise on any opportunities that arise.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2008, the Group had cash and cash equivalents of about US$365.1 million (2007: US$407.0 million).

As at 31 December 2008, the Group had current assets of US$699.9 million (2007: US$686.9 million) and current liabilities of about US$135.3 million (2007: US$123.6 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 5.2 as at 31 December 2008 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 2008 (2007: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2008, the Group's sales were mainly denominated in the U.S. dollars, while purchase of raw materials and operating expenses were mainly denominated in Renminbi ("RMB") or the U.S. dollars. The currency exposures were mainly in RMB and Hong Kong dollars against the functional currency of the relevant group companies. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year under review.

CAPITAL EXPENDITURE

During the year under review, the Group's total capital expenditure amounted to approximately US$16.4 million, of which approximately US$13.2 million was used in the production capacity expansion and approximately US$3.2 million was used in the retail network expansion.

PLEDGE OF ASSETS

As at 31 December 2008, the Group pledged bank deposit of US$10.1 million (2007: Nil) to a bank to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2008, the Group had approximately 21,000 employees (2007: approximately 25,000). 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 and 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





At Stella, we believe corporate social responsibility is an integral part of our corporate culture and a key to long-term success. Our management philosophy is to be fair, caring and respectful, which we apply not only to our business practice but also our interaction with the community. By organising voluntary services, donations and sponsorships, we hope to fulfill our social responsibilities and offer assistance to those in need.

Giving Back to the Community

At Stella, we are committed to leveraging our strengths to contribute to the community where our staff live and work. Apart from organising activities such as visits to the elderly and donations, we have also established a kindergarten and built amenities for children in Mainland China. The key to Stella's success is our people. To express our appreciation we have organised factory outings for staff and invited along their family members, whose support and encouragement are integral to the well-being of our staff.

Extending a helping hand to the underprivileged, Stella has organised clothing donations regularly since 2006, giving out over 234,410 pieces of clothing including work uniforms.

Following the tragic earthquake in Sichuan province in May 2008, Stella immediately sprung to action, donating over RMB12 million in relief fund along with medical supplies, as well as offering emergency assistance to help the affected employees and their families. In order to help the victims rebuild their lives, Stella has created job openings and established an occupational training school for workers from the earthquake area.

Supporting Education

Stella believes education is integral to the development of any communities. Between 2006 and 2008, we have organised four voluntary services to enrich the facilities at schools in Mainland China, including one school for the visually impaired. Apart from furnishing the classrooms, Stella has also donated daily necessities such as iron beds, drinking fountains, bedclothes and fridges.

Corporate Social Responsibility

Following the cooperation with Nan Bo College in 2006, Stella has started to work in partnership with Guangzhou University last year to provide training courses to underprivileged workers in Mainland China at our factories, enabling our workers to study and work at the same time with the aim of improving their living standards through the enhancement of skills and knowledge. Our workers not only enjoyed free coaching hours, some would be granted scholarship when they graduate.

Contributing to a Green Future

On 22 April 2008, the World Earth Day, Stella teamed up with our valued partner, Timberland, to conduct a tree planting activity in a public school in Haiphong City, Vietnam. Through the initiative, we hoped to raise the environmental awareness of the future generation.

Between 2006 and 2008, Stella has organised almost 10 conservation activities which attracted about 2,000 volunteers in total from the Group. Apart from tree plantings, we have also conducted street cleaning, garden cleaning and community services together with our brand customers.

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 and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders").

GOVERNANCE MODEL

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

To facilitate more effective implementation of corporate governance practices, a corporate governance committee of the Board (the "Corporate Governance Committee") has been established pursuant to a resolution of all Directors passed on 15 June 2007 with specific written terms of reference which deal clearly with the committee's authority and duties. The Corporate Governance Committee currently has three members comprising an executive Director, Mr. Shih Takuen, Daniel and two independent non-executive Directors, Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *JP*. 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 greater 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 Board's 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.

During the year ended 31 December 2008, two Corporate Governance Committee meetings were held, and the attendance records are set out below:

Name	**Attendance**
Mr. Shih Takuen, Daniel	2/2
Mr. Chu Pao-Kuei	2/2
Mr. Hung John Terence, *SBS, JP*	2/2
Mr. Chen Jiann-Min, Jimmy	0/1

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 with immediate effect.

   Mr. Hung John Terence, *SBS, JP* resigned as an independent non-executive Director, a member of the Audit Committee and the Corporate Governance Committee, and the chairman of the investor relations committee ("Investor Relations Committee") and the Nomination Committee with effect from 11 November 2008.

2. Mr. NG Hak Kim, *JP* was appointed as a member of the Corporate Governance Committee with effect from 6 February 2009.

To maximise the transparency of the Group, the Company has adopted quarterly financial reporting during the year. In order to provide the Shareholders with pertinent information relating to the business and operations of the Company on a more timely basis, commencing from the first quarter of 2009, the Company will make its best efforts to voluntarily report on its quarterly business development as early as within two weeks after the end of the relevant quarter. Consequently, the Company has discontinued publishing voluntary quarterly financial results commencing from the first quarter of 2009.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2008 except for code E.1.2, details of which are disclosed below. Save for the deviation from code E.1.2, the Group upholds a high standard of corporate governance and the Company has adopted practices for corporate governance which, the Directors believe, are of higher standard than that required under the Code in various aspects as more particularly described later in this report.

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

A. Directors

A.1 The Board

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

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

The management of the day-to-day operations of the Group is delegated by the Board to the management. In 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.	✓	The Directors' attendance records for the year 2008 are set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. Chiang Jeh-Chung, Jack (Chairman) (1) — 3/8 Mr. Shih Takuen, Daniel (Deputy Chairman) (1) — 7/8 Mr. Chao Ming-Cheng, Eric — 6/8 Mr. Chen Li-Ming, Lawrence (Chief Executive Officer) (2) — 6/7 Mr. Shieh Tung-Pi, Billy (Chief Operating Officer) — 7/8 Mr. Chi Lo-Jen, Stephen — 6/8 Mr. Chen Jiann-Min, Jimmy (1) — 0/1 **Independent Non-executive Directors** Mr. Chu Pao-Kuei — 8/8 Mr. Ng Hak Kim, *JP* — 8/8 Mr. Hung John Terence, *SBS, JP* (3) — 5/6 **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.
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 2009 have already been scheduled to ensure compliance with the Code and to facilitate Directors' attendance.

Code Provisions	Compliance	Corporate Governance Practices
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 in appropriate circumstances 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. In case the Director(s) concerned has a material conflict of interest, the Director(s) concerned has abstained from voting on the relevant board resolution and was not counted towards the quorum.

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 the 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 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. 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 Company.
- 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 (including independent 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.

Appreciating the significant role of the Chairman in providing leadership for the Board, the position of Deputy Chairman has been put in place to assist the Chairman to discharge his responsibilities, especially in facilitating communication among the Directors for information relevant for Board meetings and to ensure that the Board works effectively and all the Directors contribute fully and actively to Board deliberations.

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 officer 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 and the Deputy Chairman, being also the chairman of the Corporate Governance Committee, will 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.	✓	Such roles are set out in writing and have 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.	✓	The Chairman and the Deputy Chairman maintains open dialogue with individual independent non-executive Directors to ensure that communication is effective.
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. 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 independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment. The independent non-executive Directors are of diversified background and competencies, with appropriate professional qualifications and/or extensive knowledge and experience in their respective business undertakings.

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

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.

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.	X	At all material times throughout the year ended 31 December 2008, the Board consisted of a total of nine Directors, comprising six executive Directors and three independent non-executive Directors, which represented one-third of the Board. (1)(2)(3) Following the resignation of Mr. Hung John Terence, *SBS, JP.* as an independent non-executive Director on 11 November 2008, the number of independent non-executive Directors fell below the minimum number prescribed under the Listing Rules. The Company was able to identify suitable candidate in compliance with Rule 3.10 of the Listing Rules and has appointed Mr. Chen Johnny as the new independent non-executive Director on 6 February 2009.
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 procedures for the selection and nomination of new Directors to the Board. The procedures are:

(i) First, appointments of Directors are reviewed by the Nomination Committee; and
(ii) Then, the recommendations of the Nomination Committee shall 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.	✓	The term of Directors' (including non-executive Directors') appointment 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.
A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	✓	

Recommended Best Practices	Compliance	Corporate Governance Practices
A.4.3 If an independent non-executive director serves more than 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	No independent non-executive Director has served the Board for more than nine years.

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. At all material times for the year ended 31 December 2008, the Nomination Committee had four members comprising three independent non-executive Directors, Mr. Hung John Terence, *SBS, JP* [(3)], Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *JP* and an executive Director, Mr. Shih Takuen, Daniel [(1)]. The chairman of the Nomination Committee at all material times in 2008 was Mr. Hung John Terence, *SBS, JP*. Following Mr. Hung John Terence's resignation as the independent non-executive Director on 11 November 2008, Mr. Chen Johnny was appointed as an independent non-executive Director and the chairman of the Nomination Committee on 6 February 2009. Matters which relate mostly to the changes of composition of the Board were dealt with by written resolutions of the Nomination Committee during the year.
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 assessment of the independence of the 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 are posted on the website of the Company. A copy of the terms of reference is 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 such proposal was made in 2008.

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 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 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 judgment on strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings; (b) take the lead when potential 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 (including the independent non-executive Directors) have exercised independent judgment 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. The independent non-executive Directors serve on various Board committees, and each independent 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.	✓	All executive Directors have in-depth industry knowledge and established track record, whose interests are aligned with that of the Company. The non-executive Directors (including the independent non-executive Directors) have brought a wide spectrum of their extensive knowledge and experience in their respective business undertakings to the Board for the fullest performance of its functions.

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. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the year. It was set out in the Company's compliance manual that 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 is responsible for arranging and funding continuous professional development programme for the Directors, such as in-house discussion sessions and external conferences on corporate governance.
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.	✓	The Directors have disclosed 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.1.1, A.5.2 and 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.5.2 and 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 the 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. The Directors have separate and independent access to the Company's senior management, including the Head of Internal Audit, to keep themselves 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.6.1 and 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/her 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 an executive Director, Mr. Shih Takuen, Daniel [1]. The chairman of the Remuneration Committee is Mr. Ng Hak Kim, *JP*. During the year, four Remuneration Committee meetings were held, and the attendance records are set out below: **Name** — **Attendance** Mr. Ng Hak Kim, *JP* — 4/4 Mr. Chu Pao-Kuei — 4/4 Mr. Shih Takuen, Daniel — 4/4 During the year, the following work has been performed by the Remuneration Committee: (i) reviewed the Group's overall human resources management strategic plan; (ii) discussed incentive scheme for senior management; (iii) discussed the granting of awards under the Company's long term incentive scheme; (iv) determined remuneration of Directors; and (v) reviewed the terms of the service agreement with Mr. Shih Takuen, Daniel, an executive Director. Mr. Ng Hak Kim, *JP*, the chairman of the Remuneration Committee, also led a brainstorming session with the senior management at the Company's headquarters in Dongguan, China during the year to discuss practical issues concerning staff recruitment, retention and motivation. The Remuneration Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties.

Code Provisions	Compliance	Corporate Governance Practices
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) The Company's management makes recommendations to the Remuneration Committee on the executive Directors' remuneration; (ii) the Remuneration Committee then reviews these recommendations (with access to professional advice if considered necessary and at the Company's expense) and proposes the final remuneration package to the Board for approval; (iii) No Director or any of its associates is involved in deciding his or her own remuneration.
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 all 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. The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, the review of the Company's overall human resources strategy, determination of the specific remuneration packages of all executive Directors and senior management and administration and oversight of the Company's share option and share award scheme in accordance with the terms of the long term incentive scheme of the Company.

Code Provisions	Compliance	Corporate Governance Practices
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 are posted on the website of the Company. A copy of the terms of reference is 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. The Remuneration Committee also has access to independent professional advice at the Company's expense if considered necessary.
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 2008, the executive Directors' performance based remuneration related to their executive roles constitutes more than two-thirds on 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	To observe the competitive market practices and to respect individual personal information, the Company did not make such disclosure in its annual report and accounts.
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 2008.

C. Accountability and audit		
C.1 Financial reporting **Principle** The Board should present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects.		
Code Provisions	**Compliance**	**Corporate Governance Practices**
C.1.1 Management should provide 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 by the management 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 75 respectively of this annual report. The Board is responsible for the preparation of financial statements of the Company and ensuring that they give a true and fair view of the state of affairs of the Company according to the relevant statutory requirements and accounting standards. The Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.
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 balanced, clear and understandable assessment of the position of the Group from time to time.
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 financial reporting during the year. In order to provide the Shareholders with pertinent information relating to the business and operations of the Company on a more timely basis, commencing from the first quarter of 2009, the Company will make its best efforts to voluntarily report on its quarterly business development as early as within two weeks after the end of the relevant quarter. Consequently, the Company has discontinued publishing voluntary quarterly financial results commencing from the first quarter of 2009.

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.	✓	Please refer to the disclosure made under C.1.4 in this report and the announcement of the Company dated 13 January 2009.
C.2 Internal controls **Principle** The Board should ensure that the Company maintains sound and effective internal controls to safeguard the Shareholders' investment and the Company'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 (covering financial, operational and compliance controls and risk management functions) 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 manage enterprise risks and improve its mitigation framework. The internal control procedures of the Group include strategic control, management control and business process control. The internal control procedures are designed to safeguard the integrity of business 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 and the Chief Operating Officer of the Company. Deloitte Touche Tohmatsu, the Company's external auditors, reported on matters concerning internal control of the Group for the year ended 31 December 2008 in accordance with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

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. At all material times for the year ended 31 December 2008, the Audit Committee had 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* [(3)]. The chairman of the Audit Committee is Mr. Chu Pao-Kuei. Following Mr. Hung John Terence's resignation as the independent non-executive Director on 11 November 2008, Mr. Chen Johnny was appointed as an independent non-executive Director and a member of the Audit Committee on 6 February 2009.

During the year, four Audit Committee meetings were held, and the attendance records are set out below:

Name	**Attendance**
Mr. Chu Pao-Kuei	4/4
Mr. Ng Hak Kim, *JP*	4/4
Mr. Hung John Terence, *SBS, JP*	2/3

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

(A) Reporting matters:
- (i) reviewed the effectiveness of financial reporting system;
- (ii) reviewed the effectiveness of the internal control and risk management system; and
- (iii) reviewed the findings of internal audit

(B) Discussion matters:
- (i) reviewed and discussed quarterly, interim and annual results; and
- (ii) reviewed and discussed the Group's tax structure.

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 2008 is US$671,000. No non-audit services were provided to the Group during the year.

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 recorded in sufficient detail all matters discussed and resolved at such meetings. Draft minutes are circulated to all members for comment within a reasonable time after each meeting and final version of the minutes is circulated to all the Directors for 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.

Code Provisions	Compliance	Corporate Governance Practices
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 are posted on the website of the Company. A copy of the terms of reference is 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.

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. 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.
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 Investor Relations 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. At all material times for the year ended 31 December 2008, the Investor Relations Committee had three members comprising one independent non-executive Director, Mr. Hung John Terence, *SBS, JP* (3), 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 Investor Relations Committee at all material times was Mr. Hung John Terence, *SBS, JP*. During the year, no formal Investor Relations Committee meeting was held. Nonetheless, the Investor Relations Committee discharged its duties by giving advice and recommendations to the Company's management on a needed basis from time to time. Subsequent to the balance sheet date, in March 2009, the Board resolved to incorporate the functions of the Investor Relations Committee into the Corporate Governance Committee for the purposes of better alignment.		
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.	✓	In the annual general meeting held on 7 May 2008 ("2008 AGM"), separate resolutions were proposed by the chairman of meeting in respect of each substantially separate issue in accordance with E.1.1 of the Code.
E.1.2 The chairman of the board should attend the annual general meeting and arrange the chairmen 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.	Partially complied with	The Chairman had not attended the 2008 AGM, but Mr. Shih Takuen, Daniel, the Deputy Chairman, took the chair at the 2008 AGM to answer Shareholders' questions instead. The reason for such arrangement is that the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, is responsible for managing major customers' relationship, overseeing and planning the business strategies of the Group as well as providing leadership and management to the Board, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is responsible for handling matters relating to investor relations and communication with the Shareholders. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

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.	✓	For the 2008 AGM, there was sufficient disclosure in the Company's circulars to Shareholders regarding the procedures for and the rights of Shareholders to demand a poll.
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.	✓	This has been complied with in the 2008 AGM.

Code Provisions	Compliance	Corporate Governance Practices
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.	✓	Detailed explanation regarding the procedures for demanding poll by Shareholders had been provided at the commencement of the 2008 AGM.

Notes:

(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 Board with immediate effect. On the same day, Mr. Chiang Jeh-Chung, Jack and Mr. Shih Takuen, Daniel was appointed as Chairman and Deputy Chairman of the Board respectively. With effect from 1 May 2008, Mr. Shih Takuen, Daniel was re-designated from a non-executive Director to an executive Director and appointed as the chief strategy officer of the Group.

(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.

(3) Mr. Hung John Terence, *SBS, JP.* resigned as an independent non-executive Director, a member of the Audit Committee and the Corporate Governance Committee, and the chairman of the Investor Relations Committee and the Nomination Committee with effect from 11 November 2008. Subsequent to the balance sheet date, Mr. Chen Johnny was appointed as an independent non-executive Director, a member of the Audit Committee and the chairman of the Nomination Committee on 6 February 2009.

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 for the year under review.

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

AMENDMENTS TO THE LISTING RULES AND THE CODE

In light of the amendments made to the Listing Rules and the Code with effect from 1 January 2009, the Company has incorporated such changes in its corporate governance practices commencing 1 January 2009 and will strive to improve its corporate governance in the future.

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 58, 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 26 years of experience in new product development and management in the footwear industry. He is the uncle of the Executive Director, Mr. Chi Lo-Jen, Stephen, and is the brother-in-law of the Executive Director, 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. SHIH Takuen, Daniel, aged 57, is the Deputy Chairman of the Board, an Executive Director of the Company, the chairman of the Corporate Governance Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. Mr. Shih has been with the Group since 2007. He is responsible for the Group's business development strategy, leadership development, and retail business operations. Prior to joining the Group, he was the chairman of PepsiCo (China) Investment Ltd. since 2006 and president of Motorola (China) Electronics Ltd. from 2003 to 2006. Mr. Shih holds a Master of Science degree from University of Cincinnati, the United States and an honorary doctorate degree of commerce from West Alabama University, the United States. He is also the director of 興記九興貿易（上海）有限公司 (Stella Luna Fashion Inc.), which is a subsidiary of the Company. Mr. Shih is the brother-in-law of the Executive Director, Mr. Chen Li-Ming, Lawrence. He is one of the shareholders of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHAO Ming-Cheng, **Eric**, aged 57, 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 26 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.

Biographies of Directors and Senior Management

Mr. CHEN Li-Ming, Lawrence, aged 48, 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 23 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 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 51, 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 26 years of experience in the footwear industry. He holds a Certificate of Tourism Management from the Tansui Institute of Industrial and Business Administration (now known as 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 37, 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 13 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHU Pao-Kuei, aged 77, is an Independent Non-executive Director of the Company and the chairman of the Audit Committee, and a member of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee of the Board. Mr. 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）. 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, FHKIHRM, FHKIoD, FHKMA*, aged 56, is an Independent Non-executive Director of the Company, the chairman of the Remuneration Committee and a member of the Audit Committee, the Corporate Governance Committee and the Nomination Committee of the Board. Mr. 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 member 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 26 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 services 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 Hong Kong Examination and Assessment Authority, member of the Audit Committee and Remuneration Committee of Hong Kong Housing Society, a member of Authority and Finance Committee and Chairman of Audit Sub-Committee of Hong Kong Housing Authority, and a member of the Independent Police Complaints Council. Mr. Ng has been appointed as an Independent Non-executive Director of the Company since June 2007.

Mr. CHEN Johnny, aged 49, is an Independent Non-executive Director of the Company, and the chairman of the Nomination Committee and a member of the Audit Committee of the Board. Mr. Chen is currently the chief executive officer of Greater China/Southeast Asia of Zurich Financial Services ("Zurich"). Mr. Chen is also a member of the Zurich's leadership team and the Asia Pacific Executive Committee. Mr. Chen joined Zurich in 2005, mainly responsible for establishing and leading Zurich's renewed focus in the Greater China region. In 2007, his responsibility was extended to cover Southeast Asia as well as to support Zurich's expansion plan in the newly established and fast-growing Greater China/Southeast Asia business region. Prior to joining Zurich, Mr. Chen was an executive member of PricewaterhouseCoopers Greater-China management board and the Operating Committee, as well as the Managing Partner of the Beijing office of the firm. During his 12-year service with PricewaterhouseCoopers, Mr. Chen handled the firm's strategic development and contributed to the firm's development in the China market. Mr. Chen's career has been focused on the China market since 1987 when he was a representative of KPMG to join a teaching team of a Professional Accountancy Program organized by the World Bank, Ministry of Finance of China and KPMG. Mr. Chen has contributed to developing China's capital market and professional service sectors, and provided advisory services to many leading Chinese corporations. Mr. Chen holds a Master of Science degree in Accounting from the University of Rhode Island. Mr. Chen is a member of American Institute of Certified Public Accountants since 1986. Mr. Chen has been appointed as an Independent Non-executive Director of the Company since February 2009.

SENIOR MANAGEMENT

Mr. LEE Kwok Ming, aged 51, is the Chief Financial Officer 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 in Hong Kong. Mr. Lee holds a Higher Diploma in Accountancy from the Hong Kong Polytechnic and a Master of Science degree in Business Administration from the University of Bath, United Kingdom. Mr. Lee is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants.

Mr. CHEN Tung-Po, aged 52, 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 25 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.

Mr. CHANG Ching-Hung, aged 48, 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 22 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 47, 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 23 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 39, 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 15 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 52, 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 23 years of experience in the footwear industry. He holds a Certificate of International Trade from the Tansui Institute of Industrial and Business Administration (now known as the Aletheia University), Taiwan.

Mr. CHU Chao-Min, aged 49, 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 15 years of experience in the footwear industry. He holds a Bachelor of Commerce degree from the Feng Chia University, Taiwan.

Biographies of Directors and Senior Management

Mr. TSENG Chung-Chieh, aged 52, 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 14 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 48, is the Deputy General Manager in Marketing of Retail Business of the Group. She is also the director of 興記九興貿易（上海）有限公司(Stella Luna Fashion Inc.), a subsidiary of the Company. Prior to joining the Group in 2005, Ms. Hsieh 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 22 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 known as the Shih Chien University), Taiwan.

Ms. HU Shyh-Wen, aged 52, is the Deputy General Manager in Sales of Retail Business of the Group. Ms. Hu joined the Group in 2008. Prior to joining the Group, she worked with Meala International Taiwan Ltd., Elizabeth Arden Trading B.V., Hearts on Fire Company (Taiwan), Core Pacific City Co., Ltd. (Taiwan) and Elca Inc. (Taiwan). Ms. Hu has over 24 years of experience in the retail industry. She holds a Bachelor of Journalism degree from the Shih Hsin University, Taiwan.

Directors' Report

Directors' Report

The board (the "Board") of directors (the "Directors") are pleased to present the 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 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements for the year ended 31 December 2008.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 77.

The Directors recommend the payment of a final dividend of HK50 cents per ordinary share to shareholders (the "Shareholders") listed on the register of members of the Company on 8 May 2009, amounting to approximately US$51.2 million. It is expected that the final dividend will be paid on or about 22 May 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2009 to 8 May 2009 (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 2008 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 p.m. on 5 May 2009.

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 25 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 26 and 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2008 were US$742.5 million (2007: US$722.6 million).

DIRECTORS

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

Executive Directors:

Mr. Chiang Jeh-Chung, Jack	
Mr. Shih Takuen, Daniel	(re-designated from a non-executive Director to an executive Director on 1 May 2008)
Mr. Chao Ming-Cheng, Eric	
Mr. Chen Li-Ming, Lawrence	(appointed on 9 January 2008)
Mr. Shieh Tung-Pi, Billy	
Mr. Chi Lo-Jen, Stephen	
Mr. Chen Jiann-Min, Jimmy	(resigned on 19 March 2008)

Independent Non-executive Directors:

Mr. Chu Pao-Kuei	
Mr. Ng Hak Kim, *JP*	
Mr. Hung John Terence, SBS, *JP*	(resigned on 11 November 2008)

Subsequent to the balance sheet date, Mr. Chen Johnny was appointed as an independent non-executive Director of the Company and the chairman of the Nomination Committee and a member of the Audit Committee of the Board with effect from 6 February 2009.

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

In accordance with article 87(1) of the Company's articles of association, Mr. Shih Takuen, Daniel, Mr. Shieh Tung-Pi, Billy and Mr. Ng Hak Kim, *JP* 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 34 to the consolidated financial statements and the transactions described in the section headed "Connected Transactions and Continuing Connected Transactions" in this report, 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" and "Long Term Incentive Scheme" below, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation of independence pursuant to Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from each of the independent non-executive Directors. The Company considers all of the independent non-executive Directors of the Company independent.

DISCLOSURE OF INTERESTS

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

As at 31 December 2008, 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:

(A) The Company

Director	Number of shares	Approximate percentage of shareholding	Capacity/ Nature of interest
Shieh Tung-Pi, Billy	1,080,593	0.14%	Beneficial owner

(B) Associated Corporation – Cordwalner Bonaventure Inc.

Director	Number and class of shares	Approximate percentage of shareholding	Capacity/ Nature of interest
Chen Li-Ming, Lawrence ("Mr. Chen Lawrence")	122,707 ordinary shares	12.53% (Note 1)	Beneficial owner and interest of spouse
Chao Ming-Cheng, Eric ("Mr. Chao Eric")	113,694 ordinary shares	11.61% (Note 2)	Beneficial owner and interest of spouse
Chiang Jeh-Chung, Jack	76,000 ordinary shares	7.76%	Beneficial owner
Shieh Tung-Pi, Billy	35,631 ordinary shares	3.64%	Beneficial owner
Chi Lo-Jen, Stephen	23,125 ordinary shares	2.36%	Beneficial owner
Shih Takuen, Daniel	6,536 ordinary shares	0.67%	Beneficial owner

Notes:

1. This includes about 4.77% of the relevant class of shares issued in Cordwalner Bonaventure Inc. of Ms. Yang Meng-Chiu, the spouse of Mr. Chen Lawrence, which is deemed to be interested by Mr. Chen Lawrence for the purpose of Part XV of the SFO.

2. This includes about 3.85% of the relevant class of shares issued in Cordwalner Bonaventure Inc. of Mrs. Chao Tracy, the spouse of Mr. Chao Eric, which is deemed to be interested by Mr. Chao Eric for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2008, 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 2008, 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	564,271,550	71.03%

Save as disclosed above, as at 31 December 2008, 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 34 to the consolidated financial statements also constituted continuing connected transactions within the meaning of the Listing Rules. Details of such transactions are summarised below:–

Lease of office from 東莞興泰鞋材有限公司 (Sanford International Co. Ltd.) ("Sanford") (Item 1)

Connected person: Sanford is ultimately wholly owned by Mr. Chen Lawrence. Since Sanford is an associate (as defined under the Listing Rules) of Mr. Chen Lawrence who was our Director for the year ended 31 December 2008, Sanford is therefore a connected person of the Company.

Connected transaction: On 21 May 2007, the Group entered into a tenancy agreement ("Sanford 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 the terms of the Sanford 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) to the Group. 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 2008: The Group paid RMB661,000 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 2008.

Lease of factory from 惠州興昂鞋業有限公司 (Huizhou Stella Footwear Co. Ltd.) ("Huizhou Stella") (Item 2)

Connected person: Huizhou Stella is ultimately wholly owned by Mr. Chen Lawrence. Since Huizhou Stella is an associate (as defined under the Listing Rules) of Mr. Chen Lawrence who was our Director for the year ended 31 December 2008, Huizhou Stella is therefore a connected person of the Company.

Connected transaction: On 21 May 2007, the Group entered into a tenancy agreement ("Huizhou 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 the terms of the Huizhou 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 "Plant"). The Plant was expected to be used as the Group's new factory in Huizhou. Nevertheless, the Group had not yet established a wholly foreign-owned enterprise as its vehicle for the operation and management of the Plant.

Rent in 2008: The aggregate annual cap for the financial year ended 31 December 2008 was RMB5,400,000. The Group had not paid any rental for the tenancy during the year.

On 24 November 2008, the Group and Huizhou Stella entered into a termination agreement (the "Termination Agreement") to terminate the Huizhou Tenancy Agreement with effect from the date of the Termination Agreement for the reasons as described under Item 3 below. The termination of the Huizhou Tenancy Agreement under the Termination Agreement constitutes a connected transaction of the Company and is exempt from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Purchase of footwear products from Huizhou Stella (Item 3)

Connected person: As described under Item 2, Huizhou Stella is our connected person.

Connected transaction: On 24 November 2008, the Group entered into a processing agreement (the "Processing Agreement") with Huizhou Stella for the processing, manufacture and supply of footwear products from Huizhou Stella at their costs, on an exclusive basis and on other normal commercial terms for a period from 24 November 2008 to 31 December 2009. By entering into the Processing Agreement, the Group is able to save the time, investment cost and resources required for the Group to establish its new wholly foreign-owned enterprise as its vehicle in Huizhou, China, for the operation and management of the Plant. The Processing Agreement enables the Group to secure its immediate utilisation of the production capacity of the Plant and enhance its operational efficiency and flexibility.

Purchase in 2008: The Group purchased footwear products from Huizhou Stella amounting to US$1,470,000, which did not exceed the aggregate annual cap of US$1,500,000 for the period from 24 November 2008 to 31 December 2008.

The entering into of the Option Deed (Item 4)

On 24 November 2008, the Group also entered into an option deed (the "Option Deed") with Seville Development Limited ("Seville"), the sole shareholder of Huizhou Stella, pursuant to which Seville has granted to the Group an option (the "Seville Option"), exercisable by Stella International Limited, a wholly-owned subsidiary of the Company, for a period from the date of the Option Deed to 31 December 2009, to purchase the option share, being the entire issued share capital of Marvel Power Limited ("Marvel Power"), a wholly-owned subsidiary of Seville. The consideration payable by the Group for the grant of the Seville Option by Seville is HK$1 and was paid in full upon signing of the Option Deed.

Under the Option Deed, Seville shall undergo an internal reorganisation pursuant to which Huizhou Stella will be organised as a wholly-owned subsidiary of Marvel Power through acquisition ("Acquisition"). Completion of the sale and purchase of the option share pursuant to the exercise of the Seville Option by the Group shall be conditional upon among others, the Acquisition having been completed. As at the date of this Report, the completion of the Option Deed has not yet taken place.

The acceptance of the Seville Option by the Group under the Option Deed constitutes a connected transaction of the Company and is exempt from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Purchase of lasts from 東莞興和塑膠制品有限公司 (Sabina Footwear Co. Ltd.) ("Sabina") (Item 5)

Connected person: Sabina is ultimately wholly owned by Mr. Chen Lawrence. Since Sabina is an associate (as defined under the Listing Rules) of Mr. Chen Lawrence who was our Director for the year ended 31 December 2008, 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 dated 21 May 2007 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 2008: The Group purchased lasts from Sabina amounting to US$2,678,000, which did not exceed the aggregate annual cap of US$2,900,000 for the financial year ended 31 December 2008.

Purchase of molds from 東莞興立精密模具有限公司 (Sincerely International Ltd.) ("Sincerely") (Item 6)

Connected person: Sincerely is ultimately wholly owned by Mr. Chen Lawrence. Since Sincerely is an associate (as defined under the Listing Rules) of Mr. Chen Lawrence who was our Director for the year ended 31 December 2008, Sincerely is therefore a connected person of the Company.

Connected transaction: The ongoing purchase of molds by the Group from Sincerely as governed under a framework purchase agreement dated 21 May 2007 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 2008: The Group purchased molds from Sincerely amounting to US$3,164,000, which did not exceed the aggregate annual cap of US$4,500,000 for the financial year ended 31 December 2008.

Purchase of leather and tannery products from 興昂制革(惠州)有限公司 (Simona Tannery Co. Ltd.) ("Simona Tannery") (Item 7)

Connected person: Simona Tannery is ultimately wholly owned by Mr. Chen Lawrence. Since Simona Tannery is an associate (as defined under the Listing Rules) of Mr. Chen Lawrence who was our Director for the year ended 31 December 2008, 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 dated 21 May 2007 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 2008: The Group purchased leather and other tannery products from Simona Tannery amounting to US$29,612,000, which did not exceed the aggregate annual cap of US$40,700,000 for the financial year ended 31 December 2008.

Purchase of sole materials from Sanford (Item 8)

Connected person: As described under Item 1, Sanford is a 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 dated 21 May 2007 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 2008: The Group purchased sole materials from Sanford amounting to US$7,628,000, which did not exceed the aggregate annual cap of US$13,900,000 for the financial year ended 31 December 2008.

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 ultimately wholly owned by Mr. Chen Lawrence. Since Xintan is an associate (as defined under the Listing Rules) of Mr. Chen Lawrence who was our Director for the year ended 31 December 2008, Xintan 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 dated 21 May 2007 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 2008: The Group purchased sole materials from Xintan amounting to US$17,911,000, which did not exceed the aggregate annual cap of US$24,900,000 for the financial year ended 31 December 2008.

Compliance with the Reporting, Announcement and Independent Shareholders' Approval Requirements

The termination of the Huizhou Tenancy Agreement under the Termination Agreement described under Item 2 above and the acceptance of the Seville Option by the Group under the Option Deed described under Item 4 above constitute connected transactions of the Company and are exempt from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the relevant requirements under Chapters 14 and/or 14A of the Listing Rules if necessary, as and when the Seville Option is exercised.

Under the Listing Rules, the continuing connected transactions described in Items 1 to 3 and Items 5 to 6 (Items 1 and 2 on an aggregated basis and Items 5 and 6 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 7 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 1 to 2 and 5 to 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.

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

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

Pursuant to Rule 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 auditor of the Company confirmed that all continuing connected transactions have received the approval of the Board, have been entered into in accordance with the relevant agreement governing the transactions and have not exceeded their respective annual caps. The independent non-executive Directors have, for the purpose of Rule 14A.37 of the Listing Rules, reviewed all continuing connected transactions and the report of the auditors and have confirmed that all continuing connected transactions have been entered into by the Group in the ordinary and usual course of its business, on normal commercial terms and 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 Board and then approved by the Board, having regard to the Director's skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the 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 ("Restricted Unit Award") 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. 238,313,850 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 2008.

Pursuant to the terms of the Scheme, the Company has entered into a deed of settlement dated 27 August 2008 with a trustee (the "Trustee") for the administration by the Trustee of the awards of Restricted Unit Awards under the Scheme.

During the year, the Trustee had purchased and maintained a pool of 2,655,500 Shares which are available for the Trustee to satisfy the Restricted Unit Awards upon their respective vesting.

During the year, no Shares were awarded to any eligible participants. Subsequent to the balance sheet date, a total of 2,445,500 Shares were awarded to 85 eligible participants on 19 February 2009, six of whom were Directors and the remaining 79 were employees, as set out below:

Directors

Name of Director	Date of Award	Aggregate Number of Restricted Unit Awards	Vesting Date	Number of Vesting Restricted Unit Awards
Mr. Chiang Jeh-Chung, Jack	19 February 2009	223,500	1 April 2009	74,500
			1 April 2010	74,500
			1 April 2011	74,500
Mr. Shih Takuen, Daniel	19 February 2009	211,500	1 April 2009	70,500
			1 April 2010	70,500
			1 April 2011	70,500
Mr. Chi Lo-Jen, Stephen	19 February 2009	169,500	1 April 2009	56,500
			1 April 2010	56,500
			1 April 2011	56,500
Mr. Chao Ming-Cheng, Eric	19 February 2009	153,000	1 April 2009	51,000
			1 April 2010	51,000
			1 April 2011	51,000
Mr. Chen Li-Ming, Lawrence	19 February 2009	96,000	1 April 2009	32,000
			1 April 2010	32,000
			1 April 2011	32,000
Mr. Shieh Tung-Pi, Billy	19 February 2009	64,500	1 April 2009	21,500
			1 April 2010	21,500
			1 April 2011	21,500

Employees

Date of Award	Aggregate Number of Restricted Unit Awards	Vesting Date	Number of Vesting Restricted Unit Awards
19 February 2009	1,527,500	1 April 2009	609,900
		1 April 2010	453,900
		1 April 2011	453,900
		1 April 2012	4,900
		1 April 2013	4,900

TAX RELIEF AND EXEMPTION

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

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the year, the Group made donations for charitable purposes of RMB12,000,000.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest customer and five largest customers accounted for approximately 20.1% and 62.4% of the Group's total revenue for the year ended 31 December 2008 respectively.

The aggregate purchase attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year ended 31 December 2008.

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.

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

At the annual general meeting held on 7 May 2008, the Directors were granted a general mandate to purchase the shares of the Company not exceeding 10% of the aggregate nominal amount of its issued share capital as at the date of passing of the relevant resolution. During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2008	Number of shares of nominal value of HK$0.10 each repurchased	Consideration per share		Aggregate consideration paid
		Highest	Lowest	
		HK$	HK$	HK$
October 2008	9,344,000	7.50	6.41	66,026,855
November 2008	2,572,500	6.60	6.30	16,660,563
December 2008	2,954,000	6.40	5.92	18,336,042

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year.

AUDITOR

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

On behalf of the Board
Chiang Jeh-Chung, Jack

Chairman

20 March 2009

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 77 to 134, which comprise the consolidated balance sheet as at 31 December 2008, 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 2008 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 requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008 US$'000	2007 US$'000
Revenue	7	**1,102,116**	937,164
Cost of sales		**(839,557)**	(716,149)
Gross profit		**262,559**	221,015
Other income	8	**13,172**	15,911
Distribution and selling expenses		**(57,169)**	(38,549)
Administrative expenses		**(47,522)**	(45,750)
Research and development costs		**(38,491)**	(33,025)
Share of results of associates		**(986)**	(89)
Finance costs	9	**–**	(297)
Profit before tax		**131,563**	119,216
Income tax expense	10	**(6,585)**	(4,593)
Profit for the year	11	**124,978**	114,623
Attributable to:			
Equity holders of the Company		**124,993**	114,695
Minority interests		**(15)**	(72)
		124,978	114,623
Dividends	13	**93,420**	251,241
Earnings per share – Basic (US$)	14	**0.155**	0.165

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	2008 US$'000	2007 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**161,076**	158,165
Prepaid lease payments	16	**8,631**	8,527
Interests in associates	17	**18,215**	1,911
Deposit paid for acquisition of property, plant and equipment		**418**	1,197
		188,340	169,800
CURRENT ASSETS			
Inventories	18	**103,921**	97,888
Trade and other receivables	19	**199,153**	174,119
Prepaid lease payments	16	**249**	239
Amounts due from associates	20	**31,535**	7,129
Derivative financial instruments	21	**–**	595
Pledged bank deposit	22	**10,068**	–
Cash and cash equivalents	23	**355,011**	406,960
		699,937	686,930
CURRENT LIABILITIES			
Trade and other payables	24	**120,691**	115,553
Derivative financial instruments	21	**–**	343
Tax payable		**14,604**	7,714
		135,295	123,610
NET CURRENT ASSETS		**564,642**	563,320
		752,982	733,120
CAPITAL AND RESERVES			
Share capital	25	**10,160**	10,350
Share premium and reserves		**742,732**	722,647
Equity attributable to equity holders of the Company		**752,892**	732,997
Minority interests		**90**	123
		752,982	733,120

The consolidated financial statements on pages 77 to 134 were approved and authorised for issue by the board of directors on 20 March 2009 and are signed on its behalf by:

Chiang Jeh-Chung, Jack
DIRECTOR

Shih Takuen, Daniel
DIRECTOR

Consolidated Statements of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company										
	Share capital	**Share premium**	**Merger reserve**	**Capital reserve**	**Exchange reserve**	**Shares held for share award scheme**	**Capital redemption reserves**	**Accumulated profits**	**Total**	**Minority interests**	**Total**
	US$'000	US$'000	US$'000 (Note 26)	US$'000 (Note 27)	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 1 January 2007	–	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
Recognition of equity-settled share-based payment expenses	–	–	–	1,146	–	–	–	–	1,146	–	1,146
Dividend recognised as distribution	–	(251,241)	–	–	–	–	–	–	(251,241)	–	(251,241)
As at 31 December 2007	10,350	167,298	45,427	1,146	1,534	–	–	507,242	732,997	123	733,120
Exchange difference on translation of foreign operations recognised directly in equity	–	–	–	–	4,308	–	–	–	4,308	(18)	4,290
Profit for the year	–	–	–	–	–	–	–	124,993	124,993	(15)	124,978
Total recognised income and expense for the year	–	–	–	–	4,308	–	–	124,993	129,301	(33)	129,268
Purchase of shares for unvested shares under share award scheme	–	–	–	–	–	(3,001)	–	–	(3,001)	–	(3,001)
Cancellation upon repurchase of own shares	(190)	(12,795)	–	–	–	–	190	(190)	(12,985)	–	(12,985)
Dividend recognised as distribution	–	–	–	–	–	–	–	(93,420)	(93,420)	–	(93,420)
As at 31 December 2008	10,160	154,503	45,427	1,146	5,842	(3,001)	190	538,625	752,892	90	752,982

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	US$'000	US$'000
OPERATING ACTIVITIES		
Profit before tax	**131,563**	119,216
Adjustments for:		
Depreciation of property, plant and equipment	**18,774**	15,284
Impairment loss recognised on inventories	**2,693**	1,632
Share of results of associates	**986**	89
Loss (gain) on changes in fair value of derivative financial instruments	**252**	(252)
Release of prepaid lease payments	**245**	301
Loss on disposal of property, plant and equipment	**72**	241
Interest income	**(9,021)**	(10,089)
Share-based payment expenses	**–**	1,146
Interest expense	**–**	297
Dividend income	**–**	(96)
Operating cash flows before movements in working capital	**145,564**	127,769
Increase in inventories	**(8,844)**	(21,612)
Increase in trade and other receivables	**(25,034)**	(46,143)
Increase in amounts due from associates	**(24,406)**	(7,129)
Increase in trade and other payables	**2,957**	4,231
Decrease in amounts due to related companies	**–**	(15,130)
Cash generated from operations	**90,237**	41,986
Income tax paid	**(121)**	–
Payment for purchase of shares under share award scheme	**(3,001)**	–
NET CASH FROM OPERATING ACTIVITIES	**87,115**	41,986
INVESTING ACTIVITIES		
Investments in associates	**(17,290)**	(2,000)
Purchase of property, plant and equipment	**(15,153)**	(22,575)
Increase in pledged bank deposit	**(10,068)**	–
Increase in deposit paid for acquisition of property, plant and equipment	**(418)**	(1,197)
Interest received	**9,021**	10,089
Proceeds from disposal of property, plant and equipment	**894**	424
Dividend received	**–**	96
NET CASH USED IN INVESTING ACTIVITIES	**(33,014)**	(15,163)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 US$'000	2007 US$'000
FINANCING ACTIVITIES		
Dividend paid	**(93,420)**	(122,738)
Repurchase of own shares	**(12,985)**	–
Proceeds from initial public offerings	**–**	444,564
New bank borrowings raised	**–**	120,000
Capital contribution from minority shareholders of subsidiaries	**–**	195
Repayment of bank borrowings	**–**	(120,000)
Payment of share issue expenses	**–**	(15,688)
Interest paid	**–**	(297)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(106,405)**	306,036
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(52,304)**	332,859
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**406,960**	73,673
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**355**	428
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by	**355,011**	406,960
Bank balances and cash	**240,495**	364,539
Deposits placed in financial institutions	**114,516**	42,421
	355,011	406,960

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 shares 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 associates are set out in notes 36 and 17, respectively.

The consolidated financial statements are presented in United States dollars ("USD"), 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 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 2007 or since the respective dates of incorporation/establishment of the relevant entity, where this is a shorter period. The Group Reorganisation completed on 13 June 2007 was to intersperse the Company between Cordwalner, the ultimate and 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 ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfer of Assets from Customers[7]

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

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods ending on or after 30 June 2009
[5] Effective for annual periods beginning on or after 1 July 2008
[6] Effective for annual periods beginning on or after 1 October 2008
[7] Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (revised) may affect the Group's accounting treatment for business combinations for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments 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, as explained in accounting policies set out below.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation (continued)

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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant 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 is recognised when the goods are delivered and title has passed.

Interest income from financial assets 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 buildings under operating lease, is recognised on a straight-line basis over the period of the relevant leases.

Dividend income from investments 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 losses.

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 represents 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)*

Prepaid lease payments

Prepaid lease payments, which represents up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases

Impairment losses on tangible 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.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure *(continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses on a straight-line basis over its estimated useful life.

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 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. USD) 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.

Goodwill arising on an acquisition of a foreign operation is treated as an asset of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

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 (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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 asset 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 within 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.

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 term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term 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 term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 include as loans and receivables and held for trading investments.

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 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.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates, pledged bank deposit 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 affected.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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.

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.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Financial liabilities

Financial liabilities including trade and other payables 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. The cost of the Company's shares repurchased by the Company (or its subsidiaries) for the shares award scheme is recognised as a deduction from equity in a special reserve (shares held for Share Award Scheme). No gain or loss shall be recognised in the consolidated income statement on the purchase, sale, issue or cancellation of such shares.

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 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 as the shares at the grant date is immediately vested, 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 state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme 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 equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2008 US$'000	2007 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**577,574**	566,347
Derivative financial instruments	**–**	595
	577,574	566,942
Financial liabilities		
Amortised cost	**114,534**	111,048
Derivative financial instruments	**–**	343
	114,534	111,391

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from associates, pledged bank deposit, bank balances, bank deposits, deposits placed in financial institutions, trade and other payables and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (represented by currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk

(i) Currency risk

Forward foreign exchange rate risk

The Group's derivative financial instruments also exposed the Group to market bid forward foreign exchange rates. During the year ended in December 2008, the Group's foreign currency forward contracts expire.

Sensitivity analysis

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

The Group's sales are mainly denominated in USD. Its manufacturing operations are located in the People's Republic of China ("PRC") and purchase of raw materials and operating expenses are denominated in RMB or USD. It's currency exposures mainly due to exposure in RMB and Hong Kong dollars ("HKD") against the functional currency of the relevant group companies. As HKD is pegged to USD, the currency risk is considered insignificant. The Group entered into certain foreign exchange forward contracts to manage the currency exposure in relation to RMB for the year ended 31 December 2007. The Group did not perform any hedging activities in 2008.

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

	Liabilities		**Assets**	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
RMB	**36,839**	34,639	**82,778**	36,288
HKD	**32**	31	**145,921**	231,609
Other	**1,484**	402	**8,406**	3,758

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis *(continued)*

The Group's sensitivity of fluctuation in HKD is low as the HKD denominated monetary assets were held by group entities whose functional currency is USD to which HKD is pegged.

The following table details the Group's sensitivity to a 5% increase and decrease in USD against RMB. 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 number below indicates an increase in profit for the year where RMB strengthen 5% against USD. For a 5% weakening of RMB against the USD, there would be an equal and opposite impact on the profit for the year.

	Renminbi Impact	
	2008	2007
	US$'000	US$'000
Increase in profit for the year	**2,297**	82

(ii) 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 floating 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 an ongoing basis and will consider hedging the interest rate should the need arise.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk (continued)

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 2008 would increase/decrease by US$1,822,000 (2007: US$2,026,000).

(iii) Price risk

Equity price risk

During 2007, the Group was exposed to equity price risk through its held for trading investments, which were measured at fair value at each balance sheet date. During the year ended 31 December 2007, the Group had disposed of all the held for trading investments.

Credit risk

At 31 December 2008 and 2007, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated balance sheet.

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 on a collective and on-going basis to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in North America, which accounted for 61% (2007: 60%) of the total trade receivables as at 31 December 2008.

The Group has concentration of credit risk as 82% (2007: 87%) of deposits are placed with 10 banks (2007: 8 banks). The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

6. FINANCIAL INSTRUMENTS *(continued)*

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

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 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	31 – 90 days	90 – 365 days	Total undiscounted cash flows	Carrying amount
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2008					
Non-derivative financial liabilities					
Trade and other payables	61,043	49,439	4,052	114,534	114,534
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)

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value

The fair value of derivative instruments with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.

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 because the financial assets and financial liabilities have short maturity.

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 segment information.

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

Segment information about these businesses is presented below.

For the year ended 31 December 2008

	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	345,784	729,700	26,632	–	1,102,116
Inter-segment sales	–	11,018	–	(11,018)	–
Total	345,784	740,718	26,632	(11,018)	1,102,116
Inter-segment sales are charged at cost plus a percentage of mark-up					
RESULTS					
Segment results	54,739	150,885	(4,638)	–	200,986
Unallocated corporate income					12,748
Unallocated corporate expenses					(81,185)
Share of results of associates	–	(888)	(98)	–	(986)
Profit before tax					131,563
Income tax expense					(6,585)
Profit for the year					124,978
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	174,893	248,716	41,391	–	465,000
Interests in associates	–	17,823	392	–	18,215
Unallocated corporate assets					405,062
Consolidated total assets					888,277
LIABILITIES					
Segment liabilities	54,487	41,973	18,394	–	114,854
Unallocated corporate liabilities					20,441
Consolidated total liabilities					135,295
OTHER INFORMATION					
Capital additions	6,627	6,567	3,156	–	16,350
Depreciation of property, plant and equipment	9,427	8,120	1,227	–	18,774
Release of prepaid lease payments	60	185	–	–	245
Loss on disposal of property, plant and equipment	48	24	–	–	72
Impairment loss recognised on inventories	269	195	2,229	–	2,693

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

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 cost plus a percentage of mark-up					
RESULTS					
Segment results	50,016	129,566	(465)	–	179,117
Unallocated corporate income					15,911
Unallocated corporate expenses					(75,426)
Share of results of associates	–	(89)	–	–	(89)
Finance costs					(297)
Profit before tax					119,216
Income tax expense					(4,593)
Profit for the year					114,623
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	227,750	196,396	15,587	–	439,733
Interests in associates	–	1,911	–	–	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
Impairment loss recognised on inventories	718	914	–	–	1,632

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:

	2008 US$'000	2007 US$'000
North America	**669,929**	566,242
Europe	**291,279**	266,428
The PRC (including Hong Kong)	**57,035**	39,794
Asia (other than the PRC)	**56,130**	34,346
Others	**27,743**	30,354
	1,102,116	937,164

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

8. OTHER INCOME

	2008 US$'000	2007 US$'000
Interest income on bank balances	**9,021**	9,543
Interest income on debentures	**–**	546
Total interest income	**9,021**	10,089
Dividend income	**–**	96
Net gain on fair value changes of investments held for trading	**–**	1,495
Investment income	**9,021**	11,680
Net gain on changes in fair value of derivative financial instruments	**–**	252
Rental income	**3,657**	3,735
Others	**494**	244
	13,172	15,911

8. OTHER INCOME *(continued)*

Investment income analysed by category of assets is as follows:

	2008 US$'000	2007 US$'000
Loan and receivables (including bank balances and cash)	**9,021**	9,543
Investments held for trading	**–**	2,137
	9,021	11,680

9. FINANCE COSTS

	2008 US$'000	2007 US$'000
Interests on bank overdrafts and bank loans wholly repayable within five years	**–**	297

10. INCOME TAX EXPENSE

	2008 US$'000	2007 US$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")/Foreign Enterprise Income Tax ("FEIT")	**4,885**	4,593
Underprovision in prior year	**1,700**	–
	6,585	4,593

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

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

10. INCOME TAX EXPENSE *(continued)*

Dongguan Stella Footwear Company Limited ("Dongguan Stella") and Long Chuan Simona Footwear Company Limited ("Long Chuan Simona") were subject to FEIT at the rate of 12% for the year ended 31 December 2007.

Stella Luna Fashion Inc. ("Stella Luna") was subject to FEIT at a rate of 33% for the year ended 31 December 2007.

The income of Stella International and Selena Footwear Inc. ("Selena Footwear") derived from production, business operations and other sources in the PRC are subject to FEIT at a rate of 33% for the year ended 31 December 2007.

On 16 March 2007, the PRC government promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law ("Implementation Regulations"). The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain tax exemption and deduction for the FEIT is still applicable until the end of the five-year transitional period under the New Law.

The tax status of each of the above companies under the New Law and Implementation Regulations will be as follows:

- Dongguan Stella continues to enjoy the preferential tax treatment (12.5% tax rate, i.e. 50% of the applicable tax rate of 25%) for the years from 2008 to 2009. Thereafter, the tax rate will ratchet up to 25% from 2010;

- Long Chuan Simona continues to enjoy the preferential tax treatment (12.5% tax rate, i.e. 50% of the applicable tax rate of 25%) for the year of 2008. Thereafter, the tax rate will ratchet up to 25% from 2009;

- The tax rate for Stella Luna, Stella International and Selena Footwear derived from production, business operations and other sources in the PRC are subject to EIT at a rate of 25% effective from 2008.

10. INCOME TAX EXPENSE *(continued)*

According to the New Law, starting from 1 January 2008, withholding income tax will be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Deferred tax has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The income tax expense for the year can be reconciled to the profit before tax per consolidated income statement as follows:

	2008 US$'000	2007 US$'000
Profit before tax	**131,563**	119,216
Tax at the applicable PRC EIT/FEIT rate of 12.5% (2007: 12%)	**16,445**	14,306
Tax effect of expenses not deductible for tax purposes *(Note 1)*	**6,642**	5,726
Tax effect of income not taxable for tax purposes *(Note 2)*	**(18,171)**	(15,226)
Tax effect of share of losses of associates	**118**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(149)**	(213)
Underprovision in respect of prior years	**1,700**	–
Income tax expense	**6,585**	4,593

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 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

	2008 US$'000	2007 US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(Notes 12)*	**2,369**	3,060
Other staff costs	**177,771**	118,301
Share-based payment expenses	**–**	1,113
Retirement benefit scheme contributions, excluding directors	**1,590**	1,262
Total staff costs	**181,730**	123,736
Impairment loss recognised on inventories	**2,693**	1,632
Auditor's remuneration	**671**	601
Cost of inventories recognised as an expenses	**836,864**	714,517
Depreciation of property, plant and equipment	**18,774**	15,284
Listing expenses charged to consolidated income statement	**–**	2,840
Loss (gain) on changes in fair value of derivative financial instruments	**252**	(252)
Loss on disposal of property, plant and equipment	**72**	241
Net exchange loss	**1,583**	740
Release of prepaid lease payments	**245**	301
Share of taxation of associates (included in share of results of associates)	**96**	–

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Chen Jiann-Min, Jimmy US$'000	**Chen Li-Ming, Lawrence US$'000**	**Chiang Jeh-Chung, Jack US$'000**	**Chao Ming-Cheng, Eric US$'000**	**Chi Lo-Jen, Stephen US$'000**	**Shieh Tung-Pi, Billy US$'000**	**Shih Takuen, Daniel US$'000**	**Chu Pao-Kuei US$'000**	**Ng Hak Kim, *JP* US$'000**	**Hung John Terence, *SBS, JP* US$'000**	**2008 US$'000**
2008											
Fee	**8**	**31**	**31**	**31**	**31**	**31**	**38**	**51**	**51**	**44**	**347**
Other emoluments											
– salaries and other allowances	**–**	**69**	**85**	**77**	**69**	**69**	**57**	**–**	**–**	**–**	**426**
– bonus	**–**	**165**	**387**	**265**	**296**	**110**	**360**	**–**	**–**	**–**	**1,583**
– retirement benefit scheme contributions	**–**	**3**	**4**	**3**	**–**	**3**	**–**	**–**	**–**	**–**	**13**
	8	**268**	**507**	**376**	**396**	**213**	**455**	**51**	**51**	**44**	**2,369**

	Chen Jiann-Min, Jimmy US$'000	Chen Li-Ming, Lawrence US$'000	Chiang Jeh-Chung, Jack US$'000	Chao Ming-Cheng, Eric US$'000	Chi Lo-Jen, Stephen US$'000	Shieh Tung-Pi, Billy US$'000	Shih Takuen, Daniel US$'000	Chu Pao-Kuei US$'000	Ng Hak Kim, *JP* US$'000	Hung John Terence, *SBS, JP* US$'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

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

Employees

The five highest paid individuals of the Group for the year included four directors (2007: four) of the Company whose emoluments are set out above. The emoluments of the remaining individual are as follows:

	2008	2007
	US$'000	US$'000
Employee		
– salaries and other allowances	**386**	432
– retirement benefit scheme contributions	**2**	2
– share-based payment expenses	**–**	294
	388	728

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

	2008	2007
	US$'000	US$'000
2007 final dividend of HK60 cents per share (2006: Nil final dividend) paid	**62,296**	–
2008 interim dividend of HK30 cents per share (2007: HK30 cents per share) paid	**31,124**	31,241
Special dividend *(Note)*	**–**	220,000
	93,420	251,241

Note: A special dividend of US$220 million was paid to the then shareholders of the Company prior to the listing of the Company's shares on the Stock Exchange in July 2007.

The final dividend of HK50 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming 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:

	2008	2007
	US$'000	US$'000
Profit for the year and earnings for the purposes of basic earnings per share	**124,978**	114,623

	2008	2007
Weighted average number of ordinary shares for the purpose of basic earnings per share	**807,227,902**	693,906,164

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

Diluted earnings per share is not presented as there were no outstanding potentially dilutive ordinary shares 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						
As at 1 January 2007	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	(316)	(483)	(111)	(585)	–	(1,495)
As at 31 December 2007	85,293	120,267	14,085	4,606	1,892	226,143
Exchange adjustments	3,911	3,647	415	101	30	8,104
Additions	1,001	9,794	2,586	956	2,013	16,350
Transfer	1,057	1,258	241	–	(2,556)	–
Disposals	–	(2,942)	(968)	(343)	–	(4,253)
As at 31 December 2008	91,262	132,024	16,359	5,320	1,379	246,344
DEPRECIATION						
As at 1 January 2007	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)
As at 31 December 2007	18,259	41,441	5,626	2,652	–	67,978
Exchange adjustments	523	1,008	212	60	–	1,803
Provided for the year	4,190	11,547	2,409	628	–	18,774
Eliminated on disposals	–	(2,098)	(891)	(298)	–	(3,287)
As at 31 December 2008	22,972	51,898	7,356	3,042	–	85,268
CARRYING VALUES						
As at 31 December 2008	68,290	80,126	9,003	2,278	1,379	161,076
As at 31 December 2007	67,034	78,826	8,459	1,954	1,892	158,165

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$11,674,000 (2007: US$11,523,000).

16. PREPAID LEASE PAYMENTS

	2008	2007
	US$'000	US$'000
Current portion of prepaid lease payments	**249**	239
Non-current portion	**8,631**	8,527
	8,880	8,766

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

The Group had fully paid 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$2,005,000 (2007: US$2,060,000). The carrying amount of prepaid lease payments included above of US$1,427,000 (2007: US$1,461,000) was paid for land use rights under the name of Sanford International Limited ("Sanford"), a company under the control of the key management personnels of the Group.

17. INTERESTS IN ASSOCIATES

	2008	2007
	US$'000	US$'000
Cost of investments in associates – unlisted	19,290	2,000
Share of post-acquisition losses	(1,075)	(89)
	18,215	1,911

As at 31 December 2008 and 2007, the Group had interest in the following associates:

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/ issued capital held by the Group 2008	2007	Principal activities
辛集市寶得福皮業有限公司(「寶得福」)	Sino-foreign co-operative joint venture	The PRC	Capital injection	40%	40%	Manufacture and sales of leather products
Cosmic Gold Enterprise Limited ("Cosmic Gold")	Limited company	St. Vincent and the Grenadines	Ordinary	40%	–	Manufacture of footwear
StellaDeck Fashion Limited ("StellaDeck")	Limited company	Hong Kong	Ordinary	49%	–	Footwear retailing

17. INTERESTS IN ASSOCIATES *(continued)*

Included in the cost of investments in associates is goodwill of US$5,261,000 (2007: Nil) arising on acquisition of an associate in current year. The movement of goodwill is set out below.

	US$'000
COST	
Arising on acquisition of an associate and as at 31 December 2008	5,261

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

	2008 **US$'000**	2007 US$'000
Total assets	**78,994**	12,196
Total liabilities	**(47,134)**	(7,419)
Net assets	**31,860**	4,777
Group's share of net assets of associates	**12,816**	1,911
Revenue	**93,632**	–
Loss for the year	**2,420**	223
Group's share of results of associates for the year	**986**	89

17. INTERESTS IN ASSOCIATES *(continued)*

The Group has discontinued recognition of its share of losses of 寶得福. The amount of unrecognised share of loss as extracted from the relevant management accounts of 寶得福, both for the year and accumulatively, is as follows:

	2008 US$'000	2007 US$'000
Unrecognised share of loss for the year	**138**	–
Accumulated unrecognised share of losses	**138**	–

18. INVENTORIES

	2008 US$'000	2007 US$'000
Raw materials	**33,103**	36,415
Work-in-progress	**32,861**	33,518
Finished goods	**37,957**	27,955
	103,921	97,888

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:

	2008 US$'000	2007 US$'000
Trade receivables:		
0 – 30 days	**115,085**	97,296
31 – 60 days	**37,771**	34,415
61 – 90 days	**9,843**	7,830
Over 90 days	**8,167**	6,572
	170,866	146,113
Other receivables	**28,287**	28,006
	199,153	174,119

Included in the Group's trade and other receivables balance are debtors with aggregate amount of US$26,344,000, US$39,000 and US$905,000 (2007: US$21,293,000, US$49,000 and US$275,000) which are denominated in RMB, HKD and other currencies respectively and are exposed to currency risk.

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

19. TRADE AND OTHER RECEIVABLES *(continued)*

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$12,183,000 (2007: US$37,840,000) 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:

	2008	2007
	US$'000	US$'000
31 – 60 days	**1,912**	26,173
61 – 90 days	**5,326**	5,095
Over 90 days	**4,945**	6,572
	12,183	37,840

Movement in the allowance for doubtful debts

	2008	2007
	US$'000	US$'000
Balance at beginning of the year	**–**	504
Amount written off as uncollectible	**–**	(504)
Balance at end of the year	**–**	–

20. AMOUNTS DUE FROM ASSOCIATES

Name of company	As at 31 December 2008 US$'000	As at 31 December 2007 US$'000	Maximum amount outstanding for year ended 31 December 2008 US$'000	Maximum amount outstanding for year ended 31 December 2007 US$'000
寶得福	**30,402**	7,129	**30,402**	7,129
Cosmic Gold	**1,000**	–	**1,000**	–
StellaDeck	**133**	–	**133**	–
	31,535	7,129		

The amounts are trading balances which will be settled according to the Group's normal commercial term. The amounts are unsecured, interest-free and repayable on demand.

The amounts are denominated in RMB and are exposed to currency risk.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 Assets US$'000	2008 Liabilities US$'000	2007 Assets US$'000	2007 Liabilities US$'000
Forward foreign exchange contracts	**–**	**–**	595	343

As at 31 December 2007, the Group was a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. Those contracts selling USD and buying RMB was settled in gross, while the remaining contracts was settled on net basis.

21. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

As at 31 December 2007, details of the outstanding forward foreign exchange contracts to which the Group was 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 were measured at fair value at the balance sheet date. Their fair values were determined based on quoted forward exchange rates for equivalent instruments at the balance sheet date.

22. PLEDGED BANK DEPOSIT

Pledged bank deposit represents deposit pledged to a bank to secure banking facilities granted to the Group. The pledged bank deposit carried interests ranging from 5.73% to 5.99% per annum (2007: Nil).

23. 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$31,437,000 (2007: US$56,209,000) were subject to foreign exchange control.

Cash and cash equivalents of US$24,899,000, US$145,882,000 and US$7,501,000 (2007: US$14,995,000, US$231,560,000 and US$3,483,000) are denominated in RMB, HKD and other currencies respectively and are exposed to currency risk.

The bank deposits carry interest rates ranging from 1.06% to 5.04% (2007: 3.19% to 5.04%) per annum.

24. TRADE AND OTHER PAYABLES

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

	2008	2007
	US$'000	US$'000
Trade payables:		
0 – 30 days	**49,831**	54,255
31 – 60 days	**5,543**	7,095
Over 60 days	**17,209**	10,856
	72,583	72,206
Other payables	**48,108**	43,347
	120,691	115,553

Included in the Group's trade and other payables balance are creditors with aggregate amount of US$36,839,000, US$32,000 and US$1,484,000 (2007: US$34,639,000, US$31,000 and US$402,000) which are denominated in RMB, HKD and other currencies respectively and are exposed to currency risk.

25. SHARE CAPITAL

	Notes	Number of shares	Nominal value HK$'000	Nominal value US$'000
Ordinary shares of HK$0.10 each				
Authorised:				
As 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
As at 31 December 2007 and 2008		5,000,000,000	500,000	63,975
Issue and fully paid:				
Authorised:				
As 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
As at 31 December 2007		809,250,000	80,925	10,350
Cancellation upon repurchase of own shares	*(vi)*	(14,870,500)	(1,487)	(190)
As at 31 December 2008		794,379,500	79,438	10,160

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 allotted 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.

25. SHARE CAPITAL *(continued)*

Notes: (continued)

(iii) On 13 June 2007, the Company issued 999,999 shares of HK$0.10 each for the acquisition of the 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 existing 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.

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

26. 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.

27. 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 ended 31 December 2007, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International to an employee of the Group by way of gift, as an incentive to attract and retain the employee to the Group prior to the Group Reorganisation.

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

28. PLEDGE OF ASSET

As at the balance sheet date, the Group pledged bank deposit of US$10,068,000 (2007: Nil) to a bank to secure banking facilities granted to the Group.

29. OPERATING LEASES

The Group as lessor

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

	2008	2007
	US$'000	US$'000
Within one year	**228**	251
In the second to fifth year inclusive	**–**	56
	228	307

All of the properties held have committed tenants for the next year. Leases are negotiated for terms varying from one to four years. Property rental income earned during the year was US$3,657,000 (2007: US$3,735,000)

The Group as lessee

The Group made lease payments during the year as follows:

Operating lease rentals in respect of:

	2008	2007
	US$'000	US$'000
Minimum lease payments:		
– street level stores	**702**	397
– other properties	**1,014**	792
	1,716	1,189
Contingent rentals	**6,412**	2,689
	8,128	3,878

29. OPERATING LEASES *(continued)*

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

	2008 **US$'000**	2007 US$'000
Within one year	**3,309**	2,831
In the second to fifth year inclusive	**3,818**	3,954
Over five years	**680**	736
	7,807	7,521

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.

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' turnover using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rent payable.

30. CAPITAL COMMITMENTS

	2008 **US$'000**	2007 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**91**	546

31. SHARE-BASED PAYMENT TRANSACTIONS

Long Term Incentive Scheme

The Company's long term incentive 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 an award ("Award"), either by way of option to subscribe shares of the Company, an award of shares or a grant of a conditional right to acquire shares, to eligible employees, including directors of the Company and its subsidiaries. Insofar as the Listing Rules require and subject to paragraph 12.6 of the Scheme, 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 2008 and 2007, no Award had been granted under the Scheme. The total number of shares in respect of which Award may be granted under the Scheme is not permitted to exceed 30% 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 upon exercise of options or vesting of Awards granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the offer date, without prior approval from the Company's shareholders. The total number of shares issued or to be issued to satisfy Award granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and 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 ended 31 December 2007, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International to an employee of the Group by way of gift, as an incentive to attract and retain the employee to the Group prior to the Group Reorganisation. Upon the Group Reorganisation, the employee then held direct interest in 2,000 shares of the ultimate holding company of the Group, Cordwalner which can be converted to 1,152,000 shares of the Company.

31. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

0.2% Common Share Interest *(continued)*

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 6 months, 18 months, 30 months, 42 months and 54 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 not saleable before the employee's retirement.

This transaction has been accounted for as an equity-settled share-based payment transaction and the Group measured the services rendered by the employee by reference to the fair value of the equity instrument (which was fully vested on grant date), and recognised the expense amounted to US$555,000 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.

1.17% Preferred Share Interest

During the year ended 31 December 2007, the ultimate holding company of the Group, Cordwalner, adopted an incentive scheme for its employees to attract and retain these employees 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 number 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 beneficially owned by an outsider which is acting 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 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 employees' perspective.

31. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

1.17% Preferred Share Interest *(continued)*

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

Before the respective conversion dates, the employees are entitled to voting and dividend rights. If the employee ceases employment with the Group, no further right would be granted. Such share conversion right is not transferable to any third parties 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 by reference to fair value of US$591,000, 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 on 9 April 2007.

The fair value of the 0.2% Common Share Interest and 1.17% Preferred Share interest incentive scheme were assessed by Sallmanns (Far East) Limited, an independent valuer by reference to 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 the next two years and it will carry out the redemption policies.

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.

32. RETIREMENT BENEFIT PLANS

The employees employed in the PRC, Macau and Malaysia are members of the state-managed retirement benefit schemes operated by the government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the 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% or HK$1,000 in maximum of relevant payroll costs to the scheme, which contribution is matched by employees.

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

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2007, 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 amounts due from related companies of US$78,653,000.

34. RELATED PARTY DISCLOSURES

(I) Related party transactions

Name of company	Nature of transactions	2008 US$'000	2007 US$'000
興昂制革(惠州)有限公司[(1)]	Purchase of leather and tannery products	**29,612**	25,975
Sincerely International Limited[(1)]	Purchase of molds	**3,164**	3,383
東莞興和塑膠制品有限公司[(1)]	Purchase of lasts	**2,678**	2,157
	Purchase of machinery	**–**	13
Sanford International Co. Ltd.[(1)]	Purchase of sole materials	**7,628**	7,927
	Rental expenses	**94**	64
興鵬國際股份有限公司[(1)]	Purchase of tannery and sales	**–**	16,693
	Purchase of machinery	**–**	312
東莞市長安統來刀模加工廠[(2)]	Purchase of die cuts	**3,543**	3,194
	Rental income	**–**	91
東莞興騰鞋材有限公司[(1)]	Purchase of sole materials	**17,911**	7,181
	Sale of machinery	**–**	91
惠州興昂鞋業有限公司[(1)]	Purchase of footwear products	**1,470**	–
辛集市寶得福皮業有限公司[(3)]	Purchase of footwear products	**37,901**	–
	Research and development costs	**1,159**	–
Cosmic Gold Enterprise Limited[(3)]	Processing fee paid	**1,257**	–

34. RELATED PARTY DISCLOSURES *(continued)*

(I) Related party transactions *(continued)*

Notes:

(1) Companies ultimately wholly owned by certain directors of the Company.

(2) Company under the control of key management personnel of the Group.

(3) Associates of the Company.

During the year ended 31 December 2007, the Group occupied a building of Sanford without paying any consideration.

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 during the year ended 31 December 2007. The Group's commitments under this operating lease were included in note 29. This lease arrangement was terminated in May 2007.

(II) Compensation of key management personnel

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

	2008 **US$'000**	2007 US$'000
Short-term benefits	**3,796**	3,446
Long-term benefits	**15**	15
Share-based payment expenses	**–**	327
	3,811	3,788

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

35. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2008 is as follows:

	Note	2008 US$'000	2007 US$'000
Total assets		**960,061**	807,740
Total liabilities		**(164,612)**	(1,281)
		795,449	806,459
Capital and reserves			
Share capital		**10,160**	10,350
Share premium and reserves	*(a)*	**785,289**	796,109
		795,449	806,459

35. BALANCE SHEET OF THE COMPANY *(continued)*

Note:

(a) Reserves of the Company

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserves US$'000	Contribution surplus US$'000	Accumulated profit US$'000	Total US$'000
As 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)
As at 31 December 2007	10,350	167,298	1,146	–	–	530,465	97,200	806,459
Profit for the year	–	–	–	–	–	–	98,396	98,396
Purchase of shares for unvested shares under share award scheme	–	–	–	(3,001)	–	–	–	(3,001)
Cancellation upon repurchase of own shares	(190)	(12,795)	–	–	190	–	(190)	(12,985)
Dividend recognised as distribution	–	–	–	–	–	–	(93,420)	(93,420)
As at 31 December 2008	10,160	154,503	1,146	(3,001)	190	530,465	101,986	795,449

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	2008 Interest holdings Direct %	2008 Interest holdings Indirect %	2007 Interest holdings Direct %	2007 Interest holdings Indirect %	Principal activities
Dongguan Stella Footwear Company Limited 東莞興昂鞋業有限公司[1]	The PRC	Capital contribution	HK$190,010,000	–	100	–	100	Manufacturing of footwear
Long Chuan Simona Footwear Company Limited 龍川興萊鞋業有限公司[1]	The PRC	Capital contribution	HK$155,300,000	–	100	–	100	Manufacturing of footwear
N.O.I. Holding Company Limited	BVI	Ordinary	US$4	100	–	100	–	Investment holding
N.O.I. (Macau) Company Limited	Macau	Ordinary	MOP$2,500,000	–	100	–	100	Footwear retailing
N.O.I. Trading Company Limited[2]	BVI	Ordinary	US$1	–	100	N/A	N/A	Trading of materials
Selena Footwear Inc.	BVI	Ordinary	US$1	–	100	–	100	Marketing, research and development activities
Stella Footwear Inc.	BVI	Ordinary	US$3,947	–	100	–	100	Investment holding, manufacturing and sales of footwear
Stella International Limited	Vanuatu	Ordinary	US$1	100	–	100	–	Investment holding, manufacturing and sales of footwear
Stella International Marketing Company Limited	Malaysia	Ordinary	US$10,000	100	–	100	–	Marketing activities
Stella Luna Fashion Inc. 興記九興貿易(上海)有限公司[1]	The PRC	Capital contribution	US$11,000,000[3]	–	100	–	100	Footwear retailing
Stella Luna Fashion (HK) Limited	Hong Kong	Ordinary	HK$10,000	–	100	–	100	Footwear retailing
Stella Luna Sol Limited	Hong Kong	Ordinary	HK$1	100	–	100	–	Holding of intellectual property rights
Stellaluna (Thailand) Co., Ltd.	Thailand	Ordinary	Baht20,000,000	–	70.1	–	70.1	Footwear retailing
Stella Services Limited	Hong Kong	Ordinary	HK$300,000[3]	100	–	100	–	Provision of secretarial and accounting services

Note:

(1) Dongguan Stella Footwear Company Limited, Long Chuan Simona Footwear Company Limited and Stella Luna Fashion Inc. are wholly foreign-owned enterprises established in the PRC.

(2) This subsidiary was incorporated during the year.

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

Financial Summary

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Revenue	575,367	668,926	779,346	937,164	**1,102,116**
Profit for the year	52,769	85,422	91,374	114,623	**124,978**
Attributable to:					
Equity holders of the Company	52,769	85,422	91,374	114,695	**124,993**
Minority interests	–	–	–	(72)	**(15)**
	52,769	85,422	91,374	114,623	**124,978**

	As at 31 December				
	2004	2005	2006	2007	**2008**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Total assets	401,891	486,689	562,971	856,730	**888,277**
Total liabilities	(83,494)	(110,671)	(123,650)	(123,610)	**(135,295)**
Shareholders' funds	318,397	376,018	439,321	733,120	**752,982**

Notes:

1. The financial information for each of the three years ended 31 December 2006 has been prepared as if the group structure upon a group reorganisation, 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 two years ended 31 December 2008, and the assets and liabilities as at 31 December 2007 and 2008 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 77 and 78, respectively, of the annual report.

Corporate Information and Key Dates

BOARD OF DIRECTORS

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

Independent Non-executive Directors
CHU Pao-Kuei
NG Hak Kim, *JP*
CHEN Johnny

AUDIT COMMITTEE
CHU Pao-Kuei, Chairman
NG Hak Kim, *JP*
CHEN Johnny

CORPORATE GOVERNANCE COMMITTEE

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

NOMINATION COMMITTEE

CHEN Johnny, 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, Katie

CHIEF FINANCIAL OFFICER

LEE Kwok Ming, Don

COMPANY SECRETARY

KAN Siu Yim, Katie

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place
Central, Hong Kong

LEGAL ADVISER

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway, Hong Kong

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 Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 609,
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

6 May 2009 to 8 May 2009 (both days inclusive)

Payment of Final Dividend

On or about 22 May 2009

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

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