Stella International Holdings Limited

Stock Code: 1836

Interim Report 2009

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present to you the interim report of Stella International Holdings Limited ("Stella" or the "Company") together with its subsidiaries (the "Group") for the six months ended 30 June 2009.

The first six months of 2009 have been full of challenges for the manufacturers and exporters in Asia. Having said that, our key markets of North America and Europe have shown signs of recovery. Improvements in consumer confidence and disposable income will help foster a more favourable operating environment for the global retail and manufacturing industries.

Due to a 15.7% drop in shipment volume, revenue of the Group for the period under review recorded a decrease of 7.0% to US$459.2 million. Despite the difficult market conditions, Stella managed to achieve a 8.1% growth in average selling price of our shipments. The results were attributed to our industry-leading manufacturing capability in producing quality and stylish footwear products in small batches, which proves to be an unique competitive advantage in the current operating environment. Our distinct business strategies, prudent expansion initiatives, quality management and solid business foundation have helped ensure the Group remains resilient in the face of adversities. The flexibility that we offer our customers, in the form of highly efficient supply chain service and shorter manufacturing lead-time, has further strengthened our relationships with international high-fashion brands.

In recent years, Stella has been moving up the value chain with resounding success in improving the Stella brand's competitiveness and extending our foothold in the affordable luxury women footwear market in the Asia region. Despite stiff competition in the market, exciting progress has been made in our retail operation and the Group has started to reap the benefits from *Stella Luna* and *What For's* rising brand recognition and status. During the six months under review, the number of shops under the *Stella Luna* and *What For* brands grew to 131 and 75, respectively, while revenue from our retail arm jumped approximately 75.4%.

For the second half of the year, low order visibility in the current global economic environment is likely to continue to depress the manufacturing and retail industries. However, with the initial signs of recovery for the global economy, we remain confident of the top and high-fashion footwear markets in the long run. In view of that, the Group has made plans to increase its annual production capacity to ensure customers' demand will be met, while keeping a tight rein on product quality, craftsmanship, production costs and production efficiency. We are confident that our competitive edge will continue to set us apart from other industry players and help us weather through the current market downturn.

Going forward, our retail business will have an increasingly important role to play in the Group's overall development. We plan to further enhance the *Stella Luna* and *What For* brands by expanding our network and strengthening their market positions in a prudent manner. The Group will also explore opportunities for the development of new brands to widen our customer base. Results from our first strategic partnership with Deckers have been encouraging. In view of that, we will continue to look out for other potential strategic partnerships to add value and create synergies for our existing business.

While continuing our efforts in moving up the value chain, we will also emphasize on investing in our people which is always the most important asset in our pursuit for excellence. We believe our unrivalled capability in providing our business partners with products and services of the best quality will help shield us from the current economic storm and we will emerge stronger as a result.

Finally, I would like to take this opportunity to express my gratitude to our shareholders for their support, and to the management team and colleagues for their hard work and unwavering commitment over the years. We are confident that we will be able to deliver encouraging performance in the near future and continue to create solid and consistent returns for our shareholders.

CHIANG Jeh-Chung, Jack
Chairman

Hong Kong, 20 August 2009

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

Although the market has shown signs of recovery in the first half of 2009, consumer confidence remained lackluster as a result of the global financial crisis. Faced with a challenging operating environment, the Group recorded total revenue of US$459.2 million during the period under review, representing a 7.0% drop from the same period last year. Net profit attributable to shareholders fell 14.6% to US$47.5 million, while total shipment amounted to 19.4 million pairs, representing a 15.7% decline year on year.

Average selling price ("ASP") of our products amounted to US$22.6 per pair, representing a growth of 8.1% compared to the corresponding period last year as a result of our unique value-added services and excellent craftsmanship. By keeping a tight lid on operating costs and overheads, the Group was able to maintain healthy margins for its manufacturing operations. Gross profit amounted to US$113.5 million, a slight decrease of 2.4% compared to the corresponding period last year, while gross and net profit margins held steady at 24.7% and 10.3%, respectively.

During the first half of 2009, women's fashion footwear was still the largest business segment during the period, accounting for 36.7% of the Group's total revenue. It was followed by women's and men's casual footwear businesses, which contributed 28.0% and 23.3% respectively to the Group's overall revenue.

For its retail operations, the Group continued to exploit opportunities in the robust consumer market in China during the period by increasing the presence of its *Stella Luna* and *What For* brands. Revenue from the Group's retail business, which accounted for 4.4% of total revenue, recorded a substantial growth of 75.4% over the corresponding period last year.

Geographically, North America and Europe continued to be the Group's two largest markets, accounting for 52.5% and 33.0% respectively of the Group's total revenue for the reporting period, followed by Greater China at 7.3%, Asia (excluding Greater China) at 4.9% and other geographical regions at 2.3%

Business Review

Custom design and development

The number of shoes shipped in the first half of 2009 fell by 15.7% to 19.4 million pairs from 23.0 million pairs in the corresponding period of the previous year as a result of smaller orders and shorter lead time from customers coping with slowing market conditions in the US and Europe. In spite of that, our production facilities in China's Guangdong province and Vietnam continued to operate at a high level of capacity utilisation, contributing to a stable operating margin for our manufacturing business.

Our unique capability in delivering value-added services to customers with innovative designs and development remains our key competitive advantage. We continued to offer maximum product and cost flexibility to our customers, allowing them to enjoy higher market competitiveness under the current market condition. This has helped expand our customer base to include more high-end luxury brands in the first half of 2009, reinforcing our already strong client portfolio which encompasses top casual footwear companies and leading fashion footwear brands.

To stay competitive, we have implemented stringent controls on operating costs and overheads. The processing agreement we entered into with Huizhou Stella Footwear Co., Ltd. in late 2008 has provided us with additional flexibility in managing operating costs through adjusting our subcontract activities.

Strong retail business growth

Consumer spending in the PRC did not suffer from the slowdown of the global economy since the latter half of 2008 and the PRC retail market remained relatively vibrant in the first half of 2009. Our retail business had achieved healthy growth during the period under review.

We are on track to execute our aggressive store expansion plan in the first tier cities in the PRC to feed on the growing appetite for higher-end women fashion footwear. As of 30 June 2009, we had a total of 107 *Stella Luna* stores and 75 *What For* stores in Greater China. This represented an increase of 8 and 15 stores for *Stella Luna* and *What For* respectively as compared to the end of last year, which was in line with our expansion plan. Our target is to operate 122 *Stella Luna* and 102 *What For* stores in the region by the end of 2009.

The following table sets out the geographical distribution of *Stella Luna* and *What For* stores as of 30 June 2009:

	Stella Luna	*What For*
Greater China		
Eastern China	28	14
Southern China	10	9
Northern China	26	16
North-east China	14	10
South-west China	14	12
Central China	11	12
Macau	1	1
Taiwan	3	1
Subtotal	107	75
Thailand		
Bangkok	12	0
Phuket	2	0
Chon Buri	1	0
Subtotal	15	0
Philippines	4	0
Lebanon	4	0
United Arab Emirates	1	0
Total	131	75

The market's response to our retail business continued to be overwhelming. We recorded strong growth in our retail business in the first six months of 2009. During the period, revenue from our retail operations grew 75.4% to US$20.0 million as compared with the corresponding period from a year earlier. Operating profit margin remained stable at 13.3%. Of the 83 stores out of 196 which were qualified for same-store comparison, the overall same-store sales growth was up 33.0% compared to the corresponding period in 2008.

The Group has invested more resources in marketing and brand building during the period under review to further raise market awareness and reputation of its brands in the market.

Business Outlook

Grasping opportunities in downturns

For the remainder of this year, low visibility in the current global economic environment is likely to continue to depress the manufacturing and retail industries. To combat this, the Group has put in place a number of measures to maintain its growth momentum and reinforce its leading position in the market.

Retail segment to be a major income contributor

The retail segment has achieved encouraging results in the first half of 2009 and is expected to increase its contribution to the Group's overall revenue mix going forward. In view of this, the Group will continue to expand its retail operations with prudence. To sustain that growth momentum, the Group plans to continue to expand its retail network and enhance the market positions of *Stella Luna* and *What For*.

In the second half of 2009, the Group targets to set up 15 *Stella Luna* stores and 27 *What For* stores in Greater China to further expand its retail network. At the same time, the Group hopes to further enhance same-store growth by improving its operating efficiency.

The Group will also explore opportunities for the development of new brands to widen our customer base. To add value and create synergies for its existing businesses, the Group will continue to look for other potential strategic partnership opportunities.

Raise production capacity to meet customers' demands

Looking forward, the Group expects to see a more steady market ahead and is confident of a recovery in the retail market in the long run. To keep up with future demands, the Group will further expand its annual production capacity while keeping a tight rein on product quality, costs and production efficiency.

It is expected that the future plans for expansion in both retail network and manufacturing capacity shall be satisfied by internal source of funds.

Sharpen Our Distinctive Edge

The Group distinguishes itself from other industry players with its continuous effort to move up the value chain and its ability to meet customers' needs regardless of their operating environment.

The Group is committed to continuing to enhance the quality and craftsmanship of its products for customers and brand owners. At the same time, we will continue to monitor our costs closely while growing the business in a prudent manner.

We believe our unrivalled capability in providing business partners with products and services of the best quality will help consolidate our market leading position, in both good and difficult times.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2009, the Group had cash and cash equivalents of about US$353.4 million (as at 31 December 2008: US$365.1 million).

As at 30 June 2009, the Group had current assets of US$697.6 million (as at 31 December 2008: US$699.9 million) and current liabilities of about US$124.9 million (as at 31 December 2008: US$135.3 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 5.6 as at 30 June 2009 which indicated the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group did not have any bank borrowings as at 30 June 2009 (as at 31 December 2008: Nil).

Foreign Exchange Exposure

During the six months ended 30 June 2009, 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 period under review.

Capital Expenditure

During the period under review, the Group's total expenditure amounted to approximately US$5.0 million (for the six months ended 30 June 2008: US$9.0 million), of which approximately US$3.6 million was used in the production capacity expansion and approximately US$1.4 million was used in the retail network expansion.

Pledge of Assets

As at 30 June 2009, the Group did not pledge any of its assets (as at 31 December 2008: US$10 million).

Contingent Liabilities

As at 30 June 2009, the Group had no material contingent liabilities (as at 31 December 2008: Nil).

Employees

As at 30 June 2009, the Group, together with its subcontracting and contracted factories, had approximately 54,000 employees on a full-time equivalent basis (as at 31 December 2008: approximately 58,000). The Group cultivates a caring, sharing and learning culture among the employees and believes that human resources are the most important 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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per share for the six months ended 30 June 2009. The interim dividend will be paid to shareholders listed on the register of members of the Company on 11 September 2009. It is expected that the interim dividend will be paid on or about 18 September 2009.

Closure of Register of Members

The Register of Members of the Company will be closed from 9 September 2009 to 11 September 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2009, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm on 8 September 2009.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF STELLA INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 10 to 22, which comprises the condensed consolidated statement of financial position of Stella International Holdings Limited and its subsidiaries as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 August 2009

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months ended 30 June	
		2009	2008
	NOTES	**US$'000**	US$'000
		(Unaudited)	(Unaudited)
Revenue	*3*	**459,174**	493,726
Cost of sales		**(345,645)**	(377,356)
Gross profit		**113,529**	116,370
Other income		**6,516**	6,908
Distribution and selling costs		**(27,020)**	(22,945)
Administrative expenses		**(23,000)**	(26,466)
Research and development costs		**(16,758)**	(15,257)
Impairment loss on interests in associates	*9*	**(3,303)**	–
Share of results of associates		**487**	(507)
Finance costs		**(1)**	–
Profit before taxation		**50,450**	58,103
Income tax expense	*4*	**(2,968)**	(2,461)
Profit for the period	*5*	**47,482**	55,642
Other comprehensive (expense) income			
Exchange differences arising on translation of foreign operation		**(196)**	4,533
		47,286	60,175
Profit (loss) for the period attributable to:			
Owners of the Company		**47,518**	55,626
Minority interests		**(36)**	16
		47,482	55,642
Total comprehensive income attributable to:			
Owners of the Company		**47,322**	60,173
Minority interests		**(36)**	2
		47,286	60,175
Dividends	*6*	**51,248**	62,296
Earnings per share	*7*		
– Basic (US$)		**0.060**	0.069
– Diluted (US$)		**0.059**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2009

	NOTES	**30 June 2009 US$'000 (Unaudited)**	31 December 2008 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**154,497**	161,076
Prepaid lease payments – non-current portion		**8,509**	8,631
Interest in associates	*9*	**13,441**	18,215
Deposit paid for acquisition of property, plant and equipment		**29**	418
		176,476	188,340
CURRENT ASSETS			
Inventories		**123,759**	103,921
Trade and other receivables	*10*	**195,510**	199,153
Prepaid lease payments – current portion		**249**	249
Amount due from associates		**24,648**	31,535
Pledged bank deposit		**–**	10,068
Cash and cash equivalents		**353,407**	355,011
		697,573	699,937
CURRENT LIABILITIES			
Trade and other payables	*11*	**109,503**	120,691
Tax payable		**15,348**	14,604
		124,851	135,295
NET CURRENT ASSETS		**572,722**	564,642
		749,198	752,982
CAPITAL AND RESERVES			
Share capital	*12*	**10,160**	10,160
Share premium and reserves		**738,984**	742,732
Equity attributable to owners of the Company		**749,144**	752,892
Minority interests		**54**	90
		749,198	752,982

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Attributable to equity holder of the Company											
	Share capital US$'000	**Share premium** US$'000	**Merger reserve** US$'000 *(Note i)*	**Capital reserve** US$'000 *(Note ii)*	**Exchange reserve** US$'000	**Shares held for long term incentive scheme** US$'000	**Capital redemption reserves** US$'000	**Share award reserve** US$'000	**Accumulated profits** US$'000	**Subtotal** US$'000	**Minority interests** US$'000	**Total** US$'000
At 1 January 2008 (audited)	10,350	167,298	45,427	1,146	1,534	–	–	–	507,242	732,997	123	733,120
Profit for the period	–	–	–	–	–	–	–	–	55,626	55,626	16	55,642
Exchange differences on translation of foreign operations recognised	–	–	–	–	4,547	–	–	–	–	4,547	(14)	4,533
Total comprehensive income for the period	–	–	–	–	4,547	–	–	–	55,626	60,173	2	60,175
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(62,296)	(62,296)	–	(62,296)
At 30 June 2008 (unaudited)	10,350	167,298	45,427	1,146	6,081	–	–	–	500,572	730,874	125	730,999
Profit (loss) for the period	–	–	–	–	–	–	–	–	131,663	131,663	(31)	131,632
Exchange differences on translation of foreign operations recognised	–	–	–	–	(239)	–	–	–	–	(239)	(4)	(243)
Total comprehensive (expense) income for the period	–	–	–	–	(239)	–	–	–	131,663	131,424	(35)	131,389
Purchase of shares for long term incentive 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)
At 31 December 2008 (audited)	10,160	154,503	45,427	1,146	5,842	(3,001)	190	–	538,625	752,892	90	752,982
Profit (loss) for the period	–	–	–	–	–	–	–	–	47,518	47,518	(36)	47,482
Exchange differences on translation of foreign operations	–	–	–	–	(196)	–	–	–	–	(196)	–	(196)
Total comprehensive (expense) and income for the period	–	–	–	–	(196)	–	–	–	47,518	47,322	(36)	47,286
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	863	–	863	–	863
Purchase of shares for long term incentive scheme	–	–	–	–	–	(685)	–	–	–	(685)	–	(685)
Vesting of shares under long term incentive scheme	–	–	–	–	–	1,090	–	(859)	(231)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(51,248)	(51,248)	–	(51,248)
At 30 June 2009 (unaudited)	10,160	154,503	45,427	1,146	5,646	(2,596)	190	4	534,664	749,144	54	749,198

Notes:

(i) 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 share capital of (i) Stella International Limited ("Stella International"), (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company in 2007.

(ii) 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. This transaction has been accounted for as an equity-settled share-based payment transaction directly in equity and the Group measured the services rendered by the employee based on the fair value of the shares at the grant date.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Six months ended 30 June	
	2009	2008
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	**37,715**	(10,373)
Net cash generated from (used in) investing activities:		
Decrease in pledged bank deposit	**10,068**	–
Purchase of property, plant and equipment	**(5,019)**	(9,012)
Pre-acquisition dividend received from an associate	**1,958**	–
Other investing cash flows	**4,766**	7,419
	11,773	(1,593)
Cash used in financing activities:		
Dividend paid	**(51,248)**	(62,296)
Interest expenses	**(1)**	–
	(51,249)	(62,296)
Net decrease in cash and cash equivalents	**(1,761)**	(74,262)
Cash and cash equivalents at the beginning of the period	**355,011**	406,960
Effect of foreign exchange rate changes	**157**	121
Cash and cash equivalents at the end of the period	**353,407**	332,819
Represented by:		
Bank balances and cash	**202,328**	119,977
Deposits placed in financial institutions	**151,079**	212,842
	353,407	332,819

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting".

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are effective for the Group's financial year beginning on 1 January 2009.

During the period ended 30 June 2009, as a result of the grant of restricted unit awards to eligible directors and employees on 19 February 2009 in accordance with the Company's long term incentive scheme (details please refer to Note 14), the Group has applied accounting policy of equity-settled shared-based payment transactions for the restricted unit award granted to eligible directors and employees.

Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2008.

Equity-settled share-based payment transactions

Restricted unit awards granted to directors and employees

The fair value of service received, determined by reference to the fair value of restricted unit awards granted at the grant date, is expensed as staff costs on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

At each balance sheet date, the Group revises its estimates of the number of the restricted unit awards that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to the share award reserve.

At the time when the restricted unit awards are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares (the shares held under the long term incentive scheme) will be transferred to accumulated profits.

HKAS 1 (revised 2007) "Presentation of Financial Statements"

(effective for annual periods beginning on or after 1 January 2009)

HKAS 1 (revised 2007) "Presentation of Financial Statements" has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) "Presentation of Financial Statements" has had no impact on the reported results or financial position of the Group.

Hong Kong Financial Reporting Standard ("HKFRS") 8 "Operating Segments"

(effective for annual periods beginning on or after 1 January 2009)

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see Note 3).

HKAS 23 (revised) "Borrowing Costs"
(effective for annual periods beginning on or after 1 January 2009)

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option available under the previous version of the standard to recognise all borrowing costs as expenses immediately and requires all such borrowing costs to be capitalised as part of the cost of the qualifying asset. The Group has applied the transitional requirements in HKAS 23 (Revised 2007) and applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The revised accounting policy has been applied prospectively since 1 January 2009.

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)	*Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008*[1]
HKFRSs (Amendments)	*Improvements to HKFRSs issued in 2009*[2]
HKAS 27 (Revised 2008)	*Consolidated and Separate Financial Statements*[1]
HKAS 39 (Amendment)	*Eligible Hedged Items*[1]
HKFRS 1 (Amendment)	*Additional Exceptions for First-time Adopters*[3]
HKFRS 2 (Amendment)	*Group Cash-settled Share-based Payment Transactions*[3]
HKFRS 3 (Revised 2008)	*Business Combinations*[1]
HK(IFRIC) - Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC) - Int 18	*Transfers of Assets from Customers*[4]

1 *Effective for annual periods beginning on or after 1 July 2009*
2 *Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*
3 *Effective for annual periods beginning on or after 1 January 2010*
4 *Effective for transfers on or after 1 July 2009*

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The Directors anticipate that, the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assesses its performance. In contrast, the predecessor standard, HKAS 14 "Segment Reporting", required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financing reporting to key management personnel" serving only as the starting point for the identification of such segments. Under HKAS 14, the Group's primary reporting segment format was business segment. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment of profit or loss.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker, being the chief executive officer, for making strategic decisions. The segments are managed separately as each business offers different models/types of products which vary in materials used, craftsmanship and design and service which require different production/service information to formulate different marketing strategies. The following summary describes the operations in each of the Group's reportable segments under HKFRS 8:

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

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

3) Retailing and wholesaling of footwear

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

	Revenue Six months ended 30 June		**Segment profit Six months ended 30 June**	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Men's footwear	**135,080**	151,013	**24,187**	22,295
Women's footwear	**304,040**	331,303	**58,754**	69,475
Footwear retailing and wholesaling	**20,054**	11,410	**(10)**	(939)
Total	**459,174**	493,726	**82,931**	90,831
Segment profit			**82,931**	90,831
Corporate income				
– Interest income from banks			**3,594**	5,437
– Rental income			**1,908**	995
– Exchange gain			**157**	381
– Others			**755**	64
Research and development costs			**(16,758)**	(15,257)
Impairment loss on interests in associates			**(3,303)**	–
Share of results of associates			**487**	(507)
Central administration costs			**(19,320)**	(23,841)
Finance costs			**(1)**	–
Profit before taxation			**50,450**	58,103

All of the segment revenue reported above is from external customers.

Segment profit represents profit (loss) attributable to each segment without allocation of corporate income, research and development costs, impairment loss on interests in associates, share of results of associates, central administration costs and finance costs. This is the measure reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by operating segment:

	At 30 June 2009	At 31 December 2008
	US$'000	US$'000
	(Unaudited)	(Audited)
Men's footwear	**187,460**	174,893
Women's footwear	**246,898**	248,716
Footwear retailing and wholesaling	**41,366**	41,391
Total segment assets	**475,724**	465,000

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2009	2008
	US$'000	US$'000
The charge comprises:		
Enterprise Income tax ("EIT") in the People's Republic of China (the "PRC")	**2,968**	2,461

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

Dongguan Stella Footwear Company Limited ("Dongguan Stella") and Long Chuan Simona Footwear Company Limited ("Long Chuan Simona") enjoy preferential tax treatment (12.5% tax rate, determined at 50% of the applicable tax rate of 25%) (the "Preferential Tax Treatment") for the six-month period ended 30 June 2008. Dongguan Stella continues to enjoy the Preferential Tax Treatment for the period ended 30 June 2009 whilst the tax rate for Long Chuan Simona is subject to EIT at a rate of 25% effective from 1 January 2009.

The income of Stella Luna Fashion Inc., Stella International Limited and Selena Footwear Inc. derived from production, business operations and other sources in the PRC is subject to EIT at a rate of 25% for the six-month periods ended 30 June 2008 and 2009.

No deferred tax has been provided in the condensed consolidated financial statements in respect of the temporary differences attributable to profits generated by both Dongguan Stella and Long Chuan Simona 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.

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

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2009	2008
	US$'000	US$'000
Impairment loss recognised on inventories (included in costs of sales)	**1,060**	171
Depreciation of property, plant and equipment	**10,857**	9,422
Release of prepaid lease payments	**123**	160
Share-based payments	**863**	–
Net loss on changes in fair value of derivative financial instruments	**–**	134
Interest income on bank balances	**(3,605)**	(5,443)
(Gain) loss on disposal of property, plant and equipment	**(1)**	69

6. DIVIDENDS

	Six months ended 30 June	
	2009	2008
	US$'000	US$'000
Final dividend declared and paid for 2008 – HK50 cents (2008: for 2007 – HK60 cents) per share	**51,248**	62,296
Interim dividend declared subsequent to period end – HK30 cents (2008: HK30 cents) per share	**30,750**	31,124

The Board has determined the payment of an interim dividend in respect of the six-month period ended 30 June 2009 of HK30 cents (2008: HK30 cents) per ordinary share to shareholders whose names appeared in the register of members of the Company at the close of business on 11 September 2009.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2009	2008
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to equity holders of the Company	**47,518**	55,626

	Six months ended 30 June	
	2009	2008
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**792,139**	809,250
Effect of dilutive potential ordinary shares: Unvested shares awarded	**1,759**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**793,898**	–

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share have been arrived at after deducting the shares held by Teeroy Limited (see Note 14).

Diluted earnings per share was not presented as there were no dilutive potential ordinary shares in existence for the six-month period ended 30 June 2008.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US$5,019,000 for business expansion.

9. IMPAIRMENT LOSS ON INTERESTS IN ASSOCIATES

Included in the costs of investments in associates was goodwill of approximately US$5,261,000 arising from the acquisition of Cosmic Gold Enterprise Limited ("Cosmic Gold") during the year ended 31 December 2008.

The Group assessed the recoverable amount of the interests in associates by reference to its share of the present value of the estimated future cash flows expected to be generated by Cosmic Gold, including the cash flows from the operations and the proceeds on the ultimate disposal of Cosmic Gold, with which the Group took into account of the fact that the initial purpose for the acquisition of Cosmic Gold was to expand the Group's production capacity for its excessive sales orders and due to economic downturn the management expected that the Group's future sales orders might not allow the Group to fully utilise Cosmic Gold's production capacity as initially planned. As a result, an impairment loss of approximately US$3,303,000 (1.1.2008-30.6.2008: Nil) was identified and recognised in the condensed consolidated statement of comprehensive income.

10. TRADE AND OTHER RECEIVABLES

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

The following is an aged analysis of the Group's trade receivables at the end of reporting period:

	30 June 2009 US$'000	31 December 2008 US$'000
Trade receivables:		
0 – 30 days	**137,010**	115,085
31 – 60 days	**5,552**	37,771
61 – 90 days	**3,708**	9,843
Over 90 days	**16,110**	8,167
	162,380	170,866
Other receivables	**33,130**	28,287
	195,510	199,153

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the end of reporting period:

	30 June 2009 US$'000	31 December 2008 US$'000
Trade payables:		
0 – 30 days	**58,095**	49,831
31 – 60 days	**1,954**	5,543
Over 60 days	**2,413**	17,209
	62,462	72,583
Other payables	**47,041**	48,108
	109,503	120,691

12. SHARE CAPITAL

	Number of share	**Nominal value** HK$
Ordinary of HK$0.10 each		
Authorised:		
As at 1 January 2009 and 30 June 2009	5,000,000,000	500,000,000
Issued and fully paid:		
As at 1 January 2009 and 30 June 2009	794,379,500	79,437,950
Shown in financial statements as		US$10,160,000

13. CAPITAL COMMITMENTS

	30 June 2009 US$'000	31 December 2008 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**1,990**	91

14. SHARE-BASED PAYMENT TRANSACTIONS

Long Term Incentive Scheme (the "Scheme")

On 19 February 2009, a total of 2,445,500 shares of the Company has been awarded to 85 eligible participants including six directors of the Company with the remaining being 79 employees of the Group at a consideration HK$1 per person. Pursuant to the Scheme, the Company appointed a trustee, Teeroy Limited (the "Trustee'), for the purpose of administering the Scheme and holding the awarded shares before they vest.

Details of the movement of the grant of the restricted unit awards during the period are as follows:

	Vesting date	Outstanding at 1 January 2009	Granted during the period	Vested during the period	Cancelled during the period	Outstanding at 30 June 2009
Directors	1 April 2009	–	306,000	(306,000)	–	–
	1 April 2010	–	306,000	–	–	306,000
	1 April 2011	–	306,000	–	–	306,000
Employees	1 April 2009	–	609,900	(605,900)	(4,000)	–
	1 April 2010	–	453,900	–	(1,000)	452,900
	1 April 2011	–	453,900	–	(1,000)	452,900
	1 April 2012	–	4,900	–	–	4,900
	1 April 2013	–	4,900	–	–	4,900
		–	2,445,500	(911,900)	(6,000)	1,527,600

The Trustee had purchased and maintained a pool of 2,175,600 shares which are available for the Trustee to satisfy the Scheme upon their respective vesting.

The total fair value of the awarded shares was determined at the date of the grant/award based on the market value of the shares. During the period, the fair value for the service received was recognised as staff costs on a straight-line basis over the vesting period in the condensed consolidated statement of comprehensive income with a corresponding credit to share award reserve.

15. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June 2009 US$'000	2008 US$'000
興昂制革(惠州)有限公司[1]	Purchase of leather and tannery products	**13,133**	17,552
Sincerely International Limited[1]	Purchase of molds	**1,755**	1,084
東莞興和塑膠制品有限公司[1]	Purchase of lasts	**1,958**	1,303
Sanford International Limited[1]	Purchase of sole materials	**2,680**	3,727
	Rental expense	**49**	65
東莞市長安統來刀模加工廠[2]	Purchase of die cuts	**1,947**	1,871
	Rental income	**–**	51
東莞興騰鞋材有限公司[1]	Purchase of sole materials	**8,794**	6,421
惠州興昂鞋業有限公司[1]	Purchase of footwear products	**1,194**	–
辛集市寶得福皮業有限公司[3]	Purchase of footwear products	**34,625**	3,516
Cosmic Gold[3]	Processing fee paid	**2,203**	–

[1] *Companies ultimately wholly owned by certain directors of the Company*
[2] *Companies under the control of key management personnel of the Group*
[3] *An associate of the Company*

(II) Compensation of key management personnel

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

	Six months ended 30 June 2009 US$'000	2008 US$'000
Short-term benefits	**395**	285

The remuneration of directors and key executives were determined by the Board after taking into advices given by the remuneration committee of the Board, where appropriate, and having regard to the performance of individuals and market trends.

DISCLOSURE OF INTERESTS

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

As at 30 June 2009, 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 ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

(A) The Company

Director	Number of shares/ Underlying shares	Approximate percentage of shareholding	Capacity/ Nature of interest
Chao Ming-Cheng, Eric ("Chao Eric")	153,000 *(Note 1)*	0.02%	Beneficial owner
Chen Li-Ming, Lawrence ("Chen Lawrence")	96,000 *(Note 2)*	0.01%	Beneficial owner
Chi Lo-Jen, Stephen ("Chi Stephen")	169,500 *(Note 3)*	0.02%	Beneficial owner
Chiang Jeh-Chung, Jack ("Chiang Jack")	223,500 *(Note 4)*	0.03%	Beneficial owner
Shieh Tung-Pi, Billy ("Shieh Billy")	2,225,686 *(Note 5)*	0.28%	Beneficial owner
Shih Takuen, Daniel ("Shih Daniel")	211,500 *(Note 6)*	0.03%	Beneficial owner

Notes:

1. It included interests in 102,000 restricted unit awards granted but not yet vested under the long term incentive scheme of the Company (the "Scheme").
2. It included interests in 64,000 restricted unit awards granted but not yet vested under the Scheme.
3. It included interests in 113,000 restricted unit awards granted but not yet vested under the Scheme.
4. It included interests in 149,000 restricted unit awards granted but not yet vested under the Scheme.
5. It included interests in 43,000 restricted unit awards granted but not yet vested under the Scheme.
6. It included interests in 141,000 restricted unit awards granted but not yet vested under the Scheme.

(B) Associated Corporation – Cordwalner Bonaventure Inc.

Director	Number and class of shares	Approximate percentage of shareholding		Capacity/ Nature of Interest
Chao Eric	113,694 ordinary shares	11.86%	*(Note 1)*	Beneficial owner and interest of spouse
Chen Lawrence	122,707 ordinary shares	12.80%	*(Note 2)*	Beneficial owner and interest of spouse
Chi Stephen	23,125 ordinary shares	2.41%		Beneficial owner
Chiang Jack	76,000 ordinary shares	7.93%		Beneficial owner
Shieh Billy	33,756 ordinary shares	3.52%		Beneficial owner
Shih Daniel	6,536 ordinary shares	0.68%		Beneficial owner

Notes:

1. This includes about 3.93% 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.

2. This includes about 4.87% 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.

Save as disclosed above, as at 30 June 2009, 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 30 June 2009, 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.

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	552,318,992	69.53%

Save as disclosed above, as at 30 June 2009, 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.

CORPORATE GOVERNANCE

The Board and management of 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 Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2009, except the following deviation:

For Code E.1.2, the chairman of the Board (the "Chairman") had not attended the annual general meeting of the Company held on 8 May 2009 (the "2009 AGM"), but Mr. Shih Takuen, Daniel, the deputy chairman (the "Deputy Chairman"), took the chair at the 2009 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 the Group's corporate communications including corporate governance, investor relations and Shareholders' communication. 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.

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 emphasizes 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.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2009.

Board Practices

The Board assumes the responsibility for leadership and control of the Company, and is collectively responsible for the success of the Company by directing and supervising the Company's affairs. The respective responsibility of the Board and the management of the Company have been formalised and set out in writing.

There is a clear division of responsibilities between the chairman of the Board and the chief executive officer of the Group, which have been formalised and set out in writing.

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. 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.

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. 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.

Internal Controls

The effectiveness of the internal control system and the progress of internal audit are reviewed, and their respective weaknesses are identified, at the regular audit committee meetings. The findings at such meetings are reported subsequently at Board meetings. This enables the Directors to assess the effectiveness of the internal control system, which helps managing enterprise risks and improving its mitigation framework. The internal control functions are vested in the internal audit team which reports directly to the audit committee and the chief operating officer of the Company.

Audit Committee

Pursuant to the requirements of the Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three independent non-executive Directors, namely Mr. Chu Pao-Kuei, Mr. Ng Hak Kim, *JP*. and Mr. Chen Johnny. The chairman of the Audit Committee is Mr. Chu Pao-Kuei. 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. The Audit Committee has reviewed the Group's interim report for the six months ended 30 June 2009.

Remuneration Committee

The Company has established a remuneration committee ("Remuneration Committee") in compliance with the Code. The Remuneration Committee has three members comprising two independent non-executive Directors and an executive Director of the Company, namely, Mr. Ng Hak Kim, *JP*, Mr. Chu Pao-Kuei and Mr. Shih Takuen, Daniel. The chairman of the Remuneration Committee is Mr. Ng Hak Kim, *JP*. 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.

Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") as recommended by the Code. The Nomination Committee has four members comprising three independent non-executive Directors and an executive Director of the Company, namely Mr. Chen Johnny, Mr. Chu Pao-Kuei, Mr. Ng Hak Kim, *JP* and Mr. Shih Takuen, Daniel. The chairman of the Nomination Committee is Mr. Chen Johnny. The principal duties of the Nomination Committee include the review of the structure, size and composition of the Board, making recommendations to the Board on the selection and nomination of Directors and the assessment of the independence of independent non-executive Directors.

Corporate Governance Committee

To facilitate more effective implementation of corporate governance practices, the Company has established a corporate governance committee ("Corporate Governance Committee"). The Corporate Governance Committee has three members comprising an executive Director and two independent non-executive Directors of the Company, namely Mr. Shih Takuen, Daniel, 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 include the review of the corporate governance practice of the Company and monitoring compliance with the relevant requirements under the Listing Rules and any applicable laws and regulations and monitoring each of the Audit Committee, Remuneration Committee and 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.

OTHER INFORMATION

Update on Director's Information

An updated biography of Mr. Ng Hak Kim, *JP*, an independent non-executive Director, is set out as below:

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 and The Hong Kong Management Association, and 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 corporations including Motorola and Lucent Technology. 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, the Chairman of the Hong Kong Examination and Assessment Authority, a member of the Audit Committee and Remuneration Committee of Hong Kong Housing Society, a member of Council, Strategic Planning Committee and Finance Committee and Chairman of Audit Sub-Committee of Hong Kong Housing Authority, a member of the Independent Police Complaints Council, a member of the Government's Business Facilitation Advisory Committee and a board member at the Advisory Board of Centre for Continuing Education, University of Macau. Mr. Ng has been appointed as an Independent Non-executive Director of the Company since June 2007.

As regards the Directors' emoluments, the monthly expense allowance of HK$5,000 for which each of the Directors is entitled to for 2008, has been amalgamated into the Directors' fee for 2009 for administrative reasons. The amalgamation does not have any impact on the total emoluments each of the Directors is entitled to.

Long Term Incentive Scheme

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the Shareholders passed on 15 June 2007 and was adopted by a resolution of the Board on 15 June 2007 and as 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 to 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 ("Eligible Participants") an award ("Award"), either by way of option ("Option") to subscribe for 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 the date of this 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.

During the period under review, no Options were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding Options under the Scheme as at 30 June 2009.

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 grant of Restricted Unit Awards under the Scheme.

As at 30 June 2009, there were a total of 2,175,600 Shares held in trust by the Trustee, of which 1,527,600 Shares were held for the benefit of selected Eligible Participants and the remaining 648,000 Shares are maintained and are available for the Trustee to satisfy the granting of the Restricted Unit Awards.

On 19 February 2009, a total of 2,445,500 Restricted Unit Awards were granted to 85 Eligible Participants, six of whom were Directors and the remaining 79 were employees. Details are set out as below:–

(A) Directors

Name of Director	Date of Award	Aggregate Number of Restricted Unit Awards	Outstanding as at 1 January 2009	Vested during the Period	Cancelled during the Period	Lapsed during the period	Outstanding as at 30 June 2009	Vesting Date	Number of Vesting Restricted Unit Awards
Chao Eric	19 February 2009	153,000	–	51,000	–	–	102,000	1 April 2009	51,000
								1 April 2010	51,000
								1 April 2011	51,000
Chen Lawrence	19 February 2009	96,000	–	32,000	–	–	64,000	1 April 2009	32,000
								1 April 2010	32,000
								1 April 2011	32,000
Chi Stephen	19 February 2009	169,500	–	56,500	–	–	113,000	1 April 2009	56,500
								1 April 2010	56,500
								1 April 2011	56,500
Chiang Jack	19 February 2009	223,500	–	74,500	–	–	149,000	1 April 2009	74,500
								1 April 2010	74,500
								1 April 2011	74,500
Shieh Billy	19 February 2009	64,500	–	21,500	–	–	43,000	1 April 2009	21,500
								1 April 2010	21,500
								1 April 2011	21,500
Shih Daniel	19 February 2009	211,500	–	70,500	–	–	141,000	1 April 2009	70,500
								1 April 2010	70,500
								1 April 2011	70,500

(B) Employees

Date of Award	Aggregate number of Restricted unit Awards	Outstanding as at 1 January 2009	Vested during the period	Cancelled during the Period	Lapsed during the period	Outstanding as at 30 June 2009	Vesting Date	Number of Vesting Restricted Unit of Awards
19 February 2009	1,527,500	–	605,900	6,000	–	915,600	1 April 2009	605,900
							1 April 2010	452,900
							1 April 2011	452,900
							1 April 2012	4,900
							1 April 2013	4,900

Purchase, Sale or Redemption of the Company's Listed Securities

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

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

Hong Kong, 20 August 2009

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

Legal Adviser

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

Financial (Compliance) Adviser

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place
Central, 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 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
9 September 2009 to 11 September 2009
(both days inclusive)

Payment of Interim Dividend

On or about 18 September 2009

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

Cover paper is printed on recycle paper

- 30% post-consumer waste
- Elemental Chlorine Free (ECF)
- Fiber from Well Managed Forestry
- Acid Free
- Lignin Free
- Ultra White has no recycled material

Inside page is printed on recycle paper

- Acid Free
- Lignin Free
- Dioxin Free
- Biodegradable
- Elemental Chlorine Free
- 30% Pre-consumer Waste
- 25% Post-consumer Waste
- 45% FSC Pulp

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

Incorporated in the Cayman Islands with limited liability
於開曼群島註冊成立之有限公司

* for identification purpose only