Stella International Holdings Limited

Stock Code: 1836

Annual Report 2009

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.

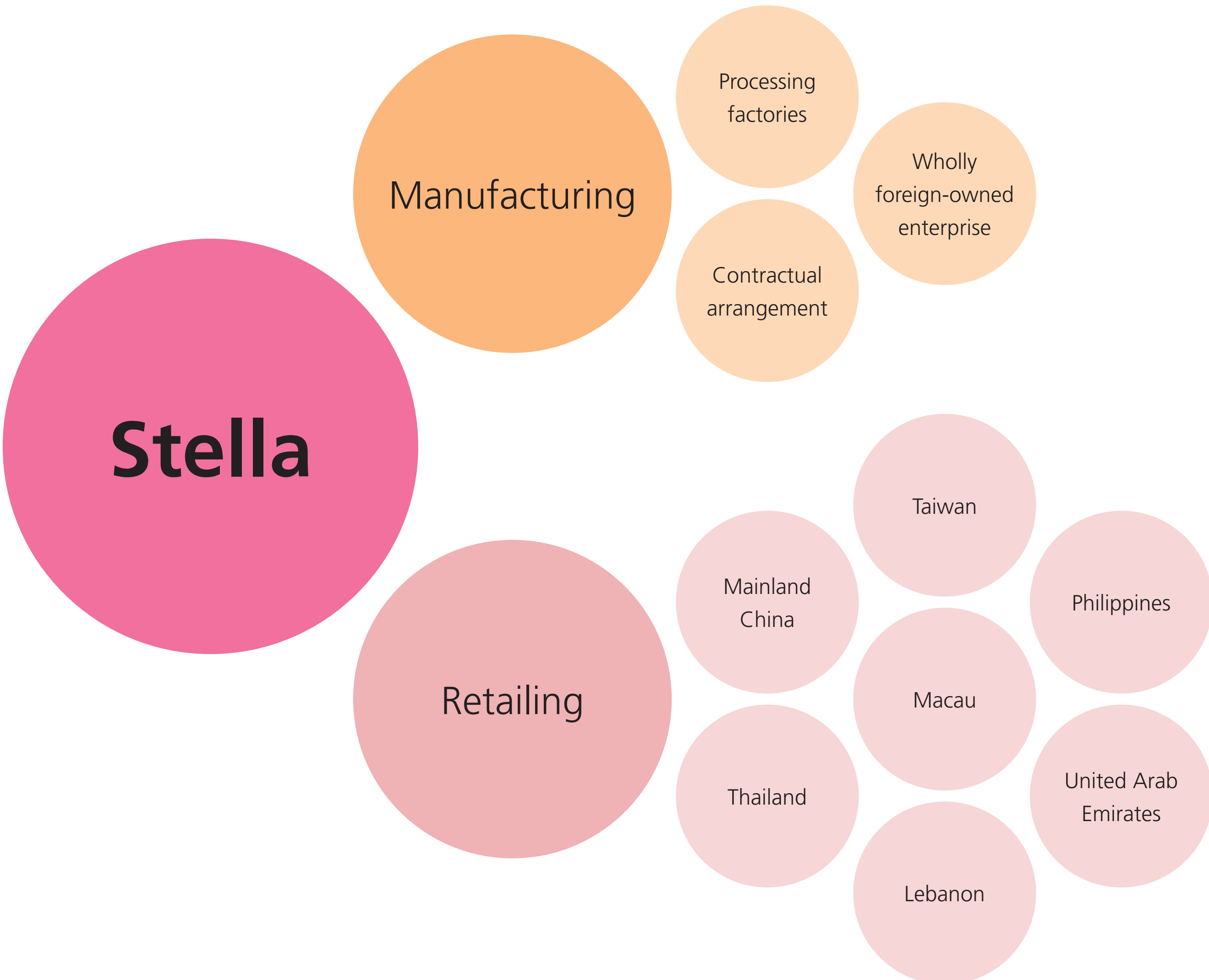
Our Mission: To Make the BEST Shoes

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



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 our own brands *Stella Luna* and *What For*.

Milestones

Value Chain | Branding / Retail | Engineering & Development | Assembly | Components Manufacturing

1982

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

1991

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

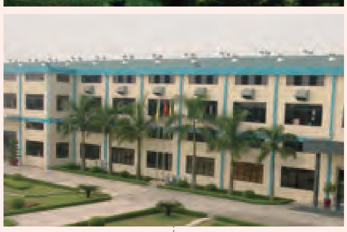
1995

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

1998

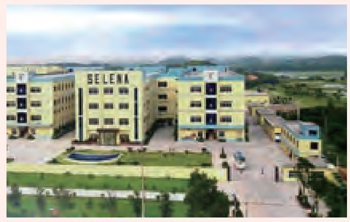
- Expanded production capacity in China with the expansion of Seville Footwear Factory.

- 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.



1999

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



2000

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

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.

Milestones

Fashion / Luxury

Casual

Private Label

Product

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.

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.

2007

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

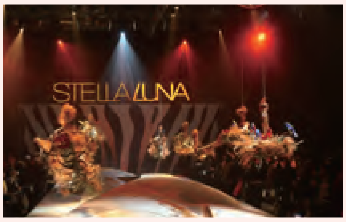
- **July 2007**
  Expanded our retail market capabilities with the launch of our contemporary lifestyle footwear brand *What For* in China.

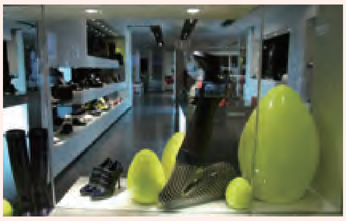
2008

- Revenue exceeded US$1 billion

- Annual manufacturing capacity reached 50 million pairs

- Opened the 100th *Stella Luna* Store. Number of *What For* stores reached 60.



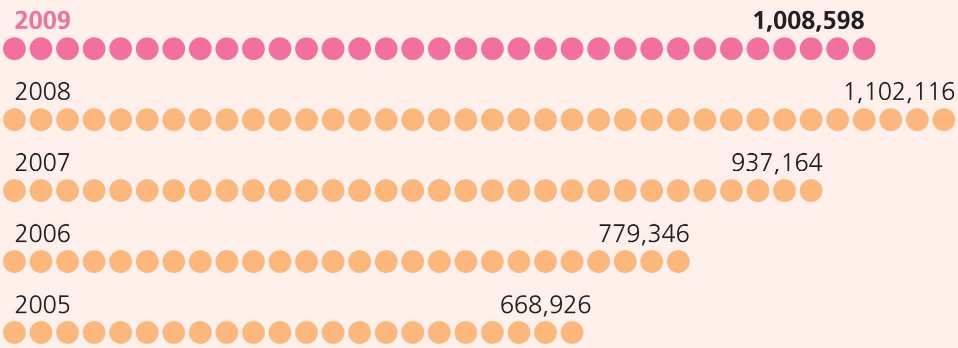


2009

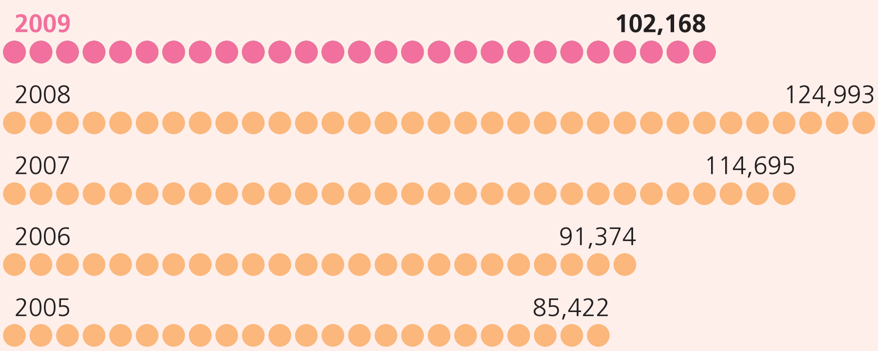
- Opened the 200th *Stella Luna* Store at Dubai Mall in July.

Financial Highlights

Revenue
US$'000



Net profit attributable to shareholders
US$'000



- 56.9% North America
- 28.6% Europe
- 7.2% The PRC (including Hong Kong)
- 4.3% Asia (other than the PRC)
- 3.0% Others

Men's		Women's
23.5%	Casual	26.5%
5.6%	Fashion	37.3%
	Private label	2.5%
	Retail	4.6%

Our mission:
"making the best shoes"

Chairman's Statement

Dear Shareholders,

2009 was a year of global rebalance and recovery. While the U.S. and European economies have only started to show initial signs of recovery, the developing world, led by China, has roared ahead to lead the world back towards economic growth.

The impressive recovery of China has also had a very good upside – much of it was consumer driven. While consumer demand in our traditional Western markets has remained weak, Chinese demand for luxury fashion has continued to grow, presenting us with an even more compelling case to focus on the expansion of our retail business.

Throughout the year, Stella remained committed to improving the profitability of our business, the efficiency of our operations, and the value for our shareholders. Our customers have increasingly recognised that "**made by Stella**" equals fine craftsmanship and guarantee of quality. Our financial performance has remained resilient, despite the continuingly difficult operating environment experienced by the entire Chinese manufacturing sector in 2009, with our Group's total revenue exceeding US$1 billion during the 2009 financial year.

In response to the rapidly growing demand for affordable luxury in China and other developing economies, we have expanded the footprint of our *Stella Luna* and *What For* retail businesses across Asia and the Middle East. This year, we opened our first store in the United Arab Emirates and continued our store expansion strategy in Mainland China and other Asian markets. Retail revenue and same-store sales have continued to grow very strongly, with similar prospects forecast for the year going forward.

In light of the challenging operating environment, we have renewed our efforts to providing unique value to our business partners and offering them an efficient and superior supply chain. We continue to supply quality and specialised products with short lead time and smaller batch production, allowing our partners higher flexibility in weathering the volatile retail environment. Our unique design and development capabilities also continued to add value for and strengthen our relationships with the world's top footwear brands.

As the global economic recovery starts to gain momentum in 2010, we will focus on improving our competitiveness and maintaining our leading position in the market. We are currently in the process of recalibrating our production strategy to secure lower input costs and upgrading our R&D capacity to improve the value of our products and our appeal to new business partners. As global export orders recover, we are confident in our continued ability to maintain production efficiency, stringent cost controls and the high quality standards of our products.

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

Chiang Jeh-Chung, Jack
Chairman
Hong Kong, 18 March 2010

Momentum maintained amid economic downturn

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 (collectively, the "Group") for the year ended 31 December 2009.

FINANCIAL HIGHLIGHTS

Slow Consumer Market Recovery Dampens Export Performance

2009 was another challenging year for Asian manufacturers as the aftereffects of the global recession impacted consumer activity in the U.S. and European markets. In spite of these conditions, the Group achieved strong results for the year by offering maximum value, flexibility and quality to our customers.

During the year under review, the Group's consolidated total revenue was US$1,008.6 million, representing a year-on-year decline of 8.5%, while net profit attributable to equity holders of the Company fell by 18.3% year-on-year to US$102.1 million. The fall in revenue was mostly attributable to the continued weakness in exports to the U.S. and Europe, where economic recovery remained slow. Basic earnings per share decreased by 16.8% year-on-year to US$0.129 (2008: US$0.155), based on the weighted average number of ordinary shares of 791,610,816 shares in 2009 (2008: 807,227,902 shares).

Total shipments fell 11.8% to 42.7 million pairs in 2009, compared with 48.4 million pairs sold in 2008. Nonetheless, our average selling price ("ASP") improved slightly to US$22.6 a pair, up 1.8%, as we maintained our commitment to providing excellent products to our overseas customers.

Despite the challenging environment, all business segments continued to perform well, with the Group's women's fashion footwear business contributing 37.3% to the Group's total revenue (2008: 38.5%) and remaining as our largest business segment. Contribution from the Group's women's and men's casual footwear business, was 26.5%(2008: 26.0%) and 23.5% (2008: 25.3%) of overall revenue respectively while the contribution from the men's fashion footwear segment decreased slightly to 5.6% (2008: 5.9%).

Retail Business Benefits from Strong Chinese Consumer Spending

While the Group could not avoid the downturn in export activity, we were successful in capturing opportunities arising from the strong recovery in Chinese consumer demand which was supported by the strong stimulus policies of the Central Government. Building on the remarkable success of our *Stella Luna* and *What For* brands in China, the Group continued to expand its retail presence in China, South East Asia and the Middle Eastern markets.

For the year under review, the Group's retail revenue grew 75.0% to US$46.6 million (2008: US$26.6 million), while same-stores sales grew a steady 23.3% to US$23.3 million, up from US$18.9 million in the preceding year. The retail business contributed 4.6% to the Group's total revenue, up from 2.4% in the previous year.

Gross profit of the Group for the retail business grew a significant 84.6% to US$33.0 million. Our retail business has also turned profitable in the year. As at the end of 2009, the Group owned and operated 256 retail stores worldwide, an increase of 48% over the preceding year.

Solid Financial Results in Difficult Environment

Gross profit of the Group for the year was US$239.8 million, a decrease of 8.7% from 2008 (2008: US$262.6 million). Gross profit margin was maintained at approximately 23.8% (2008: 23.8%), while our net profit margin fell 1.2 percentage points to 10.1% (2008:11.3%). The lower profitability can be attributed to a one-off impairment loss of US$5.3 million, as well as declining margin levels resulted from lower ASP in the second half of the year and higher cost of sales to cope with shorter lead time.

During the year under review, the Group's cash flow remained strong, despite the stagnant performance of the Western markets following the global economic turmoil in late 2008. Cash generated from operations for the year grew by 66.0% to US$144.6 million (2008: US$87.1 million). Lower capital expenditure has also contributed to robust free cash inflow during the period. The net increase in bank deposits and cash equivalents for the Group was US$60.1 million at the end of the year compared with a decrease of US$41.8 million at the end of 2008.

Geographically, North America and Europe continued to be the Group's two largest markets, accounting for 56.9%(2008: 60.8%) and 28.6% (2008: 26.4%) of the Group's total revenue for the reporting year respectively. This was followed by the PRC (including Hong Kong) at 7.2%, Asia (other than the PRC) at 4.3%, and other geographical regions at 3.0%.

BUSINESS REVIEW

Strategy to Overcome Challenges and Capture Changing Demand

Despite the fact that the performance of export markets is still slow, the Group's profitability has remained resilient due to its strong manufacturing capabilities and value-added services. This also underscored the Group's flexibility in expanding its retail business to many of the world's most lucrative consumer markets.

Stella's unique and value-added skill-based services, which include innovative design and development capabilities, short lead time and small batch production, also gave our customers better flexibility in the current volatile markets, enabling us to achieve a higher ASP than the industrial average. This skill set also enabled us to add more fashion brands to our customer portfolio this year.

An Innovative Partner for Leading Luxury Brands

Our dedicated and quality services ensured that we remained an integral partner of many of the world's top footwear brands. This continued success can be attributed to two key capabilities. Firstly, our ability to serve niche clients, mostly luxury brands, who leverage off our strong design and development capabilities in order to customise their production, and secondly, our ability to deliver Italian quality footwear as rising costs push more international luxury brands to outsource their production.

During the year under review, our top five customers accounted for 57.9% of our total revenue (2008: 62.4%). Our client base currently 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 high-fashion brands, as well as well-known large chain store retailers.

Enhanced Production Scale and Specialised Capability

During the year under review, the Group's manufacturing facilities in Dongguan and Vietnam have continued to operate at close to full capacity. As part of our efforts to exercise stringent cost-controls, the Group has continued to explore new production techniques and source substitution materials to keep production costs stable.

As part of our ongoing and prudent production expansion plans, the Group plans to open new factories in Guangxi in early 2011. This gradual shift of production inland will allow the Group to control manufacturing costs and optimise our production. This expansion is expected to boost our overall production capacity to 55 million pairs over the long term.

Rapidly Growing Retail Business

Throughout the year in review, the Group continued to implement its aggressive store expansion plan to meet the growing demand for high-end women fashion footwear and further strengthen our market position in the Greater China region. Strong growth was witnessed in Mainland China, where the Group opened 25 *Stella Luna* stores and 42 more *What For* stores in 2009.

2009 also saw the Group expanding its store network through regional distributors for the first time to the affluent Middle East markets, with a total of 7 *Stella Luna* stores opening in Lebanon and the United Arab Emirates.

Stella Luna is the Group's retail brand targeting the affordable fashion footwear and leather goods markets, with price ranging from RMB1,000 to RMB2,800. Our *What For* retail chain targets the contemporary and lifestyle markets, with price ranging from RMB600 to RMB1,500.

The Group currently owns and operates 120 *Stella Luna* stores in Mainland China, 3 stores in Taiwan and Macau and 15 stores in Thailand. Our 4 stores in the Philippines, and 7 stores in Lebanon and the United Arab Emirates are operated by the Group's distributors in these countries. The Group also operates 101 *What For* stores in Mainland China, 3 stores in Taiwan and Macau, and opened 3 new stores in Thailand during the year under review.

Progressive Refocus on Retail Strengths

Building on the success of our *Stella Luna* and *What For* brands, the Group has continued to build up its retail sales team to further the Group's expansion into the luxury goods market as the Group continues to acquire strong industry knowledge and retail capabilities.

As part of this broader refocusing strategy, the Group has strengthened its cooperation with our joint venture partner, Deckers Asia Pacific Limited ("Deckers"), with our first UGG store in Beijing reaching profitability this year. The joint venture plans to open more stores in China in 2010.

BUSINESS OUTLOOK

Move Up the Value Chain

The Group remains confident of its ability to overcome the current weak export environment by playing to its core strengths and servicing the increasingly specialised needs of its customers.

In 2010, the Group plans to build its first design studio in Italy to further strengthen its R&D capabilities – a first for a Chinese manufacturer. This strategy will enable the Group to move closer to its Western customers and respond quickly to their individual needs and specifications.

Steady Recovery in Manufacturing Sector

The Group remains confident of a steady recovery in its manufacturing operations, as the export markets began to show signs of recovery in the second half of the year. As our order book improves, the Group predicts a moderate growth in export volumes in the coming year, as well as a mild decline in ASP.

Potential challenges include a possible appreciation of the Renminbi ("RMB"), base wage increase and mismatches between seasonality and capacity, which may impact future margins. To combat this, the Group will maintain its prudent development strategy and cost-control measures to stabilise costs and sustain growth.

Strengthening of Competitive Edge and Bottom-line

In order to counteract increasing wage costs and other unfavorable factors, the Group plans to shift its more labour-intensive processes to more inland areas, in order to improve input costs and secure a stable labour supply.

As part of this process, we are currently developing our first factory in Guangxi, and we plan to adopt a three-pronged strategy for our production. Our existing Dongguan facilities will focus on R&D and high-end development; our Vietnamese factories will serve European shipments; and our inland factories in Hebei and Guangxi will specialise in labour-intensive processes such as sewing. The Group also plans to expand its manufacturing capacity through organic growth, rather than through acquisitions.

Through this strategy, we aim to maintain our cost competitiveness and improve efficiencies through the relocation of the more labour intensive production activities to our satellite factories in in-land provinces in the PRC. These cost reductions will be passed on to our customers as savings.

Continuous Expansion of Retail Business

The Group remains very optimistic about the prospects of the Chinese retail market, as sustainable economic development and social mobility support a growing demand for quality fashion footwear. This demand is also present in other developing economies in South-East Asia and the Middle East, which will remain key growth markets going forward as well.

In the coming year, the Group will maintain its store expansion strategy, targeting high growth in retail revenue through same-store sales and space expansions. We also plan to expand UGG-brand stores through our joint-venture with Deckers. The Group will also prudently consider the potential acquisition of selected footwear and related accessories brands and businesses to further the expansion of our business.

We believe these strategies allow the Group to be well-positioned to overcome any challenges ahead and profit from any opportunities that arise.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2009, the Group had bank deposits and cash equivalents of about US$425.2 million (2008: US$365.1 million).

As at 31 December 2009, the Group had current assets of US$755.9 million (2008: US$699.9 million) and current liabilities of about US$157.1 million (2008: US$135.3 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 4.8 times as at 31 December 2009 (as at 31 December 2008, 5.2 times) 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 2009 (2008: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2009, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in RMB or U.S. dollars. Currency exposures were mostly denominated 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$12.1 million (2008: US$16.4 million), of which approximately US$9.3 million was used in the production capacity expansion and approximately US$2.8 million was used in the retail network expansion.

PLEDGE OF ASSETS

During the year ended 31 December 2009, the deposit of US$10.1 million pledged by the Group to a bank as at 31 December 2008 to secure banking facilities was released and there were no pledged bank deposits as at 31 December 2009.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2009, the Group had approximately a workforce of 50,000 full-time equivalent employees (as at 31 December 2008: approximately 58,000). The Group cultivates a caring, sharing and learning culture among its employees and believes that human resources are a significant asset for the Group's development and expansion. The Group seeks to attract, develop and retain individuals who are energetic and committed with a passion for our business. The Group will also continue to build a strong management team internally through effective learning and promotion programs, including a "Leadership Program" that has been launched in 2010 to identify potential high caliber employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources related measures.

To cope with labour shortage issue, the Group is investing ahead of the curve. In anticipation of the PRC government's increase of the basic rate, the Group has raised the base wage for its workforce starting from February, 2010, together with granting of restricted unit rewards under the long term incentive scheme of the Company, to maintain labour force stability. As far as now the Group's recruitment remains satisfactory despite the fact of labour supply shortage.

Corporate Social Responsibility

recreational activities

employee training program

our next generation –
nursery

Corporate Social Responsibility

Stella's corporate philosophy emphasises respect for people, caring for society and the creation of a harmonious working environment. To ensure our corporate values remain embedded in the everyday decisions and operations of our business, we have remained committed to our philanthropic activities over the year ended 31 December 2009. By dedicating ourselves to providing voluntary services, donations and sponsorships, we aim to strike a balance between corporate development, society and the environment for the benefit of our community.

Providing the Best Start for the Next Generation

Stella strongly believes that the younger generation is the key to a better future and the development of our society. For this reason, we have spared no effort in utilising our resources to promote better education and welfare for our children.

From February to May 2009, we teamed up with Clarks, our valued partner, to build a 65 square-metre classroom for the Blind Children School located in Hai Phong, Vietnam. By expanding its facilities, our donation supported the school's mission of caring for and educating visually impaired children, and providing an improved learning environment. We look forward to watching these children realise their potential through proper education and training.

Putting our Family First

As the Company's most valuable assets, our employees are part of the Stella family. The Group remains devoted to enhancing the living standards of our employees and supporting the needs of their loved ones.

In September 2009, we assisted in a comprehensive renovation of Chang Shan Kindergarten, which is located near Stella's factory in Vietnam and mostly attended by the children of our employees. In addition to refurbishments, we also undertook an evaluation, with the children's parents, on the teaching courses provided by the kindergarten. This resulted in the provision of better teaching materials and an improvement in the quality of teaching. We also helped the kindergarten extend its teaching hours by 2 hours to support our employees who worked overtime by providing additional wages for teachers and refreshments for the children. Additionally, we also covered half the daily cost of kindergarten placement for employees working overtime on Saturday.

Our work with Chang Shan touched the hearts of many residents in the local area, who demonstrated the spirit of community service by donating rocking chairs to the kindergarten. We were greatly inspired by this generosity, which further reinforced our determination to provide a better learning environment for the young.

Typhoon Morakot

On 8 August 2009, Typhoon Morakot devastated the south of Taiwan, with heavy rains causing serious flooding and extensive structural damage. As a company with long-standing roots in Taiwan, this disaster weighed heavily on the hearts and minds of our Company. As a symbol of solidarity for those affected, Stella and its management donated NT$20 million (US$623,000), including NT$5 million (US$153,000) under the Group's name, to The Red Cross Society for disaster assistance and relief.

International Children's Day

As part of International Children's Day, Stella organised a book donation drive to further support the educational needs of the children of our employees. Led by our Corporate Social Responsibility Department, the Group donated over 3,000 new children's books to the drive, while the management personally donated more than 1,700. This passionate response underscored our support for the development of the communities in which we operate, and for the future prospects of our employees' families.

Supporting a Greener World

Stella strongly believes in the need to promote higher awareness of environmental protection in the Group and hence increase the sustainability of its operations.

As a strong supporter of environmental rehabilitation and conservation, the Group took part in tree-planting activities in Zhuhai, China, in partnership with Timberland. Also as part of the partnership, the Group led a tree-planting campaign at Chang Shan Primary School in Vietnam to mark the World Earth Day.

A Better Public Environment in Our Communities

Our commitment to providing a better environment also extends to improving the living environment and safety in the communities in which we operate. From August to December 2009, we organised several road paving and street cleaning projects in Dongguan, Guangdong and Guangxi Rongxian, Guangxi. This has resulted in greater convenience and safety for local citizens and has encouraged us to pursue similar projects in the coming year.

Going forward, Stella remains committed to serving the community and further improving the quality of living for the people we work with, as well as the environment which we share. We will continue to explore new ways to apply our corporate values and further contribute to the healthy development of our communities.

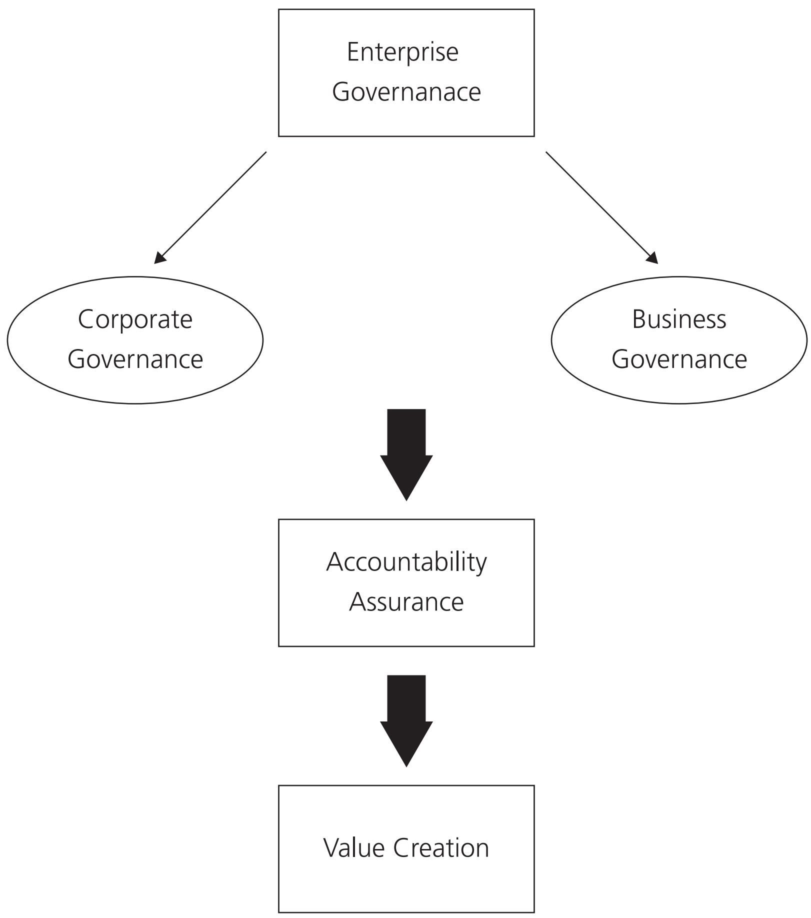
*Stella advocates
a governance model which
combines both corporate
governance and business
governance in order to build
long-term value
for the Group*

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.



GOVERNANCE FRAMEWORK

The Company's governance framework embodies the following:

- Terms of reference of various Board committees (Audit Committee, Corporate Governance Committee, Nomination Committee and Remuneration Committee)
- Compliance Manual
- Connected Transactions Manual
- Corporate Disclosure Policy

Corporate Governance Committee

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:

1. reviewing the corporate governance practices of the Company and monitoring compliance with the relevant requirements under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and any applicable laws and regulations;
2. reviewing annual corporate governance report and related disclosure in the annual and interim reports of the Company;
3. advising on risk management;
4. advising on investor relations matters; and
5. upholding corporate social responsibilities.

During the year ended 31 December 2009, two Corporate Governance Committee meetings were held, and the attendance records are set out below:

Name of Directors	Attendance
Mr. Shih Takuen, Daniel	2/2
Mr. Chu Pao-Kuei	2/2
Mr. Ng Hak Kim, *JP*	2/2

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

(i) reviewed annual corporate governance report and related disclosure in the annual and interim reports;

(ii) monitored the progress of internal control system, the adequacy of staffing for internal control, accounting and internal audit functions;

(iii) discussed enterprise risk mitigation program;

(iv) set up procedures for investor relations activities; and

(v) advised on making donations, as part of corporate social responsibility, more details of which are disclosed under the section "Corporate Social Responsibility" of this Annual Report.

Voluntary Initiatives - retention of financial (compliance) adviser

To ensure good corporate governance of the Group, we have retained our financial (compliance) adviser, Anglo Chinese Corporate Finance, Limited, which was appointed as the compliance adviser of the Company in accordance with Rule 3A.19 of the Listing Rules during the required period after the listing of the Company in 2007, to continue to provide guidance and advices to the Company as to compliance with the Listing Rules and all other rules, codes and guidelines in relation to the listing of the Company on the Stock Exchange. The scope of work of the financial (compliance) adviser, among others, also includes the assessment of the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a Director.

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 2009 except for code provision E.1.2, details of which are disclosed below. Save for the deviation from code provision 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 2009 are set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. Chiang Jeh-Chung, Jack (Chairman) — 0/9# Mr. Shih Takuen, Daniel (Deputy Chairman) — 9/9 Mr. Chao Ming-Cheng, Eric — 6/9 Mr. Chen Li-Ming, Lawrence (Chief Executive Officer) — 9/9 Mr. Shieh Tung-Pi, Billy (Chief Operating Officer) — 9/9 Mr. Chi Lo-Jen, Stephen — 5/9 (# *Mr. Chiang Jeh-Chung, Jack had not attended Board meetings during the year due to the following reasons: (1) the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, is mainly responsible for managing major customers' relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is responsible for providing leadership and management to the Board and 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 our stakeholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances. (2) some of the Board meetings scheduled had clashed with Mr. Chiang Jeh-Chung, Jack's other business commitments. Nonetheless, Mr. Chiang Jeh-Chung, Jack had conveyed his messages to the Board and given his opinions to the matters discussed at the Board meetings through the Deputy Chairman, Mr. Shih Takuen, Daniel, to ensure that he had fully discharged his duties and responsibilities as a director, contributed actively to the Board deliberations and that the Board acts in the best interests of the Group. Moreover, Mr. Chiang Jeh-Chung, Jack communicates with the executive management on a regular basis to ensure that strategic direction is properly aligned and all executive Board members share the same goal in terms of utilising and allocating Group resources.*) **Independent Non-executive Directors** Mr. Chu Pao-Kuei — 9/9 Mr. Ng Hak Kim, *JP* — 9/9 Mr. Chen Johnny* — 5/8 (* *Mr. Chen Johnny was appointed as an independent non-executive Director on 6 February 2009.*)

Code Provisions	Compliance	Corporate Governance Practices
		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. Shih Takuen, Daniel is the brother-in-law of Mr. Chen Li-Ming, Lawrence. Save as aforementioned, there is no family relationship between any of the Directors, nor are there any financial, business or other material or relevant relationships among the members of the Board.
A.1.2 Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.	✓	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 2010 have already been scheduled to ensure compliance with the Code and to facilitate Directors' attendance.
A.1.4 All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	✓	All Directors have full access to the advice and services of the company secretary of the Company ("Company Secretary"), financial (compliance) adviser 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 versions 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 versions of the minutes are circulated to all Directors for records.
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.

Corporate Governance Report

Code Provisions	Compliance	Corporate Governance Practices
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 are required to declare their interest, if any, in matters before Board meetings, or if such matters are dealt with by written resolutions, in such resolutions. In case the Director(s) concerned has a material conflict of interest, the Director(s) concerned has abstained from voting on the relevant board resolution and is not counted towards the quorum.
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. 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 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.
- 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 that 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. The division of responsibilities between the two positions have been clearly established and set out in writing.
A.2.2 The chairman should ensure that all directors are properly briefed on issues arising at board meetings.	✓	With the support of the Deputy Chairman, 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 analyses 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, with the support of the Deputy Chairman, such roles 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 maintain 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, a 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 2009, 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. 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 and Rule 3.11 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. A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	✓ ✓	The term of Directors' (including non-executive Directors') appointment 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 provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Retiring Directors shall be eligible for re-election at such meeting.

Recommended Best Practices	Compliance	Corporate Governance Practices
A.4.3 If an independent non-executive director serves more than nine years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders.	N/A	No independent non-executive Director has served the Board for more than nine years.
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 2009, the Nomination Committee had four members comprising three independent non-executive Directors, Mr. Chen Johnny (following his appointment as independent non-executive Director on 6 February 2009), Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *JP* and an executive Director, Mr. Shih Takuen, Daniel. Since 6 February 2009, Mr. Chen Johnny was the chairman of the Nomination Committee for the year ended 31 December 2009. During the year ended 31 December 2009, one Nomination Committee meeting was held (before the appointment of Mr. Chen Johnny as a Director on 6 February 2009), and the attendance records are set out below: **Name** — **Attendance** Mr. Chu Pao-Kuei — 1/1 Mr. Ng Hak Kim, *JP* — 1/1 Mr. Shih Takuen, Daniel — 1/1 This meeting considered the appointment of Mr. Chen Johnny as an independent non-executive Director having reviewed Mr. Chen's experience, competencies, skills, geographical network capabilities and cross-border experiences.

Recommended Best Practices	Compliance	Corporate Governance Practices
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.	✓	Mr. Chen Johnny, being an independent non-executive Director appointed by the Board to fill a causal vacancy with effect from 6 February 2009, was subject to re-appointment at the general meeting of members on 8 May 2009. A circular containing his biographical information and explanation for his independence was despatched to the shareholders for their information in March 2009.

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 have also scrutinised the Company's performance by reviewing the business and financial performance updates at regular Board meetings and following up any outstanding issues after such meetings. 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the year. The 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 Investor Relations Manager 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. As part of the continuous professional development programme, Directors participated in a Corporate Leadership Programme, the details of which are disclosed under B.1.1.
A.5.6 Each director should disclose to the issuer at the time of his 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.

Recommended Best Practices	Compliance	Corporate Governance Practices
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 intended date of board meeting 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.
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.

<table>
<tr><th colspan="3">B. Remuneration of Directors and Senior Management</th></tr>
<tr><td colspan="3">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.</td></tr>
<tr><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr><td>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.</td><td>✓</td><td>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. The chairman of the Remuneration Committee is Mr. Ng Hak Kim, JP.

The Remuneration Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties.

During the year, no formal Remuneration Committee meeting was held. The Remuneration Committee meeting to discuss granting of bonus to executive Directors and senior management for the year under review was held in January 2010. All the members of the Remuneration Committee had attended the meeting.

The following work has been performed by the Remuneration Committee for the year ended 31 December 2009:

(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; and
(iv) discussed remuneration of Directors.

2009 Highlight – Corporate Leadership Programme
Mr. Ng Hak Kim, JP, the chairman of the Remuneration Committee, together with the Deputy Chairman and Chief Executive Officer, led a corporate leadership programme during the year to address the following issues of the Group:

(i) succession planning;
(ii) corporate culture and its cultivation; and
(iii) organisational communication.

The programme, which is highly people-oriented, was carried out through conducting various focus group discussions with management of different levels in different business sectors, namely, manufacturing, retail and professional services. The initiative of running this programme is in line with the Group's belief that "human resources are significant assets to the Group's development and expansion". The Board also believes that, programme of such nature can help promote the Company's core values in the long-run.</td></tr>
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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 his or her associates is involved in deciding his or her own remuneration.
B.1.3 The terms of reference of the remuneration committee should include the following specific duties: (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; and (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.
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.

Code Provisions	Compliance	Corporate Governance Practices
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 2009, the executive Directors' performance-based remuneration related to their executive roles constitutes more than third-fourths 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 privacy, 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 resolution for the year ended 31 December 2009.
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.	✓	Before the commencement of a new financial year, annual business plan and budget are presented to the Board for approval. To evaluate the performance of the Group, presentation of business review and financial analysis of the Group is made to the Board by the management at Board meetings on a quarterly basis.

Code Provisions	Compliance	Corporate Governance Practices
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 ability to continue as a 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 53 and 80 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.	✓	Financial (compliance) adviser and legal advisers are consulted from time to time to assist the board in ensuring that disclosures in financial reports, announcements and any other reports and statements have presented a balanced, clear and understandable assessment of the position of the Group.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.1.4 An issuer should announce and publish quarterly financial results within 45 days after the end of the relevant quarter.	X	Please see the "voluntary initiatives – financial reporting" below.
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.	X	Please see the "voluntary initiatives – financial reporting" below.

Voluntary initiatives – financial reporting:

(i) The Group published its interim results and annual results within two months after the end of six-month period and three months after the end of the financial year respectively since the Company's listing on the Stock Exchange in 2007, well before the relevant Listing Rules amendment coming into effect in 2008.

(ii) In order to provide the Shareholders with pertinent information relating to the business and operations of the Company on a more timely basis, since the first quarter of 2009, the Company has voluntarily reported on its quarterly business development. During the year ended 31 December 2009, quarterly business updates were announced as early as within around two weeks after the end of the relevant quarter.

(iii) The announcement of the date of Board meeting for approving the annual results of the Group for the year under review was made forty-one clear business days before the meeting date, well in advance of the 7 clear business days' notice as required under the Listing Rules.

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 on a quarterly basis. The findings at such meetings are reported subsequently at Board meetings. This enables the Directors to assess the effectiveness of the internal control system of the Group, which helps manage enterprise risks and improve its mitigation framework. The Board's annual review, in particular, considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. During the year, with the help of an independent professional accounting firm, the Group is implementing a COSO (the Committee of Sponsoring Organisations of the Treadway Commission)-based internal control system. This system comprises 5 elements: control environment, risk assessment, control activities, information and communication, and monitoring. The internal control procedures of the Group include strategic control, management control and business process control. The internal control procedures are designed to safeguard the integrity of business processes (including financial and human assets, data/information and applicable systems), improve business effectiveness and efficiency, improve the quality of information for decision-making, as well as maintain a high standard of corporate governance. 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 2009 in accordance with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

Code Provisions	Compliance	Corporate Governance Practices
C.2.2 The board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.	✓	Please refer to the disclosure made under C.2.1 in this report.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.2.3 The board's annual review should consider: (a) the changes since the last annual review in the nature and extent of significant risks; (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.2.3 of the Code.
C.2.4 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.2.5 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.2.6 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 2009, the Audit Committee had three members comprising all 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. Following Mr. Hung John Terence's resignation as an 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. Chen Johnny	2/4

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) established and implemented the accounting system manual;
- (iii) reviewed the effectiveness of the internal control and risk management system; and
- (iv) reviewed the findings of internal audit

(B) Discussion matters:
- (i) reviewed and discussed quarterly, interim and annual results;
- (ii) reviewed and discussed the Group's tax structure, with the engagement of an independent professional accounting firm to advise on the overall structure, and the Company's auditors Deloitte Touche Tohmatsu to advise on implementation; and
- (iii) reviewed and discussed the connected transactions manual, together with the Company's internal audit team and external auditors

External Auditors and Auditors' Remuneration
The remuneration paid/payable to the external auditors of the Company, Deloitte Touche Tohmatsu, in respect of audit services and non-audit services provided to the Group for the year ended 31 December 2009 is US$609,000 and US$45,500 respectively. The external auditors will not be employed for non-audit services unless this constitutes permissible non-audit services which should be endorsed by the Audit Committee.

Code Provisions	**Compliance**	**Corporate Governance Practices**
C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of 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 have recorded in sufficient detail all matters discussed and resolved at such meetings. Draft minutes are circulated to all members for comment within a reasonable time after each meeting and final version of the minutes is circulated to all the Directors for records.

Code Provisions	Compliance	Corporate Governance Practices
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for a period of 1 year commencing on the date of his ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.	✓	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.
C.3.3 The terms of reference of the audit committee should include the duties covering at least the following aspects: (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. **Voluntary initiatives:** (i) The Audit Committee has met with the external auditors annually in the absence of the Company's management, to discuss matters relating to audit fees, any issues arising from the audit and any other matters the external auditor or the Audit Committee may wish to raise. (ii) The Company's accounting system manual has been established, after having reviewed by the Audit Committee. (iii) The Audit Committee has reviewed and discussed the connected transactions manual, together with the Company's internal audit team and external auditors.
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.

Code Provisions	Compliance	Corporate Governance Practices
C.3.5 Where the board disagrees with the audit committee's views on 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. In addition, the Audit Committee may obtain advice from the Company's financial (compliance) adviser, and external legal and other independent professional advice whenever they consider necessary. In particular, relevant professional advice has been sought for the following matters: (i) establishment of an accounting system manual; (ii) review of internal control and risk management system; (iii) review of the Group's tax structure; (iv) review of the connected transactions manual; and (v) review of the Group's connected transactions and continuing connected transactions.

<table>
<tr><th>Recommended Best Practices</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr><td>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.</td><td>✓</td><td>The terms of reference of the Audit Committee have covered the two items as referred to C.3.7 of the Code.</td></tr>
<tr><td colspan="3">D. Delegation by the Board</td></tr>
<tr><td colspan="3">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 has been articulated under A.1 in this report.</td></tr>
<tr><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr><td>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.</td><td>✓</td><td>Management meetings are held periodically where executive Directors and heads and senior management of the respective business divisions are present and clear directions are given as to the powers of management.</td></tr>
<tr><td>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.</td><td>✓</td><td>Please refer to the disclosure made under A.1 in this report.</td></tr>
</table>

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 the day-to-day management functions in their respective business divisions in the Group so that those affected by corporate decisions in each business division are fully aware of the division of responsibilities between the Board and the management.
D.1.4 Directors should clearly understand delegation arrangements in place. 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.
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.

<table>
<tr><th colspan="3">E. Communication with Shareholders</th></tr>
<tr><td colspan="3">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.</td></tr>
<tr><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr><td>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.</td><td>

✓</td><td>

In the annual general meeting held on 8 May 2009 ("2009 AGM") and the extraordinary general meeting held on 30 December 2009 ("EGM"), separate resolutions were proposed by the chairman of the respective meetings in respect of each substantially separate issue in accordance with E.1.1 of the Code.</td></tr>
<tr><td>E.1.2

The chairman of the board should attend the annual general meeting and arrange for the chairmen of the 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.</td><td>

Partially complied with</td><td>

The Chairman had not attended the 2009 AGM. Instead, Mr. Shih Takuen, Daniel, the Deputy Chairman, took the chair at the 2009 AGM, and the chairman or member of each of the Audit, Corporate Governance, Remuneration and Nomination Committee attended the 2009 AGM to answer Shareholders' questions. 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 mainly responsible for managing major customers' relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is responsible for providing leadership and management to the Board and 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.

Mr. Ng Hak Kim, JP, who is a member of the independent board committee (appointed by the Board to consider various continuing connected transactions as contemplated under the resolutions proposed at the EGM), attended the EGM to answer shareholders' questions.</td></tr>
</table>

E.1.3 The issuer should arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of all other general meetings.	✓	The notices to Shareholders were sent, for the 2009 AGM, 25 clear business days and for the EGM, 11 clear business days, before the respective meeting.
E.2 Voting by Poll **Principle** The Company should ensure that Shareholders are familiar with the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.		
Code Provisions	**Compliance**	**Corporate Governance Practices**
E.2.1 The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding voting by way of a poll.	✓	Detailed explanation regarding the procedures for demanding poll by Shareholders had been provided at the commencement of the 2009 AGM and the EGM.

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.

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 59, 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 27 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 indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also the director of Stella International Marketing Company Limited, which is a subsidiary of the Company.

Mr. SHIH Takuen, Daniel, aged 58, 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 indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHAO Ming-Cheng, Eric, aged 58, 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 27 years of experience in management in the footwear industry. He holds a Bachelor of Commerce degree from the Tunghai University, Taiwan. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also the director of Mission High Limited and 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.), both of which are subsidiaries of the Company.

Mr. CHEN Li-Ming, Lawrence, aged 49, 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 24 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 a director of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also indirectly interested in the issued share capital of Cordwalner Bonaventure Inc.. He is also the director of Mission High Limited, N.O.I. Holding Company Limited, N.O.I. (Macau) Company Limited, N.O.I. Trading Company Limited, Rigel Footwear 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 52, 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 27 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 indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also the director of Mission High Limited, N.O.I. Trading Company Limited, Rigel Footwear Company Limited, Stella Footwear Inc. and 東莞興昂鞋業有限公司 (Dongguan Stella Footwear Co. Ltd.), all of which are subsidiaries of the Company.

Mr. CHI Lo-Jen, Stephen, aged 38, 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 14 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 indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHU Pao-Kuei, aged 78, 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 Securities Company Limited（元大證券股份有限公司）, 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 had 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 57, 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. He is a Fellow Member of Hong Kong Institute of Human Resource Management and has been the President for five years. He has been in the human resource profession for over 27 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 Chairman of the Hong Kong Examination and Assessment Authority, the Deputy Council Chairman and Chairman of Staff Committee of the Hong Kong Institute of Education, 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, a board member at the Advisory Board of Centre for Continuing Education, University of Macau, a member of Community Board of Directors（社會董事）of the Global Local MBA program (GLMBA) of Shanghai University's MBA Center and Global Management Education Institute and the Honourable Professor of Shanghai University's MBA Center. Mr. Ng has been appointed as an Independent Non-executive Director of the Company since June 2007.

Mr. CHEN Johnny, aged 50, 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 in 2005, 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 organised 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 52, 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 53, 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 26 years of experience in the footwear industry. Mr. Chen is the brother of a member of the senior management of the Company, Mr. Chen Tung-Jui. He is also the director of Selena Footwear Inc. and 東莞興昂鞋業有限公司 (Dongguan Stella Footwear Co. Ltd.), both of which are subsidiaries of the Company.

Biographies of Directors and Senior Management

Mr. CHANG Ching-Hung, aged 49, 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 23 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 N.O.I. Trading Company Limited, Pollux Footwear Company Limited, 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.) and 廣西興萊鞋業有限公司 (GuangXi Simona Footwear Co. Ltd.), all of which are subsidiaries of the Company.

Mr. CHEN Tung-Jui, aged 48, 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 24 years of experience in the footwear industry. Mr. Chen is the brother of a member of the senior management of the Company, Mr. Chen Tung-Po. He is also the director of Pollux Footwear Company Limited and 廣西興萊鞋業有限公司 (GuangXi Simona Footwear Co. Ltd.), both of which are subsidiaries of the Company.

Mr. HUANG Wei-Ming, aged 40, 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 16 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 53, 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 24 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 50, 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 16 years of experience in the footwear industry. He holds a Bachelor of Commerce degree from the Feng Chia University, Taiwan.

Mr. TSENG Chung-Chieh, aged 53, 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 15 years of experience in the footwear industry. He holds a Certificate of Business Administration from the Kuochi Commercial Junior College, Taiwan.

Ms. HU Shyh-Wen, aged 53, 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 25 years of experience in the retail industry. She holds a Bachelor of Journalism degree from the Shih Hsin University, Taiwan. She 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.

Directors' Report


STELLA LUNA

Directors' Report

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited (the "Company") is pleased to present the annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the Group are development, manufacturing and sale of footwear products. Particulars of the principal activities of the Company's subsidiaries are set out in note 33 to the consolidated financial statements of the Group for the year ended 31 December 2009.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 82.

The Board recommended the payment of a final dividend of HK40 cents per ordinary share to shareholders (the "Shareholders") for the year ended 31 December 2009. In addition to the payment of a final dividend, the Board recommended the payment of a special dividend of HK10 cents per ordinary share to the Shareholders for the year ended 31 December 2009 in recognition of the continual support of the Shareholders. The proposed final dividend and special dividend, amounting to approximately US$40.9 million and US$10.2 million respectively, will be paid to Shareholders whose names appear on the register of members of the Company on 7 May 2010, if the proposal is approved by the Shareholders at the forthcoming annual general meeting. It is expected that the final dividend and the special dividend will be paid on or about 20 May 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 May 2010 to 7 May 2010 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and special dividend for the year ended 31 December 2009 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 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 4 May 2010.

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 note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2009 were US$271.7 million (2008: US$256.5 million).

DIRECTORS

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

Executive Directors:
Mr. Chiang Jeh-Chung, Jack
Mr. Shih Takuen, Daniel
Mr. Chao Ming-Cheng, Eric
Mr. Chen Li-Ming, Lawrence
Mr. Shieh Tung-Pi, Billy
Mr. Chi Lo-Jen, Stephen

Independent Non-executive Directors:
Mr. Chu Pao-Kuei
Mr. Ng Hak Kim, *JP*
Mr. Chen Johnny (appointed on 6 February 2009)

In accordance with article 87(1) of the Company's articles of association, Mr. Chu Pao-Kuei, Mr. Chao Ming-Cheng, Eric and Mr. Chi Lo-Jen, Stephen will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the related party transactions disclosed in note 31 to the consolidated financial statements and the transactions described in the section headed "Continuing Connected Transactions" in this report, no Directors of the Company had, at any time during the year, whether directly or indirectly, a material interest, in any contract of significance in relation to the Group's business to which the Company or any of its subsidiary was a party, subsisted during or at the end of the year.

Save for the related party transactions disclosed in note 31 to the consolidated financial statements and the transactions described in the section headed "Continuing Connected Transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries, and the controlling shareholder (as defined in the Listing Rules) of the Company and any of its subsidiaries.

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 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 (the "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 (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

(A) Aggregate long positions in shares and underlying shares of the Company

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

Notes:

1. This includes interests in 102,000 Restricted Unit Awards (as defined under "Long Term Incentive Scheme" below) granted but not yet vested under the Scheme (as defined under "Long Term Incentive Scheme") below.

2. This includes interests in 64,000 Restricted Unit Awards granted but not yet vested under the Scheme.

3. This includes interests in 113,000 Restricted Unit Awards granted but not yet vested under the Scheme.

4. This includes interests in 149,000 Restricted Unit Awards granted but not yet vested under the Scheme.

5. This includes interests in 43,000 Restricted Unit Awards granted but not yet vested under the Scheme.

6. This includes interests in 141,000 Restricted Unit Awards granted but not yet vested under the Scheme.

(B) Aggregate long positions in shares of an associated corporation, Cordwalner Bonaventure Inc.

Director	Number and class of shares	Approximate percentage of shareholding	Capacity/ Nature of interest
Chao Ming-Cheng, Eric	113,694 ordinary shares of no par value	11.86% (Note 1)	Beneficial owner and interest of spouse
Chen Li-Ming, Lawrence	122,707 ordinary shares of no par value	12.80% (Note 2)	Beneficial owner and interest of spouse
Chi Lo-Jen, Stephen	23,125 ordinary shares of no par value	2.41%	Beneficial owner
Chiang Jeh-Chung, Jack	76,000 ordinary shares of no par value	7.93%	Beneficial owner
Shieh Tung-Pi, Billy	33,756 ordinary shares of no par value	3.52%	Beneficial owner
Shih Takuen, Daniel	6,536 ordinary shares of no par value	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 Ming-Cheng, Eric, which is deemed to be interested by Mr. Chao Ming-Cheng, 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 Li-Ming, Lawrence, which is deemed to be interested by Mr. Chen Li-Ming, Lawrence for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 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 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	552,318,992	69.53%

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

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 31 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 Li-Ming, Lawrence ("Mr. Chen"). Since Sanford is an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2009, 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 2009: The Group paid RMB676,920 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 2009.

(Note: On 24 November 2009, the Group had entered into a new tenancy agreement ("New Tenancy Agreement") with Sanford for a term of three years from 1 January 2010 to 31 December 2012 at an annual rent of RMB755,000 for each of the three years ending 31 December 2012. As each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the New Tenancy Agreement for each of the three years ending 31 December 2012 is expected to be less than 0.1%, the continuing connected transactions contemplated under the New Tenancy Agreement are exempt from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.)

Purchase of footwear products 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. Since Huizhou Stella is an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2009, Huizhou Stella is therefore a connected person of the Company.

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 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 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 2009: The Group purchased footwear products from Huizhou Stella amounting to US$2,938,000, which did not exceed the aggregate annual cap of US$10,000,000 for the financial year ended 31 December 2009.

(Note: On 24 November 2009, the Group entered into a new processing agreement with Huizhou Stella to regulate and govern the processing arrangement for a term of three years from 1 January 2010 to 31 December 2012, the details of which are disclosed in the announcement of the Company dated 27 November 2009.)

Purchase of lasts from 東莞興和塑膠制品有限公司 (Sabina Footwear Co. Ltd.) ("Sabina") (Item 3)

Connected person: Sabina is ultimately wholly owned by Mr. Chen. Since Sabina is an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2009, 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 (the "Sabina Framework Purchase Agreement") dated 21 May 2007 with Sabina expiring on 31 December 2009 and renewable for a three-year term constitutes continuing connected transactions under Rule 14A.14 of the Listing Rules.

Purchase in 2009: The Group purchased lasts from Sabina amounting to US$3,200,000, which did not exceed the aggregate annual cap of US$3,300,000 for the financial year ended 31 December 2009.

(Note: The Group and Sabina had agreed to the automatic renewal of the Sabina Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012, the details of which were disclosed in the announcement of the Company dated 27 November 2009.)

Purchase of molds from 東莞興立精密模具有限公司 (Sincerely International Ltd.) ("Sincerely") (Item 4)

Connected person: Sincerely is ultimately wholly owned by Mr. Chen. Since Sincerely is an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2009, 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 (the "Sincerely Framework Purchase Agreement") dated 21 May 2007 with Sincerely expiring on 31 December 2009 and renewable for a three-year term constitutes continuing connected transactions under Rule 14A.14 of the Listing Rules.

Purchase in 2009: The Group purchased molds from Sincerely amounting to US$3,484,000, which did not exceed the aggregate annual cap of US$5,300,000 for the financial year ended 31 December 2009.

(Note: The Group and Sincerely had agreed to the automatic renewal of the Sincerely Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012, the details of which were disclosed in the announcement of the Company dated 27 November 2009.)

Purchase of tannery products from 興昂制革（惠州）有限公司 (Simona Tannery Co. Ltd.) ("Simona Tannery") (Item 5)

Connected person: Simona Tannery is ultimately wholly owned by Mr. Chen. Since Simona Tannery is an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2009, Simona Tannery is therefore a connected person of the Company.

Connected transaction: The ongoing purchase of tannery by the Group from Simona Tannery as governed under a framework purchase agreement (the "Simona Tannery Framework Purchase Agreement") dated 21 May 2007 with Simona Tannery expiring on 31 December 2009 and renewable for a three-year term constitutes continuing connected transactions under Rule 14A.14 of the Listing Rules.

Purchase in 2009: The Group purchased tannery from Simona Tannery amounting to US$20,709,000, which did not exceed the aggregate annual cap of US$50,600,000 for the financial year ended 31 December 2009.

(Note: The Group and Simona Tannery had agreed to the automatic renewal of the Simona Tannery Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012, the details of which were disclosed in the announcement and circular of the Company dated 27 November 2009 and 11 December 2009 respectively.)

Purchase of sole materials from Sanford (Item 6)

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 (the "Sanford Framework Purchase Agreement") dated 21 May 2007 with Sanford expiring on 31 December 2009 and renewable for a three-year term constitutes continuing connected transactions under Rule 14A.14 of the Listing Rules.

Purchase in 2009: The Group purchased sole materials from Sanford amounting to US$5,850,000, which did not exceed the aggregate annual cap of US$16,000,000 for the financial year ended 31 December 2009.

(Note: The Group and Sanford had agreed to the automatic renewal of the Sanford Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012, the details of which were disclosed in the announcement and circular of the Company dated 27 November 2009 and 11 December 2009 respectively.)

Purchase of sole materials from 東莞興騰鞋材有限公司 (Dongguan Xintan Footwear Co. Ltd.) ("Xintan") (Item 7)
Connected person: Xintan is ultimately wholly owned by Mr. Chen. Since Xintan is an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2009, 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 (the "Xintan Framework Purchase Agreement") dated 21 May 2007 with Xintan expiring on 31 December 2009 and renewable for a three-year term constitutes continuing connected transactions under Rule 14A.14 of the Listing Rules.

Purchase in 2009: The Group purchased sole materials from Xintan amounting to US$19,360,000, which did not exceed the aggregate annual cap of US$27,400,000 for the financial year ended 31 December 2009.

(Note: The Group and Xintan had agreed to the automatic renewal of the Xintan Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012, the details of which were disclosed in the announcement and circular of the Company dated 27 November 2009 and 11 December 2009 respectively.)

Supply of footwear products to Mountain Gear Ltd. ("Mountain Gear") and its subsidiaries ("Mountain Gear Group") (Item 8)
Connected person: On 21 August 2009, Stella Investments Overseas Limited ("SIOL"), a company wholly owned by Mr. Chen, subscribed for 45% of the enlarged issued share capital of Mountain Gear. Immediately after completion of the subscription on 21 August 2009, Mountain Gear became an associate of Mr. Chen who is entitled to control the exercise of more than 30% equity interest in Mountain Gear by virtue of his interest therein through SIOL. Since Mountain Gear is an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2009, Mountain Gear is a connected person of the Company.

Connected transaction: On 21 August 2009, the Group entered into a master supply agreement (the "Master Supply Agreement") with Mountain Gear for the supply of footwear products to the Mountain Gear Group by the Group for a term from 21 August 2009 to 31 December 2011, with an option for the Group to renew for successive terms of three years. The transactions contemplated under the Master Supply Agreement constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

Supply in 2009: The Group supplied footwear products to Mountain Gear Group amounting to US$430,000, which did not exceed the aggregate annual cap of US$1,000,000 for the period from 21 August 2009 to 31 December 2009.

Compliance with the Reporting, Announcement and Independent Shareholders' Approval Requirements
Under the Listing Rules, the continuing connected transactions described in Items 1 to 4 and 8 (Items 3 and 4 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 5 to 7 (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 as well as 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 continuing connected transactions as described in items 1, and 3 to 7 for the three years ended 31 December 2009 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 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 auditor has reported their factual findings on these procedures to the Board. The auditor of the Company has confirmed that the continuing connected transactions have received the approval of the Board, the selling prices to the connected party for those samples selected were within the range of those charged to independent third parties for similar transactions and therefore were in accordance with the pricing policy of the Company (for item 8 which involves provision of goods by the Group), have been entered into in accordance with the relevant agreements 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Chen Li-Ming, Lawrence, an executive Director and chief executive officer of the Company, is indirectly interested in 45% and approximately 66.7% of the issued share capital of Mountain Gear and Ace Opportunity Limited respectively. Both Mountain Gear and Ace Opportunity Limited are investment holding companies with their respective subsidiaries principally engaged in the sales and distribution of footwear products.

Save as disclosed above, as at 31 December 2009, none of the Directors and his associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

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 Group'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 Group, 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 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 an award ("Award"), either in the form of or a combination of (1) an option ("Option(s)") to subscribe for shares of the Company ("Shares"), (2) an award of Shares ("Restricted Share Award(s)") held in the name of or for the benefit of a grantee in accordance with the restricted share award agreement to be entered into by such grantee and the Company or (3) a grant of a conditional right to acquire Shares ("Restricted Unit Award(s)") as the Board may determine in accordance with the terms of the Scheme.

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.

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 "Overriding Limit").

The total number of Shares available for issue or transfer in satisfaction of all Awards which may be granted under the Scheme and any other schemes of the Company must not, in aggregate, exceed 10% of the Shares in issue as at the effective date of the Scheme (i.e. 78,000,000 Shares), subject to an annual cap, renewable by Shareholders in general meeting, of no more than 5% of the total issued share capital of the Company as at the beginning of each such financial year that may be issued by the Company to satisfy Restricted Share Awards or Restricted Unit Awards (the "Mandate Limit"). The Mandate Limit is also subject to the Overriding Limit and the refreshing of the Mandate Limit (as described below) and granting of Awards beyond the Mandate Limit (as described below).

Subject to the Overriding Limit and granting of Awards beyond the Mandate Limit (as described below), the Company may refresh the Mandate Limit at any time subject to Shareholders' approval by ordinary resolution in general meeting, which must not exceed 10% of the Shares in issue as at the date of the aforesaid Shareholders' approval or such other limits imposed by the Stock Exchange.

Subject to the Overriding Limit, the Company may also seek separate Shareholders' approval by ordinary resolution in general meeting for granting Awards beyond the Mandate Limit provided that the Awards in excess of the Mandate Limit are granted only to participants specifically identified by the Company before such approval is sought.

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 of the Awards. Any further grant of Awards in excess of the above limit must be subject to Shareholders' approval by ordinary resolution in general meeting with such participant or grantee and his, her or its associates abstaining from voting. 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 year 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 31 December 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 awards of Restricted Unit Awards under the Scheme.

As at 31 December 2009, there were a total of 4,644,600 Shares held in trust by the Trustee, of which 1,514,600 Shares were held for the benefit of selected eligible participants under the Scheme and the remaining 3,130,000 Shares are maintained and are available for the Trustee to satisfy the granting and vesting 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	Vesting Date	Vested during the year ended 31 December 2009	Cancelled during the year ended 31 December 2009	Outstanding as at 31 December 2009
Chao Ming-Cheng, Eric	19 February 2009	153,000	–	1 April 2009	(51,000)	–	–
				1 April 2010			51,000
				1 April 2011			51,000
Chen Li-Ming, Lawrence	19 February 2009	96,000	–	1 April 2009	(32,000)	–	–
				1 April 2010			32,000
				1 April 2011			32,000
Chi Lo-Jen, Stephen	19 February 2009	169,500	–	1 April 2009	(56,500)	–	–
				1 April 2010			56,500
				1 April 2011			56,500
Chiang Jeh-Chung, Jack	19 February 2009	223,500	–	1 April 2009	(74,500)	–	–
				1 April 2010			74,500
				1 April 2011			74,500
Shieh Tung-Pi, Billy	19 February 2009	64,500	–	1 April 2009	(21,500)	–	–
				1 April 2010			21,500
				1 April 2011			21,500
Shih Takuen, Daniel	19 February 2009	211,500	–	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	Vesting Date	Vested during the year ended 31 December 2009	Cancelled during the year ended 31 December 2009	Outstanding as at 31 December 2009
19 February 2009	1,527,500	–	1 April 2009	(605,900)	(4,000)	–
			1 April 2010		(7,500)	446,400
			1 April 2011		(7,500)	446,400
			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 US$153,000.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest customer and five largest customers accounted for approximately 21.3% and 60.7% of the Group's total revenue for the year ended 31 December 2009 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 2009.

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

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

18 March 2010

Independent Auditor's Report

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

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

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 82 to 141, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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

18 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	2009 US$'000	2008 US$'000
Revenue	7	**1,008,598**	1,102,116
Cost of sales		**(768,792)**	(839,557)
Gross profit		**239,806**	262,559
Other income	8	**10,994**	13,172
Distribution and selling expenses		**(57,391)**	(57,169)
Administrative expenses		**(44,863)**	(47,522)
Research and development costs		**(35,660)**	(38,491)
Share of results of associates		**710**	(986)
Impairment loss on interest in associates		**(5,261)**	–
Finance costs	9	**(2)**	–
Profit before tax		**108,333**	131,563
Income tax expense	10	**(6,252)**	(6,585)
Profit for the year	11	**102,081**	124,978
Exchange differences arising on translation of foreign operation		**(711)**	4,290
Total comprehensive income for the year		**101,370**	129,268
Profit (loss) for the year attributable to:			
Owners of the Company		**102,168**	124,993
Minority interests		**(87)**	(15)
		102,081	124,978
Total comprehensive income (loss) attributable to:			
Owners of the Company		**101,457**	129,301
Minority interests		**(87)**	(33)
		101,370	129,268
Earnings per share	14		
– basic (US$)		**0.129**	0.155
– diluted (US$)		**0.129**	–

Consolidated Statement of Financial Position

As at 31 December 2009

	NOTES	2009 US$'000	2008 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**149,152**	161,076
Prepaid lease payments	*16*	**8,387**	8,631
Interests in associates	*17*	**11,707**	18,215
Deposit paid for acquisition of property, plant and equipment		**445**	418
		169,691	188,340
CURRENT ASSETS			
Inventories	*18*	**107,725**	103,921
Trade and other receivables	*19*	**192,820**	199,153
Prepaid lease payments	*16*	**249**	249
Amounts due from associates	*20*	**29,832**	31,535
Derivative financial instruments	*21*	**33**	–
Pledged bank deposit	*22*	**–**	10,068
Bank deposits	*23*	**108,117**	–
Cash and cash equivalents	*23*	**317,120**	355,011
		755,896	699,937
CURRENT LIABILITIES			
Trade and other payables	*24*	**127,022**	120,691
Bills payable	*24*	**10,542**	–
Amount due to an associate	*20*	**879**	–
Derivative financial instruments	*21*	**9**	–
Tax liabilities		**18,658**	14,604
		157,110	135,295
NET CURRENT ASSETS		**598,786**	564,642
		768,477	752,982
CAPITAL AND RESERVES			
Share capital	*25*	**10,160**	10,160
Share premium and reserves		**758,314**	742,732
Equity attributable to owners of the Company		**768,474**	752,892
Minority interests		**3**	90
		768,477	752,982

The consolidated financial statements on pages 82 to 141 were approved and authorised for issue by the board of directors on 18 March 2010 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 2009

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000 *(Note 1)*	Capital reserve US$'000 *(Note 2)*	Exchange reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000	Share award reserve US$'000	Accumulated profits US$'000	Total US$'000	Minority interests US$'000	Total US$'000
As at 1 January 2008	10,350	167,298	45,427	1,146	1,534	–	–	–	507,242	732,997	123	733,120
Exchange difference on translation of foreign operations	–	–	–	–	4,308	–	–	–	–	4,308	(18)	4,290
Profit for the year	–	–	–	–	–	–	–	–	124,993	124,993	(15)	124,978
Total comprehensive income (expense) for the year	–	–	–	–	4,308	–	–	–	124,993	129,301	(33)	129,268
Purchase of shares for unvested shares under 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)
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
Exchange difference on translation of foreign operations	–	–	–	–	(711)	–	–	–	–	(711)	–	(711)
Profit for the year	–	–	–	–	–	–	–	–	102,168	102,168	(87)	102,081
Total comprehensive income (expense) for the year	–	–	–	–	(711)	–	–	–	102,168	101,457	(87)	101,370
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	1,205	–	1,205	–	1,205
Purchase of shares for long term incentive scheme	–	–	–	–	–	(5,082)	–	–	–	(5,082)	–	(5,082)
Shares vested under long term incentive scheme	–	–	–	–	–	1,042	–	(832)	(210)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(81,998)	(81,998)	–	(81,998)
As at 31 December 2009	10,160	154,503	45,427	1,146	5,131	(7,041)	190	373	558,585	768,474	3	768,477

Notes:

(1) The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of (i) Stella International Limited ("Stella International"), (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company in 2007.

(2) The capital reserve arises from 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 Bonaventure Inc. ("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 the employees as an incentive to attract and retain in the Group after the listing of the Company's shares.

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2009

	2009 US$'000	2008 US$'000
OPERATING ACTIVITIES		
Profit before tax	**108,333**	131,563
Adjustments for:		
Depreciation of property, plant and equipment	**21,419**	18,774
Impairment loss recognised on inventories	**163**	2,693
Share of results of associates	**(710)**	986
(Gain) loss on changes in fair value of derivative financial instruments	**(24)**	252
Release of prepaid lease payments	**248**	245
Loss on disposal of property, plant and equipment	**272**	72
Interest income	**(5,163)**	(9,021)
Share-based payment expenses	**1,205**	–
Impairment loss of interest in associates	**5,261**	–
Operating cash flows before movements in working capital	**131,004**	145,564
Increase in inventories	**(3,970)**	(8,844)
Decrease (increase) in trade and other receivables	**6,333**	(25,034)
Decrease (increase) in amounts due from associates	**2,582**	(24,406)
Increase in trade and other payables	**15,983**	2,957
Cash generated from operations	**151,932**	90,237
Income tax paid	**(2,210)**	(121)
Payment for purchase of shares under long term incentive scheme	**(5,082)**	(3,001)
NET CASH FROM OPERATING ACTIVITIES	**144,640**	87,115
INVESTING ACTIVITIES		
Increase in bank deposits	**(108,117)**	–
Purchase of property, plant and equipment	**(11,625)**	(15,153)
Increase in deposit paid for acquisition of property, plant and equipment	**(445)**	(418)
Decrease (increase) in pledged bank deposit	**10,068**	(10,068)
Interest received	**5,163**	9,021
Proceeds from disposal of property, plant and equipment	**2,379**	894
Dividend received	**1,957**	–
Investments in associates	**–**	(17,290)
NET CASH USED IN INVESTING ACTIVITIES	**(100,620)**	(33,014)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 US$'000	2008 US$'000
FINANCING ACTIVITIES		
Dividend paid	**(81,998)**	(93,420)
Repurchase of own shares	**–**	(12,985)
CASH USED IN FINANCING ACTIVITIES	**(81,998)**	(106,405)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(37,978)**	(52,304)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**355,011**	406,960
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**87**	355
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by	**317,120**	355,011
Bank balances and cash	**277,029**	240,495
Deposits placed in financial institutions	**40,091**	114,516
	317,120	355,011

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 which is incorporated in the British Virgin Islands (the "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 principal subsidiaries and associates are set out in notes 33 and 17, respectively.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes

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

HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Adoption of new and revised HKFRSs effective in the year

Hong Kong Accounting Standard ("HKAS") 1(Revised 2007) has introduced a number of terminology changes, including revised titles for the consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

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 risk and return 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 7).

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

Adoption of new and revised HKFRSs effective in the year *(continued)*

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

New and revised HKFRSs that are not yet effective

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 24 (Revised)	Related Party Disclosure[3]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[7]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[5]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[6]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement [3]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[7]

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

New and revised HKFRSs that are not yet effective *(continued)*

[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 2011*
[4] *Effective for annual periods beginning on or after 1 February 2010*
[5] *Effective for annual periods beginning on or after 1 January 2010*
[6] *Effective for annual periods beginning on or after 1 January 2013*
[7] *Effective for annual periods beginning on or after 1 July 2010*

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised 2008) 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 consolidated financial statements.

3. 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 Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 statement of financial position 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 not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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.

3. 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 on initial recognition.

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 statement of comprehensive income in the year in which the item is derecognised.

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. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses

At the end of each reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the exchange reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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.

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 statement of comprehensive income 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 end of each reporting period.

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 statement of comprehensive income on a straight-line basis over the terms of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

The Group as lessee

Operating lease payments are recognised as an expense 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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 represent loans and receivables.

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 to the net carrying amount on initial recognition.

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

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 the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, bank deposits, 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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.

Financial liabilities

Financial liabilities including trade and other payables, bills payable and amount due to an associate 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. Repurchase of the Company's own equity instrument is recognised and deducted directly in equity. No gain or loss shall be recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derivative 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 the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

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

Share-based payment transactions

Awarded shares granted to directors and employees

The fair value of service received, determined by reference to the fair value of awarded shares 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 the end of each reporting period, the Group revises its estimates of the number of the awarded shares 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 awarded shares are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares (held under the shares held for share award scheme) will be transferred to accumulated profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of trade receivables is approximately US$162,473,000 (31 December 2008: US$170,866,000).

Allowance for inventories

The management of the Group reviews the aging of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of inventories was approximately US$107,725,000 (31 December 2008: US$103,921,000) (net of allowance for inventories of US$6,533,000 (31 December 2008: US$6,567,000)).

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 owners of the Company, comprising issued share capital, various reserves and retained profit.

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

	2009 US$'000	2008 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**594,522**	577,574
Derivative instruments	**33**	–
	594,555	577,574
Financial liabilities		
Amortised cost	**135,479**	114,534
Derivative instruments	**9**	–
	135,488	114,534

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, derivative financial instruments, bank deposits, pledged bank deposit, bank balances, deposits placed in financial institutions, trade and other payables, bills payable and amount due to an associate. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (represented by currency risk and interest rate 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.

Market risk

(i) Currency risk

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 Renminbi ("RMB"), EURO ("EUR") or USD. It's currency exposures is mainly due to exposure in RMB, EUR 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 to manage the currency exposure in relation to RMB and EUR for the year ended 31 December 2009. The Group did not perform such hedging activities in 2008.

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

	Liabilities		**Assets**	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
RMB	**4,997**	4,653	**16,197**	15,478
HKD	**262**	32	**46,148**	145,921
EUR	**–**	–	**937**	5,107
Other	**827**	1,484	**2,001**	3,299

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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

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	
	2009	2008
	US$'000	US$'000
Increase in profit for the year	**420**	476

Forward foreign exchange rate risk

During the year ended 31 December 2009, the Group's derivative financial instruments exposed the Group to market bid forward foreign exchange rates.

Sensitivity analysis

If the market bid forward foreign exchange rate of RMB and EUR against USD had been 5% higher/lower, profit for the year ended 31 December 2009 would increase/decrease by US$34,000 as a result of the changes in the market bid forward foreign exchange rate of RMB and EUR against USD.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates in its variable-rate bank deposits at the end of the reporting period. For variable-rate bank deposits, the analysis is prepared assuming the amount of deposits outstanding at the end of the reporting period was outstanding for the whole year. A 25 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 25 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would increase/decrease by approximately US$1,062,000 (2008: US$911,000).

Credit risk

At 31 December 2009 and 2008, 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 statement of financial position.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk *(continued)*

In order to minimise the credit risk, management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period 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 credit risk on liquid funds is limited because the counterparties are banks with high reputation.

The Group's credit concentration risk by geographical locations is mainly in the North America, which accounted for 56% (31 December 2008: 61%) of the total trade receivables as at 31 December 2009.

The Group has a bank concentration credit risk as 93% (31 December 2008: 82%) of deposits are placed with 10 banks (31 December 2008: 10 banks). The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

The following table details the Group's contractual maturity for its financial liabilities based on the agreed repayment terms. 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 2009					
Non-derivative financial liabilities					
Trade and other payables	77,093	40,373	6,592	124,058	124,058
Bills payable	–	10,542	–	10,542	10,542
Amount due to an associate	879	–	–	879	879
	77,792	50,915	6,592	135,479	135,479
Derivatives – net settlement					
Foreign exchange forward contracts	–	–	9	9	9
As at 31 December 2008					
Non-derivative financial liabilities					
Trade and other payables	61,043	49,439	4,052	114,534	114,534

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.

The fair value measurement recognised in the consolidated financial statements subsequent to initial recognition at fair value with respect to the Group's derivative financial instruments belongs to level 2, being fair value derived from inputs other than quoted prices included within level 1 that are observable for the assets indirectly.

7. REVENUE AND SEGMENTAL 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 assess 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 risk and return 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, operated under different factories, produces different models/types of products varying 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) Footwear retailing and wholesaling

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

For the year ended 31 December 2009

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Men's footwear	Women's footwear	Footwear retailing and wholesaling	Eliminations	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
REVENUE					
External sales	292,774	669,219	46,605	–	1,008,598
Inter-segment sales	–	11,753	–	(11,753)	–
Total	292,774	680,972	46,605	(11,753)	1,008,598
Inter-segment sales are charged at prevailing market rates					
RESULTS					
Segment results	47,225	128,700	104	–	176,029
Unallocated income					
– Interest income from banks					5,146
– Gain on change in fair value of derivative financial instruments					33
– Rental Income					3,735
– Sale of scrap					329
– Others					1,592
Unallocated expenses					
– Research and development costs					(35,374)
– Central administrative costs					(38,595)
– Loss on change in fair value of derivative financial instruments					(9)
– Finance costs					(2)
Share of results of associates					710
Impairment loss on interest in associates					(5,261)
Profit before tax					108,333

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

For the year ended 31 December 2008

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Eliminations US$'000	Consolidated US$'000
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 prevailing market rates					
RESULTS					
Segment results	54,739	150,885	(4,638)	–	200,986
Unallocated income					
– Interest income from banks					8,995
– Gain on changes in fair value of derivative financial instruments					–
– Rental income					3,657
– Dividend income					–
– Sale of scrap					–
– Others					493
Unallocated expenses					
– Research and development expenses					(38,491)
– Central administration costs					(42,839)
– Loss on change in fair value of derivative financial instruments					(252)
Share of results of associates					(986)
Profit before tax					131,563

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. 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.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2009	2008
	US$'000	US$'000
Segment assets		
Men's footwear	**191,120**	174,893
Women's footwear	**239,001**	248,716
Footwear retailing and wholesaling	**39,976**	41,391
Total segment assets	**470,097**	465,000
Other assets	**455,490**	423,277
Consolidated assets	**925,587**	888,277

	2009	2008
	US$'000	US$'000
Segment liabilities		
Men's footwear	**55,855**	54,487
Women's footwear	**68,988**	41,973
Footwear retailing and wholesaling	**9,471**	18,394
Total segment liabilities	**134,314**	114,854
Other liabilities	**22,796**	20,441
Consolidated liabilities	**157,110**	135,295

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than amounts due from associates, derivative financial instruments, and cash and cash equivalents; and
- all liabilities are allocated to reportable segments other than tax liabilities and liabilities of group entities not belonging to any operating segments.

Revenue from major products and services

	2009	2008
	US$'000	US$'000
Men's footwear	**292,774**	345,784
Women's footwear	**715,824**	756,332
	1,008,598	1,102,116

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

Geographical information

The Group's revenue from external customers and information about its non-current assets by geographical locations of the assets are detailed below:

	Revenue from External customers		Non-current assets As at 31 December	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
United States of America	**544,736**	637,849	**–**	–
United Kingdom	**113,091**	119,722	**–**	–
Netherlands	**53,488**	49,923	**–**	–
Italy	**42,190**	38,302	**–**	–
The PRC	**71,359**	54,860	**169,691**	188,340
Canada	**27,420**	29,585	**–**	–
Spain	**18,081**	12,348	**–**	–
Portugal	**17,558**	32,660	**–**	–
Japan	**12,813**	14,194	**–**	–
Belgium	**12,750**	11,281	**–**	–
Thailand	**11,092**	1,237	**–**	–
Germany	**8,265**	8,112	**–**	–
Australia	**7,139**	7,845	**–**	–
Singapore	**6,650**	10,311	**–**	–
South Korea	**6,437**	5,865	**–**	–
Panama	**5,653**	5,594	**–**	–
Switzerland	**5,307**	2,271	**–**	–
Others	**44,569**	60,157	**–**	–
	1,008,598	1,102,116	**169,691**	188,340

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

Other segment information

2009

	Men's Footwear US$'000	Women's Footwear US$'000	Footwear retailing and wholesaling US$'000	Total US$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment	3,819	5,447	2,776	12,042
Depreciation	9,805	8,873	2,741	21,419
Loss on disposal of property, plant and equipment	259	13	–	272
Write-down of inventories	414	371	(622)	163
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest in associates	11,061	–	646	11,707
Share of profit of associates	457	–	253	710
Income tax expense	3,161	3,091	–	6,252

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

Other segment information *(continued)*

2008

	Men's Footwear	**Women's Footwear**	**Footwear retailing and wholesaling**	**Total**
	US$'000	US$'000	US$'000	US$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment	6,627	6,567	3,156	16,350
Depreciation	9,427	8,120	1,227	18,774
Loss on disposal of property, plant and equipment	48	24	–	72
Write-down of inventories	269	195	2,229	2,693
Interest in associates	–	17,823	392	18,215
Share of loss of associates	–	(888)	(98)	(986)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Income tax expense	2,786	3,799	–	6,585

7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009 US$'000	2008 US$'000
Customer A[1]	**182,436**	221,945
Customer B[1]	**171,699**	212,197

[1] *Revenue from men's and women's footwear*

8. OTHER INCOME

	2009 US$'000	2008 US$'000
Interest income on bank balances	**5,163**	9,021
Gain on changes in fair value of derivative financial instruments	**33**	–
Rental income	**3,735**	3,657
Sales of scrap	**329**	–
Others	**1,734**	494
	10,994	13,172

9. FINANCE COSTS

	2009 US$'000	2008 US$'000
Interests on bank overdrafts wholly repayable within five years	**2**	–

10. INCOME TAX EXPENSE

	2009 US$'000	2008 US$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	6,252	4,885
Underprovision in prior year	–	1,700
	6,252	6,585

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.

Under the law of the PRC on EIT and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% effective from 1 January 2008.

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 year ended 31 December 2008. Dongguan Stella continues to enjoy the Preferential Tax Treatment for the year ended 31 December 2009 whilst Long Chuan Simona is subject to EIT at a rate of 25% effective from 2009.

The income of Stella Luna Fashion Inc., Stella International 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 years ended 31 December 2008 and 2009.

No deferred tax has been provided in the 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 in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

10. INCOME TAX EXPENSE *(continued)*

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

	2009	2008
	US$'000	US$'000
Profit before tax	**108,333**	131,563
Tax at the applicable PRC EIT rate of 25% (2008: 12.5%)	**27,083**	16,445
Tax effect of expenses not deductible for tax purposes *(Note 1)*	**5,396**	6,642
Tax effect of income not taxable for tax purposes *(Note 2)*	**(26,142)**	(18,171)
Tax effect of share of results of associates	**(177)**	118
Effect of different tax rates of subsidiaries operating in other jurisdictions	**92**	(149)
Underprovision in respect of prior years	**–**	1,700
Income tax expense	**6,252**	6,585

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

	2009	2008
	US$'000	US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(Note 12)*	**2,867**	2,369
Other staff costs	**171,485**	177,771
Share-based payment expenses	**649**	–
Retirement benefit scheme contributions, excluding directors	**1,675**	1,590
Total staff costs	**176,676**	181,730
Impairment loss recognised on inventories	**163**	2,693
Auditor's remuneration	**609**	671
Cost of inventories recognised as an expenses	**768,629**	836,864
Depreciation of property, plant and equipment	**21,419**	18,774
Loss on changes in fair value of derivative financial instruments	**9**	252
Loss on disposal of property, plant and equipment	**272**	72
Net exchange loss	**762**	1,583
Release of prepaid lease payments	**248**	245
Share of taxation of associates (included in share of results of associates)	**236**	96

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Jiann-Min, Jimmy CHEN US$'000	Jeh-Chung, Jack CHIANG US$'000	Takuen, Daniel SHIH US$'000	Ming-Cheng, Eric CHAO US$'000	Li-Ming, Lawrence CHEN US$'000	Tung-Pi, Billy SHIEH US$'000	Lo-Jen, Stephen CHI US$'000	Pao-Kuei CHU US$'000	Hak Kim NG, *JP* US$'000	Johnny CHEN US$'000	John Terence HUNG, *SBS, JP* US$'000	2009 US$'000
2009												
Fee	–	39	39	39	39	39	39	51	51	47	–	383
Other emoluments												
– salaries and other allowances	–	77	77	69	62	62	62	–	–	–	–	409
– bonus	–	272	509	219	136	91	292	–	–	–	–	1,519
– share based payments	–	135	128	93	58	39	103	–	–	–	–	556
– retirement benefit scheme contributions	–	1	–	1	1	1	–	–	–	–	–	4
	–	524	753	421	296	232	496	51	51	47	–	2,871

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

Employees

The five highest paid individuals of the Group for the year included four directors (2008: four) of the Company whose emoluments are set out above. The emoluments of the remaining individual are as follows:

	2009 **US$'000**	2008 US$'000
Employee		
– salaries and other allowances	**401**	386
– retirement benefit scheme contributions	**2**	2
– share-based payment expenses	**7**	–
	410	388

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

Employees *(continued)*

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

	2009	2008
	US$'000	US$'000
2008 final dividend of HK50 cents per share (2008: 2007 final dividend of HK60 cents per share) paid	**51,248**	62,296
2009 interim dividend of HK30 cents per share (2008: HK30 cents per share) paid	**30,750**	31,124
	81,998	93,420

The final dividend of HK40 cents per share and a special dividend of HK10 cents per share in respect of the year ended 31 December 2009 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 owners of the Company is based on the following data:

	2009	2008
	US$'000	US$'000
Earnings		
Profit for the year and earnings attributable to owners of the Company for the purposes of basic earnings per share	**102,168**	124,993
Weighted average number of ordinary shares for the purpose of basic earnings per share	**791,610,816**	807,227,902
Effect of dilutive potential ordinary shares:		
Unvested shares awarded	**1,645,143**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**793,255,959**	–

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 in trust for the Company by Teeroy Limited *(see Note 29)*.

Diluted earnings per share was not presented for the year ended 31 December 2008 as there were no dilutive ordinary shares in existence during the prior year.

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 2008	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
Exchange adjustments	61	76	20	3	–	160
Additions	468	5,225	1,584	876	3,889	12,042
Transfer	57	4,129	208	–	(4,394)	–
Disposals	–	(5,607)	(955)	(269)	–	(6,831)
As at 31 December 2009	91,848	135,847	17,216	5,930	874	251,715
DEPRECIATION						
As at 1 January 2008	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
Exchange adjustments	12	32	11	2	–	57
Provided for the year	4,787	13,500	2,628	504	–	21,419
Eliminated on disposals	–	(3,616)	(331)	(234)	–	(4,181)
As at 31 December 2009	27,771	61,814	9,664	3,314	–	102,563
CARRYING VALUES						
As at 31 December 2009	64,077	74,033	7,552	2,616	874	149,152
As at 31 December 2008	68,290	80,126	9,003	2,278	1,379	161,076

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$10,350,000 (2008: US$11,674,000).

16. PREPAID LEASE PAYMENTS

	2009	2008
	US$'000	US$'000
Current portion of prepaid lease payments	**249**	249
Non-current portion	**8,387**	8,631
	8,636	8,880

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$1,949,000 (2008: US$2,005,000). The carrying amount of prepaid lease payments included above of US$1,391,000 (2008: US$1,427,000) 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. The Group is in the process of obtaining the land use right certificates.

17. INTERESTS IN ASSOCIATES

	2009 US$'000	2008 US$'000
Cost of investments in associates – unlisted	**19,290**	19,290
Share of post-acquisition losses and impairment of an associate, net of dividend received	**(7,583)**	(1,075)
	11,707	18,215

As at 31 December 2009 and 2008, 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 2009	2008	Principal activities
辛集市寶得福皮業有限公司 ("寶得福")	Sino-foreign co-operation joint venture	The PRC	Capital injection	**40%**	40%	Manufacture and sales of leather products and footwear
Cosmic Gold Enterprise Limited ("Cosmic Gold ")	Limited company	St. Vincent and the Grenadines	Ordinary	**40%**	40%	Manufacture of footwear
StellaDeck Fashion Limited ("StellaDeck ")	Limited company	Hong Kong	Ordinary	**49%**	49%	Footwear retailing

17. INTERESTS IN ASSOCIATES *(continued)*

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. The estimated future cash flows expected to be generated by Cosmic Gold have been revised as the projected sales orders decreased as compared with 2008's forecast due to economic downturn. As a result, an impairment loss of approximately US$5,261,000 (2008: Nil) was identified and recognised in the consolidated statement of comprehensive income.

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

	2009	2008
	US$'000	US$'000
Total assets	**124,189**	78,994
Total liabilities	**(95,659)**	(47,134)
Net assets	**28,530**	31,860
Group's share of net assets of associates	**11,600**	12,816
Revenue	**124,067**	93,632
Profit (loss) for the year and other comprehensive income	**1,563**	(2,420)
Group's share of profit (loss) of associates for the year	**710**	(986)

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:

	2009 US$'000	2008 US$'000
Unrecognised share of loss for the year	**29**	138
Accumulated unrecognised share of losses	**167**	138

18. INVENTORIES

	2009 US$'000	2008 US$'000
Raw materials	**29,936**	33,103
Work-in-progress	**35,277**	32,861
Finished goods	**42,512**	37,957
	107,725	103,921

19. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade receivables presented based on invoice date at the end of the reporting period:

	2009 US$'000	2008 US$'000
Trade receivables:		
0 – 30 days	**98,902**	115,085
31 – 60 days	**36,638**	37,771
61 – 90 days	**10,165**	9,843
Over 90 days	**16,768**	8,167
	162,473	170,866
Other receivables	**30,347**	28,287
Total trade and other receivables	**192,820**	199,153

Included in the Group's trade and other receivables balance are debtors with aggregate amount of US$6,426,000, US$67,000 and US$659,000 (2008: US$10,962,000, US$39,000 and US$905,000) which are denominated in RMB, HKD and other currencies other than the functional currency of the respective group entities 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.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$15,349,000 (31 December 2008: US$12,183,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

19. TRADE AND OTHER RECEIVABLES *(continued)*

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

	2009	2008
	US$'000	US$'000
31-60 days	**5,856**	1,912
61-90 days	**4,253**	5,326
Over 90 days	**5,240**	4,945
	15,349	12,183

20. AMOUNTS DUE FROM (TO) ASSOCIATES

	As at 31 December		**Maximum amount outstanding for year ended 31 December**	
Name of company	**2009**	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
寶得福	**29,375**	30,402	**30,402**	30,402
Cosmic Gold	**(879)**	1,000	**–**	1,000
StellaDeck	**457**	133	**457**	133
	28,953	31,535		

The amounts due from associates are trading balances, prepaid to the associates. The amounts are unsecured, interest-free and aged within 60 days.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
Foreign currency forward contracts	**33**	–	**9**	–

As at 31 December 2009, the Group was a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. Those contracts were settled on net basis.

Major terms of the outstanding forward foreign exchange contracts are as follows:

Natural amount	**Maturity**	**Exchange rates**
Buy USD2,000,000	20 October 2010	USD1 : RMB6.664
Buy USD2,000,000	22 November 2010	USD1 : RMB6.643
Sell USD2,000,000	25 October 2010	USD1 : RMB6.478
Sell USD2,000,000	22 November 2010	USD1 : RMB6.754
Sell USD500,681	6 January 2010	EUR1 : USD1.428

The above derivatives were measured at fair value at the end of the reporting period. Their fair values were determined based on quoted forward exchange rates for equivalent instruments at the end of reporting period.

22. PLEDGED BANK DEPOSIT

At 31 December 2008, pledged bank deposit represented 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. The pledged bank deposit was released upon expiry of the relevant banking facilities.

23. BANK DEPOSITS/CASH AND CASH EQUIVALENTS

Bank deposits are placed in financial institutions that are interest bearing at market rates and have a maturity of six months or less.

Bank deposits of US$27,554,000 are denominated in HKD other than the functional currency of respective group entities and are exposed to currency risk.

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 have a maturity of three months or less.

23. CASH AND CASH EQUIVALENTS *(continued)*

Bank balances and cash held in the PRC of US$33,374,000 (2008: US$31,437,000) were subject to foreign exchange control.

Cash and cash equivalents of US$9,738,000, US$46,081,000 and US$2,279,000 (2008: US$4,516,000, US$145,882,000 and US$7,501,000) are denominated in RMB, HKD and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

The bank deposits and balances carry interest rates ranging from 0.05 to 5.00% (2008: 1.06% to 5.04%) per annum.

24. TRADE, BILLS AND OTHER PAYABLES

The following is an aged analysis of the Group's trade and bills payables presented based on invoice date at the end of the reporting period is as follows:

	2009	2008
	US$'000	US$'000
Trade and bills payables:		
0 – 30 days	**57,792**	49,831
31 – 60 days	**5,258**	5,543
Over 60 days	**7,855**	17,209
	70,905	72,583
Other payables	**66,659**	48,108
	137,564	120,691

The average credit period on purchase of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. The liquidity risk of the Group's trade and other payables are detailed in Note 6b.

Included in the Group's trade and other payables balance are creditors with aggregate amount of US$4,988,000, US$262,000 and US$827,000 (2008: US$4,653,000, US$32,000 and US$1,484,000) which are denominated in RMB, HKD and other currencies other than the functional currencies of respective group entities and are exposed to currency risk.

25. SHARE CAPITAL

	Note	Number of shares	Nominal value HK$'000	Nominal value US$'000
Ordinary of HK$0.10 each				
Authorised:				
As at 1 January 2008 and 31 December 2008 and 2009		5,000,000,000	500,000	63,975
Issue and fully paid:				
As at 1 January 2008		809,250,000	80,925	10,350
Cancellation upon repurchase of own shares	*(i)*	(14,870,500)	(1,487)	(190)
As at 31 December 2008 and 2009		794,379,500	79,438	10,160

Note:

(i) During the year ended 31 December 2008, the Company repurchased 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. PLEDGE OF ASSET

At the end of the reporting period, the Group had no pledged bank deposit (31 December 2008: US$10,068,000). The pledged bank deposit to a bank at 31 December 2008 was to secure banking facilities granted to the Group and was released during the year.

27. OPERATING LEASES

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2009	2008
	US$'000	US$'000
Within one year	222	228
In the second to fifth year inclusive	665	–
	887	228

All of the properties held have committed tenants for the one to four years. Leases are negotiated for terms varying from one to five years. Property rental income earned during the year was US$3,735,000 (2008: US$3,657,000).

The Group as lessee

	2009	2008
	US$'000	US$'000
Minimum lease payments paid under operating leases:		
during the year:		
– street level stores	797	702
– other properties	3,003	1,014
	3,800	1,716
Contingent rentals	9,127	6,412
	12,927	8,128

27. OPERATING LEASES *(continued)*

The Group as lessee *(continued)*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009	2008
	US$'000	US$'000
Within one year	**4,094**	3,309
In the second to fifth year inclusive	**3,341**	3,818
Over five years	**679**	680
	8,114	7,807

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.

28. CAPITAL COMMITMENTS

	2009	2008
	US$'000	US$'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**13,100**	–
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**1,509**	91
	14,609	91

29. 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, 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 Award granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue 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.

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 of 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.

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

Long Term Incentive Scheme *(continued)*

Details of the movement with respect to the grant of the Award of the Company's shares during the year are as follows:

	Vesting date	Outstanding at 1 January 2009	Granted during the year	Vested during the year	Cancelled during the year	Outstanding at 31 December 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	–	(7,500)	446,400
	1 April 2011	–	453,900	–	(7,500)	446,400
	1 April 2012	–	4,900	–	–	4,900
	1 April 2013	–	4,900	–	–	4,900
		–	2,445,500	(911,900)	(19,000)	1,514,600

The Trustee had purchased and maintained a pool of 4,644,600 shares which are available for the Trustee to satisfy the Scheme upon their respective vesting or future grant.

The total fair value of the awarded shares of approximately US$2,221,000 was determined at the date of the grant based on the market value of the shares. During the year, US$1,205,000 (2008: Nil) was recognised as an expense in the consolidated statement of comprehensive income with a corresponding credit to the share award reserve.

30. 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 specified contributions under the schemes.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme 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.

30. RETIREMENT BENEFIT PLANS *(continued)*

The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in other jurisdictions where the group entities operate. 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.

31. RELATED PARTY DISCLOSURES

(I) Related party transactions

Name of company	Nature of transactions	2009 US$'000	2008 US$'000
興昂制革(惠州)有限公司[1]	Purchase of leather and tannery products	20,709	29,612
Sincerely International Limited[1]	Purchase of molds	3,484	3,164
東莞興和塑膠制品有限公司[1]	Purchase of lasts	3,200	2,678
	Purchase of machinery	–	–
Sanford International Co. Ltd.[1]	Purchase of sole materials	5,850	7,628
	Rental expenses	99	94
東莞市長安統來刀模加工廠[2]	Purchase of die cuts	4,139	3,543
東莞興騰鞋材有限公司[1]	Purchase of sole materials	19,360	17,911
惠州興昂鞋業有限公司[1]	Purchase of footwear products	2,938	1,470
辛集市寶得福皮業有限公司[3]	Purchase of footwear products	83,887	37,901
	Research and development costs	–	1,159
Cosmic Gold Enterprise Limited[3]	Processing fee paid	1,055	1,257
	Processing fee received	3,962	–
Mountain Gear Group[2]	Sales of footwear products	430	–

31. RELATED PARTY DISCLOSURES *(continued)*

(I) Related party transactions *(continued)*

Notes:

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

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

(3) Associates of the Company.

(II) Compensation of key management personnel

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

	2009	2008
	US$'000	US$'000
Short-term benefits	**2,712**	2,742
Long-term benefits	**6**	15
Share-based payment expenses	**563**	–
	3,281	2,757

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.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31 December 2009 is as follows:

	Note	2009 US$'000	2008 US$'000
Total assets		**972,183**	960,061
Total liabilities		**(165,166)**	(164,612)
		807,017	795,449
Capital and reserves			
Share capital		**10,160**	10,160
Share premium and reserves	*(a)*	**796,857**	785,289
		807,017	795,449

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$'000	Share award reserve US$'000	Contribution surplus US$'000	Accumulated profit US$'000	Total US$'000
As at 1 January 2008	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 long term incentive 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
Profit for the year	–	–	–	–	–	–	–	97,443	97,443
Recognition of equity-settled share-based payment	–	–	–	–	–	1,205	–	–	1,205
Purchase of shares for unvested shares under long term incentive scheme	–	–	–	(5,082)	–	–	–	–	(5,082)
Shares vested under long term incentive scheme	–	–	–	1,042	–	(832)	–	(210)	–
Dividend recognised as distribution	–	–	–	–	–	–	–	(81,998)	(81,998)
As at 31 December 2009	10,160	154,503	1,146	(7,041)	190	373	530,465	117,221	807,017

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/registered capital	2009 Interest holdings Direct %	2009 Interest holdings Indirect %	2008 Interest holdings Direct %	2008 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 龍川興萊昂鞋業有限公司[1][3]	The PRC	Capital contribution	HK$180,300,000[3]	–	100	–	100	Manufacturing of footwear
N.O.I. Holding Company Limited	BVI	Ordinary	US$4	100	–	100	–	Investment holding and wholesaling of footwear
N.O.I. (Macau) Company Limited	Macau	Ordinary	MOP$2,500,000	–	100	–	100	Footwear retailing
N.O.I. Trading Company Limited	BVI	Ordinary	US$1	–	100	–	100	Trading of materials
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	–	100	–	100	Footwear retailing

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/registered capital	2009 Interest holdings Direct %	2009 Interest holdings Indirect %	2008 Interest holdings Direct %	2008 Interest holdings Indirect %	Principal activities
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	100	–	100	–	Provision of secretary and accounting services
Guangxi Simona Footwear Company Limited 廣西興萊鞋業有限公司(1)(2)	The PRC	Capital contribution	US$3,499,965	–	100	–	–	Manufacturing of footwear

Note:

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

(2) This subsidiary was established during the year.

(3) The registered capital of this subsidiary was increased during the year.

Financial Summary

	For the year ended 31 December				
	2005 US$'000	2006 US$'000	2007 US$'000	2008 US$'000	**2009** **US$'000**
RESULTS					
Revenue	668,926	779,346	937,164	1,102,116	**1,008,598**
Profit for the year	85,422	91,374	114,623	124,978	**102,081**
Attributable to:					
Equity holders of the Company	85,422	91,374	114,695	124,993	**102,168**
Minority interests	–	–	(72)	(15)	**(87)**
	85,422	91,374	114,623	124,978	**102,081**

	As at 31 December				
	2005 US$'000	2006 US$'000	2007 US$'000	2008 US$'000	**2009** **US$'000**
ASSETS AND LIABILITIES					
Total assets	486,689	562,971	856,730	888,277	**925,587**
Total liabilities	(110,671)	(123,650)	(123,610)	(135,295)	**(157,110)**
Shareholders' funds	376,018	439,321	733,120	752,982	**768,477**

Notes:

1. The financial information for each of the two 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 two years ended 31 December 2006, and the assets and liabilities as at 31 December 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 dated 20 March 2009.

3. The result for the year ended 31 December 2009, and the assets and liabilities as at 31 December 2009 have been extracted from the audited consolidated statement of comprehensive income and audited consolidated statement of financial position as set out on pages 82 and 83, respectively, of the annual report.

Corporate Information and Financial Calendar 2009/2010

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
40th 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

Corporate Information and Financial Calendar 2009/2010

FINANCIAL CALENDAR 2009/2010

2009 Interim Results Announcement	20 August 2009
Payment of Interim Dividend	18 September 2009
2009 Annual Results Announcement	18 March 2010
Closure of Register of Members	5 May 2010 to 7 May 2010
Annual General Meeting	7 May 2010
Payment of Final Dividend and Special Dividend	On or about 20 May 2010
2010 Interim Results Announcement	On or about 19 August 2010

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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*