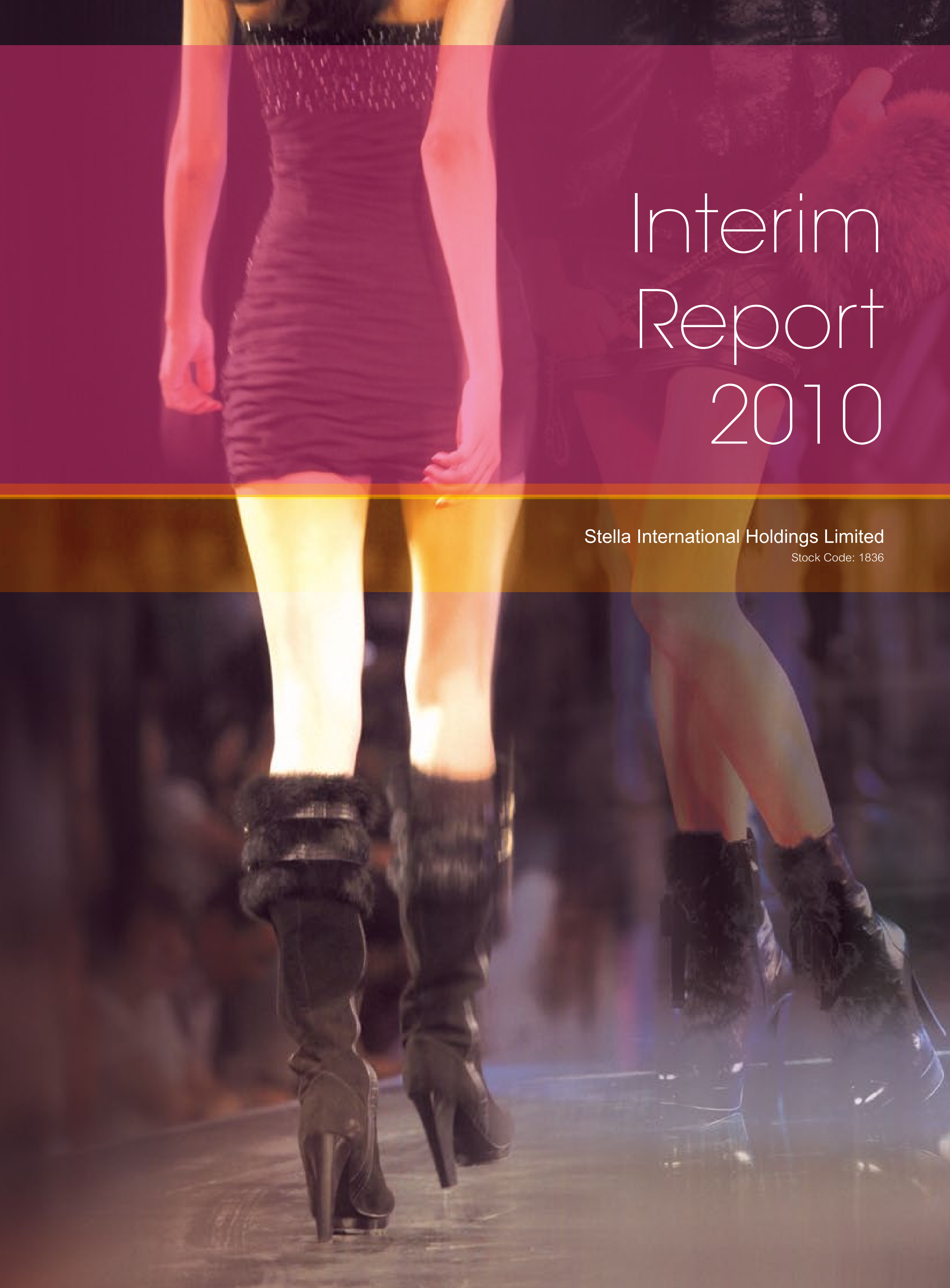

Interim Report 2010

Stella International Holdings Limited

Stock Code: 1836

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present to you the interim report of Stella International Holdings Limited ("Stella" or the "Company") together with its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010.

The first half of the year saw the continued recovery of world trade as signified by the renewed export figures of many Asian economies. More promisingly, consumer demand in China has continued to exhibit strong growth, despite the scaling down of the government's stimulus and liquidity boosting measures.

These events bode well for us, as demonstrated by the strong revenue growth recorded by both our OEM and retail businesses. Our position at the premium end of the value chain, due to the strong craftsmanship and efficiency of our manufacturing business, has meant that we are uniquely positioned to benefit from the continuation of the outsourcing trend that we are seeing amongst many of the world's leading luxury brands.

Equally promising is the continued enthusiasm amongst Chinese consumers for quality fashion footwear which has further supported the growth of our retail business. With our *Stella Luna* and *What For* brands firmly establishing themselves in the market, we continue to remain confident in the growth prospects for this segment of the business, both in China and regionally.

This year, however, has not been without its challenges. Wage issues have recently come to the fore following a series of high profile labour disputes, which has seen Chinese-based manufacturers come under renewed cost pressure from base salary increases. More recently, the government's removal of the currency peg on the RMB has further heightened risk for China's export-dependent sectors.

While Stella, along with all manufacturers, must bear some of these costs, these recent events have vindicated our foresight in proactively preparing for these challenges. In anticipation of the wage pressure that would be brought by a tightening labour market and the government's increase of the minimum wage, the Group raised the basic wage of its workers back in February, allowing us to avoid the disruptions that have affected other companies.

In preparation for the long term, we have continued to expand our capacity in the inland provinces of China, particularly in Guangxi and Hunan. This will allow us to further refine our manufacturing chain, raise production efficiency, reduce operating costs and secure a stable labour supply.

In the second half of the year, we expect to maintain production at full capacity, while improving our quality and efficiency as well as finding new ways to support the specialised needs of our customers. Furthermore, we expect that our retail business will continue to grow strongly as China maintains its double-digit economic growth. We will also continue to monitor opportunities for strategic partnerships that can add value to and grow our retail business.

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers and business partners for their unwavering support so far 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, 19 August 2010

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010.

Financial Highlights

Global Economic Recovery Fuels Shipment Volumes and Revenue Growth

The first half of 2010 saw a resurgence in shipment volumes as the global economic recovery boosted consumer confidence in the Group's export markets. Total shipment volumes for the six months ended 30 June 2010 rose 25.3% to 24.3 million pairs, up from 19.4 million pairs in the corresponding period of last year. This surge in shipment volumes saw total revenue grow to US$544.5 million for the period under review, an 18.6% increase over the previous period.

The women's fashion footwear business remains the Group's largest business segment, accounting for 35.2% of the Group's total revenue for the period. Contributions from the Group's women's and men's casual footwear business were 28.1% and 23.4% of overall revenue respectively, while the contribution from the men's fashion footwear segment was 5.3%.

The Group's average selling price ("ASP") for its products fell 5.8% over the period to US$21.3 per pair due to a reduction in raw material costs and as last year's decision to "share the pain" by reducing ASPs continued to filter through. As a result, the Group's gross and net margins fell slightly over the period. This margin pressure has dissipated over the past few months as the Group's order book approached capacity.

Retail Business Riding the Wave of Chinese Consumer Spending

The Group's retail business in China and other markets continued to be a major growth driver. The *Stella Luna* and *What For* brands have continued to gain more and more attention from the media and consumers, and are rapidly establishing themselves in the Chinese affordable luxury market, and in other emerging markets in Asia.

Sales for the Group's retail business in the six months ended 30 June 2010 reached US$28.1 million, a 39.9% increase over the corresponding period of last year. Same-store sales (for China stores only) grew 13.9% to US$13.1 million during the period under review, and was strongly supported by the successful launch of the 2010 Spring/Summer collection.

Sound Financial Performance in the Midst of Global Economic Recovery

Total gross profit across all business segments for the six months under review was US$116.9 million, an 3.0% increase over the corresponding period of last year. Gross and net profit margins fell slightly over the period to 21.5% and 8.5% respectively.

Geographically, North America and Europe continued to be the Group's two largest markets, accounting for 52.7% and 29.5% of the Group's total revenue for the first half of the year respectively. This was followed by Asia (other than the PRC) at 7.7%, the PRC (including Hong Kong and Macau) at 7.6% and other regions at 2.5%.

Business Review

Well Positioned to Leverage off the Global Economic Recovery

The strong recovery of Stella's export volumes over the first half of the year is testament to its strong design and development capabilities. The Group's reputation for being able to service niche clients, particularly luxury brands, gives us a premium position on the value chain and an ability to attract a higher ASP than the industrial average.

The Group's commitment to craftsmanship, innovation, short lead times and small batch production also offers our customers maximum flexibility. This year, the Group will open its first design studio in Italy to strengthen its R&D capabilities, enabling it to move closer to its high-end customers and respond quickly to their needs and specifications. This unique value-adding proposition has seen many of the Group's European customers gradually increase their orders overtime.

In the first half of 2010, the Group added more high-end brands and niche players to its customer base. This has allowed the Group to expand its manufacturing capabilities to cover new types of products, such as physiological shoes which target well-being, reinforcing Stella's reputation for being able to meet the unique needs of its clients.

Proactively Overcoming Emerging Challenges

The first half of 2010 saw the emergence of new challenges in the OEM sector in China, particularly wage inflation. In anticipation of this, the Group is already well advanced in implementing a number of cost efficiency measures to lower input costs and secure a stable labour supply.

The Group proactively raised the basic pay rate in February 2010 in order to counteract an increasingly tight labour market and a government sanctioned increase of the minimum wage. Retention rates following the Lunar New Year holiday were satisfactory, allowing Stella to avoid the problems experienced by other manufacturers in China.

As consumer demand continues to increase, the Group has also been prudently expanding its production capacity into South-East Asia and the inland areas of China over the last decade. New factories are being developed in Guangxi and Hunan which, once online, will help Stella maintain its cost competitiveness and efficiency by shifting its more labour intensive processes away from the more expensive coastal regions. This gradual shift of production facilities inland will allow the Group to control its manufacturing costs and optimise its production.

Established Retail Presence

Despite the gradual wind down of the PRC government's stimulus policies, the appetite for quality fashion footwear amongst Chinese consumers has continued to grow unabated. Throughout the first half of 2010, the Group maintained its store expansion strategy by opening 32 *Stella Luna* and 43 *What For* stores in China and across the region. 2010 also saw Stella opens its second UGG store in China as part of its joint venture with Deckers Asia Pacific Limited, with two additional stores in Shanghai set to launch in the near future.

Stella Luna is the Group's retail brand targeting the high-end fashion footwear and leather goods markets, with prices per pair ranging from RMB1,000 to RMB2,800. The *What For* retail brand targets the contemporary and lifestyle markets, with prices per pair ranging from RMB600 to RMB1,500.

The Group has continued to build up the industry knowledge and retail capabilities of its retail team over the period. It currently oversees a total of 164 *Stella Luna* and 124 *What For* stores in China and the surrounding region. The majority of these stores (in Greater China and Thailand) are operated directly by the Group, while its stores in the Philippines, Lebanon and the United Arab Emirates are operated by its distributors in those countries.

The following table shows the geographic distribution of the Group's *Stella Luna* and *What For* stores as of 30 June 2010.

	Stella Luna	*What For*
Greater China		
Eastern China	33	22
Southern China	22	13
Northern China	31	31
North-East China	18	14
South-West China	17	18
Central China	14	18
Macau	1	1
Taiwan	3	0
Sub-total	139	117
Thailand		
Bangkok	12	6
Phuket	2	0
Sub-total	14	6
Philippines	4	1
Lebanon	6	0
United Arab Emirates	1	0
Total	164	124

Business Outlook

Strong Order Pipeline to Improve Margins

The Group is confident that it will continue to run at full capacity in the second half of 2010, with export volumes expected to grow at a satisfactory pace. With its order book back to full from the beginning of this year, the Group expects existing margin pressures to ease as more customers agree to share the increase in costs.

Potential challenges for the rest of the year include cost pressures brought about by the appreciation of the RMB and a mismatch between seasonality and capacity, which may affect future margins. To avoid this, the Group will maintain its prudent development strategy and cost-control measures.

Capacity Expansion and Strengthening the Bottom Line

With the future completion of the factories in Guangxi and Hunan, the Group will continue to expand manufacturing capacity into the inland provinces of China in order to counteract wage costs and secure a stable labour supply.

Going forward, the Group is also prudently exploring opportunities to expand additional capacity into a third country outside China and Vietnam in an effort to further lower input costs.

Maintain Retail Business Expansion

The Group is confident in the future growth of the Chinese retail sector as economic expansion and increasing social mobility support the demand for quality footwear. As a result, the Group still sees room to extend its store expansion strategy in the second half of the year. While China will remain the primary focus for expansion, the Group will consider expanding its presence in other markets as opportunities emerge.

The Group maintains its full year store target of 135 *Stella Luna* and 150 *What For* stores (in China only) and will continue to pursue strong growth in retail revenue through same-store sales and space expansion in order to improve the Group's overall revenue mix. The Group will also prudently consider any potential opportunities to acquire selected footwear and related accessories brands/channels in order to further expand its retail business.

Move up the Value Chain

The Group is committed to further enhancing the quality and craftsmanship of its products while meeting the specialised needs of its customers and delivering the quality and flexibility they require. The Group will continue to seek ways to improve its design and manufacturing processes, while growing the business in a prudent and responsible manner.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2010, the Group had bank deposits and cash equivalents of about US$291.3 million (31 December 2009: US$425.2 million).

As at 30 June 2010, the Group had current assets of US$753.4 million (31 December 2009: US$755.9 million) and current liabilities of about US$167.3 million (31 December 2009: US$157.1 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 4.5 as at 30 June 2010 which indicated the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group did not have any bank borrowings as at 30 June 2010 (31 December 2009: Nil).

Foreign Exchange Exposure

During the six months ended 30 June 2010, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in Renminbi ("RMB") or U.S. dollars. Currency exposures were mostly in RMB and Hong Kong dollars against the functional currency of the relevant group companies. The Group has not adopted any formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

Capital Expenditure

During the period under review, the Group's total capital expenditure amounted to approximately US$13.6 million (for the six months ended 30 June 2009: US$5.0 million), of which approximately US$11.0 million was used in the production capacity expansion and approximately US$2.6 million was used in the retail network expansion.

Pledge of Assets

As at 30 June 2010, the Group did not pledge any of its assets (31 December 2009: Nil).

Contingent Liabilities

As at 30 June 2010, the Group had no material contingent liabilities (31 December 2009: Nil).

Employees

As at 30 June 2010, the Group had approximately 66,000 employees (31 December 2009: approximately 50,000). 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, train and retain individuals who are energetic, committed and with a passion for the business. The Group has continued to build a strong management team internally through effective learning and promotion programs, including through the "Leadership Program" that was launched this year 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 the labour shortage issue and the PRC government's increase of the minimum wage, the Group raised the basic pay rate of its workforce in February 2010, together with the granting of restricted unit awards under the long term incentive scheme of the Company, in order to maintain labour force stability. As of 30 June 2010, the Group's recruitment efforts have remained satisfactory, despite the labour shortage.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per share for the six months ended 30 June 2010. The interim dividend will be paid to shareholders listed on the register of members of the Company on 10 September 2010. It is expected that the interim dividend will be paid on or about 17 September 2010.

Closure of Register of Members

The Register of Members of the Company will be closed from 8 September 2010 to 10 September 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2010, 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 Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 7 September 2010.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

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

Introduction

We have reviewed the interim financial information set out on pages 11 to 24, which comprises the condensed consolidated statement of financial position of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 August 2010

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	NOTES	Six months ended 30 June 2010 US$'000 (Unaudited)	2009 US$'000 (Unaudited)
Revenue	3	**544,461**	459,174
Cost of sales		**(427,563)**	(345,645)
Gross profit		**116,898**	113,529
Other income		**4,210**	6,516
Distribution and selling costs		**(27,085)**	(27,020)
Administrative expenses		**(26,834)**	(23,000)
Research and development costs		**(20,128)**	(16,758)
Impairment loss on interests in an associate		**–**	(3,303)
Share of profit of associates		**471**	487
Finance costs		**–**	(1)
Profit before tax		**47,532**	50,450
Income tax expense	4	**(1,507)**	(2,968)
Profit for the period	5	**46,025**	47,482
Exchange differences arising on translation of foreign operation		**(4,791)**	(196)
Total comprehensive income for the period		**41,234**	47,286
Profit for the period attributable to:			
Owners of the Company		**46,083**	47,518
Non-controlling interests		**(58)**	(36)
		46,025	47,482
Total comprehensive income for the period attributable to:			
Owners of the Company		**41,292**	47,322
Non-controlling interests		**(58)**	(36)
		41,234	47,286
Earnings per share	7		
– Basic (US$)		**0.0583**	0.0600
– Dilutive (US$)		**0.0582**	0.0599

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	NOTES	**30 June 2010 US$'000 (Unaudited)**	31 December 2009 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**149,370**	149,152
Prepaid lease payments		**8,290**	8,387
Interest in associates		**16,505**	11,707
Deposit paid for acquisition of property, plant and equipment		**304**	445
		174,469	169,691
CURRENT ASSETS			
Inventories		**165,058**	107,725
Trade and other receivables	*9*	**249,793**	192,820
Prepaid lease payments		**249**	249
Amounts due from associates	*10*	**46,843**	29,832
Derivative financial instruments	*11*	**179**	33
Bank deposits		**15,752**	108,117
Cash and cash equivalents		**275,520**	317,120
		753,394	755,896
CURRENT LIABILITIES			
Trade and other payables	*12*	**139,323**	127,022
Bills payable		**8,082**	10,542
Amount due to an associate		**74**	879
Derivative financial instruments	*11*	**11**	9
Tax liabilities		**19,842**	18,658
		167,332	157,110
NET CURRENT ASSETS		**586,062**	598,786
		760,531	768,477
CAPITAL AND RESERVES			
Share capital	*13*	**10,160**	10,160
Share premium and reserves		**750,426**	758,314
Equity attributable to owners of the Company		**760,586**	768,474
Non-controlling interests		**(55)**	3
		760,531	768,477

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	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$'000	Shares held for long term incentive scheme US$'000	Capital redemption reserves US$'000	Share award reserve US$'000	Accumulated profits US$'000	Subtotal US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2009 (audited)	10,160	154,503	45,427	1,146	5,842	(3,001)	190	–	538,625	752,892	90	752,982
Profit (loss) for the period	–	–	–	–	–	–	–	–	47,518	47,518	(36)	47,482
Exchange differences on translation of foreign operations	–	–	–	–	(196)	–	–	–	–	(196)	–	(196)
Total comprehensive (expense) income for the period	–	–	–	–	(196)	–	–	–	47,518	47,322	(36)	47,286
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	863	–	863	–	863
Purchase of shares for unvested shares under long term incentive scheme	–	–	–	–	–	(685)	–	–	–	(685)	–	(685)
Shares vested under long term incentive scheme	–	–	–	–	–	1,090	–	(859)	(231)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(51,248)	(51,248)	–	(51,248)
At 30 June 2009 (unaudited)	10,160	154,503	45,427	1,146	5,646	(2,596)	190	4	534,664	749,144	54	749,198
Profit (loss) for the period	–	–	–	–	–	–	–	–	54,650	54,650	(51)	54,599
Exchange differences on translation of foreign operations	–	–	–	–	(515)	–	–	–	–	(515)	–	(515)
Total comprehensive (expense) income for the period	–	–	–	–	(515)	–	–	–	54,650	54,135	(51)	54,084
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	342	–	342	–	342
Purchase of shares for unvested shares under long term inactive scheme	–	–	–	–	–	(4,397)	–	–	–	(4,397)	–	(4,397)
Shares vested under long term incentive scheme	–	–	–	–	–	(48)	–	27	21	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(30,750)	(30,750)	–	(30,750)
At 31 December 2009 (audited)	10,160	154,503	45,427	1,146	5,131	(7,041)	190	373	558,585	768,474	3	768,477
Profit (loss) for the period	–	–	–	–	–	–	–	–	46,083	46,083	(58)	46,025
Exchange differences on translation of foreign operations	–	–	–	–	(4,791)	–	–	–	–	(4,791)	–	(4,791)
Total comprehensive (expense) income for the period	–	–	–	–	(4,791)	–	–	–	46,083	41,292	(58)	41,234
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	1,979	–	1,979	–	1,979
Shares vested for long term incentive scheme	–	–	–	–	–	1,985	–	(1,418)	(567)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(51,159)	(51,159)	–	(51,159)
At 30 June 2010 (unaudited)	10,160	154,503	45,427	1,146	340	(5,056)	190	934	552,942	760,586	(55)	760,531

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 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 Company 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"), the Company's then ultimate and immediate holding company, issued and allotted 1.17% preferred shares in Cordwalner with a subscription price US$3,150,000 to Eagle Mate Capital Limited, a company owned by an employee, who holds these shares on behalf of, among others, certain employees of the Group as an incentive to attract and retain such employees of the Group after listing of the Company's shares in 2007.

These transactions were accounted for as equity-settled share-based payment transactions measured based on the fair value of the relevant shares at the grant date and recognised in the condensed consolidated statement of comprehensive income over the vesting period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Net cash (used in) generated from operating activities:		
Increase in inventories	**(57,695)**	(20,883)
Increase in trade and other receivables	**(56,973)**	(11,583)
(Increase) decrease in amounts due from associates	**(16,937)**	6,887
Other operating cash flows	**62,063**	63,294
	(69,542)	37,715
Net cash generated from investing activities:		
Decrease in bank deposits	**92,365**	–
Dividend received from an associate	**2,673**	1,958
Decrease in pledged bank deposit	**–**	10,068
Purchase of property, plant and equipment	**(13,484)**	(5,019)
Investments in an associate	**(7,000)**	–
Other investing cash flows	**4,860**	4,766
	79,414	11,773
Cash used in financing activities:		
Dividend paid	**(51,159)**	(51,248)
Interest paid	**–**	(1)
	(51,159)	(51,249)
Net decrease in cash and cash equivalents	**(41,287)**	(1,761)
Cash and cash equivalents at the beginning of the period	**317,120**	355,011
Effect of foreign exchange rate changes	**(313)**	157
Cash and cash equivalents at the end of the period	**275,520**	353,407
Represented by:		
Bank balances and cash	**160,130**	202,328
Deposits placed in financial institutions	**115,390**	151,079
	275,520	353,407

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

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

The Group applies Hong Kong Financial Reporting Standard ("HKFRS") 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

As part of improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of amendment to HKAS 17 has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	*Improvements to HKFRSs 2010*[1]
HKAS 24 (Revised)	*Related Party Disclosures*[4]
HKAS 32 (Amendment)	*Classification of Rights Issues*[2]
HKFRS 1 (Amendment)	*Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[3]
HKFRS 9	*Financial Instruments*[5]
HK(IFRIC)-Int 14 (Amendment)	*Prepayments of a Minimum Funding Requirement*[4]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[3]

[1] *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate*
[2] *Effective for annual periods beginning on or after 1 February 2010*
[3] *Effective for annual periods beginning on or after 1 July 2010*
[4] *Effective for annual periods beginning on or after 1 January 2011*
[5] *Effective for annual periods beginning on or after 1 January 2013*

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

3. SEGMENT INFORMATION

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

Six months ended 30 June 2010

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
Revenue						
External sales	158,871	357,467	28,123	544,461	–	544,461
Inter-segment sales	–	7,917	–	7,917	(7,917)	–
Group's revenue	158,871	365,384	28,123	552,378	(7,917)	544,461
Segment profit (loss)	20,192	62,053	(1,010)	81,235	–	81,235
Unallocated income						
– Interest income from banks						1,328
– Rental income						1,757
– Gain on changes in fair value of derivative financial instruments						153
– Others						632
Unallocated expenses						
– Research and development expenses						(20,128)
– Central administration costs						(17,603)
– Exchange loss						(313)
Share of profit of associates						471
Profit before tax						47,532

Six months ended 30 June 2009

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
Revenue						
External sales	135,080	304,040	20,054	459,174	–	459,174
Inter-segment sales	–	5,513	–	5,513	(5,513)	–
Group's revenue	135,080	309,553	20,054	464,687	(5,513)	459,174
Segment profit (loss)	24,187	58,754	(10)	82,931	–	82,931
Unallocated income						
– Interest income from banks						3,594
– Rental income						1,908
– Exchange gain						157
– Others						755
Unallocated expenses						
– Research and development costs						(16,758)
– Central administration costs						(19,320)
Impairment loss on interests in an associate						(3,303)
Share of profit of associates						487
Finance costs						(1)
Profit before tax						50,450

Segment result represents profit (loss) attributable to each segment without allocation of interest income from banks, rental income, gain on change in fair value of derivative financial instruments, sales of scrap, exchange gain, research and development costs, central administration costs, impairment loss on interests in an associate, share of profit of associates and finance costs. This is the measure reported to the chief operating decision maker, the Group's chief executive officer, for the purposes of resource allocation and performance assessment.

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

	At 30 June 2010 US$'000 (Unaudited)	At 31 December 2009 US$'000 (Audited)
Men's footwear	**241,942**	191,120
Women's footwear	**322,678**	239,001
Footwear retailing and wholesaling	**40,764**	39,976
Total segment assets	**605,384**	470,097

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Enterprise Income Tax in the People's Republic of China	**1,507**	2,968

The income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 25% for the six months ended 30 June 2010 (2009: 25%).

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Impairment loss recognised on inventories (included in costs of sales)	**344**	1,060
Depreciation of property, plant and equipment	**10,169**	10,857
Release of prepaid lease payments	**125**	123
Share-based payments (included in both distribution and selling costs and administrative expenses)	**1,979**	863
Loss (gain) on disposal of property, plant and equipment	**247**	(1)
Interest income on bank balances	**(1,353)**	(3,605)
Net gain on changes in fair value of derivative financial instruments (included in other income)	**(153)**	–

6. DIVIDENDS

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Final dividend declared and paid for 2009 – HK40 cents (2008: HK50 cents) per share and a special dividend declared and paid for 2009 – HK10 cents (2008: Nil) per share	**51,159**	51,248
Interim dividend declared subsequent to period end – HK30 cents (2009: HK30 cents) per share	**30,730**	30,750

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2010 of HK30 cents (2009: HK30 cents) per ordinary share to shareholders whose names appeared in the register of members of the Company at the close of business on 10 September 2010.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	**46,083**	47,518

	Six months ended 30 June	
	2010	2009
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**790,362**	792,139
Effect of dilutive potential ordinary shares: Unvested shares awarded	**1,144**	1,759
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**791,506**	793,898

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share have been arrived at after deducting the shares held by Teeroy Limited (see Note 15).

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US$13,626,000 (2009: US$12,040,000) for business expansion.

9. TRADE AND OTHER RECEIVABLES

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

The following is an analysis of the Group's trade receivables by age, presented based on the invoice date, net of allowance for doubtful debts at the end of reporting period:

	30 June 2010 US$'000	31 December 2009 US$'000
Trade receivables:		
0 – 30 days	**187,205**	98,902
31 – 60 days	**13,908**	36,638
61 – 90 days	**2,417**	10,165
Over 90 days	**4,288**	16,768
	207,818	162,473
Other receivables	**41,975**	30,347
	249,793	192,820

10. AMOUNTS DUE FROM ASSOCIATES

The Group generally allows an average credit period of 60 days for its trade balances with its associates.

The following is an analysis of the Group's trade balances with its associates by age, presented based on the invoice date, net of allowance for doubtful debts at the end of reporting period:

	30 June 2010 US$'000	31 December 2009 US$'000
0 – 30 days	**18,589**	16,237
31 – 60 days	**14,896**	8,752
61 – 90 days	**12,932**	4,843
Over 90 days	**426**	–
	46,843	29,832

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Group is a party to a variety of foreign currency forward contracts, which are either to buy Renminbi and sell United States dollar or vice versa, in the management of its exchange rate exposures.

The foreign currency forward contracts were measured at fair value based on quoted forward exchange rates for equivalent instruments at the end of reporting period.

12. TRADE AND OTHER PAYABLES

The following is an analysis of the Group's trade payables by age, presented based on the payment due date at the end of reporting period:

	30 June 2010 US$'000	31 December 2009 US$'000
Trade payables:		
0 – 30 days	**56,106**	47,250
31 – 60 days	**4,171**	5,258
Over 60 days	**16,199**	7,855
	76,476	60,363
Other payables	**62,847**	66,659
	139,323	127,022

13. SHARE CAPITAL

	Number of shares	**Nominal value** HK$'000
Ordinary of HK$0.10 each		
Authorised:		
As at 1 January 2010 and 30 June 2010	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2010 and 30 June 2010	794,379,500	79,438
Shown in financial statements as		US$10,160

14. CAPITAL COMMITMENTS

	30 June 2010 US$'000	31 December 2009 US$'000
Capital expenditure authorised but not contracted for in respect of property, plant and equipment	**9,226**	13,100
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**1,509**	1,509
	10,735	14,609

15. SHARE-BASED PAYMENTS

Long Term Incentive Scheme (the "Scheme")

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

On 19 March 2010, restricted unit awards for another 1,428,000 shares of the Company were granted to 125 eligible participants including six directors of the Company at the relevant time with the remaining being 119 employees of the Group also at a consideration of HK$1 per person.

Details of the movement with respect to the grant of the Company's shares during the periods ended 30 June 2010 and 2009 are as follows:

		For the six months ended 30 June 2010				
	Vesting date	**Outstanding at 1 January 2010**	**Granted during the period**	**Vested during the period**	**Cancelled during the period**	**Outstanding at 30 June 2010**
Directors	1 April 2010	**306,000**	**–**	**(306,000)**	**–**	**–**
(Note)	12 April 2010	**–**	**198,000**	**(198,000)**	**–**	**–**
	1 April 2011	**306,000**	**198,000**	**–**	**–**	**504,000**
	1 April 2012	**–**	**198,000**	**–**	**–**	**198,000**
Employees	1 April 2010	**446,400**	**–**	**(444,900)**	**(1,500)**	**–**
	12 April 2010	**–**	**369,000**	**(368,000)**	**(1,000)**	**–**
	1 April 2011	**446,400**	**227,500**	**–**	**(3,000)**	**670,900**
	1 April 2012	**4,900**	**229,500**	**–**	**(3,000)**	**231,400**
	1 April 2013	**4,900**	**8,000**	**–**	**(5,500)**	**7,400**
		1,514,600	**1,428,000**	**(1,316,900)**	**(14,000)**	**1,611,700**

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

Note: Mr. Shieh Tung-Pi, Billy, one of the then directors of the Company and one of the grantees, resigned as an executive director of the Company on 19 August 2010.

As at 30 June 2010, the Trustee had purchased and maintained a pool of 3,327,700 shares (31 December 2009: 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 shares awarded during the period of approximately US$2,733,000 (for the six months ended 30 June 2009: US$2,221,000) was determined at the date of the grant based on the market value of the shares.

During the period, US$1,979,000 (for the six months ended 30 June 2009: US$863,000) was recognised as an expense in the condensed consolidated statement of comprehensive income with a corresponding credit to share award reserve.

16. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June 2010 US$'000	2009 US$'000
興昂制革(惠州)有限公司 (Simona Tannery Co., Ltd.)[1]	Purchase of leather and tannery products	**19,784**	13,133
東莞興立精密模具有限公司 (Sincerely International Ltd.)[1]	Purchase of molds	**1,850**	1,755
東莞興和塑膠制品有限公司 (Sabina Footwear Co., Ltd.)[1]	Purchase of lasts	**–**	1,958
東莞興泰鞋材有限公司 (Sanford International Co., Ltd.)[1]	Purchase of sole materials	**4,473**	2,680
	Rental expense	**50**	49
東莞市長安統來刀模加工廠[2]	Purchase of die cuts	**2,270**	1,947
東莞興騰鞋材有限公司 (Dongguan Xintan Footwear Co., Ltd.)[1]	Purchase of sole materials	**13,470**	8,794
惠州興昂鞋業有限公司 (Huizhou Stella Footwear Co., Ltd.)[1]	Purchase of footwear products	**45**	1,194
辛集市寶得福皮業有限公司[3]	Purchase of footwear products	**34,807**	34,625
Cosmic Gold Enterprise Limited[3]	Processing fee paid	**1,974**	2,203
Mountain Gear Group[4]	Sales of footwear products	**148**	–
Ace Opportunity Group[5]	Sales of footwear products	**392**	–

1 *Companies wholly and ultimately owned by a director of the Company*
2 *Companies under the control of key management personnel of the Group*
3 *Associates of the Company*
4 *Ultimately owned as to 45% by a director of the Company*
5 *Ultimately owned as to 66.7% by a director of the Company*

(II) Compensation of key management personnel

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

	Six months ended 30 June 2010 US$'000	2009 US$'000
Short-term benefits	**398**	395
Share-based payment expenses	**786**	510
	1,184	905

The remuneration of directors and key executives were determined by the board and its remuneration committee having regard to the performance of individuals and market trends.

DISCLOSURE OF INTERESTS

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

As at 30 June 2010, the interests and short positions of the then 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Aggregate long positions in shares and underlying shares of the Company

Director	Capacity/Nature of Interests	Number of Shares Personal Interest	Number of Shares Corporate Interest	Number of Underlying Shares *(Note 1)*	Total	Approximate Percentage of Shareholding
Chao Ming-Cheng, Eric	Beneficial owner and interest of controlled corporation	130,500	26,205,289 *(Note 2)*	108,000	26,443,789	3.33%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	82,000	21,921,870 *(Note 3)*	68,000	22,071,870	2.78%
Chi Lo-Jen	Beneficial owner	151,000	–	132,500	283,500	0.04%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	185,000	28,551,674 *(Note 4)*	146,500	28,883,174	3.64%
Shieh Tung-Pi, Billy *(Note 6)*	Beneficial owner and interest of controlled corporation	2,216,186	1,080,593 *(Notes 5 and 6)*	45,500	3,342,279	0.42%
Shih Takuen, Daniel	Beneficial owner	206,500	–	201,500	408,000	0.05%

Notes:

1. These interests are 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. These interests are held by a company, the entire issued share capital of which was held by Mr. Chao Ming-Cheng, Eric. Mr. Chao Ming-Cheng, Eric was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

3. These interests are held by a company, the entire issued share capital of which was held by Mr. Chen Li-Ming, Lawrence. Mr. Chen Li-Ming, Lawrence was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

4. These interests are held by a company, the entire issued share capital of which was held by Mr. Chiang Jeh-Chung, Jack. Mr. Chiang Jeh-Chung, Jack was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

5. These interests are held by a company, the entire issued share capital of which was held by Mr. Shieh Tung-Pi, Billy. Mr. Shieh Tung-Pi, Billy was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

6 Mr. Shieh Tung-Pi, Billy resigned as an executive Director on 19 August 2010.

Save as disclosed above, as at 30 June 2010, none of the then 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 30 June 2010, the interests and short positions of the then 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	299,894,455	37.75%
Capital Research and Management Company	Investment manager	39,822,500	5.01%

Save as disclosed above, as at 30 June 2010, no person (other than a Director or chief executive of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had an interest and short position in the shares and underlying shares of the Company that were required to be recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance to ensure and enhance a high standard of corporate governance practices through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders"). The Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2010, except the following deviation:

In deviation from provision E.1.2 of the Code, the chairman of the Board (the "Chairman") had not attended the annual general meeting of the Company held on 7 May 2010 (the "2010 AGM"). Instead, Mr. Shih Takuen, Daniel, the deputy chairman (the "Deputy Chairman"), took the chair at the 2010 AGM, and the chairman or member of each of the audit, corporate governance, remuneration and nomination committees attended the 2010 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 the implementation of strategies of the Group, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is mainly responsible for providing leadership and management to the Board and handling matters relating to investor relations and Shareholders' communication. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Governance Model

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2010.

Board Practices

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

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

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, the policy of selection and nomination of Directors has been established and set out in writing. Directors are selected and nominated based on their experience, competencies, skills, geographical network capabilities and cross-border experiences in pursuit of maintaining a Board of diversified background and competencies, in order to contribute to more effective Board deliberations and business directions of the Group.

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Directors have been provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors.

Internal Controls

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

Audit Committee

Pursuant to the requirements of the Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three independent non-executive Directors, namely Mr. Chu Pao-Kuei, Mr. Ng Hak Kim, *JP*. and Mr. Chen Johnny. The chairman of the Audit Committee is Mr. Chu Pao-Kuei. The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations. The Audit Committee has reviewed the Group's interim report for the six months ended 30 June 2010.

Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") in compliance with the Code. The Remuneration Committee has three members comprising two independent non-executive Directors and an executive Director of the Company, namely, Mr. Ng Hak Kim, *JP*, Mr. Chu Pao-Kuei and Mr. Shih Takuen, Daniel. The chairman of the Remuneration Committee is Mr. Ng Hak Kim, *JP*. The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, the review of the Company's overall human resources strategy, determination of the specific remuneration packages of all executive Directors and senior management and administration and oversight of the Company's share option and share award scheme in accordance with the terms of the long term incentive scheme of the Company.

Nomination Committee

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

Corporate Governance Committee

To facilitate more effective implementation of corporate governance practices, the Company has established a corporate governance committee (the "Corporate Governance Committee"). The Corporate Governance Committee has three members comprising an executive Director and two independent non-executive Directors of the Company, namely Mr. Shih Takuen, Daniel, Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *JP*. The chairman of the Corporate Governance Committee is Mr. Shih Takuen, Daniel. The principal roles and functions of the Corporate Governance Committee include the review of the corporate governance practice of the Company and monitoring compliance with the relevant requirements under the Listing Rules and any applicable laws and regulations and monitoring each of the Audit Committee, Remuneration Committee and Nomination Committee of the performance of their respective duties and obligation in accordance with their respective terms of reference, the Listing Rules and any applicable laws and regulations.

OTHER INFORMATION

Update on Directors' Information

The updated biographies of the following Directors are set out as below:

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 Stella Fashion (HK) Limited and 興記九興貿易(上海)有限公司 (Stella Luna Fashion Inc.), both of which are subsidiaries of the Company. Mr. Shih 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. He is an Independent Director of China Medicine Corporation, the shares of which are listed on the NASDAQ (OTC Bulletin Board: CHME).

Mr. CHAO Ming-Cheng, Eric, aged 59, 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 Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Mission High Limited, Sapphire Technology Group Limited and 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.), all 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 Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Mission High Limited, N.O.I. (Macau) Company Limited, N.O.I. Trading Company Limited, Rigel Footwear Company Limited, Sapphire Technology Group Limited, Stella Fashion (HK) Limited, Stella Fashion Group Limited, Stella Fashion Tech (HK) Limited, Stella International Design Services 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 53, was an Executive Director of the Company and the Chief Operating Officer of the Group during the six months ended 30 June 2010. 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 Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Mission High Limited, N.O.I. Trading Company Limited, Rigel Footwear Company Limited, Sapphire Technology Group Limited, Stella Footwear Inc., Stella International Design Services Limited and 東莞興昂鞋業有限公司 (Dongguan Stella Footwear Co. Ltd.), all of which are subsidiaries of the Company. He resigned as an Executive Director of the Company on 19 August 2010 and has remained as the Chief Operating Officer of the Group and director of a number of subsidiaries of the Company thereafter.

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) and convener of its audit committee, 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. 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. Since June 2010, he has been appointed as an Independent Non-executive Director of Coolpoint Energy Limited (Stock Code: 8032), the shares of which are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. 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.

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 interim 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 period under review, no Options were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding Options under the Scheme as at 30 June 2010.

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 30 June 2010, there were a total of 3,327,700 Shares held in trust by the Trustee, of which 1,611,700 Shares were held to satisfy Restricted Unit Awards granted to certain selected eligible participants under the Scheme and the remaining 1,716,000 Shares are maintained and are available for the Trustee to satisfy the Restricted Unit Awards to be granted from time to time in the future.

On 19 February 2009, Restricted Unit Awards for awards of a total of 2,445,500 Shares were granted to 85 eligible participants, six of whom were Directors at the relevant time and the remaining 79 were employees.

On 19 March 2010, Restricted Unit Awards for awards of a total of 1,428,000 Shares were granted to 125 eligible participants, six of whom were Directors at the relevant time and the remaining 119 were employees.

Details are set out as below:-

(A) Directors

Name of Director	Date of Award	Aggregate Number of Restricted Unit Awards Granted	Outstanding as at 1 January 2010	Vesting Date	Vested during the six months ended 30 June 2010	Cancelled during the six months ended 30 June 2010	Outstanding as at 30 June 2010
Chao Ming-Cheng, Eric	19 February 2009	153,000	–	1 April 2009	–	–	–
			51,000	1 April 2010	(51,000)		–
			51,000	1 April 2011	–		51,000
	19 March 2010	85,500	–	12 April 2010	(28,500)		–
			–	1 April 2011	–		28,500
			–	1 April 2012	–		28,500
Chen Li-Ming, Lawrence	19 February 2009	96,000	–	1 April 2009	–	–	–
			32,000	1 April 2010	(32,000)		–
			32,000	1 April 2011	–		32,000
	19 March 2010	54,000	–	12 April 2010	(18,000)		–
			–	1 April 2011	–		18,000
			–	1 April 2012	–		18,000
Chi Lo-Jen	19 February 2009	169,500	–	1 April 2009	–	–	–
			56,500	1 April 2010	(56,500)		–
			56,500	1 April 2011	–		56,500
	19 March 2010	114,000	–	12 April 2010	(38,000)		–
			–	1 April 2011	–		38,000
			–	1 April 2012	–		38,000
Chiang Jeh-Chung, Jack	19 February 2009	223,500	–	1 April 2009	–	–	–
			74,500	1 April 2010	(74,500)		–
			74,500	1 April 2011	–		74,500
	19 March 2010	108,000	–	12 April 2010	(36,000)		–
			–	1 April 2011	–		36,000
			–	1 April 2012	–		36,000
Shieh Tung-Pi, Billy *(Note)*	19 February 2009	64,500	–	1 April 2009	–	–	–
			21,500	1 April 2010	(21,500)		–
			21,500	1 April 2011	–		21,500
	19 March 2010	36,000	–	12 April 2010	(12,000)		–
			–	1 April 2011	–		12,000
			–	1 April 2012	–		12,000
Shih Takuen, Daniel	19 February 2009	211,500	–	1 April 2009	–	–	–
			70,500	1 April 2010	(70,500)		–
			70,500	1 April 2011	–		70,500
	19 March 2010	196,500	–	12 April 2010	(65,500)		–
			–	1 April 2011	–		65,500
			–	1 April 2012	–		65,500

Note: Mr. Shieh Tung-Pi, Billy resigned as an executive Director on 19 August 2010.

(B) Employees

Date of Award	Aggregate Number of Restricted Unit Awards Granted	Outstanding as at 1 January 2010	Vesting Date	Vested during the six months ended 30 June 2010	Cancelled during the six months ended 30 June 2010	Outstanding as at 30 June 2010
19 February 2009	1,527,500	–	1 April 2009	–	–	–
		446,400	1 April 2010	(444,900)	(1,500)	–
		446,400	1 April 2011	–	(1,500)	444,900
		4,900	1 April 2012	–		4,900
		4,900	1 April 2013	–		4,900
19 March 2010	834,000	–	12 April 2010	(368,000)	(1,000)	–
		–	1 April 2011	–	(1,500)	226,000
		–	1 April 2012	–	(3,000)	226,500
		–	1 April 2013	–	(5,500)	2,500

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

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

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

Hong Kong, 19 August 2010

CORPORATE INFORMATION AND KEY DATES

Board of Directors

Executive Directors

CHIANG Jeh-Chung, Jack, *Chairman*
SHIH Takuen, Daniel, *Deputy Chairman*
CHAO Ming-Cheng, Eric
CHEN Li-Ming, Lawrence, *Chief Executive Officer*
SHIEH Tung-Pi, Billy, *Chief Operating Officer*
(resigned as executive Director on 19 August 2010)
CHI Lo-Jen

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

CHEN Li-Ming, Lawrence
(appointed on 19 August 2010)
SHIEH Tung-Pi, Billy
(resigned on 19 August 2010)
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

Auditors

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

Principal Bankers

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

Principal Share Registrar And Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 609
Grand Cayman KY1-1107, Cayman Islands

Hong Kong Share Registrar and Transfer Office

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

Registered Office

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

Principal Place of Business In Hong Kong

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

Stock Code

1836

Website

www.stella.com.hk

Key Dates

Closure of Register of Members

8 September 2010 to 10 September 2010
(both days inclusive)

Payment of Interim Dividend

On or about 17 September 2010

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

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

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

* for identification purpose only