Stella International Holdings Limited

Stock Code: 1836

Interim Report 2011

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CHAIRMAN'S STATEMENT

Dear Shareholders,

The first half of 2011 saw a marked divergence in the global economy. On one side, falling consumer confidence and anaemic growth characterised the performance of developed economies such as US, Europe and Japan; on the other side, rising standards of living in developing economies including China continued to propel the purchasing power of their consumers.

Despite sluggish growth in some of our export markets, demand for Stella's quality footwear products continued to grow as more and more global brands recognise Stella's value-adding manufacturing capabilities. Meanwhile, our retail business has gone from strength to strength as it attracted a greater following among Chinese consumers, the world's fastest growing consumer group.

This year, we commenced initial operations at our new manufacturing facilities in inland China as part of our ongoing strategy to achieve a stable workforce and curb wage inflation. By progressively expanding and relocating our production to these facilities, we aim to strike a balance between growing our capacity while not compromising the quality we are known for.

Our ability to deliver customised products through close collaboration with our brand-name partners remains one of the most endearing features which separate us from our competitors. This allowed us to attract a higher average selling price ('ASP') than the industry average and increase our margins in the first half of this year.

We have continued to build on this advantage by enhancing our research and development capabilities, led by our dedicated design studios in Dongguan and Italy. Both are in the process of developing new designs and products to meet the specific needs of our partners, as well as expand our own retail offerings.

The continued growth of our retail business saw our Group benefit from multiple sources of growth during the first half of the year, as we further expanded our store network in China's first and second-tier cities, as well as other developing markets in Asia.

With our home-grown *Stella Luna* and *What For* brands now well established in the high-end fashion and contemporary/lifestyle markets, we started to focus our efforts on diversifying our retail business into new areas such as men's sportswear and selected segments of the mass market. We have also continued to leverage on our long-term relationships with our brand partners to develop new retail and distribution opportunities, signing joint-venture agreements with Balmain Asia (a subsidiary of Balmain S.A. (Paris)) to sell *PIERRE BALMAIN* branded footwear in Hong Kong, China and other countries in the world.

Looking forward to the rest of the year, demand for our products will remain strong as our reputation for quality and customised products help protect us from any further downturn in the US or European economies. Our retail business will also continue to perform strongly as we further expand our store network. With inflation and wage pressures likely to remain, we will continue to maintain stringent cost controls while also implementing our long-term capacity expansion and relocation strategies to relieve these pressures in the long-term.

On behalf of the Board, I would like to extend our sincere gratitude to our shareholders, customers and business partners for their unwavering support throughout the first half of 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 August 2011

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 2011.

Financial Highlights

Rationalisation Strategy Supports Ongoing Revenue Growth

In the first half of 2011, the Group achieved a balance between capacity growth and product quality which saw production progressively expanded and relocated to our new facilities in inland China.

This increased capacity saw total shipment volumes rise 7.0% to 26.0 million pairs during the period, up from 24.3 million pairs in the corresponding period of last year. Total revenue rose 23.4% to US$672.1 million in the first six months of the year, compared to US$544.5 million in the first half of last year.

ASP over the period was US$24.8, up 16.7% year-on-year. This is mostly attributable to rising input costs and higher recognition of the quality of our footwear products as well as improvement in product mix.

All segments of our manufacturing business continued to perform strongly, with the women's fashion business representing the largest businesses segment – 33.5% to the Group's total revenue – during the first half of the year. Contributions from the men's and women's casual footwear segments were 28.3% and 25.1% of overall revenue respectively, while the contribution from the men's fashion segment was 5.2%.

Rapidly Expanding Retail Business Contributes Further to Overall Business

Our retail business grew strongly in the first six months of 2011. Revenue from our business in China and other markets grew by an impressive 54.1% year-on-year to US$43.3 million in the first half of the year, underlining the Group's ongoing strategy to diversify its business to reach China's increasingly wealthy mid-to-upper class consumers. We continued to open new stores under our self-created *Stella Luna* and *What For* brands in 2011, as well as additional retail stores operated under the Group's joint ventures.

The strong performance of the retail business saw its contribution to the Group's overall revenue reach 6.4% in the first half of the year. Same store sales (for China stores only) grew by 37.1% year-on-year to US$23.3 million during the first half of the year.

Strong Financial Results Laid Strong Foundation for a Promising Year

Total gross profit across all business segments for the six months under review was US$164.6 million, a 40.8% increase year on year. The growth was mostly attributable to a low base and the strong growth of our retail business.

Geographically, North America and Europe continued to be our two largest markets, accounting for 48.3% and 30.5% of the Group's total revenue in the first half of the year respectively. This was followed by Asia (ex. Greater China) which accounted for 9.8%, Greater China for 9.4%, and other regions for 2.0%.

Business review

Innovation and Quality Standards Supports Stella's High Position in the Value Chain

Stella's unique characteristics as a quality supplier of luxury footwear saw the Group attract more major clients during the first half of the year. These essential qualities, including strong research and development capabilities, small-batch and customised production, as well as short lead-times and on time delivery, ensured that we continued to run our order book at close to full capacity during the first half of the year and attract a higher ASP than the industry average.

As part of the Group's commitment to become a long-term partner for top footwear brands around the world, we further expanded our R&D capabilities by opening our first design studio in Italy. Based in Venice, the studio hosts a team of designers who are currently developing a new brand line for our women's fashion business. Products and designs developed at this facility will be applied to Stella's own brands first, before being introduced to our clients.

New Inland Manufacturing Facilities Optimising Production Capacity

Both of Stella's new manufacturing facilities in Guangxi and Hunan of the PRC operated at initial capacities during the first half of the year, a key step in our ongoing strategy to eliminate capacity restraints as well as to secure an adequate and quality workforce. This strategy will see Stella shift more operations away from coastal regions while boosting overall annual capacity to 70 million pairs of shoes a year over the medium term.

With the Group's established factories in Dongguan and Vietnam continuing to operate at close to full capacity, we plan to gradually relocate and increase production at our inland facilities during the rest of the year, with a goal of achieving full capacity by the first half of 2012.

Profitable Retail Business Continues to Enter into a League of its Own

The growing demand for quality fashion footwear in China and other developing markets showed no sign of slowing in the first half of the year, which further supported Stella's store expansion strategy.

In the first half of the year, we opened 15 *Stella Luna* and 13 *What For* stores in China and across the region. *Stella Luna* is the Group's retail brand targeting the high-end fashion footwear and leather goods markets, with prices ranging from RMB1,000 to RMB2,800. The *What For* retail brand targets the contemporary and lifestyle markets, with prices ranging from RMB600 to RMB1,500.

The following table shows the geographic distribution of our *Stella Luna* and *What For* stores as of 30 June 2011.

	Stella Luna	*What For*
Greater China		
Eastern China	35	28
Southern China	27	20
Northern China	34	40
North-East China	22	22
South-West China	24	25
Central China	18	21
Taiwan	3	0
Sub-total	163	156
Thailand		
Bangkok	10	6
Phuket	2	0
Sub-total	12	6
Philippines	4	1
Lebanon	6	0
United Arab Emirates	1	0
Total	186	163

New Joint-Ventures Expand Retail Offering

In May 2011, the Group entered into agreements to form two joint-ventures with Balmain Asia (a subsidiary of Balmain S.A. (Paris)) to sell and distribute *PIERRE BALMAIN* branded footwear in Hong Kong, China and other countries in the world. The Group plans to open its first retail store in spring/summer 2012.

The addition of more prestigious brands to our retail portfolio further enhanced our ability to tap China's vast and growing demand for high-end footwear products. It is the second joint-venture entered into by the Group following our ongoing joint-venture with Deckers Outdoor Corporation to retail and distribute *UGG Australia®* footwear in China. As of 30 June 2011, this joint-venture operated five *UGG* stores in China. Since then, the joint-venture has opened an additional store, with plans to open five more by the end of the year.

Business Outlook

Strong and Highly Visible Order Pipeline

Demand for our customised footwear products is expected to remain strong throughout the rest of the year, with the Group's order book remaining at close to full capacity. ASP is also expected to increase in line with rising input costs, as more customers agree to price increases in recognition of the quality of our products. We will continue to implement strict cost-control measures throughout the rest of the year to preserve our margins and sustain growth.

Potential challenges for the rest of the year include the appreciation of the RMB, inflation and mismatches between seasonality and capacity. We will also continue to monitor any impact on our operations arising from the slowing US economic recovery, the European debt crisis and the recent natural disasters in Japan.

Ongoing Rationalisation of Manufacturing Capacity and Cost Structure

With an eye on the future, we are actively considering small-scale acquisitions in Indonesia with a view of further expanding the Group's low-cost manufacturing capacity to cater for future demand. A more diverse manufacturing base will also support the further rationalisation of our manufacturing operations into three specialised hubs over the long term: Dongguan as the Group's headquarters, R&D centre and high-end manufacturing base; inland China for the production of mid-range footwear; and South-East Asia for European shipments and mass market products.

With these measures in place, we are confident in our future ability to optimise our operations, control labour costs and secure a stable labour supply.

With wage and input inflation likely to remain a challenge throughout the rest of the year, we will also continue to optimise our existing manufacturing operations in Dongguan and Vietnam, and shift more upstream and time-consuming processes to our lower cost inland China facilities.

R&D Capabilities to Create More Value for Clients and Retail Business

We are committed to further expanding our R&D capabilities in order to enhance the quality, craftsmanship and value of our products, and maintain our high position in the value chain. Through the Group's design studios in Dongguan and Italy, we will continue to develop innovative and specialised products to meet the unique specifications of our clients, as well as for our own retail brands.

Continued Expansion and Diversification of Retail Business

China will remain the primary focus for the expansion of the Group's retail business in the second half of the year as demand for luxury goods among Chinese consumers continues to grow. We have already exceeded our full year store target of 150 *Stella Luna* stores, while we maintain a full year target of 200 *What For* stores (in China only). We will continue to pursue further growth through store expansions, same-store sales and space expansions to enhance the Group's overall revenue mix.

Stella is also in the process of developing new brands targeting untapped retail markets in China, particularly men's sports fashion and segments of the mass market. We will also continue to prudently consider any opportunities, including through joint-ventures, to introduce more brand names to our retail business to further compliment our home-grown brands.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2011, the Group had cash and cash equivalents of about US$214.1 million (31 December 2010: US$383.5 million).

As at 30 June 2011, the Group had current assets of about US$802.2 million (31 December 2010: US$792.6 million) and current liabilities of about US$216.8 million (31 December 2010: US$187.9 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.7 as at 30 June 2011 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 2011 (31 December 2010: Nil).

Foreign Exchange Exposure

During the six months ended 30 June 2011, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars and RMB. Currency exposures were mostly in RMB and Hong Kong dollars against the functional currency of the relevant Group company. 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$19.4 million (for the six months ended 30 June 2010: US$13.6 million), of which approximately US$18.4 million was used in the production capacity expansion and approximately US$1.0 million was used for the expansion of retail store network.

Pledge of Assets

As at 30 June 2011, the Group had not pledged any of its assets (31 December 2010: Nil).

Contingent Liabilities

As at 30 June 2011, the Group had no material contingent liabilities (31 December 2010: Nil).

Employees

As at 30 June 2011, the Group had approximately 70,000 employees (31 December 2010: approximately 64,000). Stella cultivates a caring, sharing and learning culture among our employees and believes that human resources are significant assets to our development and expansion. We actively attract, train and retain individuals who are energetic, committed to and passionate for our business.

We have continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership Program" that was 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 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 2011 and invested in new manufacturing facilities in inland China to maintain labour force stability. As of 30 June 2011, our recruitment efforts remain satisfactory, despite the labour shortage.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2011. The interim dividend will be paid to shareholders listed on the register of members of the Company on 9 September 2011. It is expected that the interim dividend will be paid on or about 16 September 2011.

Closure of Register of Members

The register of members of the Company will be closed from 7 September 2011 to 9 September 2011, 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 2011, 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 6 September 2011.

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 25, which comprises the condensed consolidated statement of financial position of Stella International Holdings Limited (the "Company") and its subsidiaries as of 30 June 2011 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
18 August 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Notes	Six months ended 30 June **2011** **US$'000** **(Unaudited)**	2010 US$'000 (Unaudited)
Revenue	3	**672,099**	544,461
Cost of sales		**(507,481)**	(427,563)
Gross profit		**164,618**	116,898
Other income		**4,978**	4,057
Other gains and losses		**405**	(160)
Distribution and selling costs		**(47,261)**	(27,085)
Administrative expenses		**(30,505)**	(26,521)
Research and development costs		**(20,133)**	(20,128)
Share of (loss) profit of associates		**(3,576)**	471
Profit before tax		**68,526**	47,532
Income tax expense	4	**(3,689)**	(1,507)
Profit for the period	5	**64,837**	46,025
Exchange differences arising on translation of foreign operation		**(1,644)**	(4,791)
Total comprehensive income for the period		**63,193**	41,234
Profit for the period attributable to:			
Owners of the Company		**64,906**	46,083
Non-controlling interests		**(69)**	(58)
		64,837	46,025
Total comprehensive income for the period attributable to:			
Owners of the Company		**63,260**	41,292
Non-controlling interests		**(67)**	(58)
		63,193	41,234
Earnings per share	7		
– Basic (US$)		**0.0820**	0.0583
– Dilutive (US$)		**0.0819**	0.0582

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	30 June 2011 US$'000 (Unaudited)	31 December 2010 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**168,871**	160,903
Prepaid lease payments		**11,435**	8,314
Goodwill		**2,423**	2,423
Interest in associates		**14,443**	18,019
Tax recoverable		**3,689**	–
Deposit paid for acquisition of property, plant and equipment		**25,441**	7,821
		226,302	197,480
CURRENT ASSETS			
Inventories		**226,396**	143,118
Trade and other receivables	*9*	**290,705**	228,233
Prepaid lease payments		**320**	254
Amounts due from associates	*10*	**69,849**	35,804
Amounts due from related companies	*11*	**629**	1,514
Derivative financial instruments	*12*	**274**	231
Held for trading investments	*13*	**40,888**	23,281
Cash and cash equivalents		**173,197**	360,210
		802,258	792,645
CURRENT LIABILITIES			
Trade and other payables	*14*	**178,802**	144,852
Bills payable	*14*	**12,719**	19,189
Derivative financial instruments	*12*	**83**	22
Tax liabilities		**25,214**	23,855
		216,818	187,918
NET CURRENT ASSETS		**585,440**	604,727
		811,742	802,207
CAPITAL AND RESERVES			
Share capital	*15*	**10,160**	10,160
Share premium and reserves		**801,733**	792,131
Equity attributable to owners of the Company		**811,893**	802,291
Non-controlling interests		**(151)**	(84)
		811,742	802,207

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	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$'000 *(Note 3)*	Share award reserve US$'000	Accumulated profits US$'000	Subtotal US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2010 (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
Profit (loss) for the period	–	–	–	–	–	–	–	–	75,325	75,325	(22)	75,303
Exchange differences on translation of foreign operations	–	–	–	–	(3,066)	–	–	–	–	(3,066)	(7)	(3,073)
Total comprehensive (expense) income for the period	–	–	–	–	(3,066)	–	–	–	75,325	72,259	(29)	72,230
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	92	–	92	–	92
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(30,646)	(30,646)	–	(30,646)
At 31 December 2010 (audited)	10,160	154,503	45,427	1,146	(2,726)	(5,056)	190	1,026	597,621	802,291	(84)	802,207
Profit (loss) for the period	–	–	–	–	–	–	–	–	64,906	64,906	(69)	64,837
Exchange differences on translation of foreign operations	–	–	–	–	(1,646)	–	–	–	–	(1,646)	2	(1,644)
Total comprehensive (expense) income for the period	–	–	–	–	(1,646)	–	–	–	64,906	63,260	(67)	63,193
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	569	–	569	–	569
Shares vested for long term incentive scheme	–	–	–	–	–	1,701	–	(390)	(1,311)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(54,227)	(54,227)	–	(54,227)
At 30 June 2011 (unaudited)	10,160	154,503	45,427	1,146	(4,372)	(3,355)	190	1,205	606,989	811,893	(151)	811,742

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, which will hold these shares on behalf of a number of employees of the Group as an incentive to attract and retain those employees after listing of the Company's shares.

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.

(3) During the year ended 31 December 2008, the Company repurchased an aggregate of 14,870,500 own ordinary shares listed on the Stock Exchange (as defined in Note 1 to the condensed consolidated financial statements) 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 reserve pursuant to 37(4) of the Companies Law (2007 Revision) of 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities		
Purchase of tax reserve certificates	**(3,689)**	–
Increase in investments held for trading	**(17,850)**	–
Other operating cash flows	**(74,096)**	(69,542)
	(95,635)	(69,542)
Net cash (used in) generated from investing activities:		
Deposit paid for property, plant and equipment	**(25,441)**	–
Purchase of property, plant and equipment	**(11,573)**	(13,484)
Increase in prepaid lease payments	**(3,187)**	–
Decrease in bank deposits	**–**	92,365
Other investing cash flows	**2,259**	533
	(37,942)	79,414
Cash used in financing activities:		
Dividend paid	**(54,227)**	(51,159)
Net decrease in cash and cash equivalents	**(187,804)**	(41,287)
Cash and cash equivalents at the beginning of the period	**360,210**	317,120
Effect of foreign exchange rate changes	**791**	(313)
Cash and cash equivalents at the end of the period	**173,197**	275,520
Represented by:		
Bank balances and cash	**131,996**	160,130
Deposits placed in financial institutions	**41,201**	115,390
	173,197	275,520

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

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 (the "Stock Exchange") 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 and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

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)	*Improvements to HKFRSs issued in 2010*
HKAS 24 (as revised in 2009)	*Related Party Disclosure*
HKAS 32 (Amendments)	*Classification of Rights Issues*
HK(IFRIC) – Int 14 (Amendments)	*Prepayments of a Minimum Funding Requirement*
HK(IFRIC) – Int 19	*Extinguishing Financial Liabilities with Equity Instruments*

The application of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosures of Interests in Other Entities*[2]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 (Amendments)	*Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (as revised in 2011)	*Employee Benefits*[2]
HKAS 27 (as revised in 2011)	*Separate Financial Statements*[2]
HKAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[2]

[1] *Effective for annual periods beginning on or after 1 July 2012*

[2] *Effective for annual periods beginning on or after 1 January 2013*

The five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements in accordance with their effective dates and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios, including scenarios which an investor may control an investee without holding a majority of the voting rights. Overall, the application of HKFRS 10 requires extensive use of judgement.

The Group is still in the process of assessing the impact for the Group's investees including its associates upon the application of HKFRS 10.

Other than disclosed above, the directors of the Company anticipate that the application of other 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 and reportable segments for the periods under review:

Six months ended 30 June 2011

	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	225,626	403,164	43,309	672,099	–	672,099
Inter-segment sales	–	22,679	–	22,679	(22,679)	–
Group's revenue	225,626	425,843	43,309	694,778	(22,679)	672,099
Segment profit	31,041	80,587	2,831	114,459	(194)	114,265
Unallocated income						
– Interest income from banks						2,167
– Rental income						1,788
– Others						630
Unallocated expenses						
– Research and development expenses						(20,133)
– Central administration costs						(27,020)
Share of loss of associates						(3,576)
Other gains and losses						405
Profit before tax						68,526

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	63,198	(1,010)	82,380	(1,145)	81,235
Unallocated income						
– Interest income from banks						1,328
– Rental income						1,757
– Others						632
Unallocated expenses						
– Research and development expenses						(20,128)
– Central administration costs						(17,603)
Share of profit of associates						471
Other gains and losses						(160)
Profit before tax						47,532

Segment result represents profit (loss) attributable to each segment without allocation of interest income from banks, rental income, sales of scrap, research and development costs, central administration costs, share of profit (loss) of associates and other gains and losses. 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 2011 (Unaudited)	At 31 December 2010 (Audited)
Men's footwear	**305,256**	220,841
Women's footwear	**365,667**	290,994
Footwear retailing and wholesaling	**66,959**	50,225
Total segment assets	**737,882**	562,060

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")	**3,689**	1,507

EIT in the PRC is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, a subsidiary, Bestsource Technology (Macao Commercial Offshore) Limited, which was acquired in 2011, is exempted from Macao Complementary Tax.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In October 2010, the Hong Kong Inland Revenue Department (the "IRD") initiated a tax audit on the Hong Kong tax affairs of certain subsidiaries of the Company for the years of assessment for 2004/2005 to 2009/2010.

During the period ended 30 June 2011, the IRD issued estimated/additional profits tax assessments for the year of assessment 2004/2005, that is, for the financial year ended 31 December 2004, against certain subsidiaries of the Company. The Group has lodged objections against these estimated/additional assessments and the IRD has agreed to hold over the tax claimed subject to the subsidiaries in question purchasing tax reserve certificates ("TRC") of HK$28,700,000 (equivalent to approximately US$3,689,000) for the year of assessment 2004/05. The amount has been included in the condensed consolidated statement of financial position as a tax recoverable as at 30 June 2011.

The directors of the Company are of the opinion that the tax audit exercise is still at a preliminary stage and that no profits tax is payable by the Group as the subsidiaries in question did not carry out any business, nor derive any profits, in Hong Kong. Accordingly, no additional Hong Kong Profits Tax is considered necessary in respect of the tax audit.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Writer-down of inventories (included in costs of sales)	**689**	344
Depreciation of property, plant and equipment	**12,452**	10,169
Release of prepaid lease payments	**142**	125
Share-based payments (included both in costs of sales and administrative expenses)	**569**	1,979
Loss on disposal of property, plant and equipment	**358**	247
Net loss on changes in fair value of held for trading investments (included in other gains and losses)	**243**	–
Interest income on bank balances	**(2,259)**	(1,353)
Net gain on changes in fair value of derivative financial instruments (included in other gains and losses)	**(191)**	(153)

6. DIVIDENDS

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Final dividend declared and paid for 2010 – HK53 cents (2009: HK40 cents) per share	**54,227**	51,159
Interim dividend declared subsequent to period end – HK30 cents (2010: HK30 cents) per share	**30,626**	30,646

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2011 of HK30 cents (2010: HK30 cents) per ordinary share to shareholders whose names appeared in the register of members of the Company at the close of business on 9 September 2011.

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	
	2011	2010
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	**64,906**	46,083

	Six months ended 30 June	
	2011	2010
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**791,619**	790,362
Effect of dilutive potential ordinary shares: Unvested shares awarded	**622**	1,144
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**792,241**	791,506

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 17).

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US$19,394,000 (2010: US$13,626,000) for business expansion.

In addition, during the period, the Group paid approximately US$25,441,000 (2010: US$7,821,000) in deposits for acquisition of property, plant and equipment in order to expand its manufacturing capabilities in the PRC.

9. TRADE AND OTHER RECEIVABLES

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

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

	30 June 2011 US$'000	31 December 2010 US$'000
Trade receivables:		
0 – 30 days	**172,574**	118,056
31 – 60 days	**53,799**	42,851
61 – 90 days	**7,950**	8,472
Over 90 days	**6,542**	13,675
	240,865	183,054
Other receivables and prepayments	**49,840**	45,179
	290,705	228,233

10. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are trading balances, representing prepayments to two associates for purchase of goods and trade receivables from one associate, all of which are aged within 90 days. The amounts are unsecured and interest-free.

11. AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies are trading balances, which are unsecured, interest-free and aged within 90 days. The related companies are under the control of a director of the Company.

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Group was a party to a variety of foreign currency forward contracts, which were to buy Renminbi and sell United States dollars in order to manage its exchange rates exposure.

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

13. HELD FOR TRADING INVESTMENTS

	30 June 2011 US$'000	31 December 2010 US$'000
Debentures:		
– listed in Hong Kong	**5,630**	4,069
– listed in elsewhere	**15,343**	5,477
Unlisted investment funds	**19,915**	13,735
	40,888	23,281

The above financial instruments are managed as a portfolio by a financial institution.

The fair values of the unlisted investment funds were provided by the financial institution managing the debentures and funds.

14. TRADE, BILLS AND OTHER PAYABLES

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

	30 June 2011 US$'000	31 December 2010 US$'000
Trade payables:		
0 – 30 days	**83,260**	70,322
31 – 60 days	**9,685**	4,073
Over 60 days	**21,328**	24,484
	114,273	98,879
Other payables	**77,248**	65,162
	191,521	164,041

15. SHARE CAPITAL

	Number of share	**Nominal value** HK$'000
Ordinary of HK$0.10 each		
Authorised:		
As at 1 January 2011 and 30 June 2011	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2011 and 30 June 2011	794,379,500	79,438
Shown in financial statements as		US$10,160

16. CAPITAL COMMITMENTS

	30 June 2011 US$'000	31 December 2010 US$'000
Capital expenditure authorised but not contracted for in respect of property, plant and equipment	**53,746**	–
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**21,446**	8,796
	75,192	8,796

17. SHARE-BASED PAYMENTS

Long Term Incentive Scheme (the "Scheme")

On 19 February 2009, a total of 2,445,500 shares of the Company were awarded 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 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.

On 19 March 2010, another 1,428,000 shares of the Company were awarded 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 2011 and 2010 are as follows:

	Vesting date	Outstanding at 1 January 2011 *(Note)*	Granted during the period	Vested during the period	Cancelled during the period	Outstanding at 30 June 2011
Directors	1 April 2011	**470,500**	**–**	**(470,500)**	**–**	**–**
	1 April 2012	**186,000**	**–**	**–**	**–**	**186,000**
Employees	12 April 2010	**1,000**	**–**	**–**	**(1,000)**	**–**
	1 April 2011	**667,900**	**–**	**(661,400)**	**(6,500)**	**–**
	1 April 2012	**231,900**	**–**	**–**	**(5,000)**	**226,900**
	1 April 2013	**7,400**	**–**	**–**	**(2,500)**	**4,900**
		1,564,700	**–**	**(1,131,900)**	**(15,000)**	**417,800**

	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)	–	–
	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	(367,000)	(1,000)	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	(1,315,900)	(14,000)	1,612,700

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. Accordingly, those shares awarded to him were reclassified from the category of directors to employees on 1 January 2011.

As at 30 June 2011, the Trustee had purchased and maintained a pool of 2,197,300 shares (31 December 2010: 3,329,200 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 ended 30 June 2010 of approximately US$2,733,000 was determined at the date of the grant based on the market value of the shares.

No shares were awarded to any eligible participants under the Scheme for the period ended 30 June 2011.

During the period under review, US$569,000 (for the six months ended 30 June 2010: US$1,979,000) was recognised as an expense in the condensed consolidated statement of comprehensive income with a corresponding credit to a share award reserve.

18. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June 2011 US$'000	2010 US$'000
興昂制革(惠州)有限公司[1] (Simona Tannery Co. Ltd.)	Purchase of leather and tannery products	17,100	19,784
東莞興立精密模具有限公司[1] (Sincerely International Limited)	Purchase of molds	1,764	1,850
東莞興泰鞋材有限公司[1] (Sanford International Limited)	Purchase of sole materials	4,921	4,473
	Rental expense	58	50
東莞市長安統來刀模加工廠[2] (Dongguan Changan Tonglai Knife Molding Factory)	Purchase of die cuts	2,011	2,270
東莞興騰鞋材有限公司[1] (Dongguan Xintan Footwear Co. Ltd.)	Purchase of sole materials	13,656	13,470
惠州興昂鞋業有限公司[1] (Huizhou Stella Footwear Co. Ltd.)	Purchase of footwear products	1,062	45
辛集市寶得福皮業有限公司[3] (Xinji Baodefu Leather Co. Ltd.)	Purchase of footwear products	42,669	34,807
Cosmic Gold Enterprise Limited[3]	Processing fee paid	1,488	1,974
Mountain Gear Group[4]	Sales of footwear products	475	148
Ace Opportunity Group[4]	Sales of footwear products	368	392

[1] *Companies wholly and ultimately owned by a director of the Company*
[2] *Company under the control of key management personnel of the Group*
[3] *Associates of the Company*
[4] *Companies under the control of 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 2011 US$'000	2010 US$'000
Short-term benefits	**373**	398
Share-based payment expenses	**286**	786
	659	1,184

The remuneration of directors and key executives is 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 2011, 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 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	Total	Approximate Percentage of Shareholding
Chao Ming-Cheng, Eric	Beneficial owner and interest of controlled corporation	210,000	26,205,289 *(Note 2)*	28,500 *(Note 1)*	26,443,789	3.33%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	132,000	21,921,870 *(Note 3)*	18,000 *(Note 1)*	22,071,870	2.78%
Chi Lo-Jen	Beneficial owner	245,500	–	38,000 *(Note 1)* 1,500,000 *(Note 5)*	1,783,500	0.22%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	295,500	28,551,674 *(Note 4)*	36,000 *(Note 1)*	28,883,174	3.64%
Shih Takuen, Daniel	Beneficial owner	342,500	–	65,500 *(Note 1)*	408,000	0.05%
Bolliger Peter	Beneficial owner	150,000	–	–	150,000	0.02%

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 represent the put option granted by Mr. Chi Lo-Jen, exercisable for the period commencing from 1 May 2011 to 30 April 2016, under which Mr. Chi Lo-Jen may be required to acquire up to an aggregate of 1,500,000 shares of the Company.

Save as disclosed above, as at 30 June 2011, 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 30 June 2011, the interests and short positions of the 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	246,412,214	31.02%
Capital Research and Management Company	Investment manager	55,678,500	7.01%

Save as disclosed above, as at 30 June 2011, 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 "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2011, except the deviation from code provision E.1.2 of the CG Code as follows:

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (the "Chairman") of the Board had not attended the annual general meeting of the Company held on 6 May 2011 (the "2011 AGM"), but Mr. Shih Takuen, Daniel, the deputy chairman (the "Deputy Chairman") of the Board, took the chair at the 2011 AGM, and the chairman or member of each of the audit, corporate governance, remuneration and nomination committees attended the 2011 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.

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 ("Model Code")

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 2011.

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 CG Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising three independent non-executive Directors, namely Mr. Chu Pao-Kuei, Mr. Ng Hak Kim, *SBS, 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 2011.

Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") in compliance with the CG 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, *SBS, JP*, Mr. Chu Pao-Kuei and Mr. Shih Takuen, Daniel. The chairman of the Remuneration Committee is Mr. Ng Hak Kim, *SBS, 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. In addition, the Remuneration Committee, together with the Deputy Chairman and the Group's chief executive officer, lead the corporate leadership programme which includes monitoring the strategy of succession planning and leadership development.

Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") as recommended by the CG 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, *SBS, 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, *SBS, 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. The Corporate Governance Committee advocates upholding the principles of "4Rs" – regulatory compliance, risk management, investor relations and corporate social responsibility, believing that the fulfilment of which will translate into long-term returns to the Shareholders.

OTHER INFORMATION

Update on Directors' Information

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

Mr. CHAO Ming-Cheng, Eric, aged 60, 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 28 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 a director of Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Big Strength Limited, Mission High Limited, Modern Novel Limited, Sapphire Technology Group Limited, Stella Logistics 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 50, 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 25 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 a director of Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Big Strength Limited, Mission High Limited, Modern Novel 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 Logistics Limited, Stella Luna Sol Limited, Stella Services Limited, Subra Footwear Company 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 興記時尚貿易（上海）有限公司 (Stella Fashion Inc.), all of which are subsidiaries of the Company.

Mr. CHU Pao-Kuei, aged 79, 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. In 1966, he passed the Certified Public Accountants Examination with the first ranking. 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, convener of its audit committee, a supervisor of Sesoda Corporation, a supervisor of ReaLy Development & Construction Corp. and a supervisor of Anderson Industrial Corp. 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. In addition, he was the secretary general of Accounting Research and Development Foundation of the Republic of China (1985 to 2002), the founding chairman of Taiwan Corporate Governance Association (2002 to 2004) and the chairman of National Federation of Certified Public Accountants Associations of the Republic of China (2000 to 2003). Mr. Chu has been appointed as an Independent Non-executive Director of the Company since June 2007.

Long Term Incentive Scheme

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the Shareholders passed on 15 June 2007 and was adopted by a resolution of the Board on 15 June 2007 and as amended by a resolution of the duly authorised committee of the Board on 18 June 2007 and further amended by a resolution of the Shareholders passed on 6 May 2011. 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 reward any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group who are potential contributors to the success, development and/or growth of the Group.

The Board may, at its discretion and on such terms as it may think fit, grant to an employee, a director, any shareholder of any member of the Group or any holder of any securities issued by any member of the Group and any adviser (professional or otherwise) or consultant to any area of business development of 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 success, development and / or 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 at a 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 at a 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 at a 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 2011.

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 2011, there were a total of 2,197,300 Shares held in trust by the Trustee, of which 417,800 Shares were held for the benefit of selected eligible participants under the Scheme and the remaining 1,779,500 Shares are maintained and are available for the Trustee to satisfy the granting and vesting of the Restricted Unit Awards.

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 2011	Vesting Date	Vested during the period ended 30 June 2011	Outstanding as at 30 June 2011
Chao Ming-Cheng, Eric	19 February 2009	153,000	–	1 April 2009	–	–
			–	1 April 2010	–	–
			51,000	1 April 2011	(51,000)	–
	19 March 2010	85,500	–	12 April 2010	–	–
			28,500	1 April 2011	(28,500)	–
			28,500	1 April 2012	–	28,500
Chen Li-Ming, Lawrence	19 February 2009	96,000	–	1 April 2009	–	–
			–	1 April 2010	–	–
			32,000	1 April 2011	(32,000)	–
	19 March 2010	54,000	–	12 April 2010	–	–
			18,000	1 April 2011	(18,000)	–
			18,000	1 April 2012	–	18,000
Chi Lo-Jen	19 February 2009	169,500	–	1 April 2009	–	–
			–	1 April 2010	–	–
			56,500	1 April 2011	(56,500)	–
	19 March 2010	114,000	–	12 April 2010	–	–
			38,000	1 April 2011	(38,000)	–
			38,000	1 April 2012	–	38,000
Chiang Jeh-Chung, Jack	19 February 2009	223,500	–	1 April 2009	–	–
			–	1 April 2010	–	–
			74,500	1 April 2011	(74,500)	–
	19 March 2010	108,000	–	12 April 2010	–	–
			36,000	1 April 2011	(36,000)	–
			36,000	1 April 2012	–	36,000
Shih Takuen, Daniel	19 February 2009	211,500	–	1 April 2009	–	–
			–	1 April 2010	–	–
			70,500	1 April 2011	(70,500)	–
	19 March 2010	196,500	–	12 April 2010	–	–
			65,500	1 April 2011	(65,500)	–
			65,500	1 April 2012	–	65,500

(B) Employees

Date of Award	Aggregate Number of Restricted Unit Awards Granted *(Note)*	Outstanding as at 1 January 2011	Vesting Date	Vested during the period ended 30 June 2011	Cancelled during the period ended 30 June 2011	Outstanding as at 30 June 2011
19 February 2009	1,592,000	441,400	1 April 2011	(436,400)	(5,000)	–
		4,900	1 April 2012	–	–	4,900
		4,900	1 April 2013	–	–	4,900
19 March 2010	870,000	1,000	12 April 2010	–	(1,000)	–
		226,500	1 April 2011	(225,000)	(1,500)	–
		227,000	1 April 2012	–	(5,000)	222,000
		2,500	1 April 2013	–	(2,500)	–

Note: Since Mr. Shieh Tung-Pi, Billy resigned as an executive Director on 19 August 2010, the number of restricted unit awards granted to him was aggregated under the "Employees" Section.

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, 18 August 2011

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*
CHI Lo-Jen

Independent Non-executive Directors

CHU Pao-Kuei
NG Hak Kim, *SBS, JP*
CHEN Johnny
BOLLIGER Peter

Audit Committee

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

Corporate Governance Committee

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

Nomination Committee

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

Remuneration Committee

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

Authorised Representatives

CHEN Li-Ming, Lawrence
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

Chinatrust Commercial Bank, Ltd.
The Hongkong and Shanghai Banking Corporation Limited

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

7 September 2011 to 9 September 2011
(both days inclusive)

Payment of Interim Dividend

On or about 16 September 2011

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*