2011 annual report

Stella International Holdings Limited

stock code: 1836

mission statement

Our Core Values

Stella International Holdings Limited ("Stella" or the "Company") is dedicated to providing its customers with a wide range of top quality and high-end footwear. We are customer-driven and passionate about our business, and conscious of providing the best quality in everything we present to our customers. In addition to promoting these core values, the management philosophy of the Company is to be fair, caring and respectful.

Our Mission: To Make the BEST Shoes

Always seeking to fulfill our promise of delivering outstanding and unique footwear, we are guided at all times by our unwavering motto of "making the best shoes" and missions of:

- We wish, within our selected business segments, to be the **preferred partner** for footwear products and associated services, contributing to an **efficient and superior supply chain**.
- By being close to our customers we fulfill their needs with **innovative, cost effective and high quality solutions**. Through **empathy, responsiveness** and **dependability** we seek to earn their loyalty.
- Our culture attracts and nourishes individuals who are energetic, committed and have a **passion with a learning attitude** for our business.
- By striving **to be the best** in our business we achieve growth and increased value for our customers, employees and shareholders.

contents

Corporate Structure

Stella

- Contractual arrangement
- Processing factories
- Outsourced factories
- Wholly foreign-owned enterprise

- Mainland China
- Thailand
- Taiwan
- Lebanon
- Philippines
- Kuwait
- United Arab Emirates

Corporate Profile

Stella

is a leading developer and manufacturer of quality footwear products and was listed on The Stock Exchange of Hong Kong Limited on 6 July 2007. While making casual, fashion and private label footwear for our customers and brand owners, we also offer them a one-stop shop that combines the elements of design, development and manufacturing.

Since 1982, Stella has developed strong working relationships with many of the world's top brand names to produce quality shoes. Its impressive client base includes six of the world's top ten casual footwear companies, namely, Clarks, Deckers, ECCO, Rockport, Timberland and Wolverine, as well as leading companies in fashion footwear, such as Cole Haan, Kenneth Cole, Guess and Nine West.

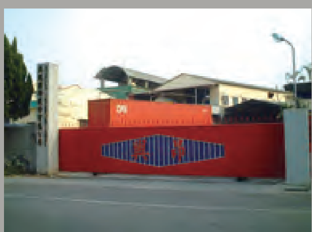
The Company also designs, develops and manufactures footwear for several high-fashion brands such as Alejandro Ingelmo, Alexander Wang, Donna Karan New York, Emilio Pucci, Givenchy, Loewe, Marc by Marc Jacobs, Marciano, Sigerson Morrison, Vera Wang, Via Spiga and Y3.

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

Milestones

1982

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

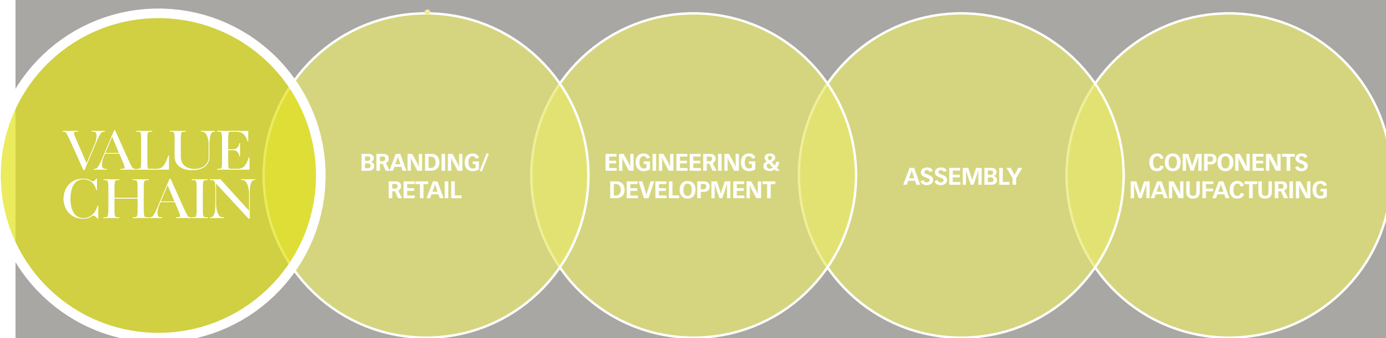


1998

- Expanded production capacity in China with the expansion of Seville Footwear Factory.
- Entered into an exclusive finished footwear supply arrangement with Golden Star Company Limited for the manufacture of men's casual and fashion footwear in Vietnam.

2000

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



1991

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

1999

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

2003

- Established and extended Dongguan Stella Footwear Factory in Dalingshan, Dongguan, a wholly foreign-owned enterprise, for the manufacture of women's casual and fashion footwear.

1995

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

2004

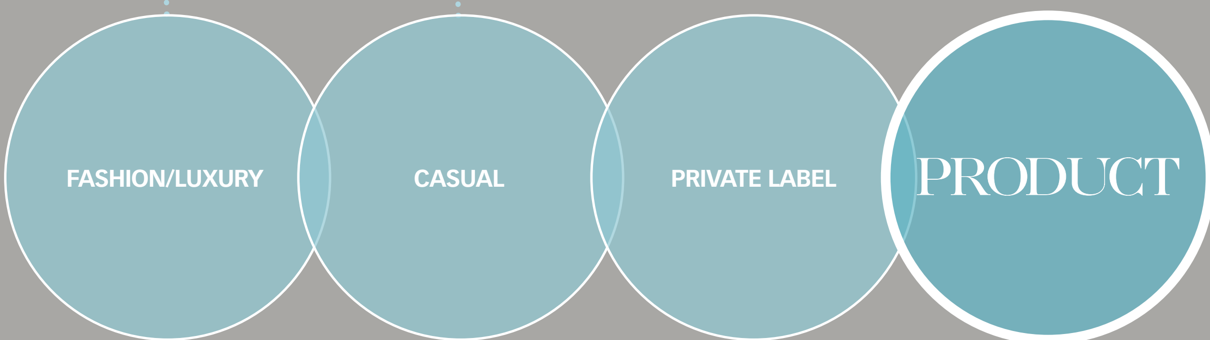
- Developed and manufactured footwear for high-end brands such as Celine, Donna Karan New York, Emilio Pucci, Givenchy, Kenzo, Loewe and Marc by Marc Jacobs.

2007

- 6 July 2007 Listed on The Stock Exchange of Hong Kong Limited.
- July 2007 Expanded our retail market capabilities with the launch of our contemporary lifestyle footwear brand *What For* in China.

2009

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



2006

- Launched retail operation and opened the flagship *Stella Luna* store in Shanghai.
- Further extended Dongguan Stella Footwear Factory to manufacture men's casual and fashion footwear.

2008

- Revenue exceeded US$1 billion
- Annual manufacturing capacity reached 50 million pairs
- Opened the 100th *Stella Luna* Store. Number of *What For* stores reached 60.

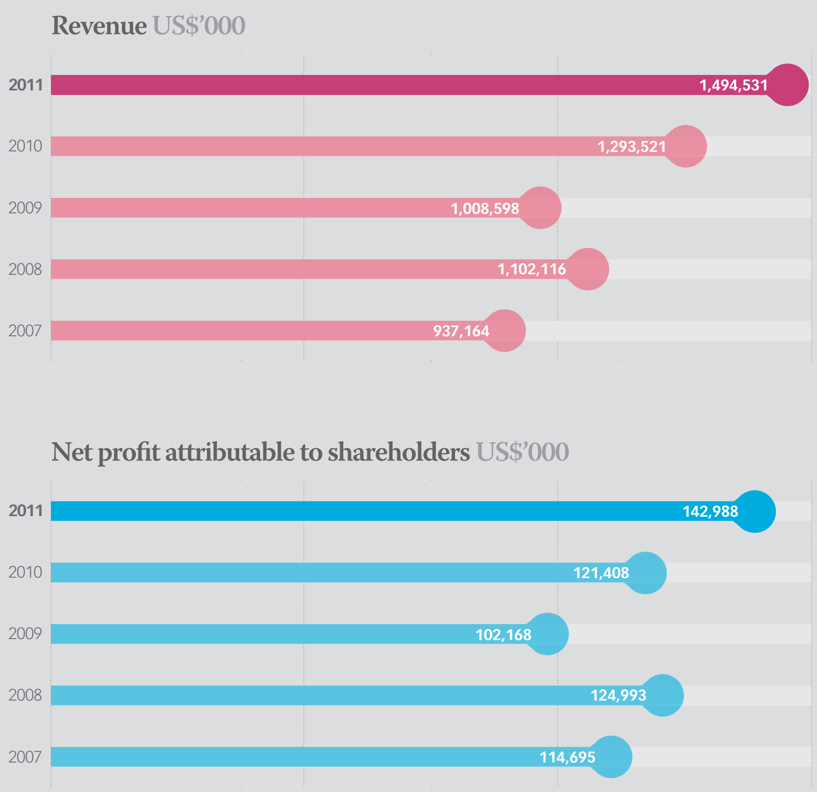
2010

- Diversified into inland China.

2011

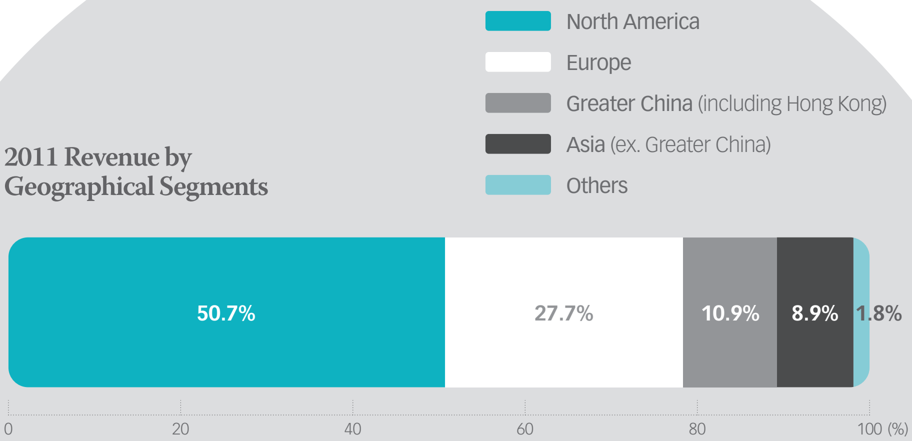
- Announced new men's affordable luxury footwear brand – *JKJY*.

Financial Highlights

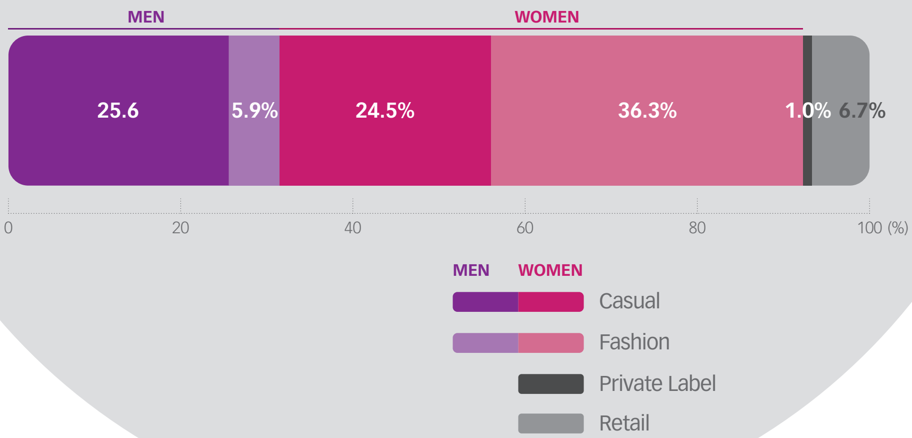


Consolidated revenue increased 15.5% year-on-year to US$1,494.5 million

2011 Revenue by Geographical Segments



2011 Revenue by Business Segments



Geographically, North America and Europe continued to be our two largest markets

chairman's statement

our mission: “making the best shoes”

Chairman's Statement

making the best shoes

Dear Shareholders,

2011 proved an unstable year as divergence in the global economy became more entrenched. Developed economies, including Europe and the US, continued to struggle under the weight of high government debt and unemployment, while developing economies led by China remained a bastion of global growth.

Behind these growth numbers, however, many export-orientated companies are being squeezed by a combination of falling orders, inflation and rising labour costs. Some manufacturers have even been forced to withdraw from the industry due to tightening credit conditions. In places such as China, this is creating a long-term environment where only companies with value-adding capabilities will survive – and I am happy to say that Stella falls into this category.

Since the foundation of our company in 1982, it has been our firm belief that long-term success would depend on our ability to offer best quality to our clients. Over the years, this has enabled us to position Stella at the high-end of the value chain.

In 2011, our hard-won reputation for quality ensured that there was continued demand for our products despite the slowing global economy. We also continued to maintain long-term relationships with some of the world's leading footwear brands, as well as a higher average selling price ('ASP') than the industry average, with our brand partners attaching a high value to our products.

Our quickly growing retail business has been relatively unaffected by the slowing global economy, with China's increasing middle class consumers continuing to provide us with a strong platform to expand our *Stella Luna* and *What For* footwear brands. With both these brands becoming firmly entrenched in the minds of China's trend setters, we have begun to shift our focus towards tapping new segments of the retail market.

Furthermore, in order to tap the global market, we will open our first *Stella Luna* store in Paris in 2012. This strategy will provide more exposure for our brand names to the world's leading fashion marketplace, and will gradually win us international recognition.

In 2011, we announced the upcoming launch of *JKJY*, our new brand targeting China's growing market for affordable luxury footwear for men, as well as plans to retail *PIERRE BALMAIN* footwear in China. The addition of these brands to our retail portfolio is an important step in our long-term plans to grow the reach and depth of our retail operations and increase its contribution to our overall business. In order to retain our leading position in the footwear industry, we opened a design studio in Italy in 2011, allowing us to react more quickly to global fashion trends and leverage the talent of some of the world's leading designers. The roll-out of such initiatives will ensure that Stella is able to continue to develop cutting-edge products and retain its niche as a high-end, value-added footwear manufacturer as well as brand player in the years to come.

In the coming year, we expect demand for our products to remain stable and we will seek to support our brand partners to counter any uncertainties in the US or European economies. On the retail side, we expect our business will continue to thrive as Stella's new and existing brands continue to enthral China's increasingly sophisticated consumers.

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 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, 21 March 2012

management discussion and analysis

strong performance in a challenging environment

Management Discussion and Analysis

Stella's unique ability to serve niche clients, especially luxury and premium brands

The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

BUSINESS MODEL AND STRATEGY

Stella operates two main businesses – the first providing a one-stop shop that designs, develops and manufactures quality footwear for fashion, casual and private label brands, and the second which focuses on the retailing of affordable luxury footwear in China, Thailand, Taiwan, Philippines, Lebanon, Kuwait and the UAE.

Stella has a long preserving mission of "making the best shoes," which always places quality as our first priority. In order to provide value-adding services to our clients, the Group has positioned its manufacturing business at the high-end of the value chain by offering craftsmanship, innovation, short lead times and small batch production to a growing list of premium and luxury footwear brands.

To generate sustainable returns to our shareholders, the Group is also employing a strategy to diversify its overall business by tapping the growing demand for affordable luxury footwear among mid-to-upper class consumers in China and the surrounding region.

In 2006 and 2007, the Group launched its own *Stella Luna* and *What For* retail brands, with the combined retail business achieving its first full year profit in 2009. The Group is currently in the process of expanding its retail footwear offering to target different market segments in order to deliver further value to shareholders.

FINANCIAL HIGHLIGHTS

Optimisation of Manufacturing Operations Supports Satisfactory Performance

The Group witnessed a steady slowdown in the global economy in 2011, as a combination of the European debt crisis, natural disasters and slow economic recovery in the United States reversed some of the global economic gains of 2010.

Despite this, the Group's proactive move to optimise its manufacturing operations to include lower-cost production centres, supported by its strong relationship with brand name customers, ensured that we were well positioned to deliver a satisfactory performance. During the year under review, the Group's consolidated revenue increased by 15.5% year-on-year to US$1,494.5 million (2010: US$1,293.5 million), despite a 1.3% fall in total shipments over the year to 52.6 million pairs (2010: 53.3 million pairs) due to the economic uncertainty. The net profit attributable to equity holders of the Company rose by 17.8% to US$143.0 million (2010: US$121.4 million).

The ASP of the Group's footwear products rose by 16.8% in 2011, to US$27.1 per pair (2010: US$23.2), which was attributable to increasing recognition of the quality of the Group's footwear products, as well as improvement to product mix. Basic earnings per share rose by 17.5% year-on-year to US$0.181 (2010: US$0.154), based on the weighted average number of 791,903,937 ordinary shares in 2011 (2010: 790,708,942 shares).

All segments of the Group's manufacturing business continued to perform strongly in 2011, with our women's fashion footwear business contributing to 36.3% of our total revenue (2010: 35.8%), remaining the Group's largest business segment. Contribution from our women's and men's casual footwear business was 24.5% (2010: 25.3%) and 25.6% (2010: 25.5%) of our overall revenue respectively, while the contribution from the men's fashion segment was 5.9% (2010: 6.5%).

Retail Business Moves from Strength to Strength

Our retail business continued to turn a solid full-year profit, open new stores and increase its share of overall revenue in 2011. We also continued to lay the groundwork for expanding Stella's retail portfolio, announcing plans to launch and distribute new affordable luxury brands targeting different market segments in the coming year.

Revenue from the retail business in 2011 grew by 49.3% to US$99.0 million (2010: US$66.3 million), as we broadened our appeal to China's growing base of mid-to-upper class consumers. Same-store sales grew by 35.2% to US$51.9 million, up from US$38.4 million in the preceding year, while the retail business' contribution to the Group's total revenue rose to 6.6%, up from 5.1% in 2010. Gross profit for the Group's retail business in 2011 was US$68.6 million (2010: US$44.8 million), representing an increase of 53.1%.


STELLALUNA

Solid Profitability in Face of Global Economic Uncertainty

Total gross profit for the year across all business segments was US$352.5 million, an increase of 24.6% from the previous year (2010: US$283.0 million). Gross profit margins rose to 23.6% (2010: 21.9%), while our net profit margin rose by 0.2 percentage point to 9.6% (2010: 9.4%). This rise in profit can be attributed to our continuous efforts to optimise product mix and our value-adding production process.

During the year under review, the Group's cash flow remained stable, with cash generated from operations amounting to US$88.0 million (2010: US$73.1 million). We invested US$79.6 million in CAPEX for capacity expansion in 2011 and returned US$84.8 million to shareholders as dividends.

Geographically, North America and Europe continued to be our two largest markets, accounting for 50.7% and 27.7% of the Group's total revenue in 2011. This was followed by Greater China (including Hong Kong), accounting for 10.9%, Asia (ex. Greater China), accounting for 8.9%, and other geographical regions which accounted for 1.8%.

BUSINESS REVIEW

Sustainable Margins in a Challenging Environment

The Group has long placed great emphasis on developing stable, long-term relationships with many of the world's top footwear brands, based on our strong commitment to provide best quality products. By placing ourselves at a premium position in the value chain, we have been better able to protect our margins and attract a higher ASP than the industry average.

These essential qualities provide the Group with a solid foundation to weather downturns in our principal export markets, compared to other manufacturers.

Our client base currently includes several leading footwear brands, as well as six of the world's top ten casual footwear companies

Strengthening Research and Development Capabilities

We opened a studio in Italy in 2011 to further boost the Group's design capabilities and ability to remain a strong partner of the world's top footwear brands. Based in Venice, the studio allows us to be in sync with emerging global fashion trends and changing consumer tastes. It also allowed Stella to build a strong team of experienced footwear designers, many of whom have previously worked with Europe's luxury fashion houses.

Working closely with our established design studio in Dongguan, our new team in Europe will ensure that the Group continues to develop cutting-edge and value-adding products which meet the specific needs and specifications of our clients. We will also leverage both teams in the development of new home-grown brand lines to support the further development of our retail business.

Increasingly Diverse Client Base

The Group won more clients throughout 2011 due to our reputation for good quality as more and more international footwear brands outsourced production. This is allowing a gradual diversification of our client base, which is slowly reducing the Group's reliance on its largest customers.

During the year under review, the Group's factories in Dongguan and Vietnam ran at close to full capacity, with our top five customers accounting for 58.3% of our total revenue (2010: 55.2%). Our client base currently includes a number of leading luxury footwear brands, as well as six of the world's top ten casual footwear brands.

Increasingly Diversified and Cost-Efficient Production Base

The Group is well advanced in meeting its medium goal of shifting labour-intensive operations away from coastal regions and increasing overall capacity to 70 million pairs, in order to counter the well-publicised labour and inflation challenges currently being faced by all PRC manufacturers.

Our new low-cost manufacturing facilities in the PRC's inland provinces of Guangxi and Hunan, as well as the newly acquired operation in Indonesia, are operating at an initial capacity and are already helping the Group eliminate capacity constraints and secure a stable labour supply. The Group will continue to gradually relocate and increase production to these facilities throughout the coming year to improve the overall efficiency of our manufacturing operations.

Profitable and Well-Recognised Retail Brands

The Group's profitable *Stella Luna* and *What For* retail brands continued to attract a strong following in China and other developing markets in 2011, supporting the Group's ongoing store expansion strategy to open new stores at quality shopping malls and to enlarge store space.

Throughout the year, we opened 49 *Stella Luna* and 43 *What For* stores across China and the surrounding region, increasing our reach within the world's fastest growing luxury markets. *Stella Luna* is the Group's retail brand targeting the high-end fashion footwear and leather goods markets, with prices ranging from RMB1,200 to RMB6,000. The *What For* retail brand targets the contemporary and lifestyle markets, with prices ranging from RMB600 to RMB2,500.

The following table shows the geographic distribution of our *Stella Luna* and *What For* stores as of 31 December 2011.

	Stella Luna	*What For*
Greater China		
Eastern China	44	30
Southern China	32	26
Northern China	32	41
North-East China	32	31
South-West China	34	34
Central China	20	20
Taiwan	3	0
Sub-total	197	182
Thailand		
Bangkok	9	9
Phuket	2	0
Pattaya	1	0
Sub-total	12	9
Philippines	4	1
Lebanon	6	1
United Arab Emirates	1	1
Kuwait	1	1
Total	221	195

Expanding Retail Portfolio

The Group recently introduced *JKJY*, Stella's new in-house retail label during its 2012 Spring-Summer fashion show, as part of our strategy to expand our retail portfolio by leveraging the strong know-how of our retail team and tapping China's vast demand for different types of footwear products. Targeting China's growing market for affordable luxury footwear for men which crossover fashion and sport, we expect to open our first two *JKJY* stores in Shanghai and Beijing in 2012.

In addition to new home-grown labels, we also announced plans to sell and distribute *PIERRE BALMAIN* branded footwear in China and other countries, after entering into joint-venture agreements with Balmain Asia (a subsidiary of Balmain S.A. (Paris)). The Group plans to open its first *PIERRE BALMAIN* retail store in second half of 2012.

The Balmain joint-venture is the second joint-venture agreement 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 31 December 2011, the Deckers joint-venture operated 11 UGG stores in China.

BUSINESS OUTLOOK

Stable Order Pipeline despite Global Uncertainty

We expect demand for our customised footwear products to remain stable throughout the coming year, even as some clients scale back orders in the face of ongoing economic uncertainty in Europe and the US. However, we expect that growing recognition of the quality of our products, our strong productivity-enhancing measures, as well as our strong relationship with our global partners will reduce the impact of further pressures on our overall performance.

Although risks associated with input cost inflation and an appreciation of RMB have diminished somewhat over the past year, the Group will remain vigilant on any impact these challenges may impose on our operations, as well as risks stemming from the Eurozone debt crisis, slow economic recovery in the US and mismatches between seasonality and capacity.

Further Investment in Low-Cost Manufacturing Capacity

The Group will continue to work towards our long-term goal of rationalising our manufacturing operations into three specialised hubs, in order to expand our low-cost manufacturing capacity, secure a stable labour force and cater for future demand: Dongguan as the Group's headquarters, design centre and high-end manufacturing base; inland China for the production of mid-range footwear; and South-East Asia for European shipments.

In the coming year, we will continue upgrading our manufacturing capacity and capabilities in Indonesia, while also shifting and expanding manufacturing capacity to our new Guangxi and Hunan facilities. With wage and input cost inflation likely to remain a long-term challenge, this ongoing strategy will enable the Group to better optimise our manufacturing operations, control costs and secure a stable labour supply.

Further Space to Grow Retail Business in Home Markets

With continued strong economic growth in the coming year, China will remain the primary focus for the expansion of our retail business in 2012. As more and more citizens join the ranks of mid-to-upper class consumers, growing demand for affordable luxury footwear and other retail segments means there is room for growth for both Stella's established and newly launched brands.

We will continue to pursue this growth through store and space expansions, same-store sales and by broadening product base in order to enhance Stella's overall revenue mix. The Group will also continue to prudently capture any opportunities, including through joint-ventures, to introduce more brand names to our retail portfolio.

Stella Luna Ready to Go Global

Despite being created just over five years ago, *Stella Luna* is already attracting a fervent following by fashion lovers in China and other emerging fashion markets around the world. In line with our long-standing motto of "making the best shoes", the Group is preparing to take its retail offering global by opening *Stella Luna* stores in European cities with the first one opening in Paris in 2012.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the Group had cash and cash equivalents of about US$316.1 million (2010: US$383.5 million).

As at 31 December 2011, the Group had current assets of US$826.0 million (2010: US$792.6 million) and current liabilities of about US$212.9 million (2010: US$187.9 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.9 as at 31 December 2011, which indicated the Group's high liquidity and healthy financial position.

BANK BORROWINGS

The Group did not have any bank borrowings as at 31 December 2011 (2010: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 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 or RMB. Currency exposures were mostly denominated in RMB and Hong Kong dollars against the functional currency of the relevant Group companies. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year under review.

CAPITAL EXPENDITURE

During the year under review, the Group's total capital expenditure amounted to approximately US$79.6 million, of which approximately US$76.2 million was used in the production capacity expansion and approximately US$3.4 million was used for the expansion of the retail store network.

PLEDGE OF ASSETS

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

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no material contingent liabilities.

EMPLOYEES

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

The Group has continued to build a management team internally through effective learning and promotion programs, including its "Leadership Program" which is carried out to identify potential high caliber employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures.

As of 31 December 2011, the Group's recruitment efforts have remained satisfactory, despite continuing labour shortages in our primary manufacturing locations.

corporate social responsibility

stella's corporate philosophy emphasises respect for people

Corporate Social Responsibility

As a global manufacturer and retailer, we believe that we must act responsibly in order to develop a long-term business that is both sustainable and fair to all our stakeholders: our 70,000 employees, customers, supply chain partners, shareholders, local communities and the environment.

Stella's corporate philosophy has always emphasised respect for people, contribution to society and the creation of a fair working environment. Over the past twelve months, we have promoted a number of initiatives to reduce our environmental footprint and further engage with our workforce and local community. We strongly believe that it requires a sustained effort on all of these fronts to secure the long-term sustainability of our company.

PROMOTING ENVIRONMENTAL SUSTAINABILITY – GLOBALLY AND LOCALLY

The call for more collective action on the growing threat of global warming and environmental degradation has continued to grow. Recently, China released its *12th Five-year Plan on Greenhouse Emission Control*, which called for greater carbon intensity and energy use targets, particularly in economically developed regions such as Guangdong.

Stella is committed to being part of the global solution and becoming a more eco-friendly supplier and retailer.

As a first step in part of an on-going internal evaluation, we have installed environmentally friendly CWS boilers in our factories, which have reduced

Stella employees working together to clean up the local environment

Workers practising a fire safety demonstration

Strong supporter of life-long education and the personal development

the amount of emissions released during the generation of heat and energy. More recently, the Group appointed a consultant to ascertain our current and future carbon footprint, and recommend ways the Group can minimise emissions generated from our day-to-day operations – including the sourcing of raw materials, manufacturing, supply chain and retail operations.

At a more local level, Stella organised a number of tree-planting projects in Huizhou, Guangdong Province and Vietnam throughout the year to help foster a local culture of green living and conservation. We also trialled a new *6S cross-check system* in our factories in 2011 in order to encourage a cleaner, tidier and safer work environment. We plan to roll-out this system across all of our manufacturing facilities in the near future.

INCREASING ENERGY EFFICIENCY

Stella is in the middle of implementing a five-year energy saving plan to further reduce the carbon footprint of our manufacturing facilities.

The plan outlines investments in a number of energy saving measures, including: replacing T8 fluorescent lights with more efficient T5 fluorescent lights; reducing the number of diesel generators; replacing conventional dryers with infrared dryers; applying thermal technology to heat buildings using hot water generated during production and by strengthening resource management.

WORKING WITH OUR PARTNERS TO PROVIDE A SAFER WORKPLACE

Stella frequently collaborates with its brand partners to share experiences and resources to create a safer workplace for our employees. In 2011, we partnered with Cole Haan to provide comprehensive Environment Safety Health (ESH) training to our workforce. These sessions focused on improving work safety standards, particularly the avoidance of occupational hazards associated with the handling of chemicals and the use of certain equipment.

We also provided first-aid and fire-safety training to our employees throughout the year in order to further improve safety awareness and response times.

ENGAGING AND SUPPORTING OUR WORKFORCE

The success of our business is dependent on nurturing and retaining a motivated and fully-engaged workforce and we have continued to work hard to relive some of the pressures that our employees face working far from home.

Throughout the year, we have greatly reduced the number of overtime hours completed by our employees in order to provide better working conditions and meet international standards, while also ensuring they have more time to pursue recreational activities, recharge mentally and adopt a more balanced lifestyle. This also allowed employees to approach work with a healthier mind-set, while reducing our staff turnover.

Management engaging with employees

Retail staffs accept an award

An employee practices on a CPR training mannequin

Performers at a Mid-Autumn Festival event organised by Stella

Children's Day performers

Motivated and fully-engaged workforce is the success of our business

As part of this effort, we organised a number of recreational and cultural events throughout the year to provide employees with an outlet for their sporting and creative passions and further improve their physical and mental health.

Many of these activities, including singing competitions, sweepstakes and variety shows, were held in conjunction with annual holidays such as New Year's Day, Lunar New Year and the Mid-Autumn Festival. We were also especially thrilled to support Children's Day on 1 June when we arranged an evening of performances, present-giving and other fun activities to bring working parents and their children together.

We also arranged a number of friendly karaoke, basketball, Chinese chess and table tennis competitions throughout the year to promote greater participation and social activity among our employees. We also arranged a number of informal sporting carnivals at our factories throughout the year.

As a further stress reliever for our employees, we also arranged excursions to local theme parks, temples, nature parks and other places of interest in order to provide employees with more opportunities for entertainment and leisure, as well as a break from their working lives.

REINFORCING THE HEALTH AND CONTINUOUS DEVELOPMENT OF EMPLOYEES

As a responsible employer, Stella takes the physical and mental health of its employees seriously. We regularly arrange free on-site medical check-ups for our employees and opened a mental health centre alongside our Dalingshan factory this year for the benefit of our employees.

In addition, the Group organised a number of team building and personal development sessions throughout the year, in order to foster a strong culture of workplace camaraderie and promote the overall well-being of our

Employees take part in a sporting carnival employees. These sessions also allowed employees to foster their leadership and communications skills, as well as their ability to meet personal and professional challenges.

WORKPLACE RECOGNITION

Stella applies a number of workplace incentives to reward employees for their performance and achievements. We introduced an award program in our retail division which recognises store teams and individual employees for their important contribution to our business. These included awards for 'Best Sales', 'Best Customer Service' and 'Best Smile'.

WORKPLACE DIVERSITY

Stella employs a diverse and hard-working workforce and we take pride in our ability to provide a safe and harmonious work environment for all our employees. We are committed to treating all employees equally and with respect, regardless of gender, age, marital status, religion or ethnic background.

In support of this policy, we regularly put in place measures to support and accommodate the specific needs of some of our employees, for example, holding events to mark Eid al-Adha for employees from the Xinjiang Uyghur Autonomous Region.

As we enter a new year, we remain committed to expanding our contribution to the local community and the environment as our business continues to grow. We look forward to introducing more corporate social responsibility best practices and seeing Stella become a benchmark for all PRC manufacturers and retailers in the years to come.

SUPPORTING WORTHY CAUSES

Stella was very pleased to support Project Hope (希望工程), a longstanding public service project that sets up schools for disadvantaged children in rural China, donating school bags and stationery to one of its schools in Qingyuan, Guangdong Province.

Since 1989, Project Hope has raised over RMB 6.03 billion to provide education to more than 3.49 million students.

Employees take advantage of medical check-ups provided by Stella

Student at Project Hope receiving our donation

Employees dress up to celebrate Eid al-Adha

Working together to overcome problems during a team building session

corporate governance report

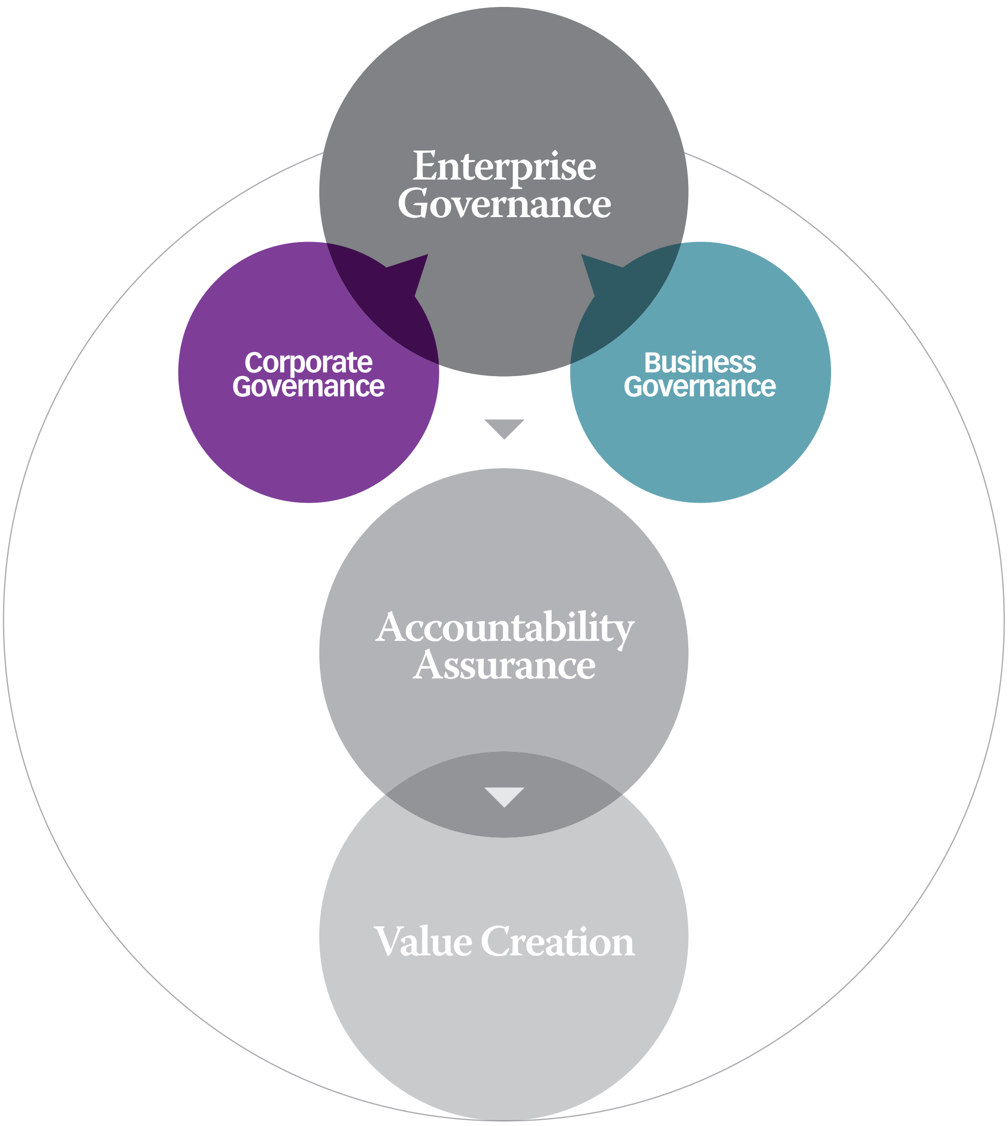
building and protecting long-term value

Corporate Governance Report

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited (the "Company") and management of the Company and its subsidiaries (collectively, the "Group") are committed to achieving high standards of corporate governance to ensure and enhance a high standard of corporate governance practices through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders").

GOVERNANCE MODEL

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



GOVERNANCE FRAMEWORK

The Company's governance framework embodies the following:

- Terms of reference of various Board committees (Audit Committee, Corporate Governance Committee, Nomination Committee and Remuneration Committee)

- Compliance Manual

- Connected Transactions Manual

- Corporate Disclosure Policy

Corporate Governance Committee

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

4 Rs

Focusing on the 4 Rs – regulatory compliance, risk management, investor relations and corporate social responsibilities, the Corporate Governance Committee's principal roles and functions, as disclosed in greater detail in its terms of reference, include the following major aspects:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

2. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

3. to review the Company's compliance with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and disclosure in the corporate governance report set out in the Company's annual and interim reports; and

4. to review and monitor the Company's communication policy and practices with its shareholders and investor communities.

In response to the recent amendments to the Code, the terms of reference of the Corporate Governance Committee were revised in March 2012 such that the duties of the Corporate Governance Committee are expanded to include, among others, the reviewing and monitoring of training and continuous professional development of Directors and senior management.

During the year ended 31 December 2011, two Corporate Governance Committee meetings were held, and the attendance records are set out below:

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

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

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

(ii) reviewed legal and regulatory compliance;

(iii) monitored the progress of internal control system and enterprise risk mitigation program;

(iv) monitored investor relations activities; and

(v) monitored the progress of succession planning and leadership development program.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions of the Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2011 except for code provision E.1.2, details of which are disclosed below. Save for the deviation from code provision E.1.2, the Group has been in compliance with the Code in all material respects and has upheld a high standard of corporate governance by adopting practices for corporate governance which, the Directors believe, are of higher standard than that required under the Code in various aspects.

Following the publication of the "Consultation Conclusions on Review of the Corporate Governance Code and Associated Listing Rules" by the Stock Exchange in October 2011, other than those rules and code provisions requirements that have already been part of the Group's existing corporate governance practices, the Company has adopted measures and practices to comply with most of the new rules and code provisions, where relevant, in advance of the relevant implementation dates. Details of our early adoption of practices to comply with the new rules and code provisions requirements are set out later in this report.

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

A. Directors

A.1 The Board

Principle

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

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

The management of the day-to-day operations of the Group is delegated by the Board to the management. In addition, the Board has established various Board committees to discharge their respective responsibilities set out in their respective terms of reference.

Code Provisions	Compliance	Corporate Governance Practices
A.1.1 The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and to involve active participation of a majority of directors.	✓	The Directors' attendance records for the year 2011 are set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. Chiang Jeh-Chung, Jack (Chairman) — 2/7 *(note 1)* Mr. Shih Takuen, Daniel (Deputy Chairman) — 5/7 Mr. Chao Ming-Cheng, Eric — 6/7 Mr. Chen Li-Ming, Lawrence (Chief Executive Officer) — 7/7 Mr. Chi Lo-Jen — 5/7 **Independent Non-executive Directors** Mr. Chu Pao-Kuei — 7/7 Mr. Ng Hak Kim, *SBS, JP* — 7/7 Mr. Chen Johnny — 6/7 Mr. Bolliger Peter — 7/7 **Relationships among the members of the Board** Mr. Chiang Jeh-Chung, Jack is the uncle of Mr. Chi Lo-Jen. Mr. Shih Takuen, Daniel is the brother-in-law of Mr. Chen Li-Ming, Lawrence. Save as aforementioned, there is no other family relationship between any of the Directors, nor are there any financial, business or other material or relevant relationships among the members of the Board. *Note 1* Mr. Chiang Jeh-Chung, Jack attended only two Board meetings during the year due to the following reasons: (1) the different allocation of responsibilities between the Chairman and Deputy Chairman as referred to A.2 in this report; and (2) some of the Board meetings scheduled had clashed with Mr. Chiang Jeh-Chung, Jack's other business commitments. Nonetheless, Mr. Chiang Jeh-Chung, Jack had conveyed his messages to the Board and given his opinions to the matters discussed at the Board meetings through the Deputy Chairman, Mr. Shih Takuen, Daniel, to ensure that he had fully discharged his duties and responsibilities as a director, contributed actively to the Board deliberations and that the Board acts in the best interests of the Group. Moreover, Mr. Chiang Jeh-Chung, Jack communicates with the executive management on a regular basis to ensure that strategic direction is properly aligned and all executive Board members share the same goal in terms of utilising and allocating Group resources.

Code Provisions	Compliance	Corporate Governance Practices
A.1.2 Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.	✓	Draft agenda of regular Board meetings are made available to all Directors in advance so that they may include any additional matters they consider appropriate in the agenda.
A.1.3 Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For other board meetings, reasonable notice should be given.	✓	At least 14 days formal notice has been given to all Directors for regular Board meetings. Regular Board meetings in 2012 have already been scheduled to ensure compliance with the Code and to facilitate Directors' attendance.
A.1.4 All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	✓	All Directors have full access to the advice and services of the company secretary of the Company ("Company Secretary") and legal and professional consultants of the Company, whenever necessary, to ensure compliance with applicable laws, rules and regulations, and corporate governance practices. The Company Secretary supports the Board by ensuring good information flow within the Board and that the Board's policies and procedures are followed. The Company Secretary is responsible for advising the Board through the Deputy Chairman, being the Chairman of the Corporate Governance Committee, on governance matters and she also facilitates induction and professional development of Directors. The Company Secretary is an employee of the Company and have day-to-day knowledge of the Company's affairs. The Board approves the selection, appointment or dismissal of the Company Secretary. The Company Secretary reports to the Chief Executive Officer.

Code Provisions	Compliance	Corporate Governance Practices
A.1.5 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and such minutes should be open for inspection at any reasonable time on reasonable notice by any director.	✓	The Company Secretary is responsible for preparing minutes of all Board meetings and Board committee meetings; the final versions of which are available for the Directors' inspection at the Company's principal place of business.
A.1.6 Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of board meetings should be sent to all directors for their comment and records respectively within a reasonable time after the board meeting is held.	✓	Minutes of Board meetings and Board committee meetings have recorded in sufficient detail all matters discussed and resolved at such meetings. Draft minutes are circulated to all Directors for comment within a reasonable time after each meeting and final versions of the minutes are circulated to all Directors for records.
A.1.7 There should be a procedure agreed by the board to enable directors to seek independent advice in appropriate circumstances at the issuer's expense. The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the issuer.	✓	Directors have been advised in the Directors' appointment letters/service agreements that they are entitled to seek external independent legal advice at the Company's expense. No request was made by any Director for such independent professional advice during the year under review.

Code Provisions	Compliance	Corporate Governance Practices
A.1.8 If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee but a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	✓	Directors are required to declare their interest, if any, in matters before Board meetings, or if such matters are dealt with by written resolutions, in such resolutions. In case the Director(s) concerned has a material conflict of interest, the Director(s) concerned has abstained from voting on the relevant board resolution and is not counted towards the quorum.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
A.1.9 An issuer should arrange appropriate insurance cover in respect of legal action against its directors.	✓	A Directors and Officers Liability Insurance Policy has been arranged to cover the liability of the Company's Directors and officers.
A.1.10 Board committees should adopt the principles, procedures and arrangements set out in A.1.1 to A.1.8 under the Code.	✓	The Board committees of the Company, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee were established in June 2007. All Board committees have principally adopted the same principles, procedures and arrangements set out in A.1.1 to A.1.8 under the Code.

A.2 Chairman and Chief Executive Officer

Principle

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. Such division of responsibilities has been formalised and set out in writing. The respective responsibilities borne by the Chairman and the Chief Executive Officer are:

Chairman's responsibilities:

- Determines broad strategic direction
- Provides leadership of the Board
- Facilitates effective contribution from non-executive Directors
- Supports and advises, and manages the CEO's performance in terms of realisation of Group's objectives determined by the Board
- Ensures good corporate governance practices and procedures are established
- Maintains an effective communication between the Board, management of the Company and shareholders generally

Chief Executive Officer's responsibilities:

- Provides leadership for the management
- Oversees the realisation by the Group of the objectives determined by the Board
- Provides information to the Board as is necessary to enable the Board to monitor the performance of management
- Leads the management of the Group's relationship with its stakeholders
- Puts in place programmes for management development and succession
- Establishes and maintains proper internal controls and internal audit systems
- Discharges such duties and authorities as may be delegated in writing to him/her by the Board

Appreciating the significant role of the Chairman in providing leadership for the Board, the position of Deputy Chairman has been put in place to assist the Chairman to discharge his responsibilities. Specifically, 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 Shareholders. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of our stakeholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Code Provisions	Compliance	Corporate Governance Practices
A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	✓	The roles of the Chairman and Chief Executive Officer are separate and have been performed by separate individuals. The division of responsibilities between the two positions have been clearly established and set out in writing.
A.2.2 The chairman should ensure that all directors are properly briefed on issues arising at board meetings.	✓	With the support of the Deputy Chairman, executive Directors, senior management and the Company Secretary, the Chairman ensures that all Directors are properly briefed on issues arising at Board meetings..

Recommended Best Practices	Compliance	Corporate Governance Practices
A.2.3 The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.	✓	The information and/or analyses required for the Board's consideration and decision making are included in Board papers that are normally sent to Directors for their review in a timely manner.
A.2.4 One important role of the chairman is to provide leadership for the board. The chairman should ensure that the board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the board in a timely manner. The chairman should be primarily responsible for drawing up and approving the agenda for each board meeting taking into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda.	✓	Such roles are set out in writing and, with the support of the Deputy Chairman, such roles have been complied with.
A.2.5 The chairman should take responsibility for ensuring that good corporate governance practices and procedures are established.	✓	The Chairman and the Deputy Chairman, being also the chairman of the Corporate Governance Committee, will ensure that high standard of corporate governance practices are established and complied with in the Company.
A.2.6 The chairman should encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that the board acts in the best interests of the issuer.	✓	Such roles are set out in writing and have been complied with.
A.2.7 The chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.	✓	The Chairman and the Deputy Chairman maintain open dialogue with individual independent non-executive Directors to ensure that communication is effective.
A.2.8 The chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the board as a whole.	✓	Please refer to the section E as described later in this report.
A.2.9 The chairman should facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors.	✓	Effective contribution of non-executive Directors and communication between executive and non-executive Directors are achieved through discussions in Board meetings, various Board committee meetings and other Board activities/ programmes such as the "Corporate Leadership Programme".

A.3 Board composition

Principle
To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, a policy of selection and nomination of Directors has been established and set out in writing. Its policy statement is:

Directors are selected and nominated based on their experience, competencies, skills, geographical network capabilities and cross-border experiences in pursuit of maintaining a Board of diversified background and competencies, in order to contribute to more effective Board deliberations and business directions of the Group.

There is a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment. The independent non-executive Directors are of diversified background and competencies, with appropriate professional qualifications and/or extensive knowledge and experience in their respective business undertakings.

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

Code Provisions	Compliance	Corporate Governance Practices
A.3.1 The independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the issuer.	✓	The composition of the Board, by category, is disclosed in all corporate communications.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
A.3.2 An issuer should appoint independent non-executive directors representing at least one-third of the board.	✓	
A.3.3 An issuer should maintain on its website an updated list of its directors identifying their role and function and whether they are independent non-executive directors.	✓	The Company has maintained on its website an updated list of its Directors identifying their role and function and whether they are independent non-executive Directors. Since 21 March 2012, the Company has also maintained the list of Directors on the Stock Exchange's website in accordance with the revised Code.

A.4 Appointments, re-election and removal

Principle

The Company has maintained a formal, considered and transparent procedure for appointment of new directors. There are in place procedures for the selection and nomination of new Directors to the Board. The appointments of Directors are first reviewed by the Nomination Committee; the recommendations of the Nomination Committee are then proposed to the Board for approval.

The Board has also reviewed the Group's succession planning for senior appointments from time to time.

Code Provisions	Compliance	Corporate Governance Practices
A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election.	✓	
A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	✓	
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
A.4.3 If an independent non-executive director serves more than nine years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders.	N/A	No independent non-executive Director has served the Board for more than nine years.

Recommended Best Practices	Compliance	Corporate Governance Practices
A.4.4 Issuers should establish a nomination committee. A majority of the members of the nomination committee should be independent non-executive directors.	✓	The Company established the Nomination Committee pursuant to a resolution of all Directors passed on 15 June 2007. The Nomination Committee has four members comprising three independent non-executive Directors, Mr. Chen Johnny, Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *SBS, JP* and an executive Director, Mr. Shih Takuen, Daniel. The chairman of the Nomination Committee is Mr. Chen Johnny. During the year ended 31 December 2011, one Nomination Committee meeting was held and the attendance record is set out below: **Name** — **Attendance** Mr. Chen Johnny — 1/1 Mr. Chu Pao-Kuei — 1/1 Mr. Ng Hak Kim, *SBS, JP* — 1/1 Mr. Shih Takuen, Daniel — 0/1 During the year, the following work has been performed by the Nomination Committee: (i) considered the re-appointment of independent non-executive Directors and executive Directors; (ii) made recommendation as to which Directors shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election; and (iii) assessed the independence of independent non-executive Directors.

Recommended Best Practices	Compliance	Corporate Governance Practices
A.4.5 The nomination committee should be established with specific written terms of reference which deal clearly with the committee's authority and duties.	✓	The Nomination Committee was established with specific written terms of reference which deal clearly with its authority and duties. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become board members and selecting or making recommendations to the board on the selection of individuals nominated for directorship, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.
A.4.6 The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board.	✓	The terms of reference of the Nomination Committee are posted on the website of the Company. A copy of the terms of reference is available on request. Since 21 March 2012, the Company has also posted the terms of reference on the Stock Exchange's website in accordance with the revised Code.
A.4.7 The nomination committee should be provided with sufficient resources to discharge its duties.	✓	The Nomination Committee has been provided with sufficient resources to discharge its duties. In particular, the Nomination Committee is authorised to obtain independent professional advice, and any expenses incurred shall be borne by the Company.
A.4.8 Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe the individual should be elected and the reasons why they consider the individual to be independent.	✓	No such proposal was made in 2011.

A.5 Responsibilities of directors

Every Director knows his responsibilities as a Director and of the conduct, business activities and development of the Group.

Code Provisions	Compliance	Corporate Governance Practices
A.5.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.	✓	All newly appointed Directors have received a comprehensive, formal and tailored induction on the first occasion of their appointments and all non-executive Directors have been briefed by the Company's executive Directors and senior management on the Group's business. This is to ensure that they have proper understanding of the operations and business of the Group and that they are aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other relevant regulatory requirements and the governance practices of the Company.
A.5.2 The functions of non-executive directors should include the following: (a) bring an independent judgment on strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings; (b) take the lead when potential conflicts of interests arise; (c) serve on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinise issuer's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance.	✓	The independent non-executive Directors have exercised independent judgment on issues discussed at Board meetings. They have also scrutinised the Company's performance by reviewing the business and financial performance updates at regular Board meetings and following up any outstanding issues after such meetings.
A.5.3 Every director should ensure that he can give sufficient time and attention to the affairs of the issuer and should not accept the appointment if he cannot do so.	✓	All executive Directors have in-depth industry knowledge and established track record, whose interests are aligned with that of the Company. The independent non-executive Directors have brought a wide spectrum of their extensive knowledge and experience in their respective business undertakings to the Board for the fullest performance of its functions.

Code Provisions	Compliance	Corporate Governance Practices
A.5.4 Directors must comply with the Model Code set out in Appendix 10 to the Listing Rules and the board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.	✓	The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the year. The persons occupying the following positions are regarded as the relevant employees of the Company subject to the restrictions on dealings in the Company's shares under the Model Code: Chief Executive Officer Chief Operating Officer Chief Financial Officer Treasurer Group Financial Controller Company Secretary Investor Relations Manager Divisional Head of Women's Footwear Divisional Head of Men's Footwear Divisional Head of Retail Business
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
A.5.5 All directors should participate in a programme of continuous professional development and the issuer should be responsible for arranging and funding a suitable development programme.	✓	The Company is responsible for arranging and funding continuous professional development programme for the Directors, such as in-house discussion sessions and external conferences. As part of the continuous professional development programme, various Directors participated in a Corporate Leadership Programme, the details of which are disclosed under B.1.1.
A.5.6 Each director should disclose to the issuer at the time of his appointment, and on a periodic basis, the number and nature of offices held in public companies or organisations and other significant commitments.	✓	The Directors have disclosed to the Company at the time of appointment and in a timely manner for any change of their offices held in public companies or organisations and other significant commitments.

Recommended Best Practices	Compliance	Corporate Governance Practices
A.5.7 Non-executive directors should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation.	✓	Please refer to the disclosure made under A.1.1, A.5.2 and A.5.3 in this report.
A.5.8 Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	✓	Please refer to the disclosure made under A.5.2 and A.5.3 in this report.

A.6 Supply of and access to information

Principle

Directors have been provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and to perform their duties and responsibilities as Directors.

Code Provisions	Compliance	Corporate Governance Practices
A.6.1 In respect of regular board meetings, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of board meeting or board committee meeting (or such other period as agreed).	✓	Board papers are sent to the Directors for review at such period as agreed before the Board or Board committee meetings.
A.6.2 Management has an obligation to supply the board and its committees with adequate information, which must be complete and reliable, in a timely manner to enable it to make informed decisions. Directors should make further enquiries and require more information than is volunteered by management where necessary. The board and each director should have separate and independent access to the issuer's senior management.	✓	The relevant senior management attends all regular meetings of the Board and its committees to present the Group's business/financial performance to the Board and answer all questions of the Board on the matters discussed at such meetings. The Directors have separate and independent access to the Company's senior management to keep themselves abreast of business activities, financial performance, internal audit and internal control progress in the Group.
A.6.3 All directors are entitled to have access to board papers and related materials in proper form and quality. Where queries are raised by directors, steps must be taken to respond as promptly and fully as possible.	✓	Please refer to the disclosure made under A.6.1 and A.6.2 in this report.

B. Remuneration of Directors and Senior Management

B.1 The level and make-up of remuneration and disclosure

Principle
There is sufficient disclosure on Directors' remuneration policy and other remuneration related matters. A formal and transparent procedure for setting policy on executive Directors' remuneration and for fixing the remuneration packages for all Directors has been in place. No Director has been involved in deciding his/her own remuneration.

Code Provisions	Compliance	Corporate Governance Practices
B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.	✓	The Company established the Remuneration Committee pursuant to a resolution of all Directors passed on 15 June 2007. The Remuneration Committee has three members comprising two independent non-executive Directors, Mr. Ng Hak Kim, *SBS, JP.* and Mr. Chu Pao-Kuei and an executive Director, Mr. Shih Takuen, Daniel. The chairman of the Remuneration Committee is Mr. Ng Hak Kim, *SBS, JP.* The Remuneration Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties. During the year ended 31 December 2011, two Remuneration Committee meetings were held, and the attendance records are set out below: **Name** — **Attendance** Mr. Ng Hak Kim, *SBS, JP* — 2/2 Mr. Chu Pao-Kuei — 2/2 Mr. Shih Takuen, Daniel — 1/2 During the year, the following work has been performed by the Remuneration Committee: (i) reviewed the Group's overall human resources management strategic plan; (ii) reviewed the proposed amendment of employees' incentive scheme to include consultants and advisers as eligible participants; (iii) studied performing HR audit on the Company's human resources system; and (iv) discussed remuneration of Directors and senior management. **Corporate Leadership Programme** During the year, Mr. Ng Hak Kim, *SBS, JP*, the chairman of the Remuneration Committee, together with the Deputy Chairman and Chief Executive Officer, continued to lead the corporate leadership programme, which was first introduced in 2009. In May 2011, constructive discussions were held among Board members and senior management in relation to the implementation of the programme, as a result of which the vision, mission and targeted implementation deliverables (first stage being in the retail sector) were pinned down. The objective of the programme is in line with the Group's belief that "human resources are the most significant assets to the Group's development and expansion". The Board also believes that, programme of such nature can help promote the Company's core values in the long-run.

Code Provisions	Compliance	Corporate Governance Practices
B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	✓	The procedure for setting policy on executive Directors' remuneration is as follows: (i) The Company's management makes recommendations to the Remuneration Committee on the executive Directors' remuneration; (ii) the Remuneration Committee then reviews these recommendations (with access to professional advice if considered necessary and at the Company's expense) and proposes the final remuneration package to the Board for approval; and (iii) No Director or any of his or her associates is involved in deciding his or her own remuneration.
B.1.3 The terms of reference of the remuneration committee should include the following specific duties: (a) to make recommendations to the board on the issuer's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for remuneration policy; (b) to determine specific remuneration packages of all executive directors and senior management; (c) to review and approve performance-based remuneration; (d) to review and approve the compensation payable to executive directors and senior management in connection with loss or termination of office or appointment; (e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct; and (f) to ensure that no director is involved in deciding his own remuneration.	✓	The terms of reference of the Remuneration Committee has followed closely the Code requirements. The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal, fair and transparent procedure for developing remuneration policy, reviewing the Company's overall human resources strategy and administration, making recommendations to the Board on the remuneration of non-executive Directors, considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group and ensuring that no Director or any of his associates is involved in deciding his own remuneration. In response to the revised Code, the terms of reference of the Remuneration Committee were revised in 21 March 2012 such that: (i) professional advice made available to the Remuneration Committee should be independent has been stated; (ii) the model by which the Remuneration Committee performs an advisory role to the Board, with the Board retaining the final authority to approve executive Directors' and senior management's remuneration, has been adopted; and (iii) the term "performance-based" describing executive Directors' and senior management's remuneration has been removed.
B.1.4 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	✓	The terms of reference of the Remuneration Committee are posted on the website of the Company. A copy of the terms of reference is available on request. Since 21 March 2012, the Company has also posted the terms of reference on the Stock Exchange's website in accordance with the revised Code.

Code Provisions	Compliance	Corporate Governance Practices
B.1.5 The remuneration committee should be provided with sufficient resources to discharge its duties.	✓	The Remuneration Committee has full access to the human resources personnel and senior management if required to obtain any information relating to the human resources structure of the Group so as to facilitate making appropriate remuneration-related recommendations and proposals. The Remuneration Committee also has access to independent professional advice at the Company's expense if considered necessary.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
B.1.6 A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.	✓	For the year ended 31 December 2011, the executive Directors' performance-based remuneration related to their executive roles constitutes 73% on average of the total remuneration.
B.1.7 Issuers should disclose details of any remuneration payable to members of senior management on an individual and named basis in their annual reports and accounts.	✗	To observe the competitive market practices and to respect individual privacy, the Company did not make such disclosure in its annual report and accounts.
B.1.8 Where the board resolves to approve any remuneration or compensation arrangements which the remuneration committee has previously resolved not to approve, the board must disclose the reasons for its resolution in its next annual report.	N/A	No such resolution for the year ended 31 December 2011.

C. Accountability and audit

C.1 Financial reporting

Principle

The Board should present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects.

Code Provisions	Compliance	Corporate Governance Practices
C.1.1 Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	✓	Before the commencement of a new financial year, annual business plan and budget are presented to the Board for approval. To evaluate the performance of the Group, presentation of business review and financial analysis of the Group is made to the Board by the management at Board meetings on a quarterly basis. Furthermore, starting from January 2012, the management provides monthly updates to the Board members, giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties. The monthly updates comprise internal financial information comparable to budget, industry peer comparison, as well as market intelligence.

Code Provisions	Compliance	Corporate Governance Practices
C.1.2 The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements. The directors should prepare the accounts on a going concern basis. When the directors are aware of material uncertainties that may cast significant doubt on the issuer's ability to continue as a going concern, such uncertainties should be clearly and prominently set out and discussed in the Corporate Governance Report.	✓	Directors and auditors of the Company have stated their responsibilities on pages 61 and 84 respectively of this annual report. The Board is responsible for the preparation of financial statements of the Company and ensuring that they give a true and fair view of the state of affairs of the Company according to the relevant statutory requirements and accounting standards. The Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Code Provisions	Compliance	Corporate Governance Practices
C.1.3 The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	✓	Legal advisers have been retained and are consulted from time to time to assist the board in ensuring that disclosures in financial reports, announcements and any other reports and statements have presented a balanced, clear and understandable assessment of the position of the Group. Under the management discussion and analysis section of the annual report, a separate statement has been made to describe the Group's business model and the strategy for delivering the Group's objectives.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.1.4 An issuer should announce and publish quarterly financial results within 45 days after the end of the relevant quarter.	✗	Please see the "voluntary initiatives – financial reporting" below.
C.1.5 Once an issuer decides to announce and publish its quarterly financial results, it should continue to adopt quarterly reporting for each of the first 3 and 9 months periods of subsequent financial years. Where the issuer decides not to announce and publish its financial results for a particular quarter, it should publish an announcement to disclose the reasons for such decision.	✗	Please see the "voluntary initiatives – financial reporting" below.

Voluntary initiatives – financial reporting:

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

(ii) In order to provide the Shareholders with pertinent information relating to the business and operations of the Company on a more timely basis, since the first quarter of 2009, the Company has voluntarily reported on its quarterly business development.

C.2 Internal controls

Principle

The Board should ensure that the Company maintains sound and effective internal controls to safeguard the Shareholders' investment and the Company's assets.

Code Provisions	Compliance	Corporate Governance Practices
C.2.1 The directors should at least annually conduct a review of the effectiveness of the internal control system of the issuer and its subsidiaries and report to the shareholders that they have done so in their Corporate Governance Report.	✓	The effectiveness of the internal control system (covering financial, operational and compliance controls and risk management functions) and specifically, the progress of internal audit (in various operating aspects such as fixed assets, sales, purchase, wage and production) are reviewed, and their respective weaknesses are identified, at the regular Audit Committee meetings. The findings at such meetings are reported subsequently at Board meetings. This enables the Directors to assess the effectiveness of the internal control system of the Group, which helps manage enterprise risks and improve its mitigation framework. The Board's annual review, in particular, considers the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. During the year, with the help of an independent professional accounting firm, the Group's internal control system and internal audit manual have been reviewed comprehensively and implemented according to internal operation flow and business environment changes. This system comprises 5 elements: control environment, risk assessment, control activities, information and communication, and monitoring. The internal control procedures of the Group include strategic control, management control and business process control. The internal control procedures are designed to safeguard the integrity of business processes (including financial and human assets, data/information and applicable systems), improve business effectiveness and efficiency, improve the quality of information for decision-making, as well as maintain a high standard of corporate governance. The internal control functions are vested in the internal audit team which reports directly to the Audit Committee and the Chief Operating Officer of the Company. Deloitte Touche Tohmatsu, the Company's external auditors, reported on matters concerning internal control of the Group for the year ended 31 December 2011 in accordance with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

Code Provisions	Compliance	Corporate Governance Practices
C.2.2 The board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.	✓	Please refer to the disclosure made under C.2.1 in this report.

Recommended Best Practices	Compliance	Corporate Governance Practices
C.2.3 The board's annual review should consider: (a) the changes since the last annual review in the nature and extent of significant risks; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control system; (c) the extent and frequency of the communication of the results of the monitoring to the board which enables it to build up a cumulative assessment of the state of control in the issuer and the effectiveness with which risk is being managed; (d) the incidence of significant control failings or weakness; and (e) the effectiveness of the issuer's processes relating to financial reporting and Listing Rule compliance.	✓	The Company's review has generally covered the aspects as referred to in C.2.3 of the Code.
C.2.4 Issuers should disclose as part of the Corporate Governance Report a narrative statement how they have complied with the code provisions on internal control during the reporting period.	✓	Please refer to the disclosure made under C.2.1 in this report..
C.2.5 Issuers should ensure that their disclosure provide meaningful information and do not give a misleading impression.	✓	Please refer to the disclosure made under C.2.1 in this report.

Recommended Best Practices	Compliance	Corporate Governance Practices
C.2.6 Issuers without an internal audit function should review the need for one on an annual basis and should disclose the outcome of such review in the issuers' Corporate Governance Report.	N/A	The Company has in place an internal audit function to discharge the duties mentioned in C.2.1 in this report.

C.3 Audit Committee

Principle
The Board should establish formal and transparent arrangements to consider how it will apply financial reporting and internal control principles and maintain an appropriate relationship with the Company's auditors.

The Company established the Audit Committee pursuant to a resolution of all Directors passed on 15 June 2007. For the year ended 31 December 2011, the Audit Committee had three members comprising all 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.

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

Name	Attendance
Mr. Chu Pao-Kuei	2/2
Mr. Ng Hak Kim, *SBS, JP*	2/2
Mr. Chen Johnny	2/2

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

(i) reviewed the effectiveness of financial reporting and accounting policies and practices;
(ii) reviewed the implementation of accounting system manual;
(iii) reviewed documentation and work plan for internal accounting and financial reporting system structure;
(iv) reviewed the effectiveness of the internal control and risk management system;
(v) reviewed the findings of internal audit;
(vi) reviewed continuing connected transactions;
(vii) reviewed and discussed interim and annual results; and
(viii) monitored the Group's tax planning.

External Auditors and Auditors' Remuneration
The remuneration paid/payable to the external auditors of the Company, Deloitte Touche Tohmatsu, in respect of audit services and non-audit services provided to the Group for the year ended 31 December 2011 was US$525,000 and US$186,000 respectively. The external auditors will not be employed for non-audit services unless this constitutes permissible non-audit services which should be endorsed by the Audit Committee.

Code Provisions	Compliance	Corporate Governance Practices
C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of audit committee should be sent to all members of the committee for their comment and records respectively within a reasonable time after the meeting.	✓	The Company Secretary is responsible for preparing minutes of all Audit Committee meetings and such minutes have recorded in sufficient detail all matters discussed and resolved at such meetings. Draft minutes are circulated to all members for comment within a reasonable time after each meeting and final version of the minutes is circulated to all the Directors for records.
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for a period of 1 year commencing on the date of his ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.	✓	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.3.3 The terms of reference of the audit committee should include the duties covering at least the following aspects: (a) Relationship with the issuer's auditors; (b) Review of financial information of the issuer; (c) Oversight of the issuer's financial reporting system and internal control procedures.	✓	The Audit Committee was established with specific written terms of reference which have complied with the Code requirements. The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations. As a voluntary initiative, the Audit Committee meets with the external auditors annually in the absence of the Company's management, to discuss matters relating to audit fees, any issues arising from the audit and any other matters the external auditor or the Audit Committee may wish to raise.
C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	✓	The terms of reference are posted on the website of the Company. A copy of the terms of reference is available on request. Since 21 March 2012, the Company has also posted the terms of reference on the Stock Exchange's website in accordance with the revised Code.
C.3.5 Where the board disagrees with the audit committee's views on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reasons why the board has taken a different view.	N/A	During the year, there was no such disagreement, but the Board shall endeavour to comply with the requirement when such situation arises.

Recommended Best Practices	Compliance	Corporate Governance Practices
C.3.6 The audit committee should be provided with sufficient resources to discharge its duties.	✓	The Audit Committee has full access to the executive Directors, the senior management and internal audit team for any information relating to the Company's financial performance, financial reporting system, internal control system and risk management system to facilitate the process of making appropriate recommendations and proposals. In addition, the Audit Committee may obtain advice from the external legal and other independent professional advice whenever they consider necessary. In particular, relevant professional advice has been sought for the following matters: (i) implementation of the accounting system procedures; (ii) review of internal control system and internal audit manual; and (iii) review of the Group's tax structure.
C.3.7 The terms of reference of the audit committee should also require the audit committee: (a) to review arrangements by which employees of the issuer may raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up actions; and (b) to act as the key representative body for overseeing the issuer's relation with the external auditor.	✓	The terms of reference of the Audit Committee have covered the two items as referred to C.3.7 of the Code. In response to the revised Code, the terms of reference of the Audit Committee were revised in 21 March 2012,such that the Audit Committee's duties shall include, among others, the establishment of a whistleblowing policy and system for employees and those who deal with the Company to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company.

D. Delegation by the Board

D.1 Management functions

Principle

The Company has established a formal schedule of matters specifically reserved for board approval. The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing. Such separation of responsibilities has been articulated under A.1 in this report.

Code Provisions	Compliance	Corporate Governance Practices
D.1.1 When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the issuer.	✓	Management meetings are held periodically where executive Directors and heads and senior management of the respective business divisions are present and clear directions are given as to the management's powers.
D.1.2 An issuer should formalise the functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.	✓	Please refer to the disclosure made under A.1 in this report.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
D.1.3 An issuer should disclose the division of responsibility between the board and management to assist those affected by corporate decisions to better understand the respective accountabilities and contributions of the board and management.	✓	Executive Directors assume the day-to-day management functions in their respective business divisions in the Group so that those affected by corporate decisions in each business division are fully aware of the division of responsibilities between the Board and the management.
D.1.4 Directors should clearly understand delegation arrangements in place. To that end, issuers should have formal letters of appointment for directors setting out the key terms and conditions relative to their appointment.	✓	The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing.

D.2 Board Committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

Code Provisions	Compliance	Corporate Governance Practices
D.2.1 Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	✓	The Board committees were established with their respective specific terms of reference.
D.2.2 The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	✓	This requirement is satisfied in the respective terms of reference of each Board committee of the Company.

E. Communication with Shareholders

E.1 Effective communication

Principle

The Board endeavours to maintain an on-going dialogue with the Shareholders and in particular, use annual general meetings or other general meetings, financial reports and corporate websites to communicate with the Shareholders. In addition, the Company's spokesmen meet with research analysts and the press on a regular basis, attend major investors' conferences and participate in international non-deal roadshow in order to maintain a continuing communication with the institutional analysts, investors and financial media.

Communication with Shareholders

The Company maintains a Corporate Disclosure Policy since its adoption by the Board in 2010, on which the framework of Shareholders' communication policy is built. In the Corporate Disclosure Policy, the following major aspects are dealt with:

(a) to determine the authorised Company spokespersons and their responsibilities;
(b) to give guidelines to employees;
(c) to determine policy on communicating with media;
(d) to determine policy on meetings with analysts and on reviewing analyst reports;
(e) to determine policy on commenting on analysts' earnings estimates and earnings forecasts;
(f) to determine policy on responding to rumours; and
(g) to determine policy on forward-looking statements.

Shareholders' Rights

(a) How Shareholders can convene an extraordinary general meeting

In accordance with article 58 of the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(b) The procedures for sending enquiries to the Board

Shareholders may put enquiries to the Board (i) in writing to the Company's registered office in Hong Kong (Suites 3003-04, 30/F, Tower 2, The Gateway, 25 Canton Road, Tsimshatsui, Kowloon, Hong Kong) for attention to the Company Secretary or (ii) by email at stella@stella.com.hk or (iii) by attending the Company's annual general meeting or extraordinary general meeting.

(c) The procedures for putting forward proposals at Shareholders' meetings

(i) proposal relating to election of a person other than a Director as a Director

In accordance with article 88 of the Company's articles of association, if a Shareholder wishes to propose a person other than a Director for election as a Director at any general meeting, a notice signed respectively by that Shareholder giving his intention to propose such person for election and stating the full name of the person proposed for election as a Director, including the person's biographical details as required by rule 13.51(2) of the Listing Rules, and also the person to be proposed of his willingness to be elected as Director, be lodged at the Company's registered office in Hong Kong (Suites 3003-04, 30/F, Tower 2, The Gateway, 25 Canton Road, Tsimshatsui, Kowloon, Hong Kong) attention to the Company Secretary. The minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notices shall commence on the day after dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

In response to the revised Code, in March 2012, the Company has published the above procedures relating to Shareholder's right to propose a person for election as a Director on the Company's website.

(ii) other proposals

If a Shareholder wishes to make other proposals at Shareholders' meeting, he may lodge a written request, duly signed, at the Company's registered office in Hong Kong (Suites 3003-04, 30/F, Tower 2, The Gateway, 25 Canton Road, Tsimshatsui, Kowloon, Hong Kong) attention to the Company Secretary.

Significant changes in constitutional documents

During the year, there is no change in the Company's memorandum and articles of association.

Code Provisions	Compliance	Corporate Governance Practices
E.1.1 In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	✓	In the annual general meeting held on 6 May 2011 ("2011 AGM"), separate resolutions were proposed by the chairman of the meeting in respect of each substantially separate issue in accordance with E.1.1 of the Code. The 2011 AGM was held on 6 May 2011 at the Marco Polo Hong Kong Hotel, Harbour City, Kowloon, Hong Kong. The major items discussed are set out below: (i) to approve the audited consolidated financial statements of the Group and the report of the Directors and auditors; (ii) to declare a final dividend; (iii) to re-elect Directors; (iv) to re-appoint auditors; (v) to grant general mandate to Directors to issue additional shares in the Company, not exceeding 10% of the issued share capital; (vi) to grant general mandate to Directors to purchase shares in the Company not exceeding 10% of the issued capital; and (vii) to approve the amendment to the long term incentive scheme of the Company. All resolutions were conducted by poll and approved by Shareholders. The results of the voting have been published on the Company's website and the website of the Stock Exchange.
E.1.2 The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the annual general meeting. The chairman of the independent board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Partially complied with	The Chairman had not attended the 2011 AGM. Instead, Mr. Shih Takuen, Daniel, the Deputy Chairman, 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. Please refer to the disclosure made under A.2 in this report. In addition, Deloitte Touche Tohmatsu, the Company's external auditors had attended the 2011 AGM to answer Shareholders' questions.

Code Provisions	Compliance	Corporate Governance Practices
E.1.3 The issuer should arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of all other general meetings.	✓	For the 2011 AGM, the notices to Shareholders were sent more than 20 clear business days before the meeting.

E.2 Voting by Poll

Principle
The Company should ensure that Shareholders are familiar with the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

Code Provisions	Compliance	Corporate Governance Practices
E.2.1 The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding voting by way of a poll.	✓	Detailed explanation regarding the procedures for demanding poll by Shareholders had been provided at the commencement of the 2011 AGM.

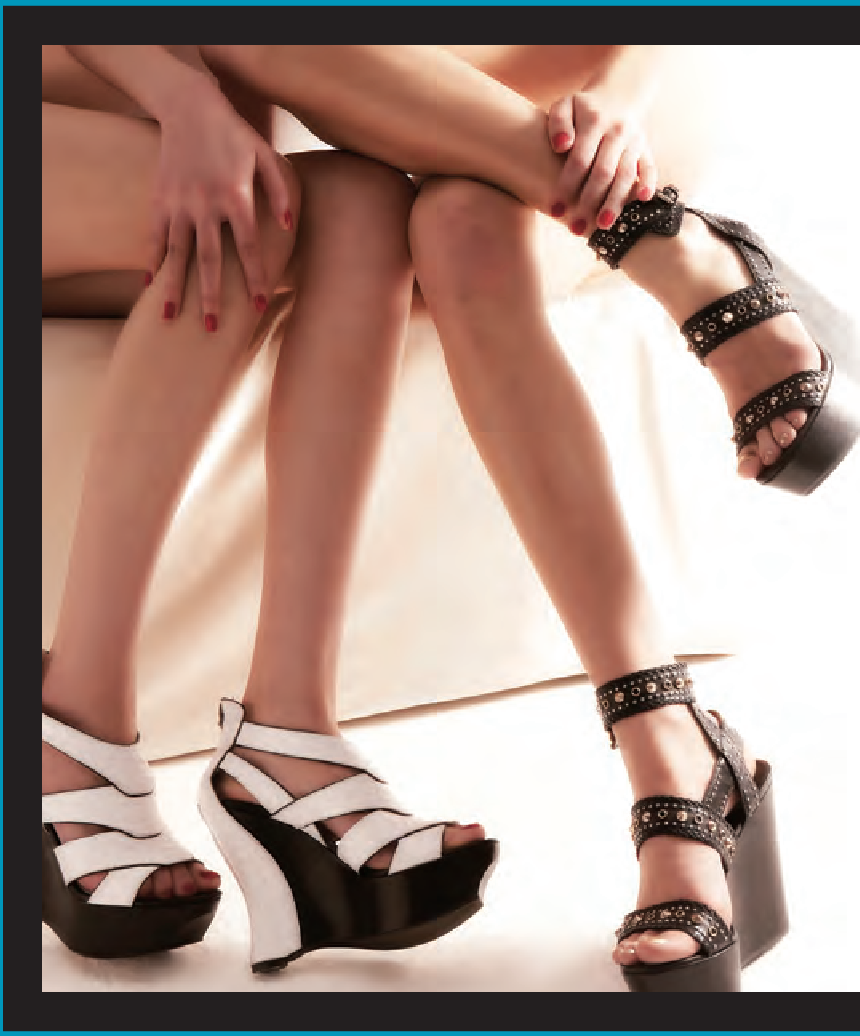
DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

The Directors acknowledge their responsibility for preparing the accounts for the year under review.

The Board has conducted a review of the effectiveness of the system of internal control of the Group for the year under review.

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

biographies of directors and senior management



experienced management which uphold Stella's core values

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHIANG Jeh-Chung, Jack, aged 61, is the Chairman of the Board and an Executive Director of the Company. Mr. Chiang has been with the Group since 1983 and is one of the founders of the Group. He is responsible for the Group's design, development, marketing and customer relationship. Mr. Chiang has over 29 years of experience in new product development and management in the footwear industry. He is also a director of Couture Accessories Distribution Limited, Stella International Marketing Company Limited, all of which are subsidiaries of the Company. He is the uncle of the Executive Director, Mr. Chi Lo-Jen, and is the brother-in-law of the Chief Operating Officer of the Group, Mr. Shieh Tung-Pi, Billy. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. SHIH Takuen, Daniel, aged 60, 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. Since May 2010, he has been appointed as an Independent Director of China Medicine Corporation, the shares of which are listed on the NASDAQ (OTC Bulletin Board: CHME). 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 a director of Couture Accessories Distribution Limited, N.O.I. Trading Company Limited, Stella Fashion (HK) Limited, Stella Fashion Tech (HK) Limited, Stella International Design Services Limited, Stella Luna Sol Limited., Stellaluna (Thailand) 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. Shih is the brother-in-law of the Executive Director, Mr. Chen Li-Ming, Lawrence. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHAO Ming-Cheng, Eric, aged 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 29 years of experience in management in the footwear industry. He holds a Bachelor of Commerce degree from the Tunghai University, Taiwan. He is also a director of Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Big Strength Limited, Bunda Footwear Company Limited, Capella Footwear Company Limited, Mission High Limited, Modern Novel Limited, Sapphire Technology Group Limited, Stella Logistics Limited, 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.), 威縣遠達製鞋有限公司 (Weixian Yuanda Manufactory Footwear Company Limited), all of which are subsidiaries of the Company. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHEN Li-Ming, Lawrence, aged 51, 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 26 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. He is also a director of Altair Footwear Company Limited, Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Big Strength Limited, Bunda Footwear Company Limited, Capella Footwear Company 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, Starry Thrive Limited, Stella Fashion Group Limited, Stella Fashion Tech (HK) Limited, Stella International Marketing Company Limited, Stella Logistics Limited, Stella Luna Sol Limited, Stella Services Limited, Subra Footwear Company Limited, Yang Fu 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. 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..

Mr. CHI Lo-Jen, aged 40, is an Executive Director of the Company. Mr. Chi joined the Group in 1995 and is the Chief Executive Officer of both of the Women's Footwear Business Division and the Retail Business Division of the Group. He is responsible for the supervision of the daily operations and business development of women's footwear business. Mr. Chi is also responsible for product design and development. He has over 16 years of experience in the footwear industry. He is also a director of Couture Accessories Distribution Limited, Stella Fashion Group Limited, Stella International Design Services Limited, all of which are subsidiaries of the Company. Mr. Chi is the nephew of the Chairman of the Board, Mr. Chiang Jeh-Chung, Jack. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHU Pao-Kuei, aged 80, 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.

Mr. NG Hak Kim, *SBS, JP, FHKIHRM, FHKIoD, FHKMA*, aged 59, is an Independent Non-executive Director of the Company, the chairman of the Remuneration Committee and a member of the Audit Committee, the Corporate Governance Committee and the Nomination Committee of the Board. Mr. Ng holds a Bachelor of Social Science degree from the Chinese University of Hong Kong and a Master of Social Science degree from the University of Hong Kong. He is a fellow member of Hong Kong Institute of Directors and The Hong Kong Management Association, and the chairman of Human Capital Management Consulting Ltd. Mr. Ng was the president of the World Federation of Personnel Management Associations from 2000 to 2002 and had been the president of Asia Pacific Federation of Human Resource Management for three years. He is a fellow member of Hong Kong Institute of Human Resource Management and had been the president for five years. He has been in the human resource profession for over 29 years. Prior to his last role up to January 2007 as Head of Human Resources for Macquarie Securities Asia, he had extensive human resources management experience with multinational corporations including JPMorgan Chase, Jardine Fleming, AT&T and Citibank, N.A. and industrial corporations including Motorola and Lucent Technology. His professional and community services include, among others, serving as the chairman of the Hong Kong Examination and Assessment Authority, the ex-deputy council chairman and chairman of Staff Committee of the Hong Kong Institute of Education, a member of the Audit Committee and Remuneration Committee of Hong Kong Housing Society, a member of Council, Strategic Planning Committee and Finance Committee and Chairman of Audit Sub-Committee of Hong Kong Housing Authority, a member of the Independent Police Complaints Council and chairman of its Management Committee. He was awarded Justice of Peace in 2004 and Silver Bauhinia Star Award in 2011 by the Chief Executive of the HKSAR government . Mr. Ng has been appointed as an Independent Non-executive Director of the Company since June 2007.

Mr. CHEN Johnny, aged 52, 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 the general insurance business, Asia Pacific Region of Zurich Insurance Group ("Zurich"). Mr. Chen is also a member of the Zurich's leadership team and the Asia Pacific Executive Committee. From 2007 to 2010, Mr. Chen was the chief executive officer of Greater China and South East Asia Regions of Zurich. From 2005 to 2007, Mr. Chen was the chief executive officer of Greater China of Zurich. Prior to joining Zurich, Mr. Chen was an executive member of the Greater China Management Board and of the Operating Committee of PricewaterhouseCoopers ("PwC"). He was also the managing partner of PwC's Beijing office during the same period. Mr. Chen has also been a director of the American Chamber of Commerce in China since 1995. Since 2005, Mr. Chen has been appointed as a non-executive director of New China Life Insurance Company Ltd. (Stock Code: 1336), the shares of which first commenced dealings on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2011. Since June 2010, Mr. Chen has been appointed as an independent non-executive director, and served as the chairman of the audit committee and a member of the remuneration committee of Viva China Holdings Limited (Stock Code: 8032), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chen received a master's degree in accounting from the University of Rhode Island and has been a U.S. qualified CPA since 1986. Mr. Chen has been appointed as an Independent Non-executive Director of the Company since February 2009.

Mr. BOLLIGER Peter, aged 67, is an Independent Non-executive Director of the Company. Mr. Bolliger had extensive experience in retail business with renowned department stores. From 1990 to 1994, he was the managing director of Harrods, London, the director of House of Fraser Plc and the chairman of Kurt Geiger, London (which is one of the leading luxury footwear retailers in Europe). Prior to these appointments, he had served at shoes companies, such as the managing director of A & D Spitz (Pty) Ltd., South Africa (1982 to 1990) and the managing director of Bally Shoes, Scandinavian Division, Denmark. In 1994, he joined Clarks and became the chief executive in 2002 until his retirement in May 2010. He is currently an independent non-executive director of GrandVision B.V., the second largest optical retail company in the world. Mr. Bolliger has been appointed as Independent Non-executive Director of the Company since October 2010.

SENIOR MANAGEMENT

Mr. SHIEH Tung-Pi, Billy, aged 54, is the Chief Operating Officer of the Group. Mr. Shieh has been with the Group since 1982. Mr. Shieh has over 29 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. He is also a director of Altair Footwear Company Limited, Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Big Strength Limited, Bunda Footwear Company Limited, Capella Footwear Company Limited, Mission High Limited, Modern Novel Limited, N.O.I. Trading Company Limited, Rigel Footwear Company Limited, Sapphire Technology Group Limited, Starry Thrive Limited, Stella Footwear Inc., Stella Logistics Limited, Stella Luna Sol Limited, Subra Footwear Company Limited, Yang Fu 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. 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.

Mr. LEE Kwok Ming, aged 54, is the Chief Financial Officer of the Group. He joined the Group in June 2006 and is responsible for the overall financial function of the Group. Prior to joining the Group, Mr. Lee assumed the position of chief financial officer in a number of listed companies in Hong Kong. Mr. Lee holds a Higher Diploma in Accountancy from the Hong Kong Polytechnic and a Master of Science degree in Business Administration from the University of Bath, United Kingdom. Mr. Lee is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants. He is also a director of Stella International Design Services Limited and Stellaluna (Thailand) Co., Ltd, both of which are subsidiaries of the Company.

Mr. CHANG Ching-Hung, aged 51, is the Vice President of the Men's Footwear Business Division of the Group. Mr. Chang has been with the Group since 1985. Mr. Chang has over 25 years of experience in the footwear industry. He holds a Bachelor of Civil Engineering degree from the Chung Yuan Christian University, Taiwan. He is also a director of Assets Heritage Limited, Pollux Footwear Company Limited, 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.) and 廣西興萊鞋業有限公司 (Guangxi Simona Footwear Co. Ltd.), all of which are subsidiaries of the Company.

Mr. CHEN Tung-Jui, aged 50, is the Vice President of the Men's Footwear Business Division of the Group. Mr. Chen has been with the Group since 1985. He has over 26 years of experience in the footwear industry. He is also a director of Pollux Footwear Company Limited, 廣西興鵬鞋業有限公司 (Guangxi Shenandoah Footwear Company Limited) and 廣西興萊鞋業有限公司 (Guangxi Simona Footwear Co. Ltd.), all of which are subsidiaries of the Company.

Mr. HUANG Wei-Ming, aged 42, is the Chief Operating Officer of the Men's Footwear Business Division of the Group. Mr. Huang has been with the Group since 1993. Mr. Huang has over 18 years of experience in the footwear industry. He holds a Bachelor of Arts degree in Liberal Arts and Sciences with a major in International Business from the San Diego State University, the United States.

Mr. CHU Chao-Min, aged 52, is the General Manager of Men's Footwear Business Division of the Group. Mr. Chu joined the Group in 1996 and he was assigned to Vietnam in 2002 to supervise the Group's production there. He is also responsible to oversee the manufacturing plants in Indonesia which were acquired by the Group in early 2012. Prior to joining the Group, he served in various footwear companies such as 東立產業股份有限公司 (Tong Li Realty Ltd.). Mr. Chu has over 18 years of experience in the footwear industry. He holds a Bachelor of Commerce degree from the Feng Chia University, Taiwan. He is also a director of P.T. Young Tree Industries and Subra Footwear Company Limited, both of which are subsidiaries of the Company.

directors' report

building and protecting long-term value

Directors' Report

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited (the "Company") is pleased to present the annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the Group are development, manufacturing, sales and retailing of footwear products. Particulars of the principal activities of the Company's subsidiaries are set out in note 34 to the consolidated financial statements of the Group for the year ended 31 December 2011.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 86.

The Board recommended the payment of a final dividend of HK68 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2011. The proposed final dividend, amounting to approximately US$69.6 million, will be paid to Shareholders whose names appear on the register of members of the Company on 9 May 2012, if the proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM"). It is expected that the final dividend will be paid on or about 18 May 2012.

In order to qualify for the proposed final dividend to be approved at the AGM, 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 4:30 p.m. on 9 May 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 2 May 2012 to 4 May 2012 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the forthcoming AGM of the Company, 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 4:30 p.m. on 30 April 2012.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company during the year ended 31 December 2011 are set out in the statement of changes in equity of the Group and note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2011 were US$296.0 million (2010: US$285.3 million).

DIRECTORS

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

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

Independent Non-executive Directors:
Mr. Chu Pao-Kuei
Mr. Ng Hak Kim, *SBS, JP*
Mr. Chen Johnny
Mr. Bolliger Peter

In accordance with article 87(1) of the Company's articles of association, Mr. Shih Takuen, Daniel, Mr. Chao Ming-Cheng, Eric and Chen Johnny will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

Save for the related party transactions disclosed in note 32 to the consolidated financial statements and the transactions described in the section headed "Continuing Connected Transactions" in this report, none of the Directors had, at any time during or at the end of the year under review, whether directly or indirectly, a material interest in any contract of significance in relation to the Group's business to which the Company or any of its subsidiary was a party.

Save for the related party transactions disclosed in note 32 to the consolidated financial statements and the transactions described in the section headed "Continuing Connected Transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries, and the controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) of the Company or any of its subsidiaries.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" and "Long Term Incentive Scheme" below, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors. The Company considers all of the independent non-executive Directors of the Company independent.

DISCLOSURE OF INTERESTS

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

As at 31 December 2011, 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") (Cap.571 of the Laws of Hong Kong), 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 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	Corporate Interest	Number of Underlying Shares	Total	Percentage of Shareholding Approximate
Bolliger Peter	Beneficial owner	150,000	–	–	150,000	0.02%
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%

Notes:

1. These interests were 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 were 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 were 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 were 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 represented 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 31 December 2011, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2011, 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	246,412,214	31.02%
Capital Research and Management Company	Investment manager	52,480,500	6.61%

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

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 32 to the consolidated financial statements also constituted continuing connected transactions within the meaning of the Listing Rules. Details of such transactions are summarised below:–

Supply of footwear products to Mountain Gear Ltd. ("Mountain Gear") and its subsidiaries ("Mountain Gear Group") (Item 1)

Connected person: For the period ended 31 October 2011, Mountain Gear Group was ultimately owned as to 45% by Mr. Chen Li-Ming, Lawrence ("Mr. Chen"). Since Mountain Gear Group was, for this period, an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2011, Mountain Gear Group was therefore a connected person of the Company for this period.

(Note: Mr. Chen has ceased to be interested in the share capital of Mountain Gear since 1 November 2011. As from 1 November 2011, the Mountain Gear Group has ceased to be a connected person of the Company.)

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

Supply in 2011: The Group supplied footwear products to Mountain Gear Group amounting to US$1,085,000, which did not exceed the aggregate annual cap of US$6,700,000 for the year ended 31 December 2011.

Supply of footwear products to Ace Opportunity Ltd. ("Ace Opportunity") and its subsidiaries ("Ace Opportunity Group") (Item 2)

Connected person: For the period ended 31 October 2011, Ace Opportunity Group was ultimately owned as to 66.7% by Mr. Chen. Since Ace Opportunity Group was, for this period, an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2011, Ace Opportunity Group was therefore a connected person of the Company for this period.

(Note: Mr. Chen has ceased to be interested in the share capital of Ace Opportunity since 1 November 2011. As from 1 November 2011, the Ace Opportunity Group has ceased to be a connected person of the Company.)

Connected transaction: On 24 November 2009, the Group entered into a master supply agreement (the "Ace Opportunity Master Supply Agreement") with Ace Opportunity for the supply of footwear products to the Ace Opportunity Group by the Group for a term of three years from 1 January 2010 to 31 December 2012, with an option for the Group to renew for successive terms of three years. The transactions contemplated under the Ace Opportunity Master Supply Agreement constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

Supply in 2011: The Group supplied footwear products to Ace Opportunity Group amounting to US$1,442,000, which did not exceed the aggregate annual cap of US$10,200,000 for the year ended 31 December 2011.

Purchase of footwear products from 惠州興昂鞋業有限公司 (Huizhou Stella Footwear Co. Ltd.) ("Huizhou Stella") (Item 3)

Connected person: For the period ended 31 October 2011, Huizhou Stella was ultimately wholly owned by Mr. Chen. Since Huizhou Stella was, for this period, an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2011, Huizhou Stella was therefore a connected person of the Company for this period.

(Note: Mr. Chen has ceased to be interested in the share capital of Huizhou Stella since 1 November 2011. As from 1 November 2011, Huizhou Stella has ceased to be a connected person of the Company.)

Connected transaction: On 24 November 2009, the Group entered into a processing agreement (the "Huizhou Stella Processing Agreement") with Huizhou Stella for the processing, manufacture and supply of footwear products from Huizhou Stella for a term of three years from 1 January 2010 to 31 December 2012.

Purchase in 2011: The Group purchased footwear products from Huizhou Stella amounting to US$1,825,000, which did not exceed the aggregate annual cap of US$3,500,000 for the financial year ended 31 December 2011.

Purchase of lasts from 東莞興和塑膠制品有限公司 (Sabina Footwear Co. Ltd.) ("Sabina") (Item 4)

Connected person: For the period ended 31 October 2011, Sabina was ultimately wholly owned by Mr. Chen. Since Sabina was, for this period, an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2011, Sabina was therefore a connected person of the Company for this period.

(Note: Mr. Chen has ceased to be interested in the share capital of Sabina since 1 November 2011. As from 1 November 2011, Sabina has ceased to be a connected person of the Company.)

Connected transaction: The ongoing purchase of lasts by the Group from Sabina as governed under a framework purchase agreement (the "Sabina Framework Purchase Agreement") dated 21 May 2007 with Sabina expiring on 31 December 2009 and renewable for a three-year term constitutes continuing connected transactions under Rule 14A.14 of the Listing Rules. On 24 November 2009, the Group and Sabina had agreed to the automatic renewal of the Sabina Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012.

Purchase in 2011: The Group did not purchase any lasts from Sabina, which did not exceed the aggregate annual cap of US$5,500,000 for the financial year ended 31 December 2011.

Purchase of molds from 東莞興立精密模具有限公司 (Sincerely International Ltd.) ("Sincerely") (Item 5)

Connected person: For the period ended 31 October 2011, Sincerely was ultimately wholly owned by Mr. Chen. Since Sincerely was, for this period, an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2011, Sincerely was therefore a connected person of the Company for this period.

(Note: Mr. Chen has ceased to be interested in the share capital of Sincerely since 1 November 2011. As from 1 November 2011, Sincerely has ceased to be a connected person of the Company.)

Connected transaction: The ongoing purchase of molds by the Group from Sincerely as governed under a framework purchase agreement (the "Sincerely Framework Purchase Agreement") dated 21 May 2007 with Sincerely expiring on 31 December 2009 and renewable for a three-year term constitutes continuing connected transactions under Rule 14A.14 of the Listing Rules. On 24 November 2009, the Group and Sincerely had agreed to the automatic renewal of the Sincerely Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012.

Purchase in 2011: The Group purchased molds from Sincerely amounting to US$2,951,000, which did not exceed the aggregate annual cap of US$5,500,000 for the financial year ended 31 December 2011.

Purchase of tannery products from 興昂制革(惠州)有限公司 (Simona Tannery Co. Ltd.) ("Simona Tannery") (Item 6)

Connected person: For the period ended 31 October 2011, Simona Tannery was ultimately wholly owned by Mr. Chen. Since Simona Tannery was, for this period, an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2011, Simona Tannery was therefore a connected person of the Company for this period.

(Note: Mr. Chen has ceased to be interested in the share capital of Simona Tannery since 1 November 2011. As from 1 November 2011, Simona Tannery has ceased to be a connected person of the Company.)

Connected transaction: The ongoing purchase of tannery by the Group from Simona Tannery as governed under a framework purchase agreement (the "Simona Tannery Framework Purchase Agreement") dated 21 May 2007 with Simona Tannery expiring on 31 December 2009 and renewable for a three-year term constitutes continuing connected transactions under Rule 14A.14 of the Listing Rules. On 24 November 2009, the Group and Simona Tannery had agreed to the automatic renewal of the Simona Tannery Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012.

Purchase in 2011: The Group purchased tannery from Simona Tannery amounting to US$30,190,000, which did not exceed the aggregate annual cap of US$45,000,000 for the financial year ended 31 December 2011.

Purchase of sole materials from 東莞興泰鞋材有限公司 (Sanford International Co. Ltd.) ("Sanford") (Item 7)

Connected person: For the period ended 31 October 2011, Sanford was ultimately wholly owned by Mr. Chen. Since Sanford was, for the period, an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2011, Sanford was therefore a connected person of the Company for this period.

(Note: Mr. Chen has ceased to be interested in the share capital of Sanford since 1 November 2011. As from 1 November 2011, Sanford has ceased to be a connected person of the Company.)

Connected transaction: The ongoing purchase of sole materials by the Group from Sanford as governed under a framework purchase agreement (the "Sanford Framework Purchase Agreement") dated 21 May 2007 with Sanford expiring on 31 December 2009 and renewable for a three-year term constituted continuing connected transactions under Rule 14A.14 of the Listing Rules. On 24 November 2009, the Group and Sanford had agreed to the automatic renewal of the Sanford Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012.

Purchase in 2011: The Group purchased sole materials from Sanford amounting to US$5,396,000, which did not exceed the aggregate annual cap of US$9,500,000 for the financial year ended 31 December 2011.

Purchase of sole materials from 東莞興騰鞋材有限公司 (Dongguan Xintan Footwear Co. Ltd.) ("Xintan") (Item 8)

Connected person: For the period ended 31 October 2011, Xintan was ultimately wholly owned by Mr. Chen. Since Xintan was, for this period, an associate (as defined under the Listing Rules) of Mr. Chen who was our Director for the year ended 31 December 2011, Xintan was therefore a connected person of the Company for this period.

(Note: Mr. Chen has ceased to be interested in the share capital of Xintan since 1 November 2011. As from 1 November 2011, Xintan has ceased to be a connected person of the Company.)

Connected transaction: The ongoing purchase of sole materials by the Group from Xintan as governed under a framework purchase agreement (the "Xintan Framework Purchase Agreement") dated 21 May 2007 with Xintan expiring on 31 December 2009 and renewable for a three-year term constituted continuing connected transactions under Rule 14A.14 of the Listing Rules. On 24 November 2009, the Group and Xintan had agreed to the automatic renewal of the Xintan Framework Purchase Agreement for a three-year term commencing from 1 January 2010 and ending on 31 December 2012.

Purchase in 2011: The Group purchased sole materials from Xintan amounting to US$23,600,000, which did not exceed the aggregate annual cap of US$29,000,000 for the financial year ended 31 December 2011.

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

Under the Listing Rules, the continuing connected transactions described in Items 1 to 5 (Items 4 and 5 on an aggregated basis) above would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules; and Items 6 to 8 (on an aggregated basis) above would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules as well as independent Shareholders' approval requirements set out in Rule 14A.48 of the Listing Rules.

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

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

Pursuant to Rule 14A.38 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The auditors of the Company have confirmed that the continuing connected transactions have received the approval of the Board, the selling prices to the connected party for those samples selected were within the range of those charged to independent third parties for similar transactions and therefore were in accordance with the pricing policy of the Company (for Items 1 and 2 which involve provision of goods by the Group), have been entered into in accordance with the relevant agreements governing the transactions and have not exceeded their respective annual caps. The independent non-executive Directors have, for the purpose of Rule 14A.37 of the Listing Rules, reviewed all continuing connected transactions and the report of the auditors and have confirmed that all continuing connected transactions have been entered into by the Group in the ordinary and usual course of its business, on normal commercial terms and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Chen Li-Ming, Lawrence, an executive Director and chief executive officer of the Company was, for the period ended 31 October 2011, indirectly interested in 45% and approximately 66.7% of the issued share capital of Mountain Gear Limited and Ace Opportunity Limited respectively. Both Mountain Gear Limited and Ace Opportunity Limited are investment holding companies with their respective subsidiaries principally engaged in the sales and distribution of footwear products. Mr. Chen has ceased to be interested in the share capital of Mountain Gear Limited and Ace Opportunity Limited as from 1 November 2011.

Save as disclosed above, during the year ended 31 December 2011, none of the Directors or their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

REMUNERATION POLICY

The Group cultivates a caring culture among the employees and believes that human resources are significant assets to the Group's development and expansion. The Group seeks to build the management team internally through effective training and promotion programs. The Group adopts a remuneration system based on employees' individual performance, skill and knowledge, together with reference to the Group's operating results and comparable market statistics.

The emoluments of the Directors are first reviewed by the remuneration committee of the Board and then approved by the Board, having regard to the Director's skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions.

LONG TERM INCENTIVE SCHEME

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the Shareholders 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 annual report) (the "Overriding Limit").

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

Subject to the Overriding Limit and granting of Awards beyond the Mandate Limit (as described below), the Company may refresh the Mandate Limit at any time subject to Shareholders' approval by ordinary resolution 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 year under review, no Options were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding Options under the Scheme as at 31 December 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 31 December 2011, there were a total of 2,194,800 Shares held in trust by the Trustee, of which 439,300 Shares were held for the benefit of selected eligible participants under the Scheme and the remaining 1,755,500 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.

On 15 July 2011, Restricted Unit Awards for awards of a total of 27,500 Shares were granted to 1 eligible employee.

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 year ended 31 December 2011	Outstanding as at 31 December 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	Outstanding as at 1 January 2011	Vesting Date	Vested during the year ended 31 December 2011	Cancelled during the year ended 31 December 2011	Outstanding as at 31 December 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	1 April 2010	–	(1,000)	–
		226,500	1 April 2011	(225,000)	(1,500)	–
		227,000	1 April 2012	–	(8,500)	218,500
		2,500	1 April 2013	–	(2,500)	–
15 July 2011	27,500	–	1 September 2011	(2,500)	–	–
		–	1 September 2012	–	–	2,500
		–	1 September 2013	–	–	5,000
		–	1 September 2014	–	–	7,500
		–	1 September 2015	–	–	10,000

TAX RELIEF AND EXEMPTION

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest customer and five largest customers accounted for approximately 19.2% and 58.3% of the Group's total revenue for the year ended 31 December 2011 respectively.

The aggregate purchase attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year ended 31 December 2011.

None of the Directors or any of their associates or any shareholder (which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules as at the latest practicable date prior to the issue of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

AUDITORS

A resolution will be proposed to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company for the year ending 31 December 2012.

On behalf of the Board

Chiang Jeh-Chung, Jack
Chairman

21 March 2012

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 86 to 157, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Revenue	7	**1,494,531**	1,293,521
Cost of sales		**(1,142,066)**	(1,010,553)
Gross profit		**352,465**	282,968
Other income	8	**14,467**	9,223
Other gain and loss	9	**(3,894)**	(1,920)
Distribution and selling expenses		**(100,675)**	(66,664)
Administrative expenses		**(61,221)**	(56,512)
Research and development costs		**(44,753)**	(39,621)
Share of results of associates		**525**	1,986
Profit before tax		**156,914**	129,460
Income tax expense	10	**(14,130)**	(8,132)
Profit for the year	11	**142,784**	121,328
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operation		**1,063**	(7,864)
Total comprehensive income for the year		**143,847**	113,464
Profit (loss) for the year attributable to:			
Owners of the Company		**142,988**	121,408
Non-controlling interests		**(204)**	(80)
		142,784	121,328
Total comprehensive income (expense) attributable to:			
Owners of the Company		**144,040**	113,551
Non-controlling interests		**(193)**	(87)
		143,847	113,464
Earnings per share	14		
– basic (US$)		**0.181**	0.154
– diluted (US$)		**0.180**	0.153

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**186,603**	160,903
Prepaid lease payments	16	**13,230**	8,314
Goodwill	27	**–**	2,423
Interests in associates	17	**15,744**	18,019
Deposit paid for acquisition of property, plant and equipment		**33,272**	7,821
		248,849	197,480
CURRENT ASSETS			
Inventories	18	**182,497**	143,118
Trade and other receivables	19	**266,732**	228,233
Prepaid lease payments	16	**320**	254
Amounts due from associates	20	**56,348**	35,804
Amounts due from related companies	21	**–**	1,514
Derivative financial instruments	22	**293**	231
Held for trading investments	23	**51,905**	23,281
Tax recoverable		**3,697**	–
Cash and cash equivalents	24	**264,233**	360,210
		826,025	792,645
CURRENT LIABILITIES			
Trade and other payables	25	**145,164**	144,852
Bills payable	25	**35,842**	19,189
Derivative financial instruments	22	**–**	22
Tax liabilities		**31,868**	23,855
		212,874	187,918
NET CURRENT ASSETS		**613,151**	604,727
		862,000	802,207
CAPITAL AND RESERVES			
Share capital	26	**10,160**	10,160
Share premium and reserves		**852,117**	792,131
Equity attributable to owners of the Company		**862,277**	802,291
Non-controlling interests		**(277)**	(84)
		862,000	802,207

The consolidated financial statements on pages 86 to 157 were approved and authorised for issue by the board of directors on 21 March 2012 and are signed on its behalf by:

Chiang Jeh-Chung, Jack
DIRECTOR

Shih Takuen, Daniel
DIRECTOR

Consolidated Statements of Changes in Equity

For the year ended 31 December 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$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000 *(Note 3)*	Share award reserve US$'000	Accumulated profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total US$'000
As at 1 January 2010	10,160	154,503	45,427	1,146	5,131	(7,041)	190	373	558,585	768,474	3	768,477
Exchange difference on translation of foreign operations	–	–	–	–	(7,857)	–	–	–	–	(7,857)	(7)	(7,864)
Profit for the year	–	–	–	–	–	–	–	–	121,408	121,408	(80)	121,328
Total comprehensive (expense) income for the year	–	–	–	–	(7,857)	–	–	–	121,408	113,551	(87)	113,464
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	2,071	–	2,071	–	2,071
Shares vested under long term incentive scheme	–	–	–	–	–	1,985	–	(1,418)	(567)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(81,805)	(81,805)	–	(81,805)
As at 31 December 2010	10,160	154,503	45,427	1,146	(2,726)	(5,056)	190	1,026	597,621	802,291	(84)	802,207
Exchange difference on translation of foreign operations	–	–	–	–	1,052	–	–	–	–	1,052	11	1,063
Profit for the year	–	–	–	–	–	–	–	–	142,988	142,988	(204)	142,784
Total comprehensive (expense) income for the year	–	–	–	–	1,052	–	–	–	142,988	144,040	(193)	143,847
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	772	–	772	–	772
Shares vested under long term incentive scheme	–	–	–	–	–	1,706	–	(378)	(1,328)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(84,826)	(84,826)	–	(84,826)
As at 31 December 2011	10,160	154,503	45,427	1,146	(1,674)	(3,350)	190	1,420	654,455	862,277	(277)	862,000

Notes:

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

(2) The capital reserve arises from the following transactions:

(i) During the year ended 31 December 2007, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International to an employee of the Group by way of gift as an incentive to attract and retain the employee in the Group prior to the group reorganisation.

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

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

(3) During the year ended 31 December 2008, the Company repurchased an aggregate of 14,870,500 own ordinary shares on the Stock Exchange (as defined in Note 1 to the 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 the Cayman Islands. The premium paid on the repurchase of these shares in the amount of US$12,795,000 was charged to share premium. The aggregate consideration to repurchase these shares in the amount of US$12,985,000 was deducted from shareholders' equity.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
OPERATING ACTIVITIES			
Profit before tax		**156,914**	129,460
Adjustments for:			
Depreciation of property, plant and equipment		**25,851**	24,842
Written down of inventories		**1,687**	355
Share of results of associates		**(525)**	(1,986)
Net gain on changes in fair value of derivative financial instruments		**(84)**	(185)
Net loss on changes in fair value of held for trading investments		**619**	601
Release of prepaid lease payments		**512**	250
Loss on disposal of property, plant and equipment		**183**	26
Interest income		**(4,892)**	(2,929)
Share-based payment expenses		**772**	2,071
Impairment loss of interest in an associate		**3,200**	–
Impairment loss of goodwill		**2,423**	–
Operating cash flows before movements in working capital		**186,660**	152,505
Increase in inventories		**(41,066)**	(50,512)
Increase in trade and other receivables		**(38,499)**	(33,564)
Increase in held for trading investments		**(29,243)**	(23,882)
Increase in amounts due from associates		**(20,544)**	(6,851)
Decrease (increase) in amounts due from related companies		**1,514**	(1,514)
Increase in trade and other payables		**10,944**	17,008
Cash generated from operations		**69,766**	53,190
Income tax paid		**(10,297)**	(3,372)
NET CASH FROM OPERATING ACTIVITIES		**59,469**	49,818
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(41,163)**	(29,420)
Deposit paid for acquisition of property, plant and equipment		**(33,272)**	(7,492)
Prepaid lease payment of land use right		**(5,165)**	–
Investment in an associate		**(400)**	(7,000)
Interest received		**4,892**	2,929
Proceeds from disposal of property, plant and equipment		**370**	541
Decrease in bank deposits		**–**	108,117
Dividend received		**–**	2,674
Acquisition of subsidiaries (net of cash and cash equivalents received)	*27*	**–**	1,279
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(74,738)**	71,628

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
CASH USED IN FINANCING ACTIVITIES			
Dividend paid		**(84,826)**	(81,805)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(100,095)**	39,641
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**360,210**	317,120
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**4,118**	3,449
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by		**264,233**	360,210
Bank balances and cash		**219,832**	187,553
Deposits placed in financial institutions		**44,401**	172,657
		264,233	360,210

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 March 2007 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 6 July 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. Particulars of the principal activities of its principal subsidiaries and associates are set out in notes 34 and 17, respectively.

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

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

New and revised standards and interpretations applied in the current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfer of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
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]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 *Effective for annual periods beginning on or after 1 July 2011.*
2 *Effective for annual periods beginning on or after 1 January 2013.*
3 *Effective for annual periods beginning on or after 1 January 2015.*
4 *Effective for annual periods beginning on or after 1 January 2012.*
5 *Effective for annual periods beginning on or after 1 July 2012.*
6 *Effective for annual periods beginning on or after 1 January 2014.*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards that are relevant to the Group are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities*. 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) the 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.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual period beginning on or after 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributable to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2011, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

- liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (not exceeding one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combination achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at fair value of consideration received or receivable and represents amount receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

Dividend income from investments is recognised when the Group's rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of changes in estimate accounted for on a prospective basis.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the sales proceeds and the carrying amount of the item) is included in profit or loss in the consolidated statement of comprehensive income in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss of the consolidated statement of comprehensive income on a straight-line basis over the terms of the relevant lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Impairment losses on assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior year. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Research and development expenditure

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

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure *(continued)*

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. USD) at the rate of exchange prevailing at the end of the reporting period, and their income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

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

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as either held for trading investments or loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as held for trading for which interest income is included in net gains or losses.

Held for trading investments

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each reporting date subsequent to initial recognition, held for trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates and related companies, bank balances and cash and deposits placed in financial institutions) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those of fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days and observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

In a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discount) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognitions.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and bills payable are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Awarded shares granted to directors and employees

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

At the end of each reporting period, the Group revises its estimates of the number of the awarded shares that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expenses reflects the revised estimate, with a corresponding adjustment to the share award reserve.

At the time when the awarded shares are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares (held under the shares held for share award scheme) will be transferred to accumulated profits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of trade receivables is approximately US$196,720,000 net of allowance for bad debts of nil (31 December 2010: US$183,054,000 net of allowance for bad debts of nil).

Allowance for inventories

The management of the Group reviews the aging of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of inventories was approximately US$182,497,000 (31 December 2010: US$143,118,000) (net of allowance for inventories of US$8,575,000 (31 December 2010: US$6,888,000)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profit.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2011 US$'000	2010 US$'000
Financial assets		
Held for trading investments	**51,905**	23,281
Loans and receivables (including cash and cash equivalents)	**563,683**	590,468
Derivative financial instruments	**293**	231
	615,881	613,980
Financial liabilities		
Amortised cost	**157,953**	142,204
Derivative financial instruments	**–**	22
	157,953	142,226

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from associates and related companies, derivative financial instruments, held for trading investments, bank deposits, bank balances, deposits placed in financial institutions, trade and other payables and bills payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (represented by currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group's sales are mainly denominated in USD. Its manufacturing operations are located in The People's Republic of China ("PRC") and purchase of raw materials and operating expenses are denominated in Renminbi ("RMB"), EURO ("EUR") or USD. It's currency exposures is mainly due to exposure in RMB, EUR and Hong Kong dollars ("HKD") against the functional currency of the relevant group companies. In addition, the Group's held for trading investments include listed bonds of US$10,033,000 (2010: nil) which are denominated in RMB. As HKD is pegged to USD, the currency risk is considered insignificant. During both years, the Group entered into certain foreign exchange forward to manage the currency exposure in relation to RMB.

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

	Liabilities		Assets	
	2011 US$'000	2010 US$'000	**2011 US$'000**	2010 US$'000
RMB	**12,715**	11,417	**54,763**	10,459
HKD	**3**	14	**3,894**	6,936
EUR	**–**	–	**144**	119
Other	**1,902**	861	**1,383**	1,897

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Currency risk (continued)

In addition, the Group is also exposed to foreign currency risk in respect of inter-company balances. The exchange difference in relation to inter-company balances, mainly comprising RMB injection into subsidiaries incorporated in the PRC (investments are insignificant in other countries), which forms part of the Company's net investments in foreign operations, is presented in other comprehensive income.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in USD against RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and inter-company balances adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit for the year and other comprehensive income where RMB strengthen 5% against USD. For a 5% weakening of RMB against the USD, there would be an equal and opposite impact on the profit for the year and other comprehensive income.

	Renminbi Impact	
	2011	2010
	US$'000	US$'000
Increase (decrease) in profit for the year	**1,577**	(36)
Increase (decrease) in other comprehensive income	**2,104**	(610)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to bank deposits and cash flow interest rate risk in relation to short-term deposits placed in banks and financial institutions that are interest-bearing at floating interest rates. The directors consider the Group's exposure of the bank deposits to fair value interest rate risk is not significant as interest bearing bank deposits have a short maturity period.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates in its variable-rate bank deposits at the end of the reporting period. For variable-rate bank deposits, the analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis point increase or 5 basis points decrease (2010: 25 increase or 5 decrease) is used by the management for the assessment of the possible change in interest rates.

If interest rates had been 25/5 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would increase by approximately US$658,000/decrease by approximately US$132,000 (2010: increase by US$898,000/decrease by US$180,000).

Price risk

The Group is exposed to price risk through its held for trading investments which are measured at fair value at the end of each reporting period. The held for trading investments comprise (i) listed bonds carrying fixed interest rates with their market value generally linked to market interest rate and (ii) listed investment funds. Management manages this exposure by maintaining a portfolio of investments.

The Group's derivative financial instruments also exposed the Group to market forward foreign exchange rates.

Sensitivity analysis

If market price for the bonds had been 5% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would increase/decrease by approximately US$1,312,000 (2010: US$477,000).

If the market price for the funds had been 5% higher/lower, profit for the year ended 31 December 2011 would increase/decrease by US$1,284,000 (2010: US$687,000).

If the market forward foreign exchange rate of RMB against US dollars had been 5% higher/lower, profit for the year ended 31 December 2011 would increase/decrease by US$718,000 (2010: increase/decrease by US$612,000) as a result of the changes in the market forward foreign exchange rate of RMB against US dollars.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

At 31 December 2011 and 2010, the Group's maximum exposure to credit risk which could cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period on a collective and on-going basis to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and the bonds is limited because the counterparties are banks or multinational corporations with good reputation.

The Group's concentration of credit risk related to trade receivables by geographical locations is mainly in North America, which accounted for 57% (31 December 2010: 52%) of the total trade receivables as at 31 December 2011.

Regarding the Group's bank concentration credit risk, 91% (31 December 2010: 72%) of deposits are placed with 10 banks (31 December 2010: 10 banks).

The Group has concentration of credit risk on the amounts due from associates but the credit risk is limited because the Group has significant influence on the counterparties and has assess to the counterparties' operation and financial information.

Liquidity risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

The following table details the Group's contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	0 – 30 days	31 – 90 days	90 – 365 days	Total undiscounted cash flows	Carrying amount
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2011					
Non-derivative financial liabilities					
Trade and other payables	**79,249**	**21,470**	**21,392**	**122,111**	**122,111**
Bills payable	**9,545**	**26,297**	**–**	**35,842**	**35,842**
	88,794	**47,767**	**21,392**	**157,953**	**157,953**

	0 – 30 days	31 – 90 days	90 – 365 days	Total undiscounted cash flows	Carrying amount
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2010					
Non-derivative financial liabilities					
Trade and other payables	74,394	38,838	9,783	123,015	123,015
Bills payable	–	19,189	–	19,189	19,189
	74,394	58,027	9,783	142,204	142,204
Derivatives – net settlement					
Foreign exchange forward contracts	14	–	8	22	22

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Held for trading investments are measured with reference to quoted market price provided by the financial institution managing the funds.

Other financial assets and financial liabilities recorded at amortised cost are measured in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values because the financial assets and financial liabilities have short maturity.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31.12.2011		
	Level 1 US$'000	Level 2 US$'000	Total US$'000
Financial assets			
Investments held for trading			
– Listed bonds	26,232	–	26,232
– Listed investment funds	25,673	–	25,673
Derivative financial instruments	–	293	293
Total	51,905	293	52,198

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value *(continued)*

Fair value measurements recognised in the statement of financial position *(continued)*

	31.12.2010		
	Level 1	Level 2	Total
	US$'000	US$'000	US$'000
Financial assets			
Investments held for trading			
– Listed bonds	9,546	–	9,546
– Unlisted investment funds	13,735	–	13,735
Derivative financial instruments	–	231	231
Total	23,281	231	23,512
Financial liabilities			
Derivative financial instruments	–	22	22

7. SEGMENT INFORMATION

Information reported to the chief executives of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of footwear manufactured and on footwear retailing and wholesaling.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1) Men's footwear – the manufacturing and sales of men's footwear
2) Women's footwear – the manufacturing and sales of women's footwear
3) Footwear retailing and wholesaling

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments

Segment revenues and results

For the year ended 31 December 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	471,197	924,381	98,953	1,494,531	–	1,494,531
Inter-segment sales	–	40,785	–	40,785	(40,785)	–
Total	471,197	965,166	98,953	1,535,316	(40,785)	1,494,531
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	60,672	177,008	6,716	244,396	(460)	243,936
Unallocated income						
– Interest income on bank balances						4,748
– Net gain on changes in fair value of derivative financial instruments						71
– Rental income						4,359
– Sale of scrap						172
– Others						5,314
Unallocated expenses						
– Research and development costs						(44,753)
– Central administrative costs						(51,216)
– Net loss on changes in fair value of held for trading investments						(619)
– Impairment loss on interests in associates						(3,200)
– Impairment loss on goodwill						(2,423)
Share of results of associates						525
Profit before tax						156,914

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 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	420,607	806,626	66,288	1,293,521	–	1,293,521
Inter-segment sales	–	21,476	–	21,476	(21,476)	–
Total	420,607	828,102	66,288	1,314,997	(21,476)	1,293,521
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	50,137	153,945	999	205,081	(458)	204,623
Unallocated income						
– Interest income on bank balances						2,865
– Net gain on changes in fair value of derivative financial instruments						231
– Rental income						3,725
– Sale of scrap						260
– Others						1,865
Unallocated expenses						
– Research and development costs						(39,621)
– Central administrative costs						(45,851)
– Net loss on changes in fair value of derivative financial instruments						(22)
– Net loss on change in fair value of held for trading investments						(601)
Share of results of associates						1,986
Profit before tax						129,460

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents profit attributable to each segment without allocation of corporate income and expenses, interest income on bank balances, net gain on changes in fair value of derivative financial instruments, rental income, sale of scrap, research and development costs, impairment loss on interests in associates, impairment loss on goodwill, share of results of associates, net loss on changes in fair value of held for trading investments and central administration costs. This is the measure reported to the Group's chief executives for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	2011	2010
	US$'000	US$'000
Segment assets		
Men's footwear	**240,864**	220,841
Women's footwear	**389,549**	325,636
Footwear retailing and wholesaling	**78,464**	51,387
Total segment assets	**708,877**	597,864
Other assets	**365,997**	392,261
Consolidated assets	**1,074,874**	990,125

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment assets and liabilities *(continued)*

	2011 US$'000	2010 US$'000
Segment liabilities		
Men's footwear	**80,572**	72,774
Women's footwear	**83,879**	84,966
Footwear retailing and wholesaling	**12,931**	11,919
Total segment liabilities	**177,382**	169,659
Other liabilities	**35,492**	18,259
Consolidated liabilities	**212,874**	187,918

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

- all assets are allocated to reportable segments other than tax recoverable, held for trading investments, derivative financial assets, cash and cash equivalents and unallocated corporate asset; and

- all liabilities are allocated to reportable segments other than tax liabilities, derivative financial liabilities and unallocated corporate liabilities not belonging to any operating segments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Other segment information

2011

	Men's Footwear US$'000	Women's Footwear US$'000	Footwear retailing and wholesaling US$'000	Total US$'000
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	29,604	16,007	3,373	48,984
Depreciation	10,362	11,813	3,676	25,851
Loss on disposal of property, plant and equipment	2	181	–	183
(Reversal) write-down of inventories	(793)	570	1,910	1,687
Interest in associates	–	10,013	5,331	15,344
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Share of (loss) profit of associates	–	(2,202)	2,727	525
Income tax expense	4,390	7,696	2,044	14,130

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Other segment information *(continued)*

2010

	Men's Footwear US$'000	Women's Footwear US$'000	Footwear retailing and wholesaling US$'000	Total US$'000
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	20,492	9,372	3,586	33,450
Depreciation	12,642	9,009	3,176	24,827
Loss on disposal of property, plant and equipment	–	26	–	26
Write-down (reversal) of inventories	288	288	(221)	355
Interest in associates	–	15,415	2,604	18,019
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Share of profit of associates	–	28	1,958	1,986
Income tax expense	3,461	4,388	283	8,132

(b) Revenue from major products and services

	2011 US$'000	2010 US$'000
Men's footwear	**471,197**	420,607
Women's footwear	**1,023,334**	872,914
	1,494,531	1,293,521

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(continued)*

(c) Geographical information

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

	Revenue from external customers		Non-current assets As at 31 December	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
United States of America	**720,160**	675,539	**–**	–
The PRC (country of domicile)	**161,060**	97,629	**248,849**	197,480
United Kingdom	**152,955**	146,166	**–**	–
Netherlands	**88,772**	58,532	**–**	–
Thailand	**61,454**	45,064	**–**	–
Italy	**57,426**	59,085	**–**	–
Canada	**36,687**	30,678	**–**	–
Spain	**28,028**	30,026	**–**	–
Japan	**26,293**	17,395	**–**	–
Belgium	**25,113**	19,382	**–**	–
South Korea	**13,342**	9,984	**–**	–
Germany	**13,248**	13,720	**–**	–
Singapore	**12,761**	10,206	**–**	–
Switzerland	**11,683**	7,853	**–**	–
Australia	**9,489**	9,322	**–**	–
Panama	**6,288**	5,323	**–**	–
Portugal	**452**	395	**–**	–
Others	**69,320**	57,222	**–**	–
	1,494,531	1,293,521	**248,849**	197,480

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(continued)*

(d) Information about major customers

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

	2011 US$'000	2010 US$'000
Customer A[1]	**272,574**	221,637
Customer B[1]	**225,193**	184,965

[1] *Revenue from both the men's and women's footwear operating segments in aggregate*

8. OTHER INCOME

	2011 US$'000	2010 US$'000
Interest income on bank balances	**4,892**	2,929
Rental income	**4,359**	3,725
Sales of scrap	**172**	260
Others	**5,044**	2,309
	14,467	9,223

9. OTHER GAIN AND LOSS

	2011 US$'000	2010 US$'000
Loss on disposal of property, plant and equipment	**(183)**	(26)
Net exchange gain (loss)	**2,447**	(1,478)
Impairment loss of goodwill	**(2,423)**	–
Impairment loss on interest in associates	**(3,200)**	–
Net loss from changes in fair value of held for trading investments	**(619)**	(601)
Net gain on changes in fair value of derivative financial instruments	**84**	185
	(3,894)	(1,920)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. INCOME TAX EXPENSE

	2011 US$'000	2010 US$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	14,121	8,132
Hong Kong Profits Tax	9	–
	14,130	8,132

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

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

The income of Dongguan Stella Footwear Company Limited ("Dongguan Stella"), Long Chuan Simona Footwear Company Limited ("Long Chuan Simona"), Stella Fashion Inc., Stella International and Selena Footwear Inc. derived from production, business operations and other sources in the PRC is subject to EIT at a rate of 25% for the years ended 31 December 2010 and 2011.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Bestsource Technology (Macau Commercial Offshore) Limited ("Bestsource"), a subsidiary acquired in year 2010 is exempted from Macao Complementary Tax.

No deferred tax has been provided in the consolidated financial statements in respect of the temporary differences attributable to profits generated by both Dongguan Stella and Long Chuan Simona as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Taxation arising in other jurisdictions including Thailand and Malaysia is calculated at the rate prevailing in the relevant jurisdictions. No provision for taxation has been made as the subsidiaries in these jurisdictions have no assessable profit during both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. INCOME TAX EXPENSE *(continued)*

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

	2011 US$'000	2010 US$'000
Profit before tax	**156,914**	129,460
Tax at the applicable PRC EIT rate of 25% (2010: 25%)	**39,229**	32,365
Tax effect of expenses not deductible for tax purposes *(Note i)*	**7,516**	6,436
Tax effect of income not taxable for tax purposes *(Note ii)*	**(32,559)**	(30,127)
Tax effect of share of results of associates	**(131)**	(602)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**75**	60
Income tax expense	**14,130**	8,132

Notes:

i. *The tax effect of expenses not deductible mainly represents the subcontracting charges and operating expenses in the PRC with payment receipts but no invoices for tax deduction claim under the relevant tax jurisdictions.*

ii. *The tax effect of income not taxable relates to the income of Stella International and Bestsource which are not assessable under their relevant tax jurisdictions. As Stella International has no fixed place to carry out the operation, it subcontracted and engaged other companies as services providers to perform supporting activities and remunerate them with the service fee while Bestsource is exempted from Macao Complementary Tax.*

In October 2010, the Inland Revenue Department ("IRD") initiated a tax audit on the Hong Kong tax affairs of certain subsidiaries of the Company for the years of assessment from 2004/05 onwards.

From March 2011 to March 2012, the IRD issued estimated profits tax assessments relating to the years of assessment 2004/05 and 2005/06, that is, for the financial years ended 31 December, 2004 and 2005, against certain subsidiaries of the Company. The Group lodged objections with the IRD against these estimated assessments. The IRD agreed to hold over the tax claimed subject to the purchasing of tax reserve certificates ("TRCs"). As at 31 December 2011, the Group purchased TRCs amounted to HK$28,700,000 (equivalent to approximately US$3,697,000) for the year of assessment 2004/05, which has been recorded as tax recoverable.

The directors of the Company are of the opinion that the tax audit exercise is still at a very 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 provision for Hong Kong Profits Tax is considered necessary in respect of the tax audit.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. PROFIT FOR THE YEAR

	2011	2010
	US$'000	US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(Note 12)*	**3,625**	4,563
Other staff costs	**244,663**	203,593
Share-based payment expenses, excluding directors	**395**	1,240
Retirement benefit scheme contributions, excluding directors	**186**	97
Total staff costs	**248,869**	209,493
Auditor's remuneration	**439**	618
Cost of inventories recognised as an expense (includes written down of inventories of US$1,687,000 (2010: US$355,000))	**1,142,066**	1,010,553
Depreciation of property, plant and equipment	**25,851**	24,842
Release of prepaid lease payments	**512**	250
Share of taxation of associates (included in share of results of associates)	**22**	418

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For the year ended 31 December 2011

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Jeh-Chung, Jack CHIANG US$'000	Li-Ming, Lawrence CHEN US$'000	Takuen, Daniel SHIH US$'000	Ming-Cheng, Eric CHAO US$'000	Lo-Jen, Stephen CHI US$'000	Pao-Kuei CHU US$'000	Hak-Kim NG, JP US$'000	Johnny CHEN US$'000	Peter BOLLIGER US$'000	2011 US$'000
2011										
Fees	39	39	39	39	39	51	51	51	51	399
Other emoluments										
– salaries and other allowances	77	62	77	69	62	–	–	–	–	347
– bonus *(Note)*	500	250	850	400	500	–	–	–	–	2,500
– share-based payments	88	40	109	64	76	–	–	–	–	377
– retirement benefit scheme contributions	1	–	–	1	–	–	–	–	–	2
	705	391	1,075	573	677	51	51	51	51	3,625

	Jeh-Chung, Jack CHIANG US$'000	Li-Ming, Lawrence CHEN US$'000	Takuen, Daniel SHIH US$'000	Ming-Cheng, Eric CHAO US$'000	Tung-Pi, Billy SHIEH US$'000	Lo-Jen, Stephen CHI US$'000	Pao-Kuei CHU US$'000	Hak-Kim NG, JP US$'000	Johnny CHEN US$'000	Peter BOLLIGER US$'000	2010 US$'000
2010											
Fees	39	39	39	39	24	39	51	51	51	13	385
Other emoluments											
– salaries and other allowances	119	103	119	111	103	103	–	–	–	–	658
– bonus *(Note)*	500	250	850	400	157	500	–	–	–	–	2,657
– share-based payments	171	81	261	129	54	163	–	–	–	–	859
– retirement benefit scheme contributions	1	1	–	1	1	–	–	–	–	–	4
	830	474	1,269	680	339	805	51	51	51	13	4,563

Note: The performance related incentive payment is determined with reference to the financial performance of the Group for the two years ended 31 December 2011.

Notes to the Consolidated Financial Statements

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

Employees

The five highest paid individuals in the Group in 2010 were all directors of the Company and details of their emoluments are set out above. In 2011, four directors were included in the five highest paid individuals. The emoluments of the remaining one employee was as follows:

	2011 **US$'000**	2010 US$'000
Employee		
– salaries and other allowances	**576**	–
– retirement benefit scheme contributions	**2**	–
– share-based payment expenses	**4**	–
	582	–

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employee) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

13. DIVIDENDS

	2011 **US$'000**	2010 US$'000
2010 final dividend of HK53 cents per share (2010: 2009 final dividend of HK40 cents per share) paid	**54,227**	51,158
2011 interim dividend of HK30 cents per share (2010: HK30 cents per share) paid	**30,599**	30,647
	84,826	81,805

The final dividend of HK68 cents per share for the year ended 31 December 2011 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Notes to the Consolidated Financial Statements

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14. EARNINGS PER SHARE

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

	2011 US$'000	2010 US$'000
Earnings		
Profit for the year and earnings attributable to owners of the Company for the purposes of basic earnings per share	**142,988**	121,408
Weighted average number of ordinary shares for the purpose of basic earnings per share	**791,903,937**	790,708,942
Effect of dilutive potential ordinary shares:		
Unvested shares awarded	**369,900**	716,948
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**792,273,837**	791,425,890

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share have been arrived at after deducting the shares held in trust for the Company by Teeroy Limited *(see Note 30)*.

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For the year ended 31 December 2011

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixture and equipment	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST						
As at 1 January 2010	91,848	135,847	17,216	5,930	874	251,715
Exchange adjustments	2,308	2,887	361	105	106	5,767
Acquisition of subsidiaries *(Note 27)*	–	3,098	352	135	–	3,585
Additions	5,666	14,530	1,322	910	7,437	29,865
Transfer	68	3,884	163	–	(4,115)	–
Disposals	–	(825)	(234)	(238)	–	(1,297)
As at 31 December 2010	99,890	159,421	19,180	6,842	4,302	289,635
Exchange adjustments	790	4,326	549	284	199	6,148
Additions	7,557	20,484	1,448	1,282	18,213	48,984
Transfer	196	494	228	71	(989)	–
Disposals	(438)	(3,110)	(863)	(437)	–	(4,848)
As at 31 December 2011	107,995	181,615	20,542	8,042	21,725	339,919
DEPRECIATION						
As at 1 January 2010	27,771	61,814	9,664	3,314	–	102,563
Exchange adjustments	555	1,232	207	63	–	2,057
Provided for the year	6,060	16,202	2,095	485	–	24,842
Eliminated on disposals	–	(475)	(106)	(149)	–	(730)
As at 31 December 2010	34,386	78,773	11,860	3,713	–	128,732
Exchange adjustments	568	2,248	121	91	–	3,028
Provided for the year	5,031	17,567	2,585	668	–	25,851
Eliminated on disposals	(145)	(2,979)	(857)	(314)	–	(4,295)
As at 31 December 2011	39,840	95,609	13,709	4,158	–	153,316
CARRYING VALUES						
As at 31 December 2011	68,155	86,006	6,833	3,884	21,725	186,603
As at 31 December 2010	65,504	80,648	7,320	3,129	4,302	160,903

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The following years are used for the depreciation of property, plant and equipment other than construction in progress after considering their respective useful lives:

Buildings	20 years or shorter of the lease terms of the relevant leasehold lands
Plant and machinery	5 – 10 years
Furniture, fixture and equipment	5 years
Motor vehicles	5 years

The Group has not yet obtained the legal title of the building with an aggregate carrying amount of US$9,809,000 (2010: US$10,644,000).

16. PREPAID LEASE PAYMENTS

	2011	2010
	US$'000	US$'000
Current portion of prepaid lease payments	**320**	254
Non-current portion	**13,230**	8,314
	13,550	8,568

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

The Group had fully paid consideration for land use rights in the PRC. However, the Group has not yet obtained the title of the land use rights with an aggregate carrying amount of US$6,917,000 (2010: US$1,894,000). The carrying amount of prepaid lease payments included above of US$1,321,000 (2010: US$1,355,000) was paid for land use rights under the name of Sanford International Limited ("Sanford"), a company under the control of the key management of the Group. The Group is in the process of obtaining the land use right certificates.

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17. INTERESTS IN ASSOCIATES

	2011 US$'000	2010 US$'000
Cost of investments in associates – unlisted	**26,690**	26,290
Share of post-acquisition losses, net of dividend received	**(7,746)**	(8,271)
Impairment of an associate	**(3,200)**	–
	15,744	18,019

As at 31 December 2011 and 2010, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of establishment/ principal place of operation	Class of share held	Proportion of nominal value of registered capital/ issued capital held by the Group		Principal activities
				2011	2010	
辛集市寶得福皮業有限公司 ("寶得福") *(Note i)*	Sino-foreign co-operation joint venture	The PRC	Capital injection	**60%**	60%	Manufacture and sales of leather products and footwear
Cosmic Gold Enterprise Limited ("Cosmic Gold ") *(Note ii)*	Limited company	St. Vincent and the Grenadines	Ordinary	**40%**	40%	Manufacture of footwear
StellaDeck Fashion Limited ("StellaDeck ")	Limited company	Hong Kong	Ordinary	**49%**	49%	Footwear retailing
Couture Accessories Limited ("Couture Accessories")	Limited company	Hong Kong	Ordinary	**40%**	–	Footwear wholesaling

Notes:

(i) The Group holds 60% of the registered capital of 寶得福. However, under a shareholding agreement, the other shareholder controls the composition of the board of directors and therefore the Group does not control 寶得福. The directors of the Company consider that the Group does exercise significant influence over 寶得福 and, therefore it is classified as an associate of the Group.

(ii) The associate ceased operation in October 2011 and impairment loss of US$3,200,000 was included in other gain and loss during the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

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17. INTERESTS IN ASSOCIATES *(continued)*

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

	2011 US$'000	2010 US$'000
Total assets	**82,624**	91,497
Total liabilities	**(49,609)**	(53,816)
Net assets	**33,015**	37,681
Group's share of net assets of associates	**15,744**	14,819
Revenue	**178,232**	184,558
(Loss) profit for the year	**(528)**	3,935
Group's share of profit of associates for the year	**525**	1,986

18. INVENTORIES

	2011 US$'000	2010 US$'000
Raw materials	**46,695**	40,824
Work-in-progress	**51,029**	49,347
Finished goods	**84,773**	52,947
	182,497	143,118

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19. TRADE AND OTHER RECEIVABLES

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

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

	2011 US$'000	2010 US$'000
Trade receivables:		
0 – 30 days	**139,867**	118,056
31 – 60 days	**45,120**	42,851
61 – 90 days	**7,798**	8,472
Over 90 days	**3,935**	13,675
	196,720	183,054
Other receivables	**70,012**	45,179
Total trade and other receivables	**266,732**	228,233

Other receivables include prepayment to suppliers of US$49,314,000 (2010: US$39,944,000).

Included in the Group's trade and other receivables balance are debtors with aggregate amount of US$3,530,000, US$39,000 and US$889,000 (2010: US$1,860,000, US$12,000 and US$809,000) which are denominated in RMB, HKD and other currencies other than the functional currency of the respective group entities and are exposed to currency risk.

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$11,506,000 (31 December 2010: US$14,140,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements

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19. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing of trade receivables based on the invoice date which are past due but not impaired:

	2011 US$'000	2010 US$'000
31 – 60 days	**6,551**	6,896
61 – 90 days	**818**	4,829
Over 90 days	**4,137**	2,415
	11,506	14,140

20. AMOUNTS DUE FROM ASSOCIATES

	As at 31 December		Maximum amount outstanding for year ended 31 December	
Name of company	**2011 US$'000**	2010 US$'000	**2011 US$'000**	2010 US$'000
寶得福	**53,456**	34,060	**69,849**	34,060
Cosmic Gold	**1,892**	582	**1,892**	582
StellaDeck	**1,000**	1,162	**1,162**	1,162
	56,348	35,804		

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

Notes to the Consolidated Financial Statements

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21. AMOUNTS DUE FROM RELATED COMPANIES

	As at 31 December		Maximum amount outstanding for year ended 31 December	
Name of company	**2011**	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Mountain Gear Group	–	1,086	**1,086**	1,086
Ace Opportunity Group	–	428	**428**	428
	–	1,514		

The above related companies were wholly owned and controlled by a director of the Company until 31 October 2011 on which these companies ceased to be related parties when the director has disposed of his interests in these companies. The amounts due from related companies are trading balances. The amounts are unsecured, interest-free and aged within 90 days.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Foreign currency forward contracts	**293**	231	–	22

As at 31 December 2011, the Group was a party to various foreign currency forward contracts used in the management of its exchange rate exposures. Those contracts were settled on net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

22. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

Notional amount	Maturity	Exchange rates
2011		
Sell USD2,000,000	18 January 2012	USD1: RMB6.520
Sell USD2,000,000	14 February 2012	USD1: RMB6.361
Sell USD2,000,000	16 March 2012	USD1: RMB6.352
Sell USD2,000,000	16 April 2012	USD1: RMB6.341
Sell USD2,000,000	18 May 2012	USD1: RMB6.330
Sell USD1,000,000	11 May 2012	USD1: RMB6.350
Sell USD1,000,000	14 February 2012	USD1: RMB6.384
Sell USD1,000,000	16 April 2012	USD1: RMB6.361
Sell USD1,000,000	16 March 2012	USD1: RMB6.373
Sell USD2,000,000	20 January 2012	USD1: RMB6.433
Sell USD1,000,000	21 February 2012	USD1: RMB6.425
Sell USD1,000,000	21 March 2012	USD1: RMB6.416
Sell USD1,000,000	20 April 2012	USD1: RMB6.406
Sell USD1,000,000	22 May 2012	USD1: RMB6.399
Sell USD3,000,000	22 June 2012	USD1: RMB6.392
Sell USD3,000,000	19 July 2012	USD1: RMB6.384
2010		
Buy USD2,000,000	12 January 2011	USD1: RMB6.642
Buy USD1,000,000	20 January 2011	USD1: RMB6.618
Sell USD2,000,000	12 January 2011	USD1: RMB6.741
Sell USD1,000,000	19 January 2011	USD1: RMB6.730
Sell USD2,000,000	25 February 2011	USD1: RMB6.673
Sell USD2,000,000	18 March 2011	USD1: RMB6.668
Sell USD2,000,000	28 April 2011	USD1: RMB6.662
Sell USD2,000,000	20 May 2011	USD1: RMB6.656
Sell USD2,000,000	21 June 2011	USD1: RMB6.650
Sell USD2,000,000	22 July 2011	USD1: RMB6.644
Sell USD2,000,000	18 August 2011	USD1: RMB6.637
Sell USD2,000,000	20 September 2011	USD1: RMB6.629
Sell USD1,500,000	18 October 2011	USD1: RMB6.490
Sell USD1,500,000	16 November 2011	USD1: RMB6.487

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

23. HELD FOR TRADING INVESTMENTS

	2011 US$'000	2010 US$'000
Bonds:		
– listed in Hong Kong	**3,344**	4,069
– listed overseas	**22,888**	5,477
Investment funds:		
– listed overseas	**25,673**	13,735
	51,905	23,281

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

The fair values of the above investments were measured with reference to quoted market price provided by the financial institution managing the funds.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash held by the Group and short-term deposits placed in banks and financial institutions that are interest-bearing at market interest rates and have a maturity of three months or less.

Bank balances and cash held in the PRC of US$83,496,000 (2010: US$57,538,000) are subject to foreign exchange control.

Cash and cash equivalents of US$41,200,000, US$3,855,000 and US$638,000 (2010: US$8,368,000, US$6,924,000 and US$1,207,000) are denominated in RMB, HKD and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

The bank deposits and balances carry interest rates ranging from 0.05% to 1.90% (2010: 0.05% to 5.00%) per annum.

Notes to the Consolidated Financial Statements

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25. TRADE, BILLS AND OTHER PAYABLES

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

	2011 US$'000	2010 US$'000
Trade and bills payables:		
0 – 30 days	**46,979**	70,322
31 – 60 days	**13,693**	4,073
Over 60 days	**30,269**	24,484
	90,941	98,879
Other payables	**90,065**	65,162
	181,006	164,041

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

Included in the Group's trade and other payables balance are creditors with aggregate amount of US$12,715,000, US$3,000 and US$1,902,000 (2010: US$11,417,000, US$14,000 and US$861,000) which are denominated in RMB, HKD and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

Notes to the Consolidated Financial Statements

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26. SHARE CAPITAL

	Number of shares	Nominal value	
		HK$'000	US$'000
Ordinary of HK$0.10 each			
Authorised:			
As at 1 January 2010, 31 December 2010 and 31 December 2011	5,000,000,000	500,000	63,975
Issue and fully paid:			
As at 1 January 2010, 31 December 2010 and 31 December 2011	794,379,500	79,438	10,160

27. ACQUISITION OF SUBSIDIARIES

On 15 September 2010, Stella International entered a sale and purchase agreement with an individual not connected to the Group to acquire 100% of the issued capital of Simple Enterprises Limited ("Simple Enterprise"), a company incorporated in the BVI, and its two wholly-owned subsidiaries established in the PRC (the "Simple Group") at a consideration US$1.

The acquisition has been accounted for using the purchase method and the amount of goodwill arising as a result of the acquisition was US$2,423,000.

The Simple Group is engaged in manufacture of footwear components. It was acquired so as to expand the Group's operation.

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27. ACQUISITION OF SUBSIDIARIES *(continued)*

The fair values of the assets acquired and liabilities assumed at the date of acquisition and the goodwill arising are as follows:

	US$'000
Property, plant and equipment	3,585
Deposits paid for acquisition of property, plant and equipment	329
Inventories	595
Trade and other receivables	1,849
Bank balances and cash	1,279
Trade and other payables	(1,747)
Other borrowings	(8,313)
Net liabilities acquired	(2,423)
Goodwill	2,423
Total consideration satisfied by cash	–
Net cash inflow of cash and cash equivalents in respect of acquisition of Simple Group	
– Bank balances and cash acquired	1,279

Acquisition-related costs are negligible and have been excluded from the cost of acquisition. They have been recognised as an administrative expenses for the period in the consolidated statement of comprehensive income.

The receivables acquired (which principally comprised trade receivables) in these transaction with a fair value of US$1,849,000 have gross contractual amounts of US$1,849,000. At the acquisition date, all contractual cash flows were expected to be collected.

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27. ACQUISITION OF SUBSIDIARIES *(continued)*

Goodwill arose in the acquisition of Simple Group because the cost of the combination included a premium for the assembled workforce arising from the lack of workforce in the region of the PRC in which the Group's major operation is situated. In addition, the consideration paid also effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisitions is not expected to be deductible for tax purposes.

Included in the profit for the year is a loss of US$2,000 incurred by Simple Group. Revenue for the year ended 31 December 2010 includes US$2,599,000 generated from Simple Group.

If the acquisition had been completed on 1 January 2010, total group revenue for the year ended 31 December 2010 would have been approximately US$1,304,391,000, and profit for the year would have been approximately US$121,827,000. This pro forma information is for illustration purposes only and is not necessarily an indication of the revenue and results of operations of the Group actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

For the purposes of impairment testing, goodwill with indefinite useful lives set out above have been allocated to one individual cash generating unit (CGU), comprising one subsidiary in the manufacture of footwear segment.

During the year ended 31 December 2011, the Group recognised an impairment loss of US$2,423,000 (2010: nil) in relation to goodwill arising on acquisition of Simple Group.

The basis of the recoverable amounts of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 14% (2010: 11%). CGU's cash flows beyond the 5-year period are extrapolated using a nil growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

28. OPERATING LEASES

The Group as lessor

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

	2011 US$'000	2010 US$'000
Within one year	**240**	222
In the second to fifth year inclusive	**240**	443
	480	665

All of the properties held have committed tenants for between one and four years. Leases are negotiated for terms varying from one to five years. Property rental income earned during the year was US$4,359,000 (2010: US$3,725,000).

The Group as lessee

	2011 US$'000	2010 US$'000
Minimum lease payments paid under operating leases: during the year:		
– street level stores	**3,353**	813
– other properties	**2,018**	3,645
	5,371	4,458
Contingent rentals	**23,199**	14,486
	28,570	18,944

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

28. OPERATING LEASES *(continued)*

The Group as lessee *(continued)*

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

	2011 **US$'000**	2010 US$'000
Within one year	**4,169**	3,395
In the second to fifth year inclusive	**5,612**	2,355
Over five years	**1,780**	625
	11,561	6,375

Operating lease payments represent rentals payable by the Group for certain of its factories, office, shops and staff quarters. Leases are negotiated for lease terms of two to twenty-five years with fixed rentals.

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

29. CAPITAL COMMITMENTS

	2011 **US$'000**	2010 US$'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**47,674**	–
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**7,443**	8,796
	55,117	8,796

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

30. SHARE-BASED PAYMENT TRANSACTIONS

Long Term Incentive Scheme

The Company's long term incentive scheme (the "Scheme") was adopted pursuant to a resolution passed on 15 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 14 June 2017. Under the Scheme, the board of directors of the Company may grant an award ("Award") either by way of option to subscribe shares of the Company, an award of shares or a grant of a conditional right to acquire shares, to eligible employees, including directors of the Company and its subsidiaries. Insofar as the Listing Rules require and subject to paragraph 12.6 of the Scheme, any offer proposed to be made to a director or a chief executive or a substantial shareholder or a connected person of the Company or any of his, her or its associates must be approved by all the independent non-executive directors (excluding an independent non-executive director who is the proposed grantee).

The total number of shares in respect of which Award may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued upon exercise of options or vesting of Award granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue the offer date, without prior approval from the Company's shareholders. The total number of shares issued or to be issued to satisfy Award granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

On 19 February 2009, a total of 2,445,500 shares of the Company had been 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, a total of 1,428,000 shares of the Company were awarded to 125 eligible participants including six directors of the Company with the remaining being 119 employees of the Group at a consideration of HK$1 per person.

On 15 July 2011, a total of 27,500 shares of the Company were awarded to an employee of the Company at a consideration of HK$1 per person.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Details of the movements with respect to the grant of the Award of the Company's shares during the two years ended 31 December 2011 and 2010 are as follows:

	Grant date	Vesting period	Outstanding at 1 January 2011	Granted during the year	Vested during the year	Cancelled during the year	Outstanding at 31 December 2011
Directors	19 February 2009	19 February 2009 – 1 April 2011	306,000	–	(306,000)	–	–
	19 March 2010	19 March 2010 – 1 April 2011	186,000	–	(186,000)	–	–
	19 March 2010	19 March 2010 – 1 April 2012	186,000	–	–	–	186,000
Former director *(Note)*	19 March 2010	19 March 2010 – 1 April 2011	12,000	–	(12,000)	–	–
	19 March 2010	19 March 2010 – 1 April 2012	12,000	–	–	–	12,000
Employees	19 March 2010	19 March 2010 – 12 April 2010	1,000	–	–	(1,000)	–
	19 February 2009	19 February 2010 – 1 April 2011	419,900	–	(414,900)	(5,000)	–
	19 March 2010	19 March 2010 – 1 April 2011	214,500	–	(213,000)	(1,500)	–
	15 July 2011	15 July 2011 – 1 September 2011	–	2,500	(2,500)	–	–
	19 February 2009	19 February 2009 – 1 April 2012	4,900	–	–	–	4,900
	19 March 2010	19 March 2010 – 1 April 2012	215,000	–	–	(8,500)	206,500
	15 July 2011	15 July 2011 – 1 September 2012	–	2,500	–	–	2,500
	19 February 2009	19 February 2009 – 1 April 2013	4,900	–	–	–	4,900
	19 March 2010	19 March 2010 – 1 April 2013	2,500	–	–	(2,500)	–
	15 July 2011	15 July 2011 – 1 September 2013	–	5,000	–	–	5,000
	15 July 2011	15 July 2011 – 1 September 2014	–	7,500	–	–	7,500
	15 July 2011	15 July 2011 – 1 September 2015	–	10,000	–	–	10,000
			1,564,700	27,500	(1,134,400)	(18,500)	439,300

Note: A former director is retained as an employee of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

	Grant date	Vesting period	Outstanding at 1 January 2010	Granted during the year	Vested during the year	Cancelled during the year	Outstanding at 31 December 2010
Directors	19 February 2009	1 January 2010 – 1 April 2010	306,000	–	(306,000)	–	–
	19 March 2010	19 March 2010 – 12 April 2010	–	198,000	(198,000)	–	–
	19 February 2009	19 February 2009 – 1 April 2011	306,000	–	–	–	306,000
	19 March 2010	19 March 2010 – 1 April 2011	–	186,000	–	–	186,000
	19 March 2010	19 March 2010 – 1 April 2012	–	186,000	–	–	186,000
Former director *(Note)*	19 March 2010	19 March 2010 – 1 April 2011	–	12,000	–	–	12,000
	19 March 2010	19 March 2010 – 1 April 2012	–	12,000	–	–	12,000
Employees	19 February 2009	19 February 2009 – 1 April 2010	446,400	–	(444,900)	(1,500)	–
	19 March 2010	19 March 2010 – 12 April 2010	–	369,000	(366,500)	(1,500)	1,000
	19 February 2009	19 February 2009 – 1 April 2011	446,400	–	–	(26,500)	419,900
	19 March 2010	19 March 2010 – 1 April 2011	–	227,500	–	(13,000)	214,500
	19 February 2009	19 February 2009 – 1 April 2012	4,900	–	–	–	4,900
	19 March 2010	19 March 2010 – 1 April 2012	–	229,500	–	(14,500)	215,000
	19 February 2009	19 February 2009 – 1 April 2013	4,900	–	–	–	4,900
	19 March 2010	19 March 2010 – 1 April 2013	–	8,000	–	(5,500)	2,500
			1,514,600	1,428,000	(1,315,400)	(62,500)	1,564,700

Note: A former director is retained as an employee of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

The Trustee maintains a pool of 2,194,800 (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 awarded shares of approximately US$71,000 (2010: US$2,733,000) was determined at the date of the grant based on the market value of the shares. During the year, US$772,000 (2010: US$2,071,000) was recognised as an expense in the consolidated statement of comprehensive income with a corresponding credit to the share award reserve.

31. RETIREMENT BENEFIT PLANS

The employees employed in the PRC, Macau, Thailand and Malaysia are members of the state-managed retirement benefit schemes operated by the governments. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions under the schemes.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,000 in maximum (per employee per month) of relevant payroll costs to the scheme, and this contribution is matched by employees.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. RELATED PARTY DISCLOSURES

(I) Related party transactions

Name of company	Nature of transactions	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	**30,190**	34,117
東莞興立精密模具有限公司 (1) (Sincerely International Limited)	Purchase of molds	**2,951**	4,177
東莞興泰鞋材有限公司 (1) (Sanford International Co. Ltd.)	Purchase of sole materials	**5,396**	8,265
	Rental income	**234**	114
東莞興騰鞋材有限公司 (1) (Dongguan Xintan Footwear Co. Ltd.)	Purchase of sole materials	**23,600**	25,701
惠州興昂鞋業有限公司 (1) (Huizhou Stella Footwear Co. Ltd.)	Purchase of footwear products	**1,825**	79
辛集市寶得福皮業有限公司 (2) (Xinji Baodefu Leather Co. Ltd.)	Purchase of footwear products	**121,729**	97,106
Cosmic Gold Enterprise Limited (2)	Processing fee paid	**3,279**	12,795
Mountain Gear Group (3)	Sales of footwear products	**1,085**	1,507
Ace Opportunity Group (3)	Sales of footwear products	**1,442**	1,009

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. RELATED PARTY DISCLOSURES *(continued)*

(I) Related party transactions *(continued)*

Notes:

(1) Companies wholly and ultimately owned and controlled by certain directors of the Company until 31 October 2011 on which these companies ceased to be related parties when the directors of the Company have disposed of their interests in these companies.

(2) Associates of the Company.

(3) Companies wholly owned and controlled by a director of the Company until 31 October 2011 on which these companies ceased to be related parties when the director has disposed of his interests in these companies.

(II) Related party balances

Details of balances with related parties are set out in notes 20 and 21.

(III) Compensation of key management personnel

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

	2011	2010
	US$'000	US$'000
Short-term benefits	**3,821**	4,156
Post-employment benefits	**4**	5
Share-based payment expenses	**139**	877
	3,964	5,038

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31 December 2011 is as follows:

	Note	2011 US$'000	2010 US$'000
Investment in subsidiaries		**530,513**	530,513
Amount due from subsidiaries		**306,215**	274,052
Other assets		**787**	19,506
TOTAL ASSETS		**837,515**	824,071
TOTAL LIABILITIES		**1,441**	880
		836,074	823,191
CAPITAL AND RESERVES			
Share capital		**10,160**	10,160
Share premium and reserves	*(a)*	**825,914**	813,031
		836,074	823,191

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

(a) Reserves of the Company

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserves US$'000	Share award reserve US$'000	Contribution surplus US$'000	Accumulated profit US$'000	Total US$'000
As at 1 January 2010	10,160	154,503	1,146	(7,041)	190	373	530,465	117,221	807,017
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	95,908	95,908
Recognition of equity-settled share-based payment	–	–	–	–	–	2,071	–	–	2,071
Shares vested under long term incentive scheme	–	–	–	1,985	–	(1,418)	–	(567)	–
Dividend recognised as distribution	–	–	–	–	–	–	–	(81,805)	(81,805)
As at 31 December 2010	10,160	154,503	1,146	(5,056)	190	1,026	530,465	130,757	823,191
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	96,937	96,937
Recognition of equity-settled share-based payment	–	–	–	–	–	772	–	–	772
Shares vested under long term incentive scheme	–	–	–	1,706	–	(378)	–	(1,328)	–
Dividend recognised as distribution	–	–	–	–	–	–	–	(84,826)	(84,826)
As at 31 December 2011	10,160	154,503	1,146	(3,350)	190	1,420	530,465	141,540	836,074

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2011 and 2010 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	2011 Interest holdings		2010 Interest holdings		Principal activities
				Direct %	Indirect %	Direct %	Indirect %	
Bestsource Technology (Macao Commercial Offshore) Limited	Macau	Ordinary	MOP200,000	–	100	–	100	Trading
Simple Enterprise Limited	BVI	Ordinary	US$1	–	100	–	100	Investment holding
Stella Fashion Group Limited (Formerly known as N.O.I. Holding Company Limited)	BVI	Ordinary	US$4	100	–	100	–	Investment holding and wholesaling of footwear
Stella Footwear Inc.	BVI	Ordinary	US$3,947	–	100	–	100	Investment holding, manufacturing and sales of footwear
Stella International Limited	Vanuatu	Ordinary	US$1	100	–	100	–	Investment holding, manufacturing and sales of footwear
Stella International Marketing Company Limited	Malaysia	Ordinary	US$10,000	100	–	100	–	Marketing activities
Stella Logistics Limited (2)	Hong Kong	Ordinary	HK$10,000	–	100	–	–	Provision of logistic services
Stella Luna Sol Limited	Hong Kong	Ordinary	HK$1	–	100	–	100	Holding of intellectual property rights
Stellaluna (Thailand) Co., Ltd.	Thailand	Ordinary	Baht20,000,000	–	70.1	–	70.1	Footwear retailing
Stella Services Limited	Hong Kong	Ordinary	HK$300,000	100	–	100	–	Provision of secretary and accounting services
東莞興昂鞋業有限公司 (1) (3) (Dongguan Stella Footwear Company Limited)	The PRC	Capital contribution	HK$190,010,000	–	100	–	100	Manufacturing of footwear
洞口興雄鞋面有限公司 (1) (3) (Dongkou Selena Upper Company Limited)	The PRC	Capital Contribution	US$550,000	–	100	–	100	Manufacturing of footwear

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	2011 Interest holdings		2010 Interest holdings		Principal activities
				Direct %	Indirect %	Direct %	Indirect %	
廣西北流興昂鞋面有限公司 (1) (Guangxi Bei Liu Stella Upper Company Limited)	The PRC	Capital Contribution	US$1,000,000	–	100	–	100	Manufacturing of footwear
廣西育祥鞋業有限公司 (1) (3) (Guangxi Yu Xiang Footwear Company Limited)	The PRC	Capital Contribution	US$3,000,000	–	100	–	100	Manufacturing of footwear
廣西容縣興雄鞋面有限公司 (1) (3) (Guangxi Rong Yuan Selena Upper Company Limited)	The PRC	Capital Contribution	US$1,000,000	–	100	–	100	Manufacturing of footwear
廣西興萊鞋業有限公司 (1) (3) (Guangxi Simona Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000 (3)	–	100	–	100	Manufacturing of footwear
隆回興昂鞋業有限公司 (1) (3) (Longhui Stella Footwear Company Limited)	The PRC	Capital Contribution	US$3,750,000	–	100	–	100	Manufacturing of footwear
興記時尚貿易(上海)有限公司 (1) (Stella Fashion Inc. (formerly known as 興記九興貿易(上海)有限公司 Stella Luna Fashion Inc.))	The PRC	Capital contribution	US$11,000,000	–	100	–	100	Footwear retailing
龍川興萊鞋業有限公司 (1) (3) (Long Chuan Simona Footwear Company Limited)	The PRC	Capital contribution	HK$200,300,000	–	100	–	100	Manufacturing of footwear
雙峰興昂鞋業有限公司 (1) (3) (Shuangfeng Stella Footwear Company Limited)	The PRC	Capital Contribution	HK$32,500,000	–	100	–	100	Manufacturing of footwear

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	2011 Interest holdings		2010 Interest holdings		Principal activities
				Direct %	Indirect %	Direct %	Indirect %	
廣西興鵬鞋業有限公司 [2] (Guangxi Shenandoah Footwear Company Limited)	The PRC	Capital Contribution	US$10,000,000	–	100	–	–	Manufacturing of footwear
武宣興萊鞋業有限公司 [1][2] (Weixian Simona Footwear Company Limited)	The PRC	Capital Contribution	US$1,000,000	–	100	–	–	Manufacturing of footwear
興業興萊鞋業有限公司 [2] (Xingye Simona Footwear Company Limited)	The PRC	Capital Contribution	US$3,000,000	–	100	–	–	Manufacturing of footwear
新寧興雄鞋業有限公司 [2] (Xinning Selena Footwear Company Limited)	The PRC	Capital Contribution	US$150,000	–	100	–	–	Manufacturing of footwear

Note:

(1) Wholly foreign-owned enterprises established in the PRC.

(2) These subsidiaries were incorporated/established during the year.

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

Financial Summary

	For the year ended 31 December				
	2007	2008	2009	2010	**2011**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Revenue	937,164	1,102,116	1,008,598	1,293,521	**1,494,531**
Profit for the year	114,623	124,978	102,081	121,328	**142,784**
Attributable to:					
Equity owners of the Company	114,695	124,993	102,168	121,408	**142,988**
Non-controlling interests	(72)	(15)	(87)	(80)	**(204)**
	114,623	124,978	102,081	121,328	**142,784**

	As at 31 December				
	2007	2008	2009	2010	**2011**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Total assets	856,730	888,277	925,587	990,125	**1,074,874**
Total liabilities	(123,610)	(135,295)	(157,110)	(187,918)	**(212,874)**
Shareholders' funds	733,120	752,982	768,477	802,207	**862,000**

Note: The results for the two years ended 31 December 2011, and the assets and liabilities as at 31 December 2010 and 2011 have been extracted from the audited consolidated statement of comprehensive income and audited consolidated statement of financial position as set out on page 86 and 87, respectively, of the annual report.

Corporate Information and Financial Calendar 2011/2012

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

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Grand Cayman KY1-1111, Cayman Islands

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

STOCK CODE

1836

WEBSITE

www.stella.com.hk

FINANCIAL CALENDAR 2011/2012

2011 Interim Results Announcement	18 August 2011
Payment of Interim Dividend	16 September 2011
2011 Annual Results Announcement	21 March 2012
Closure of Register of Members	2 May 2012 to 4 May 2012
Annual General Meeting	4 May 2012
Payment of Final Dividend	On or about 18 May 2012
2012 Interim Results Announcement	On or about 16 August 2012

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*