Stella International Holdings Limited
Stock Code: 1836

2012
Annual Report

Mission Statement

Our Core Values

Stella International Holdings Limited ("Stella" or the "Company") is dedicated to providing our 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 accessories, 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 proactive, positive, 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

MANUFACTURING

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

STELLA

RETAILING

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

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. Our 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 Brian Atwood, Cole Haan, Guess and Jones Group.

We also design, develop and manufacture footwear for several high-fashion brands such as Alejandro Ingelmo, Alexander Wang, Bally, Givenchy, Marc by Marc Jacobs, Marciano, Miu Miu, Prada, 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 introduced *JKJY*.

1982

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

2000

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

1999

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

1998

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

1991

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

1995

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

Milestones

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.

2012 • Opened *Stella Luna* Store in Paris.

VALUE CHAIN

BRANDING/ RETAIL

ENGINEERING & DEVELOPMENT

ASSEMBLY

COMPONENTS MANUFACTRING

2010 • Diversified into inland China.

FASHION/LUXURY

CASUAL

PRIVATE LABEL

PRODUCT

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.

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.

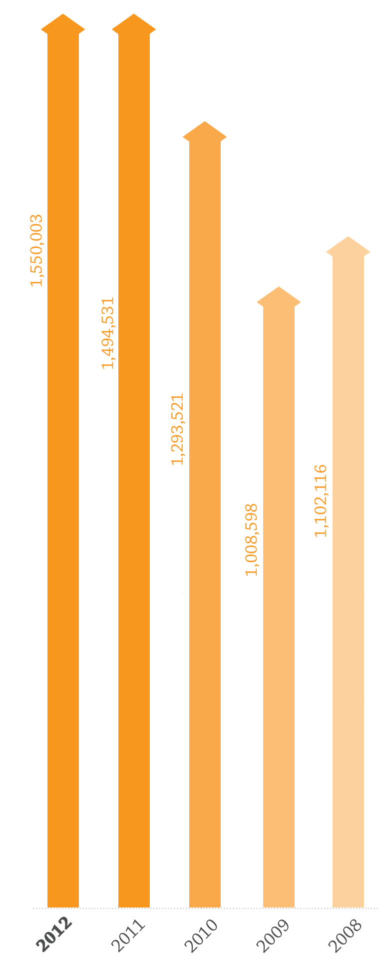
2008 • Revenue exceeded US$1 billion.

• Annual manufacturing capacity reached 50 million pairs.

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

2011 • Launched new men's affordable luxury footwear brand – *JKJY.*

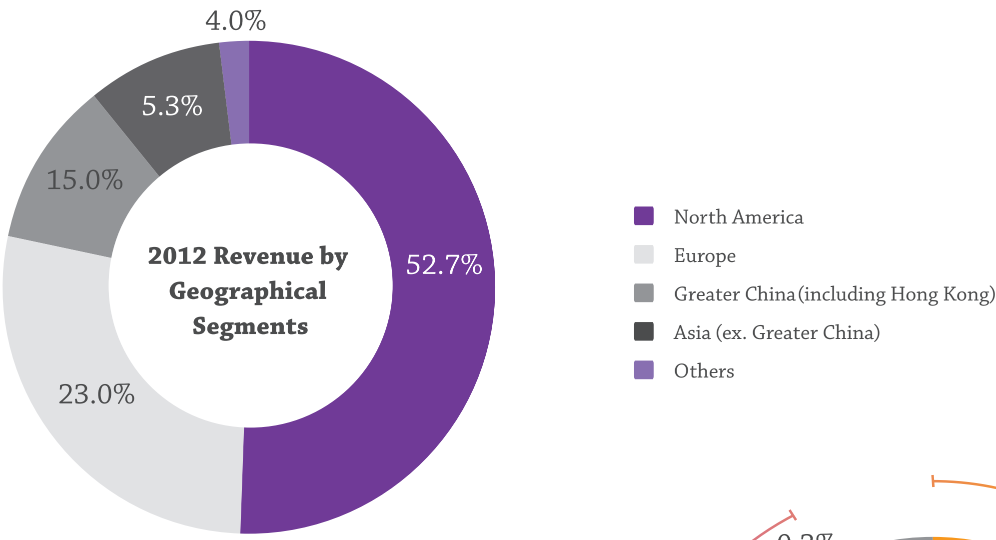
Financial Highlights

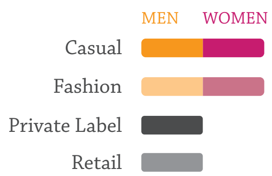


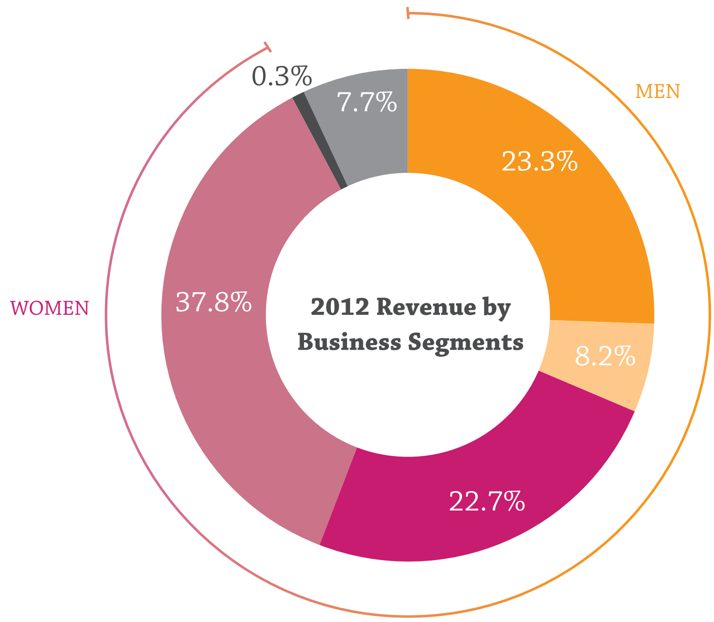
Revenue US$'000

Net profit attributable to shareholders US$'000

Consolidated revenue increased year-on-year by 3.7% to US$1,550.0 million







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

Chairman's Statement

**our mission:
“making the best shoes”**

making the best shoes

Dear Shareholders,

2012 was a volatile year for the global economy, with the first half of the year marked by a deepening of the European debt crisis and a delayed US economic recovery. This set the tone for weak consumer confidence in our primary export markets throughout most of the year, with some signs of improvement in the final months.

Consumers in China have also felt the pinch, with slowing economic growth leading many to tighten their purse strings. Manufacturers too were hit by weaker demand for Chinese exports, as well as rising labour costs.

Stella has not been immune to these challenges, with the Group experiencing a dip in shipment volumes and a slowdown in the growth of the retail business during the year. However, our overall performance was respectable due to our long-standing commitment to quality and our strong relationships with clients.

Our efforts to lower input costs and stabilise our labour force within our manufacturing business began to bear fruit this year, with our new production facilities in inland China and South-East Asia coming online. We will also evaluate expanding our manufacturing capability to Bangladesh and Myanmar to further optimise production allocation. This is part of a carefully planned rationalisation process which is allowing the Group to achieve important structural changes to secure long-term growth. We also reinforced our competitiveness by continuing to invest in R&D, including in our China and Italian design studios, further carving-out our position as a unique high-end, value-adding manufacturer. Our recent move into leather goods have also helped our brand customers expand their product portfolios at the same time.

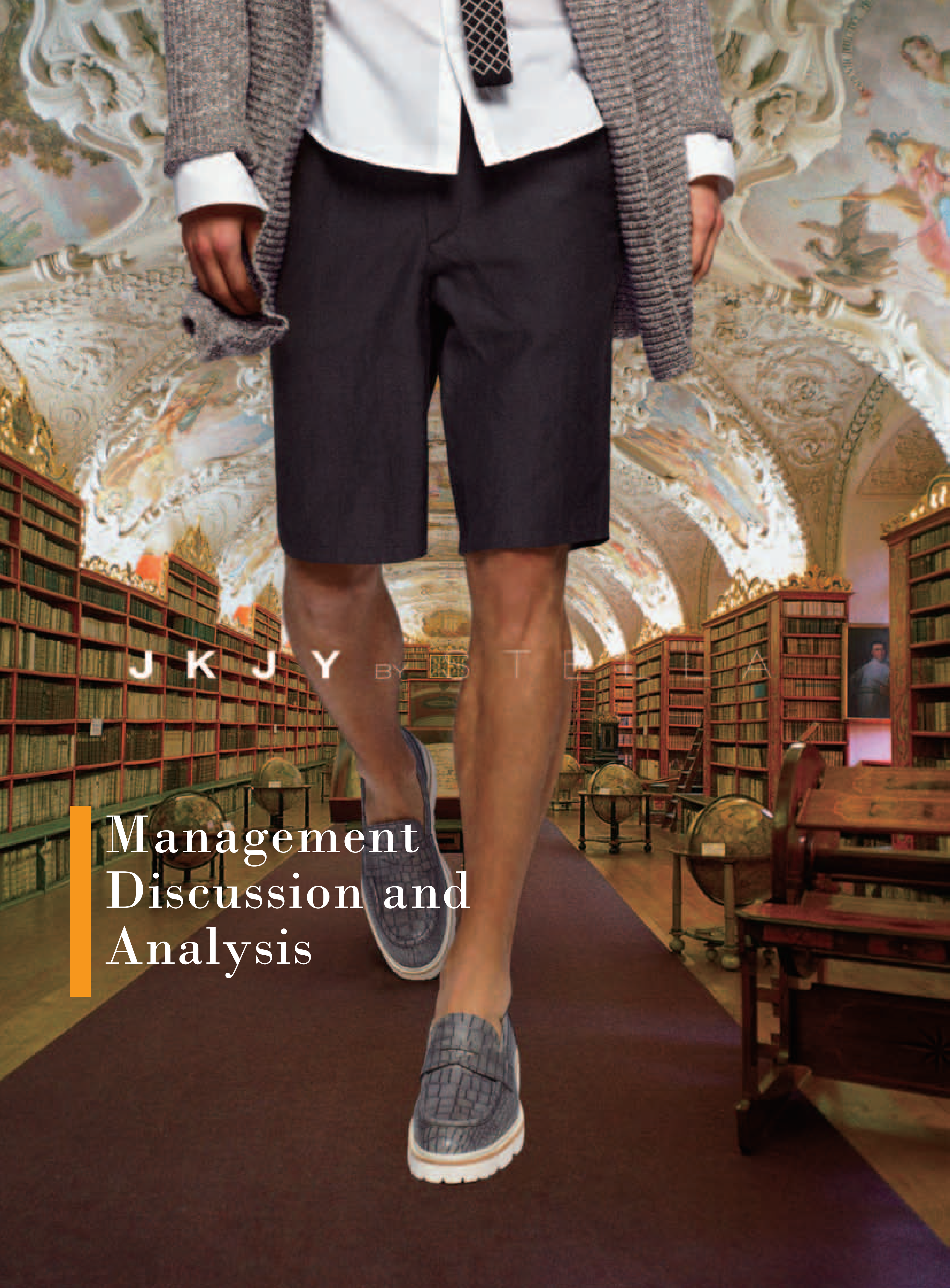
Despite the weaker consumer confidence, 2012 has still been an eventful year for our retail business. We launched two new retail brands in China as part of our strategy to enter more niche footwear markets – *JKJY*, our first self-developed footwear brand for men and *Pierre Balmain*, a joint-venture with the French retailer of the same name. Furthermore, our flagship brand *Stella Luna* has gone global, opening its first store in the world's fashion capital – Paris.

Our focus in the next few years is to gradually build an international platform for our brands, using marketing vehicles like the Paris store to gain experience and develop a global audience. The attention on our Paris store inspires our next move — to open more concept stores in major cities in Europe in the next few years. We will also continue to explore new markets with new brands and products, including leather goods, in the coming years.

Looking forward, we expect the business environment to remain unstable, with economic recovery likely to be fragile. However, demand for our products is expected to remain stable, particularly at the high end. We will also continue to work closely with our valued brand customers to support them through any further economic uncertainty by amplifying their product portfolios. On the retail side, we will continue our efforts to broaden same-store sales and our product base, while refining our retail store network to boost overall competitiveness.

On behalf of the Board, I would like to extend my 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 2013



Management Discussion and Analysis

healthy performance in a challenging environment

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 2012.

BUSINESS MODEL AND STRATEGY

Stella is a leading developer, manufacturer and retailer of quality footwear products. Our manufacturing business was founded in 1982 with a simple mission of "making the best shoes"; and it currently provides a one-stop shop for the design, development and manufacturing of quality and affordable luxury footwear.

Our business is positioned at the high-end of the value chain, offering craftsmanship, innovation, short lead times and small batch production. Our commitment to quality has enabled us to attract a growing client base of premium fashion and casual brands.

We launched our retail business in 2006 in order to diversify our business and tap growing demand for affordable luxury footwear in China and across the region. All our retail products are designed and manufactured in-house and have quickly attracted a strong following among China's upwardly mobile consumers.

Our retail business currently consists of three self-developed brands – *Stella Luna*, *What For* and *JKJY* – and joint-venture brand *Pierre Balmain*. Our network of retail stores is primarily focused in Mainland China, with additional stores in Thailand, Taiwan, Philippines, Lebanon, United Arab Emirates and Kuwait. In 2012, we opened our first *Stella Luna* store in Paris to build a global platform for our products.

FINANCIAL HIGHLIGHTS

Focus on Quality Sustains Performance in Volatile Conditions

Stella's financial performance held up reasonably well in 2012 – a volatile year for the global economy. Our continued focus on quality saw us through a sharp downturn in global consumer confidence in the first half of the year, with conditions stabilising later in the year.

The Group's consolidated revenue rose 3.7% year-on-year to US$1,550.0 million (2011: US$1,494.5 million), boosted by a pick-up in our manufacturing business in the second half of the year. However, temporary capacity constraints, control on labour overtime and a lag caused by slower global demand in the first half of 2012 resulted in a 3.4% fall in total shipments to 50.8 million pairs (2011: 52.6 million pairs). The full-year net profit attributable to equity holders of the Company rose 7.3% to US$153.4 million (2011: US$143.0 million).

The average selling price ("ASP") of our footwear products rose 5.5% in 2012, to US$28.6 per pair (2011: US$27.1) due to cost inflation, further recognition of the quality of our footwear products and continuous improvements to product mix, despite falling prices for raw materials towards the end of the year. Basic earnings per share rose 7.2% year-on-year to US$0.194 (2011: US$0.181), based on the weighted average number of 792,492,017 ordinary shares in 2012 (2011: 791,903,937 shares).

All segments of our manufacturing business performed satisfactorily during the year. Women's fashion footwear continued to be our largest fashion segment, contributing 37.8% to total revenue (2011: 36.3%). Contribution from our women's and men's casual footwear businesses was 22.7% (2011: 24.5%) and 23.3% (2011: 25.6%) of overall revenue respectively, while the contribution from the men's fashion segment rose to 8.2% (2011: 5.9%).

Retail Business Continues to Deliver

Our retail business delivered another year of solid performance, adding new brands and expanding to new locations during the year. Retail revenue rose 20.6% to US$119.4 million (2011: US$99.0 million), with the retail business' contribution to the Group's total revenue rising to 7.7%, up from 6.6% in the previous year. Same-store sales growth (in China only) slowed to 2.3% in 2012, rising to US$68.1 million from US$66.6 million in the preceding year. This is partially due to a high base, lower domestic consumer confidence in China and efforts to integrate *What For* with our Italian design studio.

Gross profit for the retail business was US$80.5 million in 2012 (2011: US$68.6 million), representing an increase of 17.3% from the previous year.

Growing Profits despite Challenging Conditions

Total gross profit across all business segments in 2012 was US$375.2 million, representing an increase of 6.4% from the previous year (2011: US$352.5 million). This was mostly attributed to the resilient performance of our manufacturing business and our value-adding production process. Gross profit margins rose to 24.2% (2011: 23.6%), while net profit margins improved slightly to 9.9% (2011: 9.6%).

During the year under review, the Group's cash flow remained stable, with cash generated from operations amounting to US$152.8 million (2011: US$88.0 million). We invested US$89.3 million in CAPEX for capacity expansion in 2012 and returned US$100.3 million to shareholders as dividends.

Geographically, North America and Europe continued to be our two largest markets, accounting for 52.7% and 23.0% of total revenue in 2012. This was followed by the PRC (including Hong Kong), accounting for 15.0%, Asia (other than the PRC), accounting for 5.3%, and other geographical regions which accounted for 4.0%.

BUSINESS REVIEW

Commitment to Quality and Delivering Promises Support Performance

Stella's reputation for quality, flexibility and reliability ensured continued demand for our products, despite the volatile global economy. Our biggest asset is the long-term relationships and level of trust we have forged with our clients by consistently exceeding customers' expectations.

Our ability to deliver quality customised products saw us attract more niche brands as clients this year. This reduced Stella's overall reliance on larger customers, with our top five customers accounting for 57.1% of total revenue in 2012, down from 58.3% in the previous year.

Stable Margins despite Higher Labour Costs

Stella has not been immune to the various labour force challenges faced by Asian manufacturers, including high labour turnover and increasing wages. Despite this, our profit margins throughout the year remained steady, due to:

— Stable global demand for high-end products, as industry consolidation pushes a number of brands to engage specialised suppliers such as Stella

— Our high position in the value chain and design-led process, allowing us to attract a higher ASP than the industry average

— Cutting-edge R&D capabilities, led by our design studios in Dongguan, China and Venice, Italy

— The expansion of our production base in low-cost locations, which allowed us to control costs and stabilise our labour supply

Removal of Temporary Capacity Constraints

The Group ramped up production at our new low-cost facilities in inland China (Guangxi and Hunan) and Indonesia in the second half of 2012, removing the temporary capacity constraints that were partially responsible for lower shipment volume this year. Capacity during the year was also temporarily affected by the closing of a trade-processing factory in Dongguan, China (upon the expiration of a trade-processing contract with the local government) and stricter controls on overtime labour hours.

The push to expand our low-cost production base is part of our long-term plan to shift labour-intensive operations away from coastal regions of China where the labour turnover rate is high. However, design and higher-skilled processes will continue to remain in Dongguan, China allowing us to increase operational efficiency, without compromising quality.

Our other manufacturing facilities in Dongguan, China and Vietnam operated at close-to-full capacity throughout the year.

Growing Portfolio of Retail Brands

The Group introduced two new retail brands in 2012 as part of our efforts to diversify our retail business and tap more niche markets. In the first half of the year, we launched *JKJY*, our first male-focused retail brand, opening 9 stores in China. *JKJY* crossovers fashion and sports footwear and retails for between RMB2,000 to RMB4,000 per pair.

We also opened our first 2 joint-venture stores in China with prestigious Paris-based brand *Pierre Balmain*.

Our *Stella Luna* and *What For* brands continued to increase their reach in the affordable luxury footwear markets of China and other regions, opening new standalone stores at quality retail locations in line with the Group's retail strategy.

Stella Luna targets the high-end footwear and leather goods markets, with prices ranging from RMB1,200 to RMB6,000 per pair. *What For*, our contemporary and lifestyle brand, retails for between RMB800 to RMB2,800 per pair.

We added a net 17 *Stella Luna* and 2 *What For* stores in China during the year under review. The following table shows the geographic distribution of our stores by brands as of 31 December 2012:

	Stella Luna	*What For*	*JKJY*	*Pierre Balmain*
Greater China				
Eastern China	47	33	4	2
Southern China	35	30	2	—
Northern China	37	40	2	—
North-East China	33	28	1	—
South-West China	41	35	—	—
Central China	18	18	—	—
Taiwan	3	—	—	—
Sub-total	214	184	9	2
Thailand				
Bangkok	6	6	—	—
Nonthaburi	—	1	—	—
Phuket	1	—	—	—
Samuth Prakarn	1	1	—	—
Sub-total	8	8	—	—
France	1	—	—	—
Philippines	4	1	1	—
Lebanon	9	9	—	—
United Arab Emirates	2	1	—	—
Kuwait	2	2	—	—
Total	240	205	10	2

Introducing our Brands on the Global Stage

We opened our first *Stella Luna* store in Paris in December 2012. Located in the city's high-end Saint-Germain shopping district, the store will be the centre of our global marketing and public relations efforts to build a global presence for our brands and to interact more with the western retail market.

BUSINESS OUTLOOK

Steady Order Pipeline despite Volatile Economic Outlook

We expect the challenging operating environment present in 2012 will continue in 2013. However, our order pipeline should remain steady as a result of our strong client relationships and our unique positioning as a high-quality manufacturer.

Labour costs and availability will remain a challenge, although we are well advanced in shifting production to locations with labour and cost advantages. We expect the cost of raw materials to remain steady or slightly decline in 2013.

Key risks in the coming years will include a sudden downturn in consumer sentiment in our main export markets. We will also closely monitor the effects of policies adopted by the Chinese government that may provoke RMB inflation or affect the price of input costs.

Addition of more Niche Retail Brands to Further Diversify Retail Business

We remain cautiously optimistic about the medium-to-long term growth potential for mid-to-upper tier footwear products in China. In particular, we feel there is room for growth in niche segments of the market which are emerging alongside the continued sophistication of Chinese consumers.

The launch of our new *JKJY* and joint venture *Pierre Balmain* brands this year is the first part of our strategy to engage these niche markets. Leveraging on the experience we build with these brands, we will prudently consider introducing additional brands, either self-developed or as a joint-venture, in order to further diversify our business.

Setting the Stage for Future Growth

As an experienced high-end footwear manufacturer, we will continue to help our customers expand and improve their product categories (including in areas such as leather goods) and consolidate resources for their portfolios.

On the retail side, we will leverage on our recently opened Paris store to build a global platform for our brands and as a stage for future expansion in the years ahead. Closer to home, we will continue our efforts to broaden same-store sales and our product base to further develop our retail business in China. This includes the possibility of extending the retail products offered by some of our brands to include leather goods.

Another focus in the coming year will be the prudent refining and optimisation of our existing retail store network, in order to boost our overall competitiveness and set a solid foundation for future growth and success.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, the Group had cash and cash equivalents of about US$303.6 million (2011: US$316.1 million).

As at 31 December 2012, the Group had current assets of US$857.4 million (2011: US$826.0 million) and current liabilities of about US$242.2 million (2011: US$212.9 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.5 as at 31 December 2012 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 2012 (2011: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2012, 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 company. The Group has not adopted any 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$89.3 million, of which approximately US$83.3 million was used in production capacity expansion and approximately US$6.0 million was used for the expansion of the retail store network.

PLEDGE OF ASSETS

As at 31 December 2012, the Group had not pledged any of its assets (2011: Nil).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2012, the Group had approximately 77,000 employees (2011: approximately 70,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets for the Group's development and expansion. We actively seek to attract, train and retain individuals who are proactive, positive, committed to and passionate about the business.

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

As of 31 December 2012, the Group's recruitment efforts have remained satisfactory, despite continuing labour shortages in our primary manufacturing locations in China.

Corporate Social Responsibility

stella's corporate philosophy emphasises respect for people

Contributing to local harvests

Supporting local schools

Reinforcing a caring culture and strengthening sustainability

We continue to strive to make a positive impact to our society by actively incorporating Corporate Social Responsibility (CSR) principles into all our activities. In our view, CSR is not just a responsibility – it also makes business sense. During the year under review, our efforts to promote environmental initiatives, continuous education and safety initiatives have resulted in better employee morale, reduced staff turnover, lower costs and increased efficiency.

Below is a list of the valuable work we have undertaken within our business and in our local communities, to make sure that our operations are sustainable and beneficial to all our stakeholders.

Stella supporting *Planet Water Foundation* in partnership with Timberland

Reusing heat from machinery to power dormitories

Insulation of factory machines resulted in significant energy savings

Reducing our energy use

Carbon emissions and pollution are both major problems globally, especially in regions with vibrant manufacturing sectors such as China. We pay close attention to the Chinese government's initiatives to combat this issue, such as the *12th Five-year Plan on Greenhouse Gas Emission Control*, which calls for more stringent energy use targets and a higher uptake of green technology.

In order to play our part, we continue to develop and implement energy saving plans at our manufacturing facilities. Initiatives include the use of more energy-efficient lighting and industrial equipment, reducing the number of diesel generators and calling for more innovative ways to save energy.

We have rolled-out ventilation and cooling equipment at our facilities, such as water curtains, ventilation fans and sunshades, to reduce the amount of energy used to cool our factories. Over the past three years, this simple measure reduced indoor temperatures by two degrees Celsius. We also reduced energy use by recycling heat generated by our machinery to warm employee dormitories.

Other initiatives spearheaded this year included installing heat insulation materials on many of our machinery, and reducing energy use by an average 25% at our coastal facilities. We also conserved energy by replacing electric ovens used in our factories with infrared ovens and by reducing the number of motors used to power equipment at our factories.

Carbon absorption device installed at one of our factories

Local fire brigade practicing fire drills

Waste reduction and monitoring

We have set up a comprehensive monitoring system which tracks air emissions (such as dust and exhaust fumes), water consumption and the management of solid and hazardous waste at our facilities. We track our progress in each of these areas against tangible KPIs and reduction targets.

Water treatment system

For example, we overhauled our use of wastewater at our coastal facilities by treating 'grey' water separate from water containing industrial waste. Using this method, we were able to recycle up to 60% of wastewater for uses such as flushing toilets, landscaping and irrigation.

Other initiatives introduced at our coastal facilities include the introduction of waste segregation, which resulted in the recycling of up to 30% of solid waste. We have also installed dedicated sewer monitoring systems.

Working together with brand partners to improve rural living conditions

Every year, we work with our brand partners to give back to the community. This year, we co-sponsored the "Planet Water Foundation" with partner Timberland, which aims to improve water quality for families living in rural areas.

In July, a team from Stella accompanied the Foundation to visit remote regions of Vietnam's Thai Binh province where they installed water purification equipment at local kindergartens, which are capable of providing up to 10 thousand litres of clean water per day. The Foundation also trained local teachers on how to operate and maintain the equipment, ensuring that local children can continue to access clean water in the future.

Sewage quality testing lab

Our team also supported the Foundation in holding lessons on conservation, the importance of clean water, and personal hygiene.

Contributing to local harvests

Community service

In addition to being a major local employer, we frequently look for other roles we can play to support the local communities in which we operate. Support for education is a high priority, with each of our factories frequently organising collection drives and voluntary activities to support local schools and educational institutions.

This year, employees from our Longchuan factory in China came together to re-paint and beautify elementary schools in their local community to provide a more pleasant learning environment for students. Meanwhile, a spirit of donation was more prevalent among volunteers at our Guangxi factories, who donated schoolbags, dictionaries, stationary and clothing to local children.

Stella is also highly active in neighbourhood clean-ups, the collection of local harvests and providing a place for employment for the disabled – fulfilling our obligations to all segments of the community.

Coming together for World Environment Day

We collaborated once again with Timberland on 3 May 2012 to mark *World Environment Day*, a global event which advocates the linkages between economic development and environmental sustainability.

In line with this spirit, 40 volunteers from Stella and Timberland in Vietnam joined forces to remove garbage from a local beach and install new seating areas. By restoring the area to its original condition and adding new facilities, we were not only protecting the natural environment but also creating a local tourism asset as well.

In China, employees at our coastal factory marked the occasion by undertaking a tree planting drive to improve the local environment.

Volunteers marking World Environment Day

Employee team building and relieving the pressures of daily life

Stella values a motivated and engaged workforce and appreciates the difficulties and pressures many of our employees face working far from home.

This year, we continued to cap the number of overtime hours completed by employees to encourage a better life balance. We also arranged a number of recreational activities to help staff recharge and develop a healthier mind-set. These included trips and excursions to amusement parks, annual dinners, karaoke competitions and physical activities such as white-water rafting and yoga classes.

Team building activities

We also arranged a number of cultural events to mark annual holidays such as New Year's Day, Lunar New Year and the Mid-Autumn Festival.

Yoga classes

Enhancing workplace safety

We believe there is no finishing line when it comes to protecting and improving workplace safety standards. Throughout the year, we provided continuous training to employees under international Environment Safety Health (ESH) guidelines in order to improve safety consciousness, work safety standards and to reduce workplace accidents.

This included working together with the Environmental Protection Bureau and Public Safety Bureau to hold first-aid training sessions and train safety officers at each of our facilities. We also invited the fire brigade to use our sites to practice fire drills and improve evacuation procedures and response.

We also provided regular free health check-ups for all employees throughout the year.

Strengthening our Triple Bottom Line

Stella is committed to further improving our Triple Bottom Line of 'People, Profit and Planet' in the coming years by focusing on the sustainability of our growing business and by further expanding our involvement in the local community. We look forward to introducing more Corporate Social Responsibility best practices and seeing Stella become a benchmark for all Chinese manufacturers and retailers in the years to come.

Corporate Governance Report

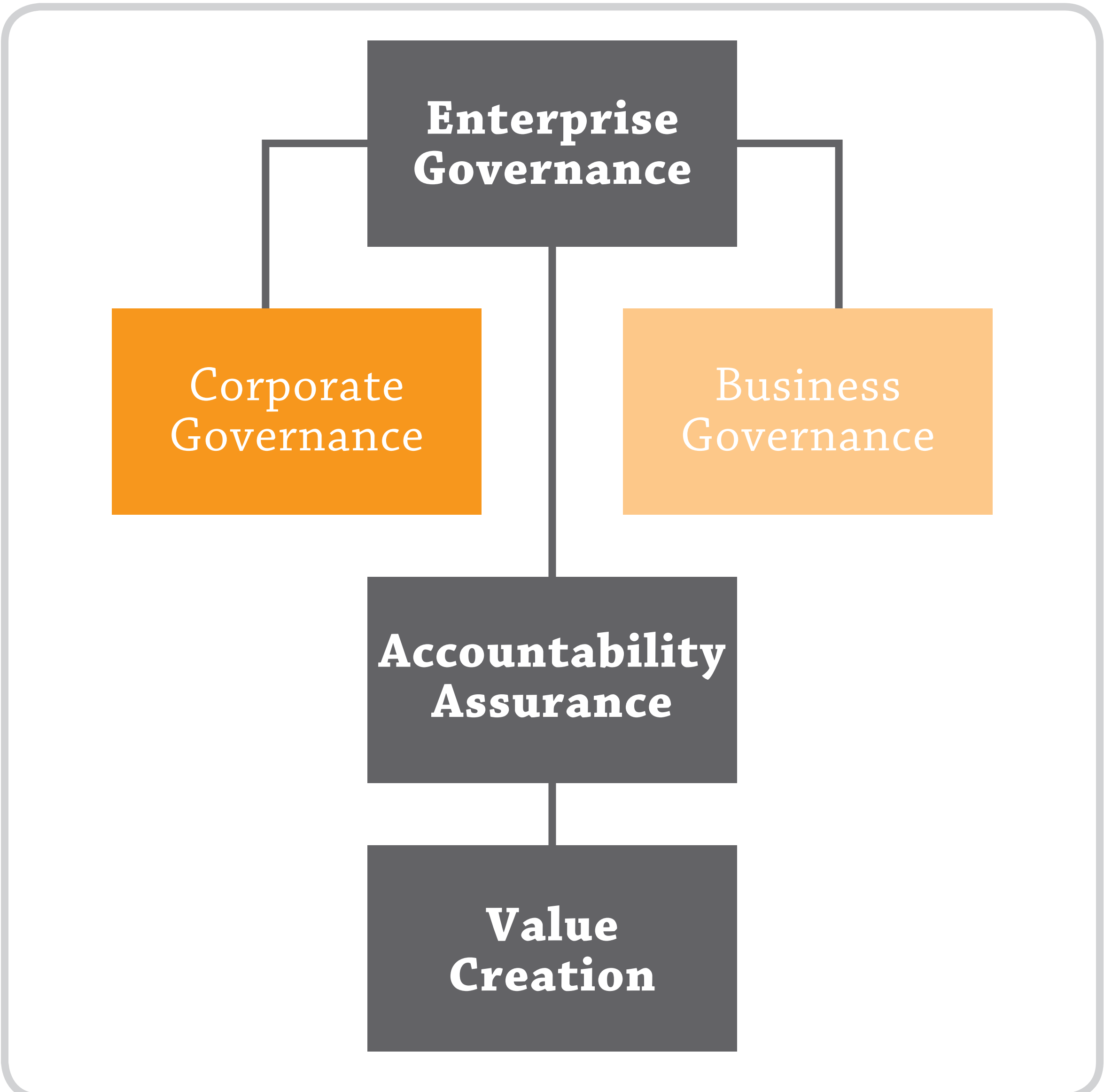
building and protecting long-term value

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 – the 4 Rs

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. Focusing on the 4 Rs – regulatory compliance, risk management, investor relations and corporate social responsibilities, the principal roles and functions of the Corporate Governance Committee, 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 Corporate Governance Code (the "CG Code") contained 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 the relevant disclosure in the Company's annual and interim reports;
4. to review and monitor the Company's communication policy and practices with its shareholders and investor communities; and
5. to review and monitor training and continuous professional development of Directors and senior management.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions of the CG Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2012 except for code provisions A.6.7, B.1.5 and E.1.2, details of which are disclosed below. Save for the deviation from code provisions A.6.7, B.1.5 and E.1.2, the Group has been in compliance with the CG 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 CG Code in various aspects.

Corporate Governance 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.

The Board regularly reviewed the contribution required from Directors to perform their responsibilities to the Company, and whether they are spending sufficient time performing them.

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 2012 are set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. Chiang Jeh-Chung, Jack *(Chairman)* 2/6 *(Note)* Mr. Shih Takuen, Daniel *(Deputy Chairman)* 6/6 Mr. Chao Ming-Cheng, Eric 4/6 Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* 3/6 Mr. Chi Lo-Jen 4/6 **Independent Non-executive Directors** Mr. Chu Pao-Kuei[3] 6/6 Mr. Ng Hak Kim, *SBS, JP*[1] 4/4 Mr. Chen Johnny 6/6 Mr. Bolliger Peter 6/6 Mr. Chan Fu Keung, William[2] 1/1 **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* 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 2013 have already been scheduled to ensure compliance with the CG Code and to facilitate Directors' attendance.
A.1.4 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and 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.1.5 Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes 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.

Code Provisions	Compliance	Corporate Governance Practices
A.1.6 There should be a procedure agreed by the board to enable directors, upon reasonable request, 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 them perform 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.
A.1.7 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 be dealt with by a physical board meeting rather than a written resolution. 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.
A.1.8 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.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 should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.	✓	The roles of the Chairman and Chief Executive Officer are separate and have been performed by separate individuals. The division of responsibilities between the two positions have been clearly established and set out in writing.
A.2.2 The chairman should ensure that all directors are properly briefed on issues arising at board meetings.	✓	With the support of the Deputy Chairman, executive Directors, senior management and the Company Secretary, the Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.
A.2.3 The chairman should be responsible for ensuring that directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable.	✓	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 of the important roles of the chairman is to provide leadership for the board. The chairman should ensure that the board works effectively and performs 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. He should take into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda. The chairman may delegate this responsibility to a designated director or the company secretary.	✓	Such roles are set out in writing and, with the support of the Deputy Chairman, such roles have been complied with.

Code Provisions	Compliance	Corporate Governance Practices
A.2.5 The chairman should take primary 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 it acts in the best interests of the issuer. The chairman should encourage directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that board decisions fairly reflect board consensus.	✓	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 effective communication.
A.2.8 The chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the board as a whole.	✓	Please refer to section E as described later in this report.
A.2.9 The chairman should promote a culture of openness and debate by facilitating 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 identified in all corporate communications that disclose the names of directors.	✓	The composition of the Board, by category, is disclosed in all corporate communications.
A.3.2 An issuer should maintain on its website and on the Stock Exchange's 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 and on the Stock Exchange's website an updated list of Directors identifying their role and function and whether they are independent non-executive Directors.

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.	✓	The independent non-executive Directors are appointed for a term of three years and are subject to retirement by rotation and re-election at the annual general meetings of the Company.
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.	✓	
A.4.3 If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders.	N/A	No independent non-executive Director has served the Board for more than nine years.

A.5 Nomination Committee		
Code Provisions	**Compliance**	**Corporate Governance Practices**
A.5.1 Issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.	✓	The Company established the Nomination Committee pursuant to a resolution of all Directors passed on 15 June 2007. For the year ended 31 December 2012, the composition of the Nomination Committee was as follows: **Name of Directors** / **Position** / **Period** **Independent Non-executive Directors** Mr. Chen Johnny / Chairman / 1 January – 31 December 2012 Mr. Chu Pao-Kuei [3] / Member / 1 January – 31 December 2012 Mr. Ng Hak Kim, *SBS, JP* [1] / Member / 1 January – 30 June 2012 Mr. Chan Fu Keung, William [2] / Member / 1 September – 31 December 2012 **Executive Director** Mr. Shih Takuen, Daniel / Member / 1 January – 31 December 2012 The Nomination Committee currently has four members comprising three independent non-executive Directors, Mr. Chen Johnny, Mr. Chan Fu Keung, William[2] and Mr. Yue Chao-Tang, Thomas[4] and an executive Director, Mr. Shih Takuen, Daniel. The chairman of the Nomination Committee is Mr. Chen Johnny. During the year ended 31 December 2012, three Nomination Committee meetings were held and the attendance records are set out below: **Name** / **Attendance** Mr. Chen Johnny / 3/3 Mr. Chu Pao-Kuei [3] / 3/3 Mr. Ng Hak Kim, *SBS, JP* [1] / 2/2 Mr. Shih Takuen, Daniel / 3/3 Mr. Chan Fu Keung, William [2] / 0/0 During the year, the following work has been performed by the Nomination Committee: (i) reviewed the structure, size and composition of the Board; (ii) identified suitably qualified individual to become independent non-executive Director and make recommendation to the Board on the appointment of independent non-executive Director;

Code Provisions	Compliance	Corporate Governance Practices
		(iii) considered the re-appointment of independent non-executive Directors; (iv) 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 (v) assessed the independence of independent non-executive Directors.
A.5.2 The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties.	✓	The Nomination Committee was established with specific written terms of reference which deal clearly with its authority and duties. The principal role and function 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.5.3 The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board by including them on the Stock Exchange's website and the issuer's website.	✓	The terms of reference of the Nomination Committee are posted on the on the Stock Exchange's website (since 21 March 2012) and the Company's website.

Code Provisions	Compliance	Corporate Governance Practices
A.5.4 Issuers should provide the nomination committee sufficient resources to perform its duties. Where necessary, the nomination committee should seek independent professional advice, at the issuer's expense, to perform its responsibilities.	✓	The Nomination Committee has been provided with sufficient resources to perform 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.5.5 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 he should be elected and the reasons why they consider him to be independent.	✓	Mr. Chan Fu Keung, William and Mr. Yue Chao-Tang, Thomas, being the independent non-executive Directors appointed by the Board to fill causal vacancies with effect from 1 September 2012 and 1 January 2013 respectively, will be subject to re-appointment at the general meeting of members to be held on 10 May 2013. A circular containing their respective biographical information and explanation for their independence will be despatched to the shareholders for their information in due course.

A.6 Responsibilities of directors

Principle
Every Director knows his responsibilities as a Director and the conduct, business activities and development of the Group. Independent non-executive Directors understand they have the same duties of care and skill and fiduciary duties as executive Directors.

Code Provisions	Compliance	Corporate Governance Practices
A.6.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the operations and business and is fully aware of his responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.	✓	All newly appointed Directors have received induction program on appointments, which are tailored to their background, experience and their role in the Group and are designed to enable them to better understand the operations and business of the Group. The program includes an induction package given to newly appointed Directors, which comprises a brief introduction of the Group's business and the statutory and regulatory obligations of a director of a listed company. Independent non-executive Directors are invited to site visits of major operating units of the Group and briefed by the Company's executive Directors and senior management on the Group's business and governance practices. During the year, an induction program was organised for Mr. Chan Fu Keung, William who joined the Board in September 2012. Subsequently Directors also receive monthly updates comprising the Group's financial Information and order outlook. In addition, they also receive market intelligence materials (called Monthly Industry Tracker), for them to better appraise the industry where the Group operates its business. During the year, Directors also participated in training sessions to update on changes to the legal and regulatory environments in which the Group operates.

Code Provisions	Compliance	Corporate Governance Practices
A.6.2 The functions of non-executive directors should include: (a) participating in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; (b) taking the lead where potential conflicts of interests arise; (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.	✓	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.

Code Provisions	Compliance	Corporate Governance Practices
A.6.3 Every director should ensure that he can give sufficient time and attention to the issuer's affairs 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.
A.6.4 The board should establish written guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the issuer's securities.	✓	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

Code Provisions	Compliance	Corporate Governance Practices
A.6.5 All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. Note: Directors should provide a record of the training they received to the issuer.	✓	The Company is responsible for arranging and funding continuous professional development program for the Directors. Please refer to the disclosure made under A.6.1 in this report. Effective January 2012, all Directors are required to provide the Company with their training records. During the year, the Directors participated in the kinds of training as follows: **Name of Directors** — **Kinds of Training** **Executive Directors** Mr. Chiang Jeh-Chung, Jack *(Chairman)* — A, B, C Mr. Shih Takuen, Daniel *(Deputy Chairman)* — A, B, C Mr. Chao Ming-Cheng, Eric — A, B, C Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* — A, B, C Mr. Chi Lo-Jen — A, B, C **Independent Non-executive Directors** Mr. Chu Pao-Kuei [3] — A, B, C Mr. Ng Hak Kim, *SBS, JP*[1] — A, B, C Mr. Chen Johnny — A, B, C Mr. Bolliger Peter — A, B, C Mr. Chan Fu Keung, William [2] — A, B, C A: Legal/regulatory B: Business C: Financial
A.6.6 Each director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments.	✓	The Directors are required to confirm to the Company at the time of appointment, and subsequently bi-annually any change, the number and nature of offices held in public companies or organisations and other significant commitments.

Code Provisions	Compliance	Corporate Governance Practices
A.6.7 Independent non-executive directors and other non-executive directors, as equal board members, 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. They should also attend general meetings and develop a balanced understanding of the views of shareholders.	Partly complied with	Please refer to the disclosure made under A.1.1, A.6.2 and A.6.3 in this report. Two independent non-executive Directors, namely Mr. Chu Pao-Kuei[3] and Mr. Chen Johnny, had not attended the annual general meeting of the Company held on 4 May 2012 due to their other business commitments.
A.6.8 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.6.2 and A.6.3 in this report.

A.7 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 perform their duties and responsibilities.

Code Provisions	Compliance	Corporate Governance Practices
A.7.1 For regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent, in full, to all directors. These should be sent in a timely manner and at least 3 days before the intended date of board or board committee meeting (or other agreed period).	✓	Board papers are sent to the Directors for review at such period as agreed before the Board or Board committee meetings.
A.7.2 Management has an obligation to supply the board and its committees with adequate information, in a timely manner, to enable it to make informed decisions. The information supplied must be complete and reliable. To fulfill his duties properly, a director may not, in all circumstances, be able to reply purely on information provided voluntarily by management and he may need to make further enquiries. Where any director requires more information than is volunteered by management, he should make further enquiries where necessary. So, the board and individual directors 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 individual Directors and answer all questions of the Board and individual Directors 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.7.3 All directors are entitled to have access to board papers and related materials. These papers and related materials should be in a form and quality sufficient to enable the board to make informed decisions on matters placed before it. Queries raised by directors should receive prompt and full response, if possible.	✓	Please refer to the disclosure made under A.7.1 and A.7.2 in this report.

B. Remuneration of Directors and Senior Management and Board Evaluation

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.

The Remuneration Committee

The Company established the Remuneration Committee pursuant to a resolution of all Directors passed on 15 June 2007. At all material times during the year ended 31 December 2012, the Remuneration Committee was chaired by an independent non-executive Director and comprising a majority of independent non-executive Directors. For the year ended 31 December 2012, the composition of the Remuneration Committee was as follows:

Name of Directors	Position	Period
Independent Non-executive Directors		
Mr. Ng Hak Kim, *SBS, JP* (1)	Chairman	1 January – 30 June 2012
Mr. Chu Pao-Kuei (3)	Member	1 January – 31 December 2012
Mr. Chan Fu Keung, William(2)	Chairman	1 September – 31 December 2012
Executive Director		
Mr. Shih Takuen, Daniel	Member	1 January – 31 December 2012

The Remuneration Committee currently has three members comprising two independent non-executive Directors, Mr. Chan Fu Keung, William(2) , Mr. Yue Chao-Tang, Thomas(4) and an executive Director, Mr. Shih Takuen, Daniel. The chairman of the Remuneration Committee is Mr. Chan Fu Keung, William(2).

The principal role and function of the Remuneration Committee are making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, reviewing the management's remuneration proposals for Directors and making recommendation to the Board and reviewing the Group's overall human resources strategy.

During the year ended 31 December 2012, one Remuneration Committee meeting was held, and the attendance records are set out below:

Name	Attendance
Mr. Ng Hak Kim, *SBS, JP* (1)	1/1
Mr. Chu Pao-Kuei(3)	1/1
Mr. Shih Takuen, Daniel	1/1
Mr. Chan Fu Keung, William(2)	0/0

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) discussed performing HR audit on the Company's human resources system;
(iii) reviewed and determined the policy for the remuneration of executive Directors;
(iv) reviewed the performance of executive Directors and senior management; and
(v) make recommendations to the Board on the proposed remuneration packages of individual Directors and senior management

Corporate Leadership Programme

During the year, Mr. Ng Hak Kim, *SBS, JP* (1), 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 2012, a site visit to the Group's headquarters in Dongguan was made to follow up on the implementation of the programme. 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.1.1 The remuneration committee should consult the chairman and/or chief executive about their proposals for other executive directors. The remuneration committee should have access to independent professional advice if 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.

Code Provisions	Compliance	Corporate Governance Practices
B.1.2 The remuneration committee's terms of reference should include: (a) to make recommendations to the board on the issuer's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) to review and approve the management's remuneration proposals with reference to the board's corporate goals and objectives; (c) either: (i) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management; or (ii) to make recommendations to the board on the remuneration packages of individual executive directors and senior management; (d) to make recommendations to the board on the remuneration of non-executive directors; (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;	✓	The Remuneration Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties and followed closely the CG Code requirements. The Remuneration Committee adopts the model of making recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Code Provisions	Compliance	Corporate Governance Practices
(f) to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; (g) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and (h) to ensure that no director or any of his associates is involved in deciding his own remuneration.		
B.1.3 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board by including on the Stock Exchange's website and the issuer's website.	✓	The terms of reference of the Remuneration Committee are posted on the Stock Exchange's website (since 21 March 2012) and the Company's website.
B.1.4 The remuneration committee should be provided with sufficient resources to perform 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.

Code Provisions	Compliance	Corporate Governance Practices
B.1.5 Issuers should disclose details of any remuneration payable to members of senior management by band in their annual report.	x	To observe the competitive market practices and to respect individual privacy, the Company did not make such disclosure in its annual report and accounts.

Recommended Best Practices	Compliance	Corporate Governance Practices
B.1.6 Where the board resolves to approve any remuneration or compensation arrangements which the remuneration committee disagrees, the board must disclose the reasons for its resolution in its next Corporate Governance Report.	N/A	No such disagreement happened for the year ended 31 December 2012.
B.1.7 A significant proportion of executive directors' remuneration should link rewards to corporate and individual performance.	✓	For the year ended 31 December 2012, the executive Directors' performance-based remuneration relating to their executive roles constituted 78.8% on average of their total remuneration.
B.1.8 Issuers should disclose details of any remuneration payable to members of senior management, on an individual and named basis, in their annual reports and accounts.	x	To observe the competitive market practices and to respect individual privacy, the Company did not make such disclosure in its annual report and accounts.
B.1.9 The board should conduct a regular evaluation of its performance.	✓	The Board has conducted a board evaluation by evaluating the contribution by directors in performing their responsibilities, in particular, with reference to the duration of Board/Board committee meetings and the volume of papers reviewed by Directors in 2012.

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 sufficient explanation and information to the board to enable it to make an informed assessment of financial and other information put before it 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 relevant Board meetings to approve the financial results of the Group.
C.1.2 Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.	✓	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.1.3 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. Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. Where the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt on the issuer's ability to continue as a going concern, they should be clearly and prominently disclosed and discussed at length in the Corporate Governance Report. The Corporate Governance Report should contain sufficient information for investors to understand the severity and significance of matters. To a reasonable and appropriate extent, the issuer may refer to other parts of the annual report. These references should be clear and unambiguous and the Corporate Governance Report should not contain only a cross-reference without any discussion of the matter.	✓	Directors and auditors of the Company have stated their responsibilities on pages 75 and 94 respectively of this annual report. The Board is responsible for the preparation of financial statements of the Company and ensuring that they give a true and fair view of the state of affairs of the Company according to the relevant statutory requirements and accounting standards. The Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.
C.1.4 The directors should include in the separate statement containing a discussion and analysis of the group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term (the business model) and the strategy for delivering the issuer's objectives.	✓	Under the management discussion and analysis section of this annual report, a separate statement has been made to describe the Group's business model and the strategy for delivering the Group's objectives.

Code Provisions	Compliance	Corporate Governance Practices
C.1.5 The board should present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required by the Listing Rules. It should also do so for reports to regulators and information disclosed under 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.

Recommended Best Practices	Compliance	Corporate Governance Practices
C.1.6 An issuer should announce and publish quarterly financial results within 45 days after the end of the relevant quarter. These should disclose sufficient information to enable shareholders to assess the Issuer's performance, financial position and prospects. An issuer's quarterly financial results should be prepared using the accounting policies of its half-year and annual accounts.	x	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. As a consequence, the Company discontinued publishing voluntary quarterly financial results commencing from the first quarter of 2009.
C.1.7 Once an issuer announces quarterly financial results, it should continue to do so for each of the first 3 and 9 months periods of subsequent financial years. Where it decides not to continuously announce and publish its financial results for a particular quarter, it should announce the reasons for this decision.	x	Please refer to the disclosure made under C.1.6 in this report.

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 issuers' and its subsidiaries' internal control systems and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	✓	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 aspects that can be further strengthened are identified, at the regular Audit Committee meetings. The findings at such meetings are reported subsequently at Board meetings to enable the Directors to assess the effectiveness of the internal control system of the Group and impel them to improve constantly, which helps manage enterprise risks and improve its mitigation risks. 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 and obtained affirmative assessment of a third-party professional body. 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.

Code Provisions	Compliance	Corporate Governance Practices
		Deloitte Touche Tohmatsu, the Company's external auditors, reported on matters concerning internal control of the Group for the year ended 31 December 2012 in accordance with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.
C.2.2 The board's annual review should, in particular, consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting and financial reporting function.	✓	For the personnel of the operation, management and assistant level, the relevant certifications as well as the working experience, on-the-job training, assessment and the independent inspect audit are required by the Board, and the Board ensures that the related measures can be effectively implemented.
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; and the issuer's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control system; and where applicable, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the board (or board committee(s)) which enables it to assess control of the issuer and the effectiveness of risk management;	✓	The Company's review has generally covered the aspects as referred to in C.2.3 of the Code.

Recommended Best Practices	Compliance	Corporate Governance Practices
(d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; and (e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.		
C.2.4 Issuers should disclose, in the Corporate Governance Report, a narrative statement on how they have complied with internal control code provisions during the reporting period. The disclosures should also include: (a) the process used to identify, evaluate and manage significant risks; (b) additional information to explain its risk management processes and internal control system; (c) an acknowledgement by the board that it is responsible for the internal control system and reviewing its effectiveness; (d) the process used to review the effectiveness of the internal control system; and (e) the process used to resolve material internal control defects for any significant problems disclosed in its annual reports and accounts.	✓	Please refer to the disclosure made under C.2.1 in this report.

Recommended Best Practices	Compliance	Corporate Governance Practices
C.2.5 Issuers should ensure that their disclosures provide meaningful information and do not give a misleading impression.	✓	The Board considers that the disclosures made were adequate and appropriate.
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 this review in the 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 audit committee established under the Listing Rules should have clear terms of reference.

The Company established the Audit Committee pursuant to a resolution of all Directors passed on 15 June 2007. At all material times for the year ended 31 December 2012, the Audit Committee had three members comprising all independent non-executive Directors. For the year ended 31 December 2012, the composition of the Audit Committee was as follows:

Name of Directors	Position	Period
Independent Non-executive Directors		
Mr. Chu Pao-Kuei (3)	Chairman	1 January – 31 December 2012
Mr. Ng Hak Kim, *SBS, JP* (1)	Member	1 January – 30 June 2012
Mr. Chen Johnny	Member	1 January – 31 December 2012
Mr. Chan Fu Keung, William(2)	Member	1 September – 31 December 2012

The Audit Committee currently has three members comprising all independent non-executive Directors, namely Mr. Yue Chao-Tang, Thomas(4), Mr. Chen Johnny and Mr. Chan Fu Keung, William(2). The chairman of the Audit Committee is Mr. Yue Chao-Tang, Thomas(4).

The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations.

The Audit Committee 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.

During the year ended 31 December 2012, two Audit Committee meetings were held, and the attendance records are set out below:

Name	Attendance
Mr. Chu Pao-Kuei[(3)]	2/2
Mr. Ng Hak Kim, *SBS, JP*[(1)]	1/1
Mr. Chen Johnny	2/2
Mr. Chan Fu Keung, William[(2)]	0/0

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 the report of I.T. department;
(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 2012 was US$359,000 and US$469,000 respectively. The non-audit services relates primarily to tax consultancy services. The external auditors will not be engaged 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 meetings should be sent to all members of the committee for their comment and records, 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 its audit committee for a period of 1 year from 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 later.	✓	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.

Code Provisions	Compliance	Corporate Governance Practices
C.3.3 The audit committee's terms of reference should include at least: (a) Relationship with the issuer's auditors; (b) Review of issuer's financial information; (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 CG Code requirements.
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 by including them on the Stock Exchange's website and the issuer's website.	✓	The terms of reference are posted on the Stock Exchange's website (since 21 March 2012) and the Company's website.
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.

Code Provisions	Compliance	Corporate Governance Practices
C.3.6 The audit committee should be provided with sufficient resources to perform 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 it: (a) to review arrangements employees of the issuer can use, in confidence, to 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 these 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 in C.3.7 of the CG Code.

Recommended Best Practices	Compliance	Corporate Governance Practices
C.3.8 The audit committee should establish a whistleblowing policy and system for employees and those who deal with the issue to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the issuer.	✓	During the year under review, discussions were held in the Audit Committee meetings regarding the establishment of a whistleblowing policy. Further follow ups have to be made to fine-tune the set up.

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 management's powers, in particular, where management should report back and obtain prior board approval before making decisions or entering into any commitments on the issuer's behalf.	✓	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 periodically to ensure that they remain appropriate to the issuer's needs.	✓	Please refer to the disclosure made under A.1 in this report.

Code Provisions	Compliance	Corporate Governance Practices
D.1.3 An issuer should disclose the respective responsibilities, 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. Issuers should have formal letters of appointment for directors setting out the key terms and conditions of 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 give them sufficiently clear terms of reference to enable them to perform 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 them 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.

D.3 Corporate Governance Functions

For the year ended 31 December 2012, the composition of the Corporate Governance Committee was as follows:

Name of Directors	Position	Period
Executive Director		
Mr. Shih Takuen, Daniel	Chairman	1 January – 31 December 2012
Independent Non-executive Directors		
Mr. Chu Pao-Kuei [(3)]	Member	1 January – 31 December 2012
Mr. Ng Hak Kim, *SBS, JP*[(1)]	Member	1 January – 30 June 2012
Mr. Chan Fu Keung, William[(2)]	Member	1 September – 31 December 2012

The Corporate Governance Committee currently has three members comprising an executive Director, Mr. Shih Takuen, Daniel and two independent non-executive Directors, Mr. Chan Fu Keung, William[(2)] and Mr. Yue Chao-Tang, Thomas[(4)]. The chairman of the Corporate Governance Committee is Mr. Shih Takuen, Daniel.

During the year ended 31 December 2012, three Corporate Governance Committee meetings were held, and the attendance records are set out below:

Name of Directors	Attendance
Mr. Shih Takuen, Daniel	3/3
Mr. Chu Pao-Kuei[(3)]	3/3
Mr. Ng Hak Kim, *SBS, JP*[(1)]	2/2
Mr. Chan Fu Keung, William[(2)]	0/0

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.

Code Provisions	Compliance	Corporate Governance Practices
D.3.1 The terms of reference of the board (or a committee or committees performing this function) should include at least: (a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of directors and senior management; (c) to review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and (e) to review the issuer's compliance with the code and disclosure in the Corporate Governance Report.	✓	The Board has delegated the corporate governance functions to the Corporate Governance Committee. The terms of reference of the Corporate Governance Committee have covered the aspects as referred to in D.3.1 of the CG Code.
D.3.2 The board should be responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 or it may delegate the responsibility to a committee or committees.	✓	Please refer to the disclosure made under D.3.1 in this report.

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.

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, shall 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 CG 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.

Change 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 For each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting. Issuers should avoid "bundling" resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are "bundled", issuers should explain the reasons and material implications in the notice of meeting.	✓	In the annual general meeting held on 4 May 2012 ("2012 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 CG Code. The 2012 AGM was held on 4 May 2012 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; and (vi) to grant general mandate to Directors to purchase shares in the Company not exceeding 10% of the issued capital. All resolutions were conducted by poll and approved by Shareholders. The results of the voting have been published on the Stock Exchange's website and the Company's website.

Code Provisions	Compliance	Corporate Governance Practices
E.1.2 The chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. An issuer's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.	Partially complied with	The Chairman had not attended the 2012 AGM. Instead, Mr. Shih Takuen, Daniel, the Deputy Chairman, took the chair at the 2012 AGM, and the chairman or member of each of the Audit, Corporate Governance, Remuneration and Nomination Committees attended the 2012 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 2012 AGM to answer Shareholders' questions. The Directors' attendance record for the 2012 AGM held on 4 May 2012 is set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. Chiang Jeh-Chung, Jack *(Chairman)* 0/1 Mr. Shih Takuen, Daniel *(Deputy Chairman)* 1/1 Mr. Chao Ming-Cheng, Eric 0/1 Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* 1/1 Mr. Chi Lo-Jen 0/1 **Independent Non-executive Directors** Mr. Chu Pao-Kuei [3] 0/1 Mr. Ng Hak Kim, *SBS, JP* [1] 1/1 Mr. Chen Johnny 0/1 Mr. Bolliger Peter 1/1 Mr. Chan Fu Keung, William [2] 0/0
E.1.3 The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	✓	For the 2012 AGM, the notices to Shareholders were sent more than 20 clear business days before the meeting.

Code Provisions	Compliance	Corporate Governance Practices
E.1.4 The board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness.	✓	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/leaks/inadvertent disclosures; and (g) to determine policy on forward-looking statements. The Corporate Governance Committee reviews this Corporate Disclosure Policy on an annual basis.

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 ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.	✓	Detailed explanation regarding the procedures for demanding poll by Shareholders had been provided at the commencement of the 2012 AGM.

F. Company Secretary

Principle
The Company Secretary plays an important role in supporting the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Deputy Chairman on governance matters and also facilitating induction and professional development of Directors.

Code Provisions	Compliance	Corporate Governance Practices
F.1.1 The company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs.	✓	Ms. Kan Siu Yim, Katie, the company secretary of the Company (the "Company Secretary"), is an employee of the Company and she has day-to-day knowledge of the Company's affairs.
F.1.2 The board should approve the selection, appointment or dismissal of the company secretary.	✓	The Board approves the selection, appointment or dismissal of the Company Secretary.
F.1.3 The company secretary should report to the board chairman and/or the chief executive.	✓	The Company Secretary reports to the Chief Financial Officer and the Chief Executive Officer on day-to-day duties and responsibilities and to the Deputy Chairman on governance matters.
F.1.4 All directors should have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.	✓	All Directors have full access to the advice and services of the Company Secretary and legal and professional consultants of the Company, whenever necessary, to ensure compliance with all applicable law, rules and regulations, and corporate governance practices.

Notes:

1. Mr. Ng Hak Kim, *SBS, JP* resigned as an independent non-executive Director, the chairman of the remuneration committee of the Board (the "Remuneration Committee") and a member of each of the audit committee of the Board (the "Audit Committee"), the Corporate Governance Committee and the nomination committee of the Board (the "Nomination Committee") with effect from 1 July 2012.

2. Mr. Chan Fu Keung, William was appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee, the Corporate Governance Committee and the Nomination Committee with effect from 1 September 2012.

3. Mr. Chu Pao-Kuei resigned as an independent non-executive Director and the chairman of the Audit Committee and a member of each of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee with effect from 1 January 2013.

4. Mr. Yue Chao-Tang, Thomas was appointed as an independent non-executive Director and the chairman of the Audit Committee and a member of each of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee with effect from 1 January 2013.

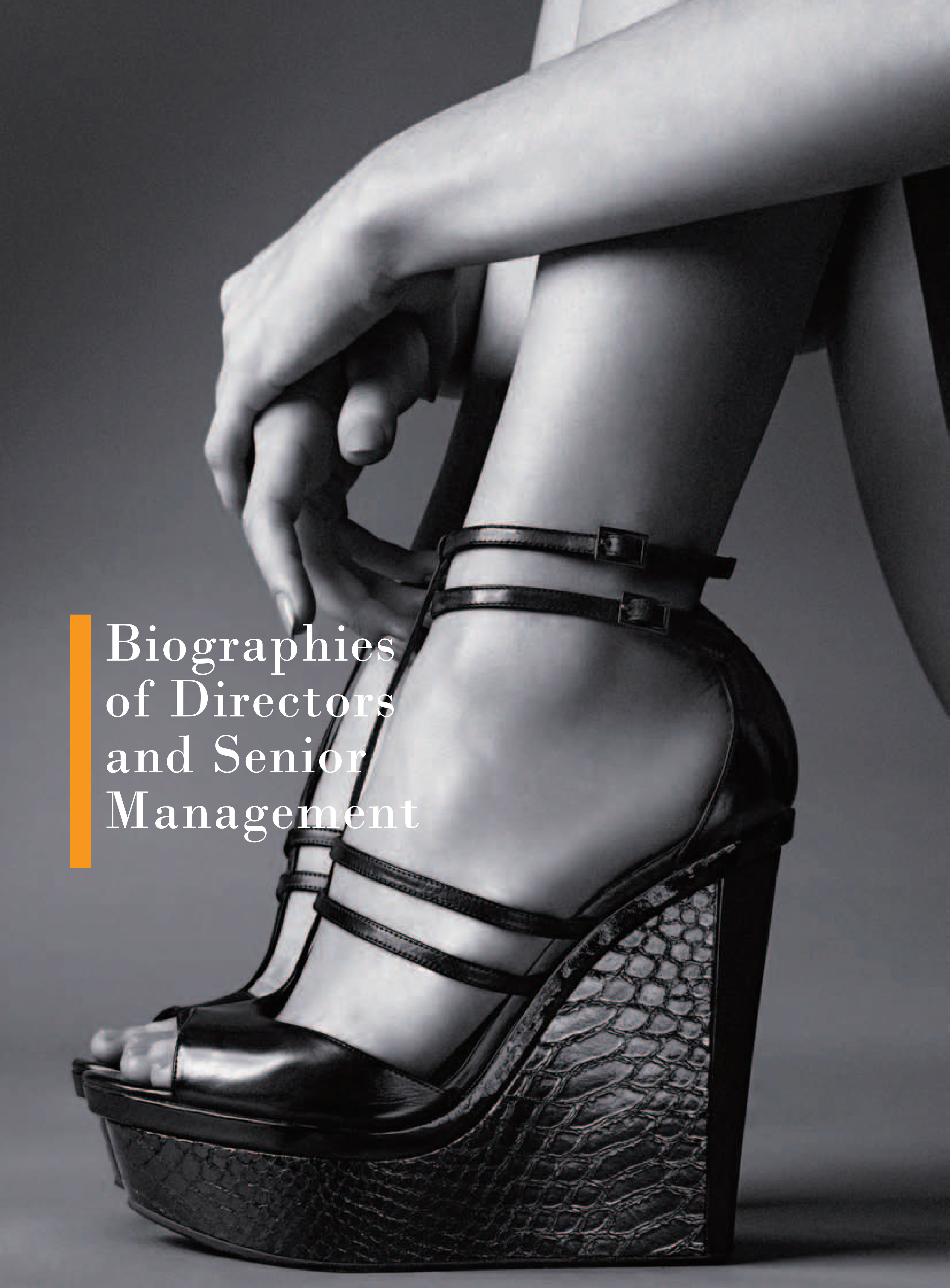
DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

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's 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 62, 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 30 years of experience in new product development and management in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged into design and marketing activities. 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 61, 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 November 2012, Mr. Shih has been appointed as an independent director, and served as a member of the nominating and corporate governance committee of Archer Daniels Midland Company, the shares of which are listed on the New York Stock Exchange (NYSE: ADM). 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 certain subsidiaries of the Company which are engaged into retail business. 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 61, 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 30 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 certain subsidiaries of the Company which are engaged into manufacturing business. 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 52, 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 27 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 certain subsidiaries of the Company which are engaged into design and marketing activities, manufacturing and retail business. 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 41, 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 and retail business. Mr. Chi is also responsible for product design and development. He has over 17 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged into retail business. 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. CHEN Johnny, aged 53, 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.

Biographies of Directors and Senior Management

Mr. BOLLIGER Peter, aged 68, 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 in key management positions, 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.

Mr. CHAN Fu Keung, William, aged 64, is an Independent Non-executive Director of the Company, and the chairman of the Remuneration Committee and a member of the Audit Committee, Corporate Governance Committee and the Nomination Committee of the Board. Mr. Chan was a member of the Executive Directorate and the Human Resources Director of the MTR Corporation Limited (Stock Code: 66) (the "MTR Corporation") since 1996 and 1998 respectively until July 2012 when he retired from the MTR Corporation after 23 years of service. As Human Resources Director of the MTR Corporation, he was responsible for overseeing human resources management, succession planning, organisation development, operations and management training, administration and security management of the MTR Corporation. Prior to joining the MTR Corporation, Mr. Chan held senior management positions in the commercial, utility and public sectors in Hong Kong, including the Hong Kong Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. Mr. Chan is a fellow member of the Hong Kong Institute of Human Resource Management since 1985 and he is also a council member of the Institute. He is a member of the Standing Committee on Disciplined Services Salaries and Conditions of Service, the Appeal Panel on Government's Voluntary Contributions under the Civil Service Provident Fund Scheme, the Pensions Appeal Panel and the School of Business Advisory Committee of Hong Kong Baptist University. He is also a member of The Hospital Authority. Mr. Chan received a Bachelor of Social Science degree from the University of Hong Kong in 1971. Mr. Chan has been appointed as an Independent Non-executive Director of the Company since September 2012.

Mr. YUE Chao-Tang, Thomas, aged 59, 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. Yue was a partner and director of the Global Advisory Council of Ernst & Young from 1998 to 2001, and became the deputy chairman and chairman of Ernst & Young from 2001 to 2004 and from 2004 to 2007 respectively. Currently he is a senior advisor of Ernst & Young, and the president of Tien-Yeh Accounting Firm. He has been in the accounting profession for over 34 years. Mr. Yue also holds various positions in the academic field. He is currently an adjunct professor of the Accounting and Information Technology Research Institute of the National Chung Chen University, a visiting professor of both the Accounting Faculty of the National Chung Hsing University and the Accounting and Information Research Institute of the Asia University. Since June 2008, Mr. Yue has been appointed as an independent director of WPG Holdings Limited, the shares of which are listed on the Taiwan Stock Exchange (Stock Code: 3702). Since June 2011, Mr. Yue has also been appointed as an independent director and convenor of the audit committee of Industrial Bank of Taiwan, which is registered on Taiwan's Emerging Stock Market (also known as GreTai Securities Market) (Stock Code: 2897). In addition, he is a director of Taiwan Corporate Governance Association. Mr. Yue received a master's degree and a bachelor's degree in accounting from the National Cheng-Chi University and the National Cheng-Kung University respectively. In addition, Mr. Yue received a master's degree in business administration from China Europe International Business School. Mr. Yue has been a certified public accountant of Taiwan since 1983. Mr. Yue has been appointed as an Independent Non-executive Director of the Company since January 2013.

SENIOR MANAGEMENT

Mr. SHIEH Tung-Pi, Billy, aged 55, is the Chief Operating Officer of the Group. Mr. Shieh has been with the Group since 1982. Mr. Shieh has over 30 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 certain subsidiaries of the Company which are engaged into manufacturing business. 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 55, 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 certain subsidiaries of the Company which are engaged into design and marketing activities and retail business.

Mr. CHEN Tung-Jui, aged 51, is the General Manager of the Men's Footwear Business Division of the Group. Mr. Chen has been with the Group since 1985. He has over 27 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged into manufacturing business.

Mr. CHU Chao-Min, aged 53, 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 19 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 certain subsidiaries of the Company which are engaged into manufacturing business.

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 2012.

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 2012.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 96.

The Board recommended the payment of a final dividend of HK75 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2012. The proposed final dividend, amounting to approximately US$76.7 million, will be paid to Shareholders whose names appear on the register of members of the Company on 15 May 2013, if the proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on 10 May 2013. It is expected that the final dividend, if approved, will be paid on or about 24 May 2013.

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 15 May 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 May 2013 to 10 May 2013 (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 7 May 2013.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company during the year ended 31 December 2012 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 2012 were US$293.2 million (2011: US$296.0 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* (resigned with effect from 1 July 2012)
Mr. Chen Johnny
Mr. Bolliger Peter
Mr. Chan Fu Keung, William (appointed with effect from 1 September 2012)

Subsequent to the balance sheet date, Mr. Chu Pao-Kuei resigned as an independent non-executive Director, the chairman of the Audit Committee and a member of each of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee of the Board with effect from 1 January 2013. On the same day, Mr. Yue Chao-Tang, Thomas was appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of each of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee of the Board.

In accordance with article 86(3) of the Company's articles of association, each of Mr. Chan Fu Keung, William and Mr. Yue Chao-Tang, Thomas will hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 87(1) of the Company's articles of association, Mr. Chiang Jeh-Chung, Jack, Mr. Chen Li-Ming, Lawrence and Mr. Chi Lo-Jen 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 AND RELATED PARTY TRANSACTIONS

Save for the related party transactions disclosed in note 32 to the consolidated financial statements, 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, 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.

Save for the related party transactions with Couture Accessories Limited, none of the related party transactions during the year under review as disclosed in note 32 to the consolidated financial statements constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. As Couture Accessories Limited was a connected person of the Company only by virtue of its relationship with Couture Accessories Distribution Limited, a 60% owned subsidiary of the Company, and the value of the total assets, profits and revenue of Couture Accessories Distribution Limited represented less than 10% under the relevant percentage ratios as defined under Rule 14.04(9) of the Listing Rules since its incorporation, the transactions with Couture Accessories Limited were exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(4) of the Listing Rules.

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 2012, 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	238,500	26,205,289 *(Note 1)*	—	26,443,789	3.33%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	150,000	21,921,870 *(Note 2)*	—	22,071,870	2.78%
Chi Lo-Jen	Beneficial owner	283,500	—	1,500,000 *(Note 3)*	1,783,500	0.22%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	331,500	28,551,674 *(Note 4)*	—	28,883,174	3.64%
Shih Takuen, Daniel	Beneficial owner	408,000	—	—	408,000	0.05%

Notes:

1. *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.*

2. *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.*

3. *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.*

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.*

Save as disclosed above, as at 31 December 2012, 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 2012, 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%
The Capital Group Companies, Inc.	Beneficial owner	47,342,000	5.96%
Capital Research and Management Company	Beneficial owner	47,261,000	5.95%

Save as disclosed above, as at 31 December 2012, 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.

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 2012.

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 2012, there were a total of 1,782,900 Shares held in trust by the Trustee, of which 27,400 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 2012	Vesting Date	Vested during the year ended 31 December 2012	Outstanding as at 31 December 2012
Chao Ming-Cheng, Eric	19 March 2010	85,500	—	12 April 2010	—	—
			—	1 April 2011	—	—
			28,500	1 April 2012	(28,500)	—
Chen Li-Ming, Lawrence	19 March 2010	54,000	—	12 April 2010	—	—
			—	1 April 2011	—	—
			18,000	1 April 2012	(18,000)	—
Chi Lo-Jen	19 March 2010	114,000	—	12 April 2010	—	—
			—	1 April 2011	—	—
			38,000	1 April 2012	(38,000)	—
Chiang Jeh-Chung, Jack	19 March 2010	108,000	—	12 April 2010	—	—
			—	1 April 2011	—	—
			36,000	1 April 2012	(36,000)	—
Shih Takuen, Daniel	19 March 2010	196,500	—	12 April 2010	—	—
			—	1 April 2011	—	—
			65,500	1 April 2012	(65,500)	—

(B) Employees

Date of Award	Aggregate Number of Restricted Unit Awards Granted	Outstanding as at 1 January 2012	Vesting Date	Vested during the year ended 31 December 2012	Cancelled during the year ended 31 December 2012	Outstanding as at 31 December 2012
19 February 2009	1,592,000	4,900	1 April 2012	(4,900)	—	—
		4,900	1 April 2013	—	—	4,900
19 March 2010	870,000	218,500	1 April 2012	(218,500)	—	—
15 July 2011	27,500	2,500	1 September 2012	(2,500)	—	—
		5,000	1 September 2013	—	—	5,000
		7,500	1 September 2014	—	—	7,500
		10,000	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 18.6% and 57.1% of the Group's total revenue for the year ended 31 December 2012 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 2012.

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 2013.

On behalf of the Board

Chiang Jeh-Chung, Jack
Chairman

21 March 2013

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 96 to 161, which comprise the consolidated statement of financial position as at 31 December 2012, 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.

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 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 2012, 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 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Revenue	7	**1,550,003**	1,494,531
Cost of sales		**(1,174,756)**	(1,142,066)
Gross profit		**375,247**	352,465
Other income	8	**16,297**	14,467
Other gain and loss	9	**15,799**	(3,894)
Distribution and selling expenses		**(118,755)**	(100,675)
Administrative expenses		**(72,680)**	(61,221)
Research and development costs		**(49,504)**	(44,753)
Share of results of associates		**763**	525
Interest on bank borrowing wholly repayable within 5 years		**(124)**	—
Profit before tax		**167,043**	156,914
Income tax expense	10	**(14,455)**	(14,130)
Profit for the year	11	**152,588**	142,784
Other comprehensive income			
Exchange differences arising on translation of foreign operation		**780**	1,063
Total comprehensive income for the year		**153,368**	143,847
Profit (loss) for the year attributable to:			
Owners of the Company		**153,403**	142,988
Non-controlling interests		**(815)**	(204)
		152,588	142,784
Total comprehensive income (expense) attributable to:			
Owners of the Company		**154,189**	144,040
Non-controlling interests		**(821)**	(193)
		153,368	143,847
Earnings per share (US$)	14		
— basic		**0.194**	0.181
— diluted		**0.194**	0.180

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**247,863**	186,603
Prepaid lease payments	*16*	**18,776**	13,230
Interests in associates	*17*	**7,619**	15,744
Deposit paid for acquisition of property, plant and equipment		**27,316**	33,272
		301,574	248,849
CURRENT ASSETS			
Inventories	*18*	**179,183**	182,497
Trade and other receivables	*19*	**304,038**	266,732
Prepaid lease payments	*16*	**477**	320
Amounts due from associates	*20*	**62,854**	56,348
Derivative financial instruments	*21*	**231**	293
Held for trading investments	*22*	**51,557**	51,905
Tax recoverable	*10*	**6,996**	3,697
Cash and cash equivalents	*23*	**252,039**	264,233
		857,375	826,025
CURRENT LIABILITIES			
Trade and other payables	*24*	**201,197**	145,164
Bills payable	*24*	**—**	35,842
Tax liabilities		**41,000**	31,868
		242,197	212,874
NET CURRENT ASSETS		**615,178**	613,151
		916,752	862,000
CAPITAL AND RESERVES			
Share capital	*25*	**10,160**	10,160
Share premium and reserves		**906,058**	852,117
Equity attributable to owners of the Company		**916,218**	862,277
Non-controlling interests		**534**	(277)
		916,752	862,000

The consolidated financial statements on pages 96 to 161 were approved and authorised for issue by the board of directors on 21 March 2013 and are signed on its behalf by:

Chen Li-Ming, Lawrence	**Chi Lo-Jen**
DIRECTOR	*DIRECTOR*

Consolidated Statements of Changes in Equity

For the year ended 31 December 2012

	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 2011	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 income (expense) 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
Exchange difference on translation of foreign operations	–	–	–	–	786	–	–	–	–	786	(6)	780
Profit for the year	–	–	–	–	–	–	–	–	153,403	153,403	(815)	152,588
Total comprehensive income (expense) for the year	–	–	–	–	786	–	–	–	153,403	154,189	(821)	153,368
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	1,632	1,632
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	87	–	87	–	87
Shares vested under long term incentive scheme	–	–	–	–	–	621	–	(67)	(554)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(100,335)	(100,335)	–	(100,335)
As at 31 December 2012	10,160	154,503	45,427	1,146	(888)	(2,729)	190	1,440	706,969	916,218	534	916,752

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 2012

	Note	2012 US$'000	2011 US$'000
OPERATING ACTIVITIES			
Profit before tax		**167,043**	156,914
Adjustments for:			
Depreciation of property, plant and equipment		**27,343**	25,851
Write down of inventories		**3,615**	1,687
Share of results of associates		**(763)**	(525)
Net loss (gain) on changes in fair value of derivative financial instruments		**62**	(84)
Net (gain) loss on changes in fair value of held for trading investments		**(3,211)**	619
Gain on disposal of an associate		**(11,828)**	—
Release of prepaid lease payments		**429**	512
Loss on disposal of property, plant and equipment		**106**	183
Finance cost		**124**	—
Interest income		**(6,186)**	(4,892)
Share-based payment expenses		**87**	772
Impairment loss of interests in associates		**828**	3,200
Impairment loss of goodwill		**—**	2,423
Operating cash flows before movements in working capital		**177,649**	186,660
Increase in trade and other receivables		**(36,983)**	(38,499)
Increase in amounts due from associates		**(6,506)**	(20,544)
Increase in inventories		**(1,139)**	(41,066)
Decrease (increase) in held for trading investments		**3,559**	(29,243)
Increase in trade and other payables		**16,221**	10,944
Decrease in amounts due from related companies		**—**	1,514
Cash generated from operations		**152,801**	69,766
Income tax paid		**(8,808)**	(10,297)
NET CASH FROM OPERATING ACTIVITIES		**143,993**	59,469
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(53,261)**	(41,163)
Deposit paid for acquisition of property, plant and equipment		**(27,195)**	(33,272)
Prepaid lease payment of land use rights		**(4,787)**	(5,165)
Acquisition of subsidiaries	*26*	**(4,100)**	—
Dividend received from an associate		**718**	—
Proceeds from disposal of property, plant and equipment		**4,959**	370
Interest received		**6,186**	4,892
Proceeds from disposal of an associate, less of transaction cost		**19,653**	—
Investment in an associate		**—**	(400)
NET CASH USED IN INVESTING ACTIVITIES		**(57,827)**	(74,738)

	2012 US$'000	2011 US$'000
FINANCING ACTIVITIES		
Interest paid	**(124)**	—
Dividend paid	**(100,335)**	(84,826)
Capital injection from non-controlling interest	**1,632**	—
NET CASH USED IN FINANCING ACTIVITIES	**(98,827)**	(84,826)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(12,661)**	(100,095)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**264,233**	360,210
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**467**	4,118
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by	**252,039**	264,233
Bank balances and cash	**193,389**	219,832
Deposits placed in financial institutions	**58,650**	44,401
	252,039	264,233

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")

Revised standards applied in the current year

In the current year, the Group has applied the following amendments to standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to 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.

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 HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Based on the consolidated statement of financial position of the Group as at 31 December 2012, the directors anticipate that the application of HKFRS 9 will not have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised standards on consolidation, joint arrangements, associates and disclosure

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).

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

New and revised standards on consolidation, joint arrangements, associates and disclosure *(continued)*

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2013. The application of these five standards is not expected to have a significant impact on the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may result in more extensive disclosures in the consolidated financial statements.

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 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of 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 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.

Basis of consolidation

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

Income and expenses 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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 attributed 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.

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;

- 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 noncontrolling 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 noncontrolling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when 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 its carrying amount, 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 on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. 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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting as those of the Group for the transactions and events in similar circumstances. 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. Additional losses are 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.

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.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts 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 titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction 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.

Dividend income from investments is recognised when the shareholder'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).

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 properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction, less their residual values over their estimated useful lives, 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 any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

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 on a straight-line basis over the term of the relevant lease.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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 of inventories are 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the 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 retranslation 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) using exchange rates prevailing at the end of each reporting period. Income and expenses 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 under the heading of the exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of exchange reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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 in profit or loss 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 recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 before tax as reported in the consolidated statement of comprehensive income because it excludes items of income or 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 the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or 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 associated with 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 (or from the development phase of an internal projects) 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.

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 recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, an internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

The Group's financial assets are classified as either financial assets held for trading 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 debt instrument 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 and points 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 debt instrument, 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 of 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 a portfolio of identified 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.

Held for trading investments are measured at fair value, with changes in fair value arising from remeasurement 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.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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.

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.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

Debt 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 and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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 date of grant, is expensed 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 expense reflects the revised estimate, with a corresponding adjustment to share award reserve.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make 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 the 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 (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of trade receivables is approximately US$223,799,000 (31 December 2011: US$196,720,000).

Estimated impairment of amounts due from associates

Management regularly reviews the recoverability of the amounts due from associates. Appropriate impairment for estimated irrecoverable amount will be recognised in profit and loss when there is objective evidence that the amount is not recoverable, if necessary.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for the amounts due from associates that are unlikely to be collected and is recognised on the difference between the carrying amount of amounts due from associates and the present value of estimated future cash flow discounted using the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of amounts due from associates amounted to approximately HK$62,854,000 (2011: HK$56,348,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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 2012, the carrying amount of inventories was approximately US$179,183,000 net of allowance for inventories of US$12,190,000 (31 December 2011: US$182,497,000 net of allowance for inventories of US$8,575,000).

5. CAPITAL RISK MANAGEMENT

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

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

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2012 US$'000	2011 US$'000
Financial assets		
Held for trading investments	**51,557**	51,905
Loans and receivables (including cash and cash equivalents)	**574,120**	530,695
Derivative financial instruments	**231**	293
	625,908	582,893
Financial liabilities		
Amortised cost	**119,873**	113,537

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from associates, derivative financial instruments, held for trading investments, bank balances and cash, 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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(continued)*

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

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"), Macau Pataca ("MOP"), Indonesian Rupiah ("IDR") or USD. Its currency exposures is mainly due to exposure in RMB, EUR, MOP, IDR 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$11,277,000 (2011: US$10,033,000) which are denominated in RMB. 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**	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
RMB	**26,250**	12,715	**39,338**	54,763
HKD	**2**	3	**15,180**	3,894
EUR	**574**	—	**3,379**	144
MOP	**5,567**	—	**16**	4
IDR	**1,639**	—	**1,224**	—
Other	**213**	1,902	**2,176**	1,379

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 has entered into various foreign currency forward contracts to minimise the Group's exchange rate exposure.

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 where the denomination is in a currency other than the functional currency of the Group, 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.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Currency risk (continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in USD against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts the 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 USD strengthen 5% against the relevant currency. For a 5% weakening of USD against the relevant currency, there would be an equal and opposite impact on the profit for the year and other comprehensive income and the balances below would be negative.

	RMB Impact		EUR Impact		MOP Impact		IDR Impact	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Profit for the year	**(491)**	(1,577)	**(93)**	(5)	**244**	–	**16**	–
Other comprehensive income	**(29)**	(39)	**(1)**	–	**15**	–	**19**	–

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.

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 points increase or 5 basis points decrease (2011: 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 2012 would increase by approximately US$460,000/ decrease by approximately US$92,000 (2011: increase by approximately US$495,000/decrease by approximately US$99,000).

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.

Sensitivity analysis

If the 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 2012 would increase/decrease by approximately US$1,312,000 (2011: US$984,000).

If the market price for the funds had been 5% higher/lower, profit for the year ended 31 December 2012 would increase/decrease by US$621,000 (2011: increase/decrease by US$1,284,000).

If the market forward foreign exchange rate of RMB against USD had been 5% higher/lower, profit for the year ended 31 December 2012 would increase/decrease by US$105,000 (2011: increase/decrease by US$718,000) as a result of the changes in the market forward foreign exchange rate of RMB against USD.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

At 31 December 2012 and 2011, 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 82% (31 December 2011: 57%) of the total trade receivables as at 31 December 2012.

Regarding the Group's bank concentration credit risk, 94% (31 December 2011: 91%) of deposits are placed with 10 banks (31 December 2011: 10 banks).

The Group has concentration of credit risk on the amount due from associates but the credit risk is limited because the associate has sufficient assets to cover the liabilities and good settlement recorded in the past.

Liquidity risk

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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

The following table details the Group's remaining 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 US$'000	**31 – 90 days** US$'000	**90 – 365 days** US$'000	**Total undiscounted cash flows** US$'000	**Carrying amount** US$'000
As at 31 December 2012					
Non-derivative financial liabilities					
Trade and other payables	**77,397**	**35,419**	**7,057**	**119,873**	**119,873**

	0 – 30 days US$'000	**31 – 90 days** US$'000	**90 – 365 days** US$'000	**Total undiscounted cash flows** US$'000	**Carrying amount** US$'000
As at 31 December 2011					
Non-derivative financial liabilities					
Trade and other payables	59,960	4,777	12,958	77,695	77,695
Bills payable	9,545	26,297	—	35,842	35,842
	69,505	31,074	12,958	113,537	113,537

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.

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value

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).

		2012	
	Level 1	**Level 2**	**Total**
	US$'000	**US$'000**	**US$'000**
Financial assets			
Investments held for trading			
— Listed bonds	**34,996**	**—**	**34,996**
— Listed investment funds	**16,561**	**—**	**16,561**
Derivative financial instruments	**—**	**231**	**231**
Total	**51,557**	**231**	**51,788**

		2011	
	Level 1	Level 2	Total
	US$'000	US$'000	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

These were no transfers between Level 1 and 2 in the current and prior years.

7. SEGMENT INFORMATION

Information reported to the chief executive 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. This is also the basis upon which the Group is organised and managed. No operating segments identified by the chief executive have been aggregated in arriving at the reportable segments of the Group.

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

(a) Operating segments

Segment revenues and results

For the year ended 31 December 2012

	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	486,370	944,233	119,400	1,550,003	—	1,550,003
Inter-segment sales	752	32,424	—	33,176	(33,176)	—
Total	487,122	976,657	119,400	1,583,179	(33,176)	1,550,003
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	72,406	176,814	(441)	248,779	—	248,779
Unallocated income						
— Interest income on bank balances						6,003
— Rental income						3,197
— Sale of scrap						2,794
— Gain on disposal of an associate						11,828
— Net gain on change in fair value of held for trading investments						3,211
— Others						3,367
Unallocated expenses						
— Research and development costs						(49,504)
— Central administrative costs						(62,381)
— Net loss on changes in fair value of derivative financial instruments						(62)
— Impairment loss on interests in associates						(828)
— Interest expense						(124)
Share of results of associates						763
Profit before tax						167,043

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

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						84
— Rental income						4,359
— Sale of scrap						172
— Others						5,301
Unallocated expenses						
— Research and development costs						(44,753)
— Central administrative costs						(51,216)
— Net Loss on change 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

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, gain on disposal of an associate, impairment loss on interests in associates, impairment loss on goodwill, share of results of associates, net gain (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:

	2012 US$'000	2011 US$'000
Segment assets		
Men's footwear	**341,913**	240,864
Women's footwear	**431,255**	389,549
Footwear retailing and wholesaling	**73,094**	78,464
Total segment assets	**846,262**	708,877
Other assets	**312,687**	365,997
Consolidated assets	**1,158,949**	1,074,874

	2012 US$'000	2011 US$'000
Segment liabilities		
Men's footwear	**79,274**	81,172
Women's footwear	**94,955**	84,845
Footwear retailing and wholesaling	**23,768**	12,931
Total segment liabilities	**197,997**	178,948
Other liabilities	**44,200**	33,926
Consolidated liabilities	**242,197**	212,874

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment assets and liabilities *(continued)*

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

- all assets are allocated to reportable segments other than tax recoverable, held for trading investments, derivative financial assets, cash and cash equivalents and unallocated corporate assets; and
- all liabilities are allocated to reportable segments other than tax liabilities and unallocated corporate liabilities not belonging to any operating segments.

Other segment information

2012

	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	28,283	53,775	6,055	88,113
Depreciation	12,742	10,874	3,727	27,343
Loss on disposal of property, plant and equipment	1	105	—	106
Write-down of inventories	58	815	2,742	3,615
Interest in associates	—	7,000	619	7,619
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	—	53	710	763
Income tax expense	6,076	6,632	1,747	14,455

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	5,731	15,744
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

(b) Revenue from major products and services

	2012 US$'000	2011 US$'000
Men's footwear	**486,136**	471,197
Women's footwear	**1,063,867**	1,023,334
	1,550,003	1,494,531

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	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
United States of America	**778,501**	720,160	**—**	—
The PRC (country of domicile)	**259,711**	161,060	**290,942**	248,849
United Kingdom	**121,890**	152,955	**—**	—
Netherlands	**84,291**	88,772	**—**	—
Thailand	**4,381**	61,454	**143**	—
Italy	**51,367**	57,426	**10**	—
Canada	**37,883**	36,687	**—**	—
Spain	**24,223**	28,028	**—**	—
Japan	**28,601**	26,293	**—**	—
Belgium	**21,145**	25,113	**—**	—
South Korea	**13,311**	13,342	**—**	—
Germany	**15,755**	13,248	**—**	—
Singapore	**13,054**	12,761	**—**	—
Switzerland	**6,862**	11,683	**—**	—
Australia	**9,577**	9,489	**—**	—
Panama	**9,303**	6,288	**—**	—
Portugal	**376**	452	**—**	—
Others	**69,772**	69,320	**10,479**	—
	1,550,003	1,494,531	**301,574**	248,849

(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:

	2012	2011
	US$'000	US$'000
Customer A[1]	**270,125**	272,574
Customer B[1]	**222,864**	225,193

1 Revenue from both men's and women's footwear operating segments in aggregate

8. OTHER INCOME

	2012 US$'000	2011 US$'000
Interest income on bank balances	**6,186**	4,892
Rental income	**3,197**	4,359
Sales of scrap	**2,794**	172
Others	**4,120**	5,044
	16,297	14,467

9. OTHER GAIN AND LOSS

	2012 US$'000	2011 US$'000
Loss on disposal of property, plant and equipment	**(106)**	(183)
Net exchange gain	**1,756**	2,447
Impairment loss on interests in associates (note 17)	**(828)**	(3,200)
Net gain (loss) from changes in fair value of held for trading investments	**3,211**	(619)
Net (loss) gain on changes in fair value of derivative financial instruments	**(62)**	84
Gain on disposal of an associate (note 17)	**11,828**	—
Impairment loss on goodwill	**—**	(2,423)
	15,799	(3,894)

10. INCOME TAX EXPENSE

	2012 US$'000	2011 US$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**14,205**	14,121
Hong Kong Profits Tax	**4**	9
Other jurisdictions	**246**	—
	14,455	14,130

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%.

10. INCOME TAX EXPENSE *(continued)*

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.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to US$2,681,000 (31 December 2011: US$2,570,000) 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, Malaysia, Indonesia and Italy is calculated at the rate prevailing in the relevant jurisdictions.

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

	2012 **US$'000**	2011 US$'000
Profit before tax	**167,043**	156,914
Tax at the applicable PRC EIT rate of 25% (2011: 25%)	**41,761**	39,229
Tax effect of expenses not deductible for tax purposes (Note i)	**4,997**	4,516
Tax effect of income not taxable for tax purposes (Note ii)	**(7,309)**	(7,117)
Tax effect of share of results of associates	**(191)**	(131)
Effect of tax exemptions granted to Bestsources	**(24,767)**	(22,442)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(36)**	75
Income tax expense	**14,455**	14,130

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 mainly represents the gain on disposal of an associate, net gain from changes in fair value of held for trading investments and the income of Stella International 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.

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.

10. INCOME TAX EXPENSE *(continued)*

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 2012, the Group purchased TRCs amounted to HK$54,280,000 (31 December 2011: HK$28,700,000) (equivalent to approximately US$6,996,000 (31 December 2011: US$3,697,000)) for the years of assessment 2004/05 and 2005/06, which has been recorded as tax recoverable in the consolidated statement of financial position.

In the opinion of the directors of the Company, no profits tax should be payable by the Group in Hong Kong as the subsidiaries in question did not carry out any business nor derive any profits in Hong Kong.

Against this background and following subsequent negotiations with the IRD, in the opinion of the directors of the Company, no provision for Hong Kong Profits Tax is required in respect of the years of assessment from 2004/05 to 2005/06 and for years of assessment 2006/07 to 2011/12. A settlement was reached with the IRD in late December 2012 for the whole tax audit for the years of assessment from 2004/05 to 2005/06 and for years of assessment 2006/07 to 2011/12 by applying the same assessment basis.

11. PROFIT FOR THE YEAR

	2012 **US$'000**	2011 US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (note 12)	**2,976**	3,625
Other staff costs	**261,680**	244,663
Share-based payment expenses, excluding directors	**40**	395
Retirement benefit scheme contributions, excluding directors	**215**	186
Total staff costs	**264,911**	248,869
Auditor's remuneration	**359**	439
Cost of inventories recognised as an expense (including write down of inventories of US$3,615,000 (2011: US$1,687,000))	**1,174,756**	1,142,066
Depreciation of property, plant and equipment	**27,343**	25,851
Release of prepaid lease payments	**429**	512
Share of taxation of associates (included in share of results of associates)	**42**	22

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid or payable to each of the directors and the chief executive were 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, CHI US$'000	Pao-Kuei CHU US$'000	Hak Kim NG, *SBS, JP* US$'000	Johnny CHEN US$'000	Peter BOLLIGER US$'000	Fu Keung, William CHAN US$'000	2012 US$'000
2012											
Fees	**39**	**39**	**39**	**39**	**39**	**51**	**26**	**51**	**51**	**4**	**378**
Other emoluments											
— salaries and other allowances	**77**	**62**	**77**	**70**	**62**	**—**	**—**	**—**	**—**	**—**	**348**
— bonus (Note)	**500**	**400**	**400**	**400**	**500**	**—**	**—**	**—**	**—**	**—**	**2,200**
— share based payments	**9**	**5**	**16**	**7**	**10**	**—**	**—**	**—**	**—**	**—**	**47**
— retirement benefit scheme contributions	**1**	**1**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3**
	626	**507**	**533**	**516**	**611**	**51**	**26**	**51**	**51**	**4**	**2,976**

	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, CHI US$'000	Pao-Kuei CHU US$'000	Hak Kim NG, *SBS, JP* US$'000	Johnny CHEN US$'000	Peter BOLLIGER US$'000	2012 US$'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

Note: The performance related incentive payment is determined with reference to the financial performance of the Group and approved by the remuneration committee of the Company for the two years ended 31 December 2012.

Mr. Fu Keung, William CHAN was appointed as an independent non-executive director during the year.

Mr. Li-Ming, Lawrence CHEN is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

Employees

The five highest paid individuals in the Group in 2012 were all directors and the chief executive 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
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

	2012 **US$'000**	2011 US$'000
2011 final dividend of HK68 cents per share (2011: 2010 final dividend of HK53 cents per share) paid	**69,611**	54,227
2012 interim dividend of HK30 cents per share (2011: HK30 cents per share) paid	**30,724**	30,599
	100,335	84,826

The final dividend of HK75 cents per share in total of US$76,700,000 for the year ended 31 December 2012 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2012	2011
	US$'000	US$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**153,403**	142,988
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**792,492,017**	791,903,937
Effect of dilutive potential ordinary shares:		
Unvested shares awarded	**105,025**	369,900
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**792,597,042**	792,273,837

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).

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Plant and machinery US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
COST						
As at 1 January 2011	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
Exchange adjustments	1,000	2,140	457	44	203	3,844
Acquisition of subsidiaries (note 26)	2,269	226	116	16	—	2,627
Additions	20,285	21,988	8,771	1,384	35,685	88,113
Transfer	4,508	1,573	197	—	(6,278)	—
Disposals	(528)	(6,877)	(2,221)	(440)	—	(10,066)
As at 31 December 2012	135,529	200,665	27,862	9,046	51,335	424,437
DEPRECIATION						
As at 1 January 2011	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
Exchange adjustments	192	502	198	24	—	916
Provided for the year	5,417	16,168	4,845	913	—	27,343
Eliminated on disposals	(22)	(3,628)	(942)	(409)	—	(5,001)
As at 31 December 2012	45,427	108,651	17,810	4,686	—	176,574
CARRYING VALUES						
As at 31 December 2012	90,102	92,014	10,052	4,360	51,335	247,863
As at 31 December 2011	68,155	86,006	6,833	3,884	21,725	186,603

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$9,496,000 (2011: US$9,809,000).

16. PREPAID LEASE PAYMENTS

	2012	2011
	US$'000	US$'000
Current portion of prepaid lease payments	**477**	320
Non-current portion	**18,776**	13,230
	19,253	13,550

During the year, the Group acquired prepaid lease payment of approximately US$4,787,000 (2011: US$5,165,000) for business operation.

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$3,092,000 (2011: US$6,917,000). The Group is in the process of obtaining the land use right certificates. As at 31 December 2011, the carrying account of prepaid lease payments included above of US$1,321,000 was paid for bond use right under the name of Sanford International Limited ("Sanford"), a company under the control of the then key management of the Group.

17. INTERESTS IN ASSOCIATES

	2012	2011
	US$'000	US$'000
Cost of investments in associates — unlisted	**26,200**	26,690
Share of post-acquisition losses, net of dividend received	**(14,553)**	(7,746)
Impairment of an associate	**(4,028)**	(3,200)
	7,619	15,744

17. INTERESTS IN ASSOCIATES *(continued)*

As at 31 December 2012 and 2011, 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
				2012	2011	
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”) (Note iii)	Limited company	Hong Kong	Ordinary	**—**	49%	Footwear retailing
Couture Accessories Limited	Limited company	Hong Kong	Ordinary	**40%**	40%	Footwear wholesaling

Notes:

(i) The Group holds 60% of the registered capital of 寶得福. However, under a shareholders' 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 and US$828,000 was included in other gain and loss during the year ended 31 December 2011 and 2012 respectively.

(iii) The Group disposed of 49% interest in StellaDeck on 2 April 2012 to an independent third party at a consideration of US$20,000,000. A gain of US$11,828,000 was recognised in other gain and loss in profit or loss.

17. INTERESTS IN ASSOCIATES *(continued)*

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

	2012	2011
	US$'000	US$'000
Total assets	**36,712**	82,624
Total liabilities	**(16,254)**	(49,609)
Net assets	**20,458**	33,015
Group's share of net assets of associates	**7,619**	15,744
Total revenue	**138,621**	178,232
Total profit (loss) for the year	**1,657**	(528)
Group's share of profit of associates for the year	**763**	525

18. INVENTORIES

	2012	2011
	US$'000	US$'000
Raw materials	**44,992**	46,695
Work-in-progress	**57,453**	51,029
Finished goods	**76,738**	84,773
	179,183	182,497

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 dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2012 US$'000	2011 US$'000
Trade receivables:		
0 – 30 days	**134,923**	139,867
31 – 60 days	**70,099**	45,120
61 – 90 days	**11,719**	7,798
Over 90 days	**7,058**	3,935
	223,799	196,720
Other receivables	**80,239**	70,012
Total trade and other receivables	**304,038**	266,732

Other receivables include prepayment to suppliers of US$43,475,000 (2011: US$49,314,000).

Included in the Group's trade and other receivables balance are debtors with aggregate amount of US$9,805,000, US$89,000, US$1,788,000, US$7,000 and US$1,077,000 (2011: US$3,530,000, US$39,000, US$nil, US$4,000 and US$885,000) which are denominated in RMB, HKD, EUR, MOP 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$7,640,000 (31 December 2011: US$11,506,000) 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.

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

	2012 US$'000	2011 US$'000
31 – 60 days	**5,278**	6,551
61 – 90 days	**187**	818
Over 90 days	**2,175**	4,137
	7,640	11,506

20. AMOUNTS DUE FROM ASSOCIATES

Name of company	Maximum amount		Maximum amount outstanding for year ended 31 December	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
寶得福	**62,604**	53,456	**62,604**	69,849
Cosmic Gold	**—**	1,892	**1,892**	1,892
StellaDeck	**—**	1,000	**1,000**	1,162
Couture Accessories Limited	**250**	—	**250**	—
	62,854	56,348		

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets	
	2012	2011
	US$'000	US$'000
Foreign currency forward contracts	**231**	293

As at 31 December 2012, the Group was a party to various foreign currency forward contracts which were entered into to minimise the Group's exchange rate exposures. Those contracts were settled on net basis.

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

Notional amount	Maturity	Exchange rates
2012		
Sell USD 1,000,000	11 January 2013	USD1: RMB6.3845
Sell USD 1,000,000	15 January 2013	USD1: RMB6.3098
Sell USD 1,000,000	8 February 2013	USD1: RMB6.3861
Sell USD 1,000,000	18 February 2013	USD1: RMB6.3094
Sell USD 1,000,000	11 March 2013	USD1: RMB6.3875
Sell USD 1,000,000	11 March 2013	USD1: RMB6.3091
Sell USD 2,000,000	12 April 2013	USD1: RMB6.3897
Sell USD 2,000,000	13 May 2013	USD1: RMB6.3920
Sell USD 2,000,000	4 June 2013	USD1: RMB6.3940

21. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

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

22. HELD FOR TRADING INVESTMENTS

	2012 **US$'000**	2011 US$'000
Bonds:		
— listed in Hong Kong	**8,549**	3,344
— listed overseas	**26,447**	22,888
Investment funds:		
— listed overseas	**16,561**	25,673
	51,557	51,905

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.

Included in the Group's held for trading investments are listed bonds of US$11,277,000 (2011: US$10,033,000) which are denominated in RMB and are exposed to currency risk.

23. 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$146,596,000 (2011: US$83,496,000) are subject to foreign exchange control.

Cash and cash equivalents of US$18,256,000, US$15,091,000, US$1,591,000, US$9,000 and US$2,323,000 (2011: US$41,200,000, US$3,855,000, US$144,000, US$nil and US$494,000) are denominated in RMB, HKD, EUR, MOP 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 0.002% to 4.5% (2011: 0.05% to 1.90%) per annum.

24. TRADE, BILLS AND OTHER PAYABLES

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

	2012	2011
	US$'000	US$'000
Trade and bills payables:		
0 – 30 days	**47,622**	46,979
31 – 60 days	**13,885**	13,693
Over 60 days	**36,511**	30,269
	98,018	90,941
Other payables	**103,179**	90,065
	201,197	181,006

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$26,250,000, US$2,000, US$574,000, US$5,567,000, US$1,639,000 and US$213,000 (2011: US$12,715,000, US$3,000, US$nil, US$nil, US$nil and US$1,902,000) which are denominated in RMB, HKD, EUR, MOP and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

25. SHARE CAPITAL

	Number of shares	Nominal value	
		HK$'000	US$'000
Ordinary of HK$0.10 each			
Authorised:			
As at 1 January 2011, 31 December 2011 and 31 December 2012	5,000,000,000	500,000	63,975
Issue and fully paid:			
As at 1 January 2011, 31 December 2011 and 31 December 2012	794,379,500	79,438	10,160

26. ACQUISITION OF SUBSIDIARIES

On 17 February 2012, the Group acquired the entire equity interest in PT Young Tree Industries through the acquisition of the entire equity interest in Yang Fu Limited and Starry Thrive Limited. Yang Fu Limited, Starry Thrive Limited and PT Young Tree Industries (the "PT Young Tree Group") are principally engaged in the manufacturing of footwear components. PT Young Tree Group was acquired for a cash consideration of US$ 4,100,000 and the acquisition was completed on 17 February 2012.

Assets and liabilities recognised at the date of acquisition

	US$'000
Prepaid lease payment	1,232
Property, plant and equipment	2,627
Receivables, prepayments and deposits	323
Other payables	(82)
	4,100

The receivables, prepayments and deposits acquired in the transaction with a fair value of US$323,000 have gross contractual amounts of US$323,000. At the acquisition date, all contractual cash flows were expected to be collected.

Net cash outflow arising on acquisition

	US$'000
Consideration paid in cash	4,100

26. ACQUISITION OF SUBSIDIARIES *(continued)*

Impact of acquisition on the results of the Group

Included in the profit for the year is a profit of US$3,440,000 contributed by PT Young Tree Group. Revenue for the period includes the revenue of PT Young Tree Group amounted to US$32,598,000.

Had the acquisition been completed on 1 January 2012, total group revenue for the year would have been US$1,587,257,000, and profit for the year would have been US$156,519,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

27. MAJOR NON-CASH TRANSACTIONS

During the year, an associate of the Group has ceased operation and the Group has received fixed assets of US$1,486,000 from it.

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:

	2012 **US$'000**	2011 US$'000
Within one year	**378**	240
In the second to fifth year inclusive	**68**	240
	446	480

All of the properties held have committed tenants for between one and three years. Leases are negotiated for terms varying from one to five years. Property rental income earned during the year was US$3,197,000 (2011: US$4,359,000).

28. OPERATING LEASES *(continued)*

The Group as lessee

	2012 **US$'000**	2011 US$'000
Minimum lease payments paid under operating leases:		
during the year:		
— street level stores	**4,410**	3,353
— other properties	**3,786**	2,018
	8,196	5,371
Contingent rentals	**29,500**	23,199
	37,696	28,570

Contingent rentals are calculated with reference to 12% to 27% of the relevant retail shops' turnover.

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:

	2012 **US$'000**	2011 US$'000
Within one year	**7,957**	4,169
In the second to fifth year inclusive	**11,608**	5,612
Over five years	**6,608**	1,780
	26,173	11,561

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

	2012 US$'000	2011 US$'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**66,635**	47,674
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**33,572**	7,443
	100,207	55,117

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 6 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 6 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.

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

Long Term Incentive Scheme *(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 2012 and 2011 are as follows:

	Grant date	Vesting period	Outstanding at 1 January 2012	Vested during the year	Outstanding at 31 December 2012
Directors	19 March 2010	19 March 2010 – 1 April 2012	186,000	(186,000)	—
Former director (Note)	19 March 2010	19 March 2010 – 1 April 2012	12,000	(12,000)	—
Employees	19 February 2009	19 February 2009 – 1 April 2012	4,900	(4,900)	—
	19 March 2010	19 March 2010 – 1 April 2012	206,500	(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
	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
			439,300	(411,900)	27,400

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

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

Long Term Incentive Scheme *(continued)*

	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.

The Trustee maintains a pool of 1,782,900 (2011: 2,194,800) 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$nil (2011: US$71,000) was determined at the date of the grant based on the market value of the shares. During the year, US$87,000 (2011: US$772,000) 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, Malaysia, Italy and Indonesia 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$1,250 in maximum (per employee per month) of relevant payroll costs to the scheme, which 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.

32. RELATED PARTY DISCLOSURES

(I) Related party transactions

Name of company	Nature of transactions	**2012 US$'000**	2011 US$'000
興昂制革(惠州)有限公司 [1] (Simona Tannery Co. Ltd.)	Purchase of leather and tannery products	**—**	30,190
東莞興立精密模具有限公司 [1] (Sincerely International Limited)	Purchase of molds	**—**	2,951
東莞興泰鞋材有限公司 [1] (Sanford International Co. Ltd.)	Purchase of sole materials	**—**	5,396
	Rental income	**—**	234
東莞興騰鞋材有限公司 [1] (Dongguan Xintan Footwear Co. Ltd.)	Purchase of sole materials	**—**	23,600
惠州興昂鞋業有限公司 [1] (Huizhou Stella Footwear Co. Ltd.)	Purchase of footwear products	**—**	1,825
辛集市寶得福皮業有限公司 [2] (Xinji Baodefu Leather Co. Ltd.)	Purchase of footwear products	**135,573**	121,729
Couture Accessories Limited[2]	Purchase of footwear products	**715**	—
	Sales of footwear products	**1,545**	—
Cosmic Gold Enterprise Limited[2]	Processing fee paid	**—**	3,279
Mountain Gear Group[3]	Sales of footwear products	**—**	1,085
Ace Opportunity Group[3]	Sales of footwear products	**—**	1,442

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 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 disposed of his interests in these companies.

32. RELATED PARTY DISCLOSURES *(continued)*

(II) Related party balances

Details of balances with related parties are set out in note 20.

(III) Compensation of key management personnel

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

	2012 US$'000	2011 US$'000
Short-term benefits	**3,004**	3,821
Post-employment benefits	**5**	4
Share-based payment expenses	**48**	139
	3,057	3,964

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.

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31 December 2012 is as follows:

	Note	2012 US$'000	2011 US$'000
Investment in subsidiaries		**530,527**	530,513
Amounts due from subsidiaries		**303,811**	306,215
Bank balances and cash		**505**	504
Other assets		**304**	283
Total Assets		**835,147**	837,515
Total Liabilities		**1,325**	1,441
Total Assets less Total Liabilities		**833,822**	836,074
Capital and Reserves			
Share capital		**10,160**	10,160
Share premium and reserves	*(a)*	**823,662**	825,914
		833,822	836,074

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 2011	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
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	97,996	97,996
Recognition of equity-settled share-based payment	—	—	—	—	—	87	—	—	87
Shares vested under long term incentive scheme	—	—	—	621	—	(67)	—	(554)	—
Dividend recognised as distribution	—	—	—	—	—	—	—	(100,335)	(100,335)
As at 31 December 2012	10,160	154,503	1,146	(2,729)	190	1,440	530,465	138,647	833,822

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	2012 Interest holdings		2011 Interest holdings		Principal activities
				Direct %	**Indirect %**	Direct %	Indirect %	
Bestsource Technology (Macau Commercial Offshore) Limited	Macau	Ordinary	MOP200,000	**—**	**100**	—	100	Trading
Couture Accessories Distribution Limited[(2)]	Hong Kong	Ordinary	US$4,000,000	**—**	**60**	—	—	Footwear retailing
P.T. Young Tree Industries[(2)]	Indonesia	Ordinary	RP38,592,000,000	**—**	**100**	—	—	Manufacturing of footwear
Stella Fashion Group Limited	BVI	Ordinary	US$4	**—**	**100**	100	—	Investment holding and wholesaling of footwear
Stella Fashion SAS[(2)]	France	Ordinary	EUR100,000	**—**	**100**	—	—	Footwear retailing
Stella Footwear Inc.	BVI	Ordinary	US$3,947	**—**	**100**	—	100	Investment holding, manufacturing and sales of footwear
Stella International Limited	Vanuatu	Ordinary	US$1	**100**	**—**	100	—	Investment holding, manufacturing and sales of footwear
Stella International Marketing Company Limited	Malaysia	Ordinary	US$10,000	**100**	**—**	100	—	Marketing activities
Stella Luna Sol Limited	Hong Kong	Ordinary	HK$1	**—**	**100**	—	100	Holding of intellectual property rights
Stella Services Limited	Hong Kong	Ordinary	HK$300,000	**100**	**—**	100	—	Provision of secretary and accounting services
Stellaluna (Thailand) Co., Ltd.	Thailand	Ordinary	Baht20,000,000	**—**	**70.1**	—	70.1	Footwear retailing

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	2012 Interest holdings Direct %	2012 Interest holdings Indirect %	2011 Interest holdings Direct %	2011 Interest holdings Indirect %	Principal activities
郴州興昂鞋業有限公司 (1) (2) (Chenzhou Selena Footwear Company Limited)	The PRC	Capital Contribution	US$1,000,000	–	100	–	–	Manufacturing of footwear
上海高緯飾品貿易有限公司 (1) (2) (Couture Accessories Distribution (Shanghai) Limited)	The PRC	Capital Contribution	US$800,000	–	60	–	–	Footwear retailing
東莞興昂鞋業有限公司 (1) (Dongguan Stella Footwear Company Limited)	The PRC	Capital Contribution	HK$190,010,000	–	100	–	100	Manufacturing of footwear
洞口興雄鞋業有限公司 (1) (3) (Dongkou Selena Footwear Company Limited)	The PRC	Capital Contribution	US$10,000,000 (3)	–	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$2,200,000 (3)	–	100	–	100	Manufacturing of footwear
廣西興鵬鞋業有限公司 (1) (Guangxi Shenandoah Footwear Company Limited)	The PRC	Capital Contribution	US$10,000,000	–	100	–	100	Manufacturing of footwear
廣西興萊鞋業有限公司 (1) (Guangxi Simona Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	Manufacturing of footwear
廣西興力達鞋業有限公司 (1) (2) (Guangxi Xinglida Footwear Company Limited)	The PRC	Capital Contribution	US$300,000	–	100	–	–	Manufacturing of footwear
廣西育祥鞋業有限公司 (1) (Guangxi Yu Xiang Footwear Company Limited)	The PRC	Capital Contribution	US$8,000,000	–	100	–	100	Manufacturing of footwear

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	2012 Interest holdings		2011 Interest holdings		Principal activities
				Direct %	Indirect %	Direct %	Indirect %	
懷化興雄鞋業有限公司 (1) (2) (Huaihua Selena Footwear Company Limited)	The PRC	Capital Contribution	RMB3,780,900	—	100	—	—	Manufacturing of footwear
龍川興萊鞋業有限公司 (1) (Long Chuan Simona Footwear Company Limited)	The PRC	Capital contribution	HK$220,000,000	—	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$20,380,000(3)	—	100	—	100	Manufacturing of footwear
邵陽連泰鞋業有限公司 (1) (2) (Shaoyang Liantai Footwear Company Limited)	The PRC	Capital Contribution	RMB33,899,984	—	100	—	—	Manufacturing of footwear
雙峰興昂鞋業有限公司 (1) (Shuangfeng Stella Footwear Company Limited)	The PRC	Capital Contribution	HK$109,740,000	—	100	—	100	Manufacturing of footwear
興記時尚貿易(上海)有限公司 (1) (Stella Fashion Inc.)	The PRC	Capital contribution	US$11,000,000	—	100	—	100	Footwear retailing
威縣遠達製鞋有限公司 (1) (2) (Wei County Yuanta Footwear Company Limited)	The PRC	Capital Contribution	US$6,500,000	—	100	—	—	Manufacturing of footwear
武宣興萊鞋業有限公司 (1) (Weixuan Simona Footwear Company Limited)	The PRC	Capital Contribution	US$1,000,000	—	100	—	100	Manufacturing of footwear
新化興昂鞋業有限公司 (1) (2) (Xinhua Selena Footwear Company Limited)	The PRC	Capital Contribution	US$800,000	—	100	—	—	Manufacturing of footwear

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	2012 Interest holdings		2011 Interest holdings		Principal activities
				Direct %	**Indirect %**	Direct %	Indirect %	
興業興萊鞋業有限公司 (1) (Xingye Simona Footwear Company Limited)	The PRC	Capital Contribution	US$3,000,000	**—**	**100**	—	100	Manufacturing of footwear
新寧興雄鞋業有限公司 (1) (3) (Xinning Selena Footwear Company Limited)	The PRC	Capital Contribution	US$1,000,000(3)	**—**	**100**	—	100	Manufacturing of footwear
永州興昂鞋業有限公司 (1) (2) (Yongzhou Stella Footwear Company Limited)	The PRC	Capital Contribution	RMB2,950,000	**—**	**100**	—	—	Manufacturing of footwear

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note:

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

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

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

Financial Summary

	For the year ended 31 December				
	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	**2012** **US$'000**
RESULTS					
Revenue	1,102,116	1,008,598	1,293,521	1,494,531	**1,550,003**
Profit for the year	124,978	102,081	121,328	142,784	**152,588**
Attributable to:					
Equity owners of the Company	124,993	102,168	121,408	142,988	**153,403**
Non-controlling interests	(15)	(87)	(80)	(204)	**(815)**
	124,978	102,081	121,328	142,784	**152,588**

	As at 31 December				
	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	**2012** **US$'000**
ASSETS AND LIABILITIES					
Total assets	888,277	925,587	990,125	1,074,874	**1,158,949**
Total liabilities	(135,295)	(157,110)	(187,918)	(212,874)	**(242,197)**
Shareholders' funds	752,982	768,477	802,207	862,000	**916,752**

Note: The results for the two years ended 31 December 2012, and the assets and liabilities as at 31 December 2011 and 2012 have been extracted from the audited consolidated statement of comprehensive income and audited consolidated statement of financial position as set out on page 96 and 97, respectively, of the annual report.

Corporate Information and Financial Calender 2012/2013

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
CHEN Johnny
BOLLIGER Peter
CHAN Fu Keung, William
YUE Chao-Tang, Thomas

AUDIT COMMITTEE

YUE Chao-Tang, Thomas, *Chairman*
CHEN Johnny
CHAN Fu Keung, William

CORPORATE GOVERNANCE COMMITTEE

SHIH Takuen, Daniel, *Chairman*
CHAN Fu-Kung, William
YUE Chao-Tang, Thomas

NOMINATION COMMITTEE

CHEN Johnny, *Chairman*
CHAN Fu Keung, William
YUE Chao-Tang, Thomas
SHIH Takuen, Daniel

REMUNERATION COMMITTEE

CHAN Fu Keung, William, *Chairman*
YUE Chao-Tang, Thomas
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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 3003-04, 30/F, Tower 2, The Gateway
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STOCK CODE

1836

WEBSITE

www.stella.com.hk

Corporate Information and Financial Calender 2012/2013

FINANCIAL CALENDAR 2012/2013

2012 Interim Results Announcement	16 August 2012
Payment of Interim Dividend	14 September 2012
2012 Annual Results Announcement	21 March 2013
Closure of Register of Members	8 May 2013 to 10 May 2013
Annual General Meeting	10 May 2013
Payment of Final Dividend	On or about 24 May 2013
2013 Interim Results Announcement	On or about 15 August 2013

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

This Annual Report is printed on recyclable paper.

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*