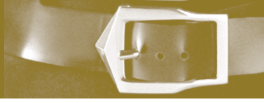
interim report 2013

Stella International Holdings Limited

Stock Code: 1836



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CHAIRMAN'S STATEMENT

Dear Shareholders,

Economic conditions both at home and abroad presented a new set of challenges to Stella in the first half of 2013. Slow economic recovery and unseasonal weather in our primary export markets, i.e. Europe and the United States, resulted in softer demand for many of Stella's footwear products. Closer to home, slowing economic growth in China and lower consumer confidence impacted our retail business.

However, the Group experienced many positives in the first half of the year. We continued to grow revenue and shipment volumes of the period, with our overall business remaining profitable – a reflection of our commitment to quality and our long-term relationships with customers.

We also made substantial progress in ramping-up capacity at our new manufacturing facilities in inland China and Indonesia, leaving us well placed to take full advantage of future demand recovery.

Meanwhile, on the global stage, our flagship brand *Stella Luna* has quickly built an international profile following the opening of our first retail store in Paris last year.

With the footwear sector being a cyclical industry, the current trough in the business cycle presented us with a rationale to make sensible and necessary adjustments to our businesses. Such changes are currently taking place in both our manufacturing and retail businesses.

On the manufacturing side, we are continuing to introduce new measures to improve cost-control and productivity, while seeking to expand our capabilities in new product areas, such as leather goods. On the retail side, we are continuing to invest in human capital and adopt remedies such as consolidating our store network so that it becomes more focused in terms of both store location and product targeting, to better capture China's growing 'affordable luxury' market.

Of course, no such change is needed for our long-standing motto of 'Making the Best Shoes'. It is our commitment to always seek more ways to improve the quality of our products, our research and development capabilities and our willingness to satisfy and support our customers in any way we can.

Looking forward to the rest of year, demand for our products in the United States and Europe may continue to be affected by unseasonal weather and slow economic growth. We will continue to proactively react to these conditions by further improving our manufacturing capabilities in inland China and Indonesia, as well as the quality of our products. We will also work closely with our workforces there to improve their craftsmanship. These steps will position our business strongly for the long-term.

We also have exciting plans for our retail business, in particular the re-launch of our *What For* brand, prelunding in the opening of the brand's first showcase store in Paris. We will also continue to optimise our retail business in China in the second half of the year in readiness for a recovery in consumer confidence.

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers and business partners for their unwavering support in the first half of 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, 15 August 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2013.

Financial Highlights

Steady Operation amid Unstable Operating Environment

The first half of 2013 saw the Group face strong headwinds on a number of fronts. Global and domestic economic factors continued to play a large role – with weakening consumer confidence in China weighing on our retail business, while sluggish economic recovery in Europe and the United States kept demand from our main export markets below peak. Unseasonable weather in the northern hemisphere also affected consumer behaviour and demand during the period.

Total revenue for the first six months of the year rose by 2.1% to US$697.6 million, compared to US$683.1 million in the first half of last year, as both our manufacturing and retail businesses grew at a slower pace.

On the manufacturing side, shipment volumes rose by 3.9% to 23.8 million pairs, up from 22.9 million pairs in the first half of last year, as we continued to ramp-up capacity at our new manufacturing facilities in inland China and Indonesia. The average selling price (the "ASP") of our footwear products fell by 3.6% to US$26.9 per pair, compared to US$27.9 per pair in the first half of last year on the back of lower raw materials costs and the relocation of some manufacturing capacity to our new manufacturing facilities.

Women's fashion footwear remained the largest segment within our manufacturing business, contributing 34.0% to the Group's total revenue. Contributions from the men's and women's casual footwear segments were 19.9% and 27.0% of the Group's overall revenue respectively, while the contribution from the men's fashion footwear segment was 10.6%.

Streamlining of Retail Business for the Long Haul

Our retail business encountered a number of short-term challenges this year, in particular from weakening consumer confidence caused by slowing economic growth in China. These conditions presented a rationale to carry out a restructuring of the retail business, including inventory control and store network optimisation, in order to position the business for long-term success.

Revenue from the retail business grew by 8.1% to US$60.0 million in the first half of the year, compared to US$55.5 million in the first half of 2012. Same store sales (for China stores only) fell by 0.6% in the first half of the year to US$46.0 million. Gross profit for the retail business was US$40.4 million in the first half of the year, up 4.4% from the same period of last year.

Prudent Financial Management, Positioning for the Future

Gross profit across all business segments for the six months under review fell by 2.8% to US$164.7 million, compared to US$169.5 million in the first half of last year, while net profit declined by 24.5% to US$50.3 million. This was primarily attributable to a combination of unseasonable weather, higher labour costs, inefficiencies arising from the relocation of manufacturing capacity and the weak global economy. Furthermore, the decline in net profit for the six months ended 30 June 2013 was also attributable to a one-off non-operating gain of US$11.2 million on the disposal of 49% interest in StellaDeck Fashion Limited that was recorded in the first half of 2012. This negative effect was partly offset by the lower selling, general and administrative expenses for the first six months ended 30 June 2013 as compared with the same period in 2012.

Geographically, North America and Europe remain our two largest markets, accounting for 47.1% and 25.9% of the Group's total revenue in the first half of the year respectively. This was followed by the PRC (including Hong Kong) accounting for 19.2%, Asia (other than the PRC) accounting for 5.3% and other geographic regions which accounted for 2.5%.

Business Review

Keeping our Customers at the Centre of our Business for Long-term Reward

Our strong long-term relationships with customers are our biggest asset. These relationships have been earned as customers recognise Stella's commitment to quality, strong research and development capabilities and ability to cater for small-batch and customised production – allowing us to attract more and more high-profile and niche clients each year.

Our long-term success is also underpinned by our readiness to work together with our clients to overcome any challenges they are facing. This remained especially true in the first half of 2013, as many customers struggled to manage inventory and seasonal mismatches caused by one of the coldest springs on record in the United States and Europe. This willingness to share some pain in the short-term will continue to reinforce our valuable long-term relationships with customers.

Continued Initiatives to Diversify and Develop Production Base

We experienced some short-term inefficiencies resulting from the relocation of manufacturing capacity to our new inland China and Indonesia production facilities during the period under review, as we continued to adjust to long-term challenges such as rising labour costs.

However, the continued ramp-up of capacity at our new production facilities also supported a gradual rise of shipment volumes during the first half of the year – leaving us well positioned for an eventual recovery of demand.

Growing Client Base

The challenging operational environment facing the footwear industry saw us attract more niche brands as clients in the first half of 2013, helping us to achieve a better balance through diversification. As of 30 June 2013, the Group's top five customers accounted for 56.1% of the Group's total revenue, compared to 55.0% during the same period of last year.

Priming Retail for the Future

Our retail business felt the effects of weakening consumer sentiment in China during the first half of the year, in the face of the widely reported credit-crunch and the Central Government's downward revision of economic growth targets.

To position the retail business for the long-term, we have been gradually consolidating our store network, closing some stores in sub-optimal locations including selected department stores, in favour of standalone stores at quality locations.

During the period under review, we closed a net 4 *Stella Luna* stores and 18 *What For* stores in China.

The following table shows the geographic distribution of our stores by brands as of 30 June 2013:

	Stella Luna	*What For*	*JKJY by Stella*	*Pierre Balmain*
Greater China				
Eastern China	47	28	5	2
Southern China	35	30	2	–
Northern China	37	38	2	–
North-East China	31	26	1	–
South-West China	39	30	–	–
Central China	18	14	–	–
Taiwan	3	–	–	–
Sub-total	210	166	10	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	236	187	11	2

Growing Domestic and International Profile of Retail Brands

Our flagship brand, *Stella Luna*, has steadily built an international profile since the opening of our first European store in Paris in late 2012, having featured in a number of international media. Being a pioneer in China's 'affordable luxury' space, *Stella Luna* targets the high-end footwear and leather goods markets, with prices ranging from RMB1,200 to RMB6,000 per pair.

Closer to home, our first male-focused retail brand, *JKJY by Stella*, has continued to steadily grow its profile in China since its introduction in 2012, supported by its eye-catching and memorable flagship stores. *JKJY by Stella* offers a unique crossover of fashion and sports footwear, retailing for between RMB2,000 to RMB4,000 per pair.

What For, which targets the contemporary and lifestyle-focused woman, continued to maintain a good domestic following, retailing for between RMB800 to RMB2,800 per pair.

We continued to invest and grow the Pierre Balmain joint venture during the period under review.

Business Outlook

Continuing Impact of Unseasonal Weather

We expect the order pipeline for our footwear products in the second half of 2013 to be further impacted by unseasonal weather in Europe and the United States, as customers adopt a more cautious approach to inventory. While we expect the effect to be temporary, we continue to closely monitor seasonal conditions in our major export markets.

Potential risks for the rest of the year include a continuation of seasonal mismatches affecting future customer orders, especially amidst signs of a warmer than normal summer in the United States and Europe. Labour costs and availability also remain challenges.

We expect the cost of raw materials will be stable in the second half of 2013. Labour costs will be higher compared to the same period of last year following the inflation of the minimum wage during the first half of 2013. We will continue to evaluate the effects of any new industrial and economic policies introduced by the Chinese government that may provoke RMB inflation or affect the price of input costs.

Strengthening Quality, Productivity and Cost Control

In order to partially mitigate the impact of demand fluctuation, we will continue to implement strict cost-controls and measures to increase productivity in order to maintain margins and profitability.

We will also continue to assess ways to optimise and expand our product mix to include new product types such as leather goods. The Group has recently hired a team of industry experts to guide our newly set-up leather goods division, as well as to further boost our manufacturing capability and the quality of our footwear products.

Introducing *What For* to the World

With our *Stella Luna* store in Paris generating significant buzz, we plan to open our first *What For* store in Paris before the end of the year to introduce the world to another quality brand under our retail portfolio. The opening of the Paris store will also prelude the re-launch of *What For* in the second half of the year.

Closer to home, we will continue to prudently refine and optimise our store network, as well as inventory mix, throughout the rest of 2013 in order to set a solid foundation for future growth and success.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2013, the Group had cash and cash equivalents of about US$198.5 million (31 December 2012: US$303.6 million).

As at 30 June 2013, the Group had current assets of about US$841.5 million (31 December 2012: US$857.4 million) and current liabilities of about US$289.2 million (31 December 2012: US$242.2 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.9 as at 30 June 2013 which indicated the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$30 million as at 30 June 2013 (31 December 2012: nil).

Foreign Exchange Exposure

During the six months ended 30 June 2013, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars and RMB. Currency exposures were mostly in RMB and Hong Kong dollars against the functional currency of the relevant Group company. The Group has not adopted any formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

Capital Expenditure

During the period under review, the Group's total capital expenditure amounted to approximately US$32.5 million (for the six months ended 30 June 2012: US$34.6 million), of which approximately US$30.1 million was used in the production capacity expansion and approximately US$2.4 million was used for the optimisation of our retail store network.

Pledge of Assets

As at 30 June 2013, the Group had not pledged any of its assets (31 December 2012: Nil).

Contingent Liabilities

As at 30 June 2013, the Group had no material contingent liabilities (31 December 2012: Nil).

Employees

As at 30 June 2013, the Group had approximately 81,000 employees (31 December 2012: approximately 77,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets to the Group's development and expansion. We actively seek to attract, train and retain individuals who are proactive, positive, committed to and passionate about our 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 caliber employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures.

As of 30 June 2013, our recruitment efforts remain satisfactory, despite the labour shortages in our primary manufacturing locations in China.

Corporate Social Responsibility

We remain committed to maintaining our Triple Bottom Line of 'People, Profit and Planet' – a promise that is becoming more and more significant as we expand our manufacturing operations to less-developed economies in South-East Asia.

When it comes to workplace safety, we believe there is no finishing line. Our manufacturing operations continue to meet international Environment Safety Health (ESH) guidelines and we are constantly introducing new initiatives to improve work safety standards, reduce workplace accidents and improve overall safety consciousness. Our commitment to this issue is unequivocal.

We also continue to work together with our brand partners, as well as internally across our businesses, on programs designed to raise environmental awareness. We have also continued to introduce and promote both existing and new programs to reduce carbon emissions and energy usage at our manufacturing facilities and retail stores.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2013. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 3 September 2013. It is expected that the interim dividend will be paid on or about 30 September 2013. In order to qualify for the interim dividend for the six months ended 30 June 2013, 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 3 September 2013.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the condensed consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 10 to 22, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 August 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 US$'000 (Unaudited)	2012 US$'000 (Unaudited)
Revenue	3	**697,552**	683,107
Cost of sales		**(532,818)**	(513,590)
Gross profit		**164,734**	169,517
Other income		**5,380**	8,141
Other gains and losses		**(1,733)**	13,627
Distribution and selling costs		**(60,042)**	(60,617)
Administrative expenses		**(29,255)**	(34,350)
Research and development costs		**(22,805)**	(23,395)
Share of profit of associates		**75**	281
Interest on bank borrowings wholly repayable within 5 years		**(67)**	(49)
Profit before tax		**56,287**	73,155
Income tax expense	4	**(5,561)**	(6,632)
Profit for the period	6	**50,726**	66,523
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operation		**533**	492
Total comprehensive income for the period		**51,259**	67,015
Profit (loss) for the period attributable to:			
Owners of the Company		**50,261**	66,557
Non-controlling interests		**465**	(34)
		50,726	66,523
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**50,783**	67,049
Non-controlling interests		**476**	(34)
		51,259	67,015
Earnings per share	8		
– Basic and diluted (US$)		**0.0634**	0.0840

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	30 June 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**264,742**	247,863
Prepaid lease payments		**18,300**	18,776
Interest in associates	*5*	**7,694**	7,619
Deposit paid for acquisition of property, plant and equipment	*9*	**48,220**	27,316
		338,956	301,574
CURRENT ASSETS			
Inventories		**218,341**	179,183
Trade and other receivables	*10*	**355,689**	304,038
Prepaid lease payments		**578**	477
Amounts due from associates	*11*	**68,395**	62,854
Derivative financial instruments		**40**	231
Held for trading investments		**53,026**	51,557
Tax recoverable		**–**	6,996
Cash and cash equivalents		**145,434**	252,039
		841,503	857,375
CURRENT LIABILITIES			
Trade and other payables	*12*	**205,361**	201,197
Bills payable	*12*	**3,722**	–
Bank borrowings	*13*	**30,000**	–
Tax liabilities		**50,147**	41,000
		289,230	242,197
NET CURRENT ASSETS		**552,273**	615,178
		891,229	916,752
CAPITAL AND RESERVES			
Share capital	*14*	**10,160**	10,160
Share premium and reserves		**880,059**	906,058
Equity attributable to owners of the Company		**890,219**	916,218
Non-controlling interests		**1,010**	534
		891,229	916,752

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Capital reserve US$'000	Exchange reserve US$'000	Shares held for long term incentive scheme US$'000	Capital redemption reserves US$'000	Share award reserve US$'000	Accumulated profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2012 (audited)	10,160	154,503	45,427	1,146	(1,674)	(3,350)	190	1,420	654,455	862,277	(277)	862,000
Profit (loss) for the period	–	–	–	–	–	–	–	–	66,557	66,557	(34)	66,523
Exchange differences arising on translation of foreign operations	–	–	–	–	492	–	–	–	–	492	–	492
Total comprehensive (expense) income for the period	–	–	–	–	492	–	–	–	66,557	67,049	(34)	67,015
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	1,632	1,632
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	79	–	79	–	79
Shares vested under long term incentive scheme	–	–	–	–	–	617	–	(66)	(551)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(69,611)	(69,611)	–	(69,611)
At 30 June 2012 (unaudited)	10,160	154,503	45,427	1,146	(1,182)	(2,733)	190	1,433	650,850	859,794	1,321	861,115
Profit (loss) for the period	–	–	–	–	–	–	–	–	86,846	86,846	(781)	86,065
Exchange differences arising on translation of foreign operations	–	–	–	–	294	–	–	–	–	294	(6)	288
Total comprehensive (expense) income for the period	–	–	–	–	294	–	–	–	86,846	87,140	(787)	86,353
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	8	–	8	–	8
Shares vested under long term incentive scheme	–	–	–	–	–	4	–	(1)	(3)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(30,724)	(30,724)	–	(30,724)
At 31 December 2012 (audited)	10,160	154,503	45,427	1,146	(888)	(2,729)	190	1,440	706,969	916,218	534	916,752
Profit for the period	–	–	–	–	–	–	–	–	50,261	50,261	465	50,726
Exchange differences arising on translation of foreign operations	–	–	–	–	523	–	–	–	–	523	11	534
Total comprehensive income for the period	–	–	–	–	523	–	–	–	50,261	50,784	476	51,260
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	14	–	14	–	14
Shares vested under long term incentive scheme	–	–	–	–	–	7	–	(4)	(3)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(76,797)	(76,797)	–	(76,797)
At 30 June 2013 (unaudited)	10,160	154,503	45,427	1,146	(365)	(2,722)	190	1,450	680,430	890,219	1,010	891,229

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Note	Six months ended 30 June 2013 US$'000 (Unaudited)	2012 US$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES			
Refund (purchase) of tax reserve certificates		**6,996**	(3,299)
Increase in investments held for trading		**(221)**	(1,687)
Other operating cash flows		**(15,293)**	(71,778)
		(8,518)	(76,764)
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES:			
Prepaid lease payment of land use right		**(37)**	(1,512)
Deposit paid for property, plant and equipment		**(21,447)**	(3,854)
Purchase of property, plant and equipment		**(31,596)**	(8,762)
Net proceeds from disposal of interest in an associate (net of transaction cost)		**–**	19,974
Acquisition of a subsidiary	*17*	**–**	(4,100)
Other investing cash flows		**1,483**	3,632
		(51,597)	5,378
NET CASH USED IN FINANCING ACTIVITIES:			
New bank loans raised		**30,000**	25,000
Dividend paid		**(76,797)**	(69,611)
Capital injection from non-controlling interests		**–**	1,632
		(46,797)	(42,979)
Net decrease in cash and cash equivalents		**(106,912)**	(114,365)
Cash and cash equivalents at the beginning of the period		**252,039**	264,233
Effect of foreign exchange rate changes		**307**	443
Cash and cash equivalents at the end of the period		**145,434**	150,311
Represented by:			
Bank balances and cash		**108,700**	126,531
Deposits placed in financial institutions		**36,734**	23,780
		145,434	150,311

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant for the preparation of the Group's condensed consolidated financial statements:

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

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and 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, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 17.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income (continued)

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKAS 34 Interim Financial Reporting
(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to HKAS 34 *Interim Financial Reporting* as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

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

3. SEGMENT INFORMATION

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

Six months ended 30 June 2013

	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	212,237	424,919	60,396	697,552	–	697,552
Inter-segment sales	–	11,230	–	11,230	(11,230)	–
Group's revenue	212,237	436,149	60,396	708,782	(11,230)	697,552
Segment profit	30,437	70,718	(129)	101,026	–	101,026
Unallocated income						
– Interest income from banks						1,429
– Rental income						662
– Sale of scrap						232
– Others						2,755
Unallocated expenses						
– Research and development costs						(22,805)
– Central administration costs						(25,287)
Share of profit of associates						75
Other gains and losses						(1,733)
Finance cost						(67)
Profit before tax						56,287

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 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	222,611	404,952	55,544	683,107	–	683,107
Inter-segment sales	–	15,241	–	15,241	(15,241)	–
Group's revenue	222,611	420,193	55,544	698,348	(15,241)	683,107
Segment profit	31,271	75,610	623	107,504	–	107,504
Unallocated income						
– Interest income from banks						2,825
– Rental income						1,205
– Sale of scrap						2,725
– Others						1,298
Unallocated expenses						
– Research and development costs						(23,395)
– Central administration costs						(32,866)
Share of profit of associates						281
Other gains and losses						13,627
Finance cost						(49)
Profit before tax						73,155

Segment profit represents profit attributable to each segment without allocation of interest income from banks, rental income, sale of scrap, research and development costs, central administration costs, share of results of associates, other gains and losses and finance cost. This is the measure reported to the chief operating decision maker, the Group's chief executives, for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")	**5,561**	6,632

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

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

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

4. INCOME TAX EXPENSE (continued)

From March 2011 to March 2012, the IRD issued estimated profits tax assessments relating to the years of assessment 2004/2005 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 (equivalent to approximately US$6,996,000) for the years of assessment 2004/05 and 2005/06, which has been recorded as tax recoverable in the condensed consolidated statement of financial position.

During the current interim period, a settlement proposal was accepted by the IRD, no Hong Kong Profits Tax is payable by the Group in respect of the tax audit. Therefore, the TRCs previously purchased by the Group for the years of assessment 2004/05 and 2005/06 totalling HK$54,280,000 (equivalent to approximately US$6,996,000) was refunded to the Group.

5. DISPOSAL OF AN ASSOCIATE

On 2 April 2012, the Group disposed of 49% interest in StellaDeck Fashion Limited ("StellaDeck") to a third party. Before the disposal, the Group owned 49% interest in StellaDeck and the investment was previously accounted for as an investment in an associate using the equity method of accounting. This transaction has resulted in the recognition of a gain of US$11,177,000 in profit or loss (included in other gains and losses).

6. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Write-down of inventories (included in costs of sales)	**1,116**	3,168
Depreciation of property, plant and equipment	**16,500**	14,029
Release of prepaid lease payments	**289**	263
Share-based payments (included both in costs of sales and administrative expenses)	**14**	79
Net fair value loss (gain) on held for trading investments (included in other gains and losses)	**1,248**	(1,308)
Interest income on bank balances	**(1,483)**	(2,914)
Net fair value loss on derivative financial instruments (included in other gains and losses)	**191**	207
Impairment loss recognised in respect of interest in associates (included in other gains and losses)	**–**	809

7. DIVIDENDS

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Final dividend declared and paid for 2012 – HK75 cents (2011: HK68 cents) per share	**76,797**	69,611
Interim dividend declared subsequent to period end – HK30 cents (2012: HK30 cents) per share	**30,732**	30,724

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2013 of HK30 cents (2012: HK30 cents) per ordinary share to owners of the Company whose names appeared in the register of members of the Company at the close of business on 3 September 2013.

8. EARNINGS PER SHARE

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

	Six months ended 30 June 2013 US$'000 (Unaudited)	2012 US$'000 (Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**50,261**	66,557

	Six months ended 30 June 2013 '000 (Unaudited)	2012 '000 (Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**792,599**	792,389
Effect of dilutive potential ordinary shares: Unvested shares awarded	**4**	207
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**792,603**	792,596

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 16).

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment of approximately US$32,492,000 (2012: US$30,732,000) for business expansion.

In addition, during the six months ended 30 June 2013, the Group paid approximately US$21,447,000 (2012: US$3,854,000) in deposits for acquisition of property, plant and equipment in order to expand its manufacturing capabilities in the PRC.

10. TRADE AND OTHER RECEIVABLES

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

The following is an analysis of the Group's trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30 June 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)
Trade receivables:		
0 – 30 days	**162,466**	134,923
31 – 60 days	**73,517**	70,099
61 – 90 days	**15,933**	11,719
Over 90 days	**13,834**	7,058
	265,750	223,799
Other receivables	**89,939**	80,239
	355,689	304,038

Other receivables include prepayment to suppliers of US$89,461,000 (2012: US$80,094,000).

11. AMOUNTS DUE FROM ASSOCIATES

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

12. TRADE, BILLS AND OTHER PAYABLES

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

	30 June 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)
Trade and bills payables:		
0 – 30 days	**63,538**	47,622
31 – 60 days	**10,062**	13,885
Over 60 days	**48,128**	36,511
	121,728	98,018
Other payables	**87,355**	103,179
	209,083	201,197

13. BANK BORROWINGS

During the six months ended 30 June 2013, the Group obtained new bank loans denominated in United States dollars amounting to US$30,000,000 (2012: Nil). The loans carry interest at fixed rates of 2% per annum. The proceeds were used for general working capital purposes.

14. SHARE CAPITAL

	Number of share	**Nominal value** HK$'000
Ordinary of HK$0.10 each		
Authorised:		
As at 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013	794,379,500	79,438
Shown in financial statements as		US$10,160,000

15. CAPITAL COMMITMENTS

	30 June 2013 US$'000 (Unaudited)	31 December 2012 US$'000 (Audited)
Capital expenditure authorised but not contracted for in respect of property, plant and equipment	**42,700**	66,635
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**27,369**	33,572
	70,069	100,207

16. SHARE-BASED PAYMENTS

Long Term Incentive Scheme (the "Scheme")

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

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

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.

Details of the movement with respect to the grant of the Company's shares during the periods ended 30 June 2013 and 2012 are as follows:

	Grant date	**Vesting period**	**Outstanding at 1 January 2013**	**Vested during the period**	**Outstanding at 30 June 2013**
Employees	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**
			27,400	**(4,900)**	**22,500**

	Grant date	Vesting period	Outstanding at 1 January 2012	Vested during the period	Outstanding at 30 June 2012
Directors	19 March 2010	19 March 2010 – 1 April 2012	120,500	(120,500)	–
Two former directors *(Note)*	19 March 2010	19 March 2010 – 1 April 2012	77,500	(77,500)	–
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	(409,400)	29,900

Note: One former director has been retained as an employee of the Group, while another former director has left the Group in August 2013.

As at 30 June 2013, the Trustee maintained a pool of 1,778,000 shares (31 December 2012: 1,782,900 shares) which are available for the Trustee to satisfy the Scheme upon their respective vesting or future grant.

No shares were awarded to any eligible participants under the Scheme for the period ended 30 June 2013.

During the six months ended 30 June 2013, US$14,000 (six months ended 30 June 2012: US$79,000) was recognised as an expense in the condensed consolidated statement of comprehensive income with a corresponding credit to a share award reserve.

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements 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); and
- 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).

Financial asset	Fair value as at 30 June 2013	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Foreign currency option contracts classified as derivative financial instruments in the statement of financial position	Assets – US$40,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchanges rates (from observable forward exchanges rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A
2) Held-for-trading non-derivative financial assets classified as held for trading investments in the statement of financial position	Listed bonds and funds in Hong Kong – US$12,171,000; and listed bond and funds in elsewhere – US$40,855,000	Level 1	Quoted bid prices in active markets	N/A	N/A

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

18. ACQUISITION OF A SUBSIDIARY

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.

Acquisition-related costs are negligible and have been excluded from the cost of acquisition. They have been recognised directly as an expense in the period and included in the "administrative expenses" line item in the condensed statement of comprehensive income.

18. ACQUISITION OF A SUBSIDIARY (continued)

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

Impact of acquisition on the results of the Group

Included in the profit for the interim period for the six months ended 30 June 2013 is a profit of US$986,000 incurred by PT Young Tree Group. Revenue for the period includes the revenue of PT Young Tree Group amounted to US$14,708,000.

Had the acquisition of PT Young Tree Group been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2012 would have been US$688,010,000, and the amount of the profit for the period would have been US$66,852,000. The proforma 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 at the beginning of the interim period, nor is it intended to be a projection of future results.

19. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June **2013** **US$'000** **(Unaudited)**	2012 US$'000 (Unaudited)
辛集市寶得福皮業有限公司[1] (Xinji Baodefu Leather Co. Ltd.) *(Note)*	Purchase of footwear products	**52,283**	49,069

Note: An associate of the Company.

(II) Compensation of key management personnel

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

	Six months ended 30 June **2013** **US$'000** **(Unaudited)**	2012 US$'000 (Unaudited)
Short-term benefits	**423**	374
Share-based payment expenses	**–**	48
	423	422

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

DISCLOSURE OF INTERESTS

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

As at 30 June 2013, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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	Number of Shares: Corporate Interest	Number of Underlying Shares	Total	Approximate Percentage of Shareholding
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%

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 30 June 2013, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2013, the interests and short positions of the shareholders of the Company (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:–

Long position in the shares of the Company:

Name	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Cordwalner Bonaventure Inc.	Beneficial owner	246,412,214	31.02%
The Capital Group Companies, Inc.	Interest of corporation controlled by the substantial shareholder	47,342,000	5.96%
Capital Research and Management Company	Investment manager	47,261,000	5.95%

Save as disclosed above, as at 30 June 2013, 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 and underlying shares of the Company that were required to be recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance to ensure and enhance a high standard of corporate governance practices through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the “Shareholders”). The Company has applied the principles and complied with all code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2013, except for code provisions B.1.5 and E.1.2 of the CG Code, details of which are disclosed below:

For code provision B.1.5 of the CG Code, the Company had not disclosed the details of remuneration payable to members of senior management by band in the annual report of 2012 for observing competitive market practices and respecting individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (the “Chairman”) of the Board, had not attended the annual general meeting of the Company held on 10 May 2013 (the “2013 AGM”). Instead, Mr. Shih Takuen, Daniel, the then deputy chairman (the “Deputy Chairman”) of the Board, took the chair at the 2013 AGM, and the chairman or member of each of the audit, corporate governance, remuneration and nomination committees attended the 2013 AGM to answer Shareholders’ questions. The reason for such arrangement was that the Board had allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, was mainly responsible for managing major customers’ relationship and overseeing strategies of the Group, while the then Deputy Chairman, Mr. Shih Takuen, Daniel, was responsible for providing leadership and management to the Board and handling matters relating to investor relations and communication with the Shareholders. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group’s prevailing circumstances.

Subsequent to the balance sheet date, Mr. Shih Takuen, Daniel resigned as an executive Director and ceased to be the Deputy Chairman with effect from 13 August 2013 and Mr. Chao Ming-Cheng, Eric, an executive Director, was appointed as the Deputy Chairman on the same day. Please refer to the announcement of the Company dated 13 August 2013 for further information on the changes in Board and Board committee appointments.

Governance Model

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

Model Code for Securities Transactions by Directors (the “Model Code”)

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2013, except that Mr. Shih Takuen, Daniel, a former executive Director, had sold 408,000 shares of the Company on 25 June 2013 without first notifying in writing to any of the chairman of the Board or Mr. Chen Li-Ming, Lawrence (being the Director designated by the Board for the purpose of the Model Code) and obtaining a dated written acknowledgement prior to such dealing in shares of the Company, thereby breaching Rule B.8 of the Model Code.

The Company will reiterate and remind the Directors from time to time the relevant rules and requirements in relation to Directors' dealing in securities to ensure the compliance of the Model Code.

Board Practices

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

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

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

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Directors have been provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable them to make an informed decision and to discharge their duties and responsibilities as Directors.

Internal Controls

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

Audit Committee

Pursuant to the requirements of the CG Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") currently comprising three independent non-executive Directors, namely Mr. Yue Chao-Tang, Thomas, Mr. Chan Fu Keung, William and Mr. Chen Johnny. The chairman of the Audit Committee is Mr. Yue Chao-Tang, Thomas. The principal roles and functions of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations. The Audit Committee has reviewed the Group's interim report for the six months ended 30 June 2013.

Remuneration Committee *(Note)*

The Company has established a remuneration committee (the "Remuneration Committee") pursuant to the requirements of the Listing Rules. The Remuneration Committee currently has three members comprising three independent non-executive Directors of the Company, namely, Mr. Chan Fu Keung, William, Mr. Yue Chao-Tang, Thomas and Mr. Chen Johnny. The chairman of the Remuneration Committee is Mr. Chan Fu Keung, William. The principal roles and functions of the Remuneration Committee include 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.

Nomination Committee *(Note)*

The Company has established a nomination committee (the "Nomination Committee") in compliance with the CG Code. The Nomination Committee currently has three members comprising three independent non-executive Directors of the Company, namely Mr. Chen Johnny, Mr. Yue Chao-Tang, Thomas and Mr. Chan Fu Keung, William. The chairman of the Nomination Committee is Mr. Chen Johnny. The principal roles and functions 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.

Corporate Governance Committee *(Note)*

To facilitate more effective implementation of corporate governance practices, the Company has established a corporate governance committee (the "Corporate Governance Committee"). The Corporate Governance Committee currently has three members comprising three independent non-executive Directors of the Company, namely Mr. Bolliger Peter, Mr. Yue Chao-Tang, Thomas and Mr. Chan Fu Keung, William. The chairman of the Corporate Governance Committee is Mr. Bolliger Peter. The principal roles and functions of the Corporate Governance Committee include developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, reviewing the Company's compliance with the CG Code and the relevant disclosure in the Company's annual and interim reports, reviewing and monitoring the Company's communication policy and practices with its Shareholders and investor communities and reviewing and monitoring the training and continuous professional development of Directors and senior management. The Corporate Governance Committee advocates upholding the principles of "4Rs" – regulatory compliance, risk management, investor relations and corporate social responsibility, believing that the fulfillment of which will translate into long-term returns to the Shareholders.

Note: Mr. Shih Takuen, Daniel resigned as an executive Director with effect from 13 August 2013 and accordingly ceased to be the chairman of the Corporate Governance Committee and a member of the Remuneration Committee and Nomination Committee. On 13 August 2013, Mr. Bolliger Peter was appointed as the chairman of the Corporate Governance Committee and Mr. Chen Johnny was appointed as a member of the Remuneration Committee.

OTHER INFORMATION

Update on Directors' Information

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

Mr. CHAO Ming-Cheng, Eric, aged 62, is the Deputy Chairman of the Board and 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 Johnny, aged 53, is an independent non-executive Director of the Company, and the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration 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), a company listed on the Main Board of the Stock Exchange. Since June 2010, Mr. Chen has been appointed as an independent non-executive director, and served as the chairman of the audit committee and a member of the remuneration committee, of Viva China Holdings Limited (Stock Code: 8032), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chen received a master's degree in accounting from the University of Rhode Island and has been a U.S. qualified CPA since 1986. Mr. Chen has been appointed as an independent non-executive Director of the Company since February 2009.

Mr. BOLLIGER Peter, aged 68, is an independent non-executive Director of the Company and the chairman of the Corporate Governance Committee of the Board. 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. YUE Chao-Tang, Thomas, aged 59, is an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of each of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee. 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). Since June 2013, Mr. Yue has also been appointed as an independent director and convenor of the audit committee of Uni-President Enterprises Corp., the shares of which are listed on the Taiwan Stock Exchange (Stock Code: 1216). 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.

Long Term Incentive Scheme

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the Shareholders passed on 15 June 2007 and was adopted by a resolution of the Board on 15 June 2007 and as amended by a resolution of the duly authorised committee of the Board on 18 June 2007 and further amended by a resolution of the Shareholders passed on 6 May 2011. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, directors, shareholders of any member of the Group or any holder of any securities issued by any member of the Group, and to reward any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group who are potential contributors to the success, development and/or growth of the Group.

The Board may, at its discretion and on such terms as it may think fit, grant to an employee, a director, any shareholder of any member of the Group or any holder of any securities issued by any member of the Group and any adviser (professional or otherwise) or consultant to any area of business development of any member of the Group an award ("Award"), either in the form of or a combination of (1) an option ("Option(s)") to subscribe for shares of the Company ("Shares"), (2) an award of Shares ("Restricted Share Award(s)") held in the name of or for the benefit of a grantee in accordance with the restricted share award agreement to be entered into by such grantee and the Company or (3) a grant of a conditional right to acquire Shares ("Restricted Unit Award(s)") as the Board may determine in accordance with the terms of the Scheme.

The basis of eligibility of any participant to the grant of any Award shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the success, development and/or growth of the Group.

The Scheme shall be valid and effective for a period of 10 years commencing from 6 July 2007, after which period no further Awards may be offered or granted. The Board shall, subject to the rules of the Scheme and the Listing Rules, have the right to determine, among others, the exercise price of an Option, the minimum period for which the Award must be held before its vesting, performance, operating and financial targets and other criteria to be satisfied before the vesting of an Award and other terms and conditions of an Award, provided that, in respect of an Award of Option, the exercise price of an Option shall be a price determined by the Board at its absolute discretion but shall not be less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer; or (iii) the nominal value of the Shares on the date of offer.

Subject to the Listing Rules, the overall limit on the number of Shares subject to Awards from time to time under the Scheme and any other schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time (i.e. 238,313,850 Shares as at the date of this interim report) (the "Overriding Limit").

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

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

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

The total number of Shares issued and to be issued upon exercise of Options or vesting of Awards granted and to be granted to each participant or grantee (including exercised, cancelled and outstanding Options, and vested and outstanding Awards) in any 12-month period shall not exceed 1% of the Shares in issue at the offer date of the Awards. Any further grant of Awards in excess of the above limit must be subject to Shareholders' approval by ordinary resolution at a general meeting with such participant or grantee and his, her or its associates abstaining from voting. The Board will determine the minimum period, if any, for which an Award must be held before it vests and any other conditions in relation to dealing with Shares on vesting. Where any offer proposed to be made to a substantial Shareholder or an independent non-executive Director of the Company or any of his associates would result in the total number of Shares issued or to be issued to satisfy Awards already granted or to be granted to such person in any 12-month period up to and including the date of offer: (i) representing in aggregate over 0.1% of the Shares in issue at the date of offer; and (ii) having an aggregate value, based on the closing price of the Shares at the date of offer, in excess of HK$5 million, then such offer and any acceptance thereof must be subject to approval of the Shareholders in general meeting taken on a poll.

During the period under review, no Options were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding Options under the Scheme as at 30 June 2013.

Pursuant to the terms of the Scheme, the Company has entered into a deed of settlement (the "Deed") and an engagement agreement (the "Engagement Agreement") on 27 August 2008 and on 2 June 2008 respectively with a trustee (the "Trustee") for the administration by the Trustee of the awards of Restricted Unit Awards under the Scheme.

As at 30 June 2013, there were a total of 1,778,000 Shares held in trust by the Trustee, of which 22,500 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 one eligible employee.

Details are set out as below:

(A) Employees

Date of Award	Aggregate Number of Restricted Unit Awards Granted	Outstanding as at 1 January 2013	Vesting Date	Vested during the period ended 30 June 2013	Cancelled during the period ended 30 June 2013	Outstanding as at 30 June 2013
19 February 2009	1,592,000	4,900	1 April 2013	(4,900)	–	–
15 July 2011	27,500	5,000	1 September 2013	–	–	5,000
		7,500	1 September 2014	–	–	7,500
		10,000	1 September 2015	–	–	10,000

Subsequent to the balance sheet date, the Company cancelled the unvested Restricted Unit Awards for awards of a total of 22,500 Shares which were granted to an employee on 15 July 2011 and such awards were replaced by granting another cash bonus award to that employee on the terms and conditions of a termination agreement entered into between the Company and that employee on 5 July 2013. Subsequent to the cancellation of the unvested Restricted Unit Awards as mentioned above, the Company terminated the Engagement Agreement and the Deed with the Trustee, both with effect from 15 July 2013.

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

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

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

Hong Kong, 15 August 2013

CORPORATE INFORMATION

Board of Directors

Executive Directors

CHIANG Jeh-Chung, Jack, *Chairman*
CHAO Ming-Cheng, Eric, *Deputy Chairman*
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

BOLLIGER Peter, *Chairman*
CHAN Fu-Kung, William
YUE Chao-Tang, Thomas

Nomination Committee

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

Remuneration Committee

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

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

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九興控股有限公司*

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

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