Stella International Holdings Limited

Stock Code: 1836

annual report 2013

mission statement
our core values

Stella 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 Stella 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

Stella

manufacturing

- contractual arrangement
- processing factories
- wholly foreign-owned enterprise

retailing

- Greater China
- Thailand
- Philippines
- Kuwait
- Lebanon
- United Arab Emirates
- France

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 and fashion footwear for our brand customers, 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 Cole Haan, Guess, Jones Group, Kenneth Cole and Michael Kors.

We also design, develop and manufacture footwear for several high-fashion brands such as Alejandro Ingelmo, Alexander Wang, Armani, Bally, Balmain, Brian Atwood, Givenchy, Kenzo, Marc by Marc Jacobs, Marciano, Miu Miu, Paul Smith, Prada, Sigerson Morrison, 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, JKJY by Stella* and joint-venture brand, *Pierre Balmain.*

milestones

luxury

2013
Opened *What For* Store in Paris.

2012
Opened *Stella Luna* Store in Paris.

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

casual/fashion

2004
Developed and manufactured footwear for high-end brands.

1999
Established Selena Footwear Factory in Dongguan to expand with our increased production and into premium women's fashion shoes.

1998
Entered into an exclusive supply arrangement with Golden Star Company Limited for the manufacture of casual footwear in Vietnam.

private label

1982
Founded in Taiwan by Jimmy Chen, Jack Chiang and Eric Chao to produce women's footwear for US retail customers.

2010
Diversified into inland China.

2009
Opened *Stella Luna* Store at Dubai Mall in July.

2006
Launched *Stella Luna* flagship store in Shanghai.

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.

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.

1991
Commenced China operations with the establishment of the Stella Footwear Factory in Changan, Dongguan.

branding/retail

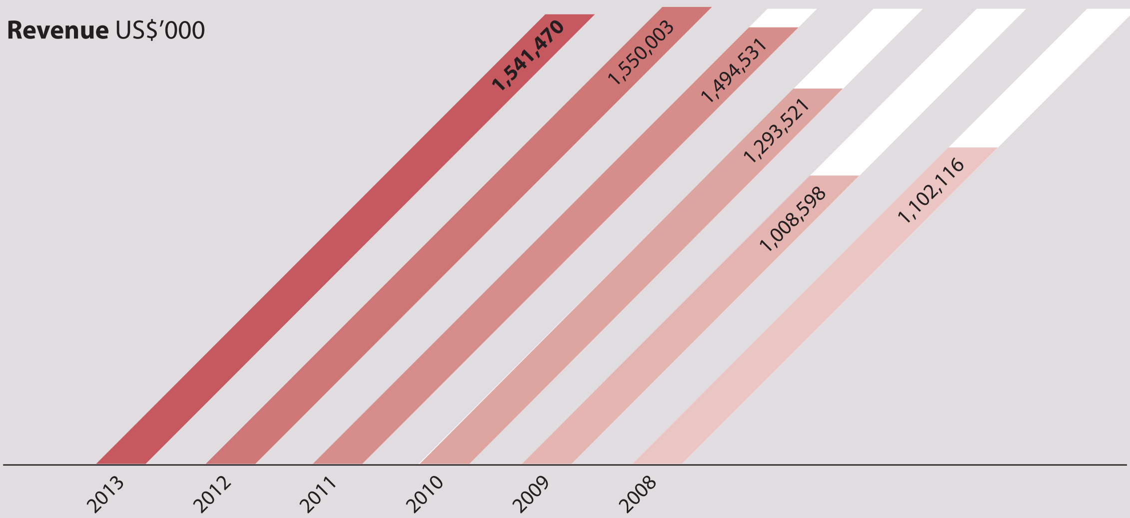
engineering & development

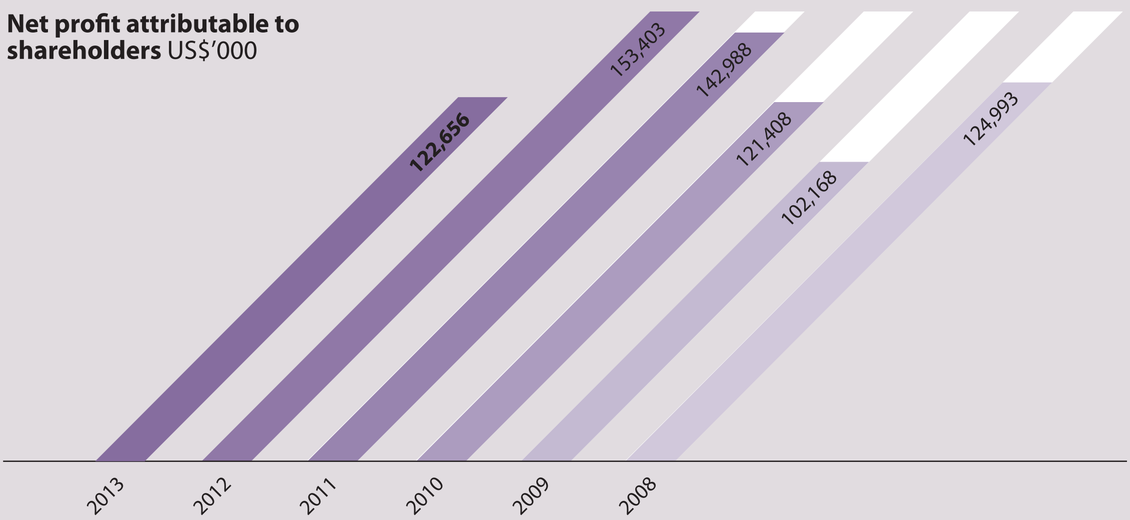
assembly

components manufacturing

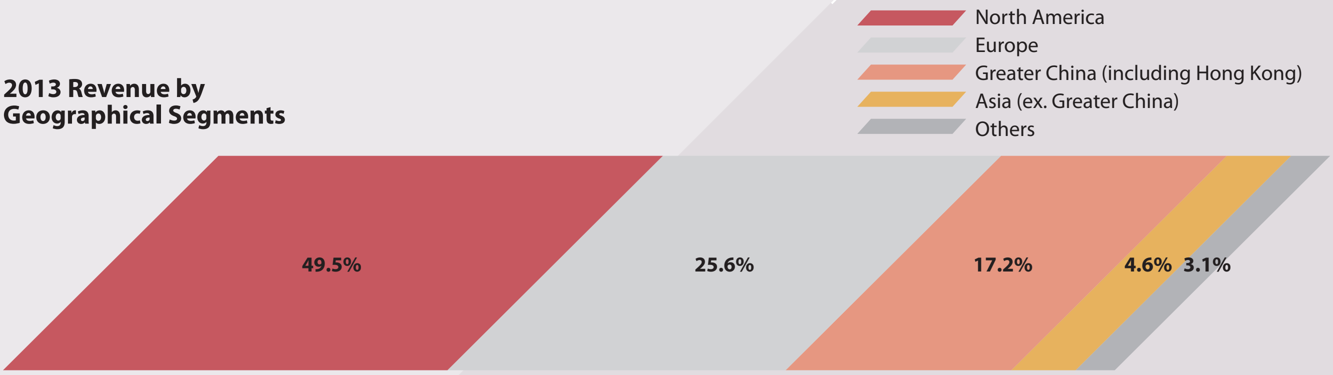
financial highlights

Consolidated revenue decreased 0.6% year-on-year to US$1,541.5 million

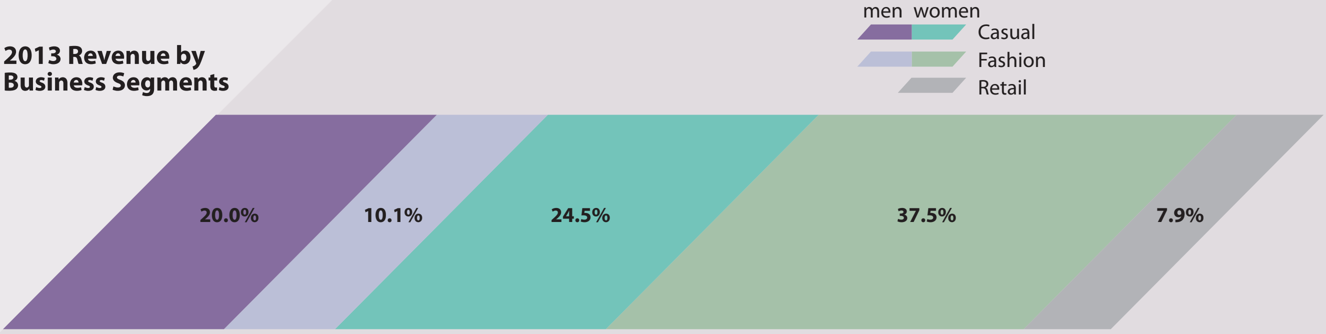




2013 Revenue by Geographical Segments



2013 Revenue by Business Segments



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

chairman's statement

our mission:
“making the best shoes”

making the best shoes

Dear Shareholders,

2013 saw a rebalancing of the global economy, with economic recovery firmly taking root in developed markets, such as United States and Europe, after years of recession and stagnation. In contrast, many emerging economies, including China, experienced slower economic growth as central banks around the world started to ease their ultra-expansive monetary policies.

These changing economic conditions had a mixed impact on Stella's operations. While the return of growth and consumer confidence in our key export markets was a welcome development, it has so far only had a limited effect on the global demand for our footwear products. Many of our customers adopted a cautious approach to orders throughout the year, while many mid-income class consumers in our key export markets opted to direct much of their discretionary spending towards 'big ticket' items, such as housing and automobiles, rather than to smaller purchases such as footwear.

Meanwhile, slowing economic growth and slightly weaker consumer confidence in China meant 2013 was an opportune time to commence a gradual restructure of our retail business. This resulted in a consolidation of our store network – particularly points of sales within traditional department stores – in favour of standalone stores or shop-in-shops in quality locations, as well as a refocusing of our retail brands to better capture different segments of China's growing 'affordable luxury' market.

The restructure also included a revamp of *What For's* store layout and design, as well as an upgrade of the brand's young and modern look to one that is more in step with a truly global brand. This coincided with the opening of *What For's* first European store in Paris in December 2013, our second retail store in the world's fashion capital after the opening of our first *Stella Luna* store in 2012.

Over the last few years, we have taken proactive steps to contain costs and stabilise our work force, allowing us to negate some of the above challenges, without sacrificing Stella's key virtues of quality and flexibility that has allowed us to amass a growing customer base of premium, luxury and casual footwear brands. This includes the further ramp-up of capacity at our new manufacturing facilities in Indonesia, Vietnam and China's Guangxi and Hunan provinces.

This growing lower-cost capacity also provides us with the financial flexibility and stable workforce to keep our core value-adding production process in Dongguan, where we can source the most highly-skilled workers that can deliver a standard of craftsmanship unsurpassed by other footwear manufacturers.

Looking forward to the next few years, we plan to further expand the competitiveness of our manufacturing business by offering new products, such as high-quality leather goods and accessories, and open up new streams of revenue. We will also strengthen the desirability of our retail offering in China by opening an additional number of stores and points of sales in Europe's leading fashion centres.

We will also continue to invest in our people – the cornerstone of our business – through further training and mentoring, while also seeking ways to attract more talent to support Stella's long-term success.

In the nearer term, we expect some of the above challenges will persist in 2014, with customer orders likely to remain on the conservative side due to weaker demand caused by unseasonal weather, and uncertainty arising from the Federal Reserve and European Central Bank's plans to taper quantitative easing measures. We will also closely monitor the effects of any prolonged crisis in Ukraine, particularly potential risks posed by trade sanctions and higher global energy prices.

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. I would also like to take this opportunity to thank all my colleagues for their valued contribution and unyielding commitment to Stella.

Chiang Jeh-Chung, Jack
Chairman
Hong Kong, 21 March 2014

management discussion and analysis

healthy performance in a challenging environment

Stella's commitment to quality cultivating long-term relationships with luxury and premium brands

The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.

BUSINESS MODEL AND STRATEGY

Stella is a leading developer, manufacturer and retailer of quality footwear and leather goods products. Our manufacturing business was founded in 1982 with a simple mission of "making the best shoes". We provide a one-stop shop for the design, development and manufacturing of premium and luxury footwear and leather goods.

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 by Stella* – and joint-venture brand *Pierre Balmain*. Our network of retail stores is primarily

focused in Mainland China, with additional stores in France, Thailand, Taiwan, Philippines, Lebanon, United Arab Emirates and Kuwait.

FINANCIAL HIGHLIGHTS

Stable Business Performance in a Challenging Operational Environment

Stella's manufacturing business faced some challenges in 2013, with customers adopting a cautious approach towards orders. Although consumer sentiment in the Group's key export markets – North America and Europe – improved in line with the broader global economic recovery, many middle-income consumers sacrificed discretionary spending on items such as footwear in favour of durable goods, such as automobiles and housing.

Meanwhile, the Group's retail business in China continued to face an increasingly competitive operating environment.

The Group's consolidated revenue for the year ended 31 December 2013 fell 0.6% to US$1,541.5 million (2012: US$1,550.0 million), while shipments remained steady at 50.8 million pairs (2012: 50.8 million pairs). The average selling price ('ASP') of our footwear products fell 1.0% to US$28.3 per pair (2012: US$28.6) following the relocation of some manufacturing capacity to our new facilities in inland China and Indonesia, as well as lower raw material costs during the first nine months of the year. This downward pressure on ASP was partially counteracted by further recognition of the quality of our footwear products and continuous improvements made to our product mix throughout the year.

Women's fashion footwear continued to be our largest segment, contributing 37.5% to the Group's total revenue (2012: 37.8%). The contribution from our women's and men's casual footwear segments was 24.5% (2012: 22.7%) and 20.0% (2012: 23.3%) of the Group's overall revenue respectively, while the contribution from the men's fashion footwear segment grew to 10.1% (2012: 8.2%).

Higher Retail Revenue despite Restructure

We undertook a gradual restructure of our retail business in 2013 in response to intensifying competition in the China footwear sector and to more effectively position our retail brands in the 'affordable luxury' segment of the market. This included an overhaul of our inventory controls and the closing of some underperforming stores.

Revenue from the retail business rose 1.5% to US$121.2 million (2012: US$119.4 million) and contributed 7.9% to the Group's total revenue (2012: 7.7%). Same-store sales (in China only) remained flat at US$81.7 million (2012: US$81.7 million). The slower growth was mostly due to weaker economic growth and consumer confidence in China, as well as the restructure. The gross profit of the retail business rose 0.6% to US$81.0 million (2012: US$80.5 million).

Steady Profitability while Readying for the Future

Gross profit across all business segments in 2013 was US$353.1 million (2012: US$375.2 million), representing a decline of 5.9%. Full year net profit attributable to equity holders of the Company declined 20.0% to US$122.7 million (2012: US$153.4 million). This was primarily attributable to a combination of weaker demand due to unseasonable weather, higher labour costs, inefficiencies arising from the relocation of manufacturing capacity and the weak global economy. The higher level of decline in net profit was also attributable to the one-off non-operating gain of US$11.8 million made on the disposal of 49% interest in StellaDeck Fashion Limited that was recorded in 2012.

The above factors also resulted in lower profit margins for the year, with gross profit margin declined to 22.9% (2012: 24.2%), while net profit margin declined to 8.0% (2012: 9.9%).

During the year under review, the Group's cash flow remained stable, with cash generated from operations amounting to US$168.1 million (2012: US$140.4 million). We invested US$97.2 million in CAPEX for capacity expansion and the retail business in 2013, and paid out US$107.5 million as dividends.

Geographically, North America and Europe remained our two largest markets, accounting for 49.5% and 25.6% of the Group's total revenue in 2013. This was followed by the PRC (including Hong Kong) accounting for 17.2%, Asia (other than the PRC) accounting for 4.6% and other geographic regions which accounted for 3.1%.

BUSINESS REVIEW

Continued Diversification of Production Base

We continued to progressively expand capacity at our production facilities in inland China, Vietnam and Indonesia throughout the year, as part of our long-term resource optimization strategy. This strategy involves shifting labour intensive processes away from coastal areas of China, where the supply of workers is unstable and labour cost is high, while keeping high-skilled processes in Dongguan, where we continue to retain a highly-skilled and trained workforce.

This diversified production base is helping us maintain margins as costs rise, improve operational efficiency through a more stable labour force, while still producing high-quality and value-adding products for our valued customers.

As of 31 December 2013, the process of relocating manufacturing capacity to our new inland and overseas facilities was proceeding well. This allowed shipment volumes over the full year under review to remain at a steady level, compared to the previous year.

Ongoing Commitment to Quality Attracts Growing Client Base

Over the years, Stella has developed a reputation for quality, flexibility and its capability to meet the bespoke needs of its clients. The challenging operating environment in 2013 did not prevent us from meeting the promises we made to our clients and, where possible, helped them overcome any challenges they are facing.

We also continued to invest in our cutting-edge design, research and development centres in Dongguan and Venice to deliver more innovative and value-adding products to our clients.

Stella's strong reputation also helped us further diversify our client base by attracting more quality brands in 2013. This helped Stella mitigate the weak sentiment among branded customers and maintain annual shipment volumes.

Exploration of New Products and Business Streams

Our commitment to consistently exceeding the expectations of our clients saw us expand our product range to include fashion sneakers – a fashionable take on the traditional sports shoe that is currently being retailed by a number of fashion brands.

We also took preliminary steps to commence the manufacture of quality leather goods and fashion accessories, such as handbags, in response to growing demand from premium and high-end fashion brands – including some of Stella's existing clients – for quality OEM non-apparel leather products and accessories.

Progressive Restructure of Retail Business

Our retail business suffered from weaker consumer confidence in China in 2013, as the result of the PRC Government's efforts to curb the housing market and shadow banking industry, the downward revisions of China's economic growth targets and credit crunches in the financial market. Furthermore, the PRC Government's move to crack down on extravagant gift-giving and to implement austerity measures created further pain in the retail segment. Our retail brands also faced pressure such as the rise of e-commerce and the changing demands of China's increasingly sophisticated and discerning consumers.

Despite these recent challenges, we remain highly optimistic about the potential of China's retail sector, a sentiment that is supported by the PRC Government's recent efforts to rebalance the Chinese economy by lifting wages and increasing consumption. As such, the prevailing conditions this year provided an opportune time for a gradual restructure of our retail business.

In the year ended 31 December 2013, we closed a net 15 *Stella Luna* stores and 68 *What For* stores in China, mostly in sub-optimal locations such as traditional department stores, in favour of new standalone stores or shop-in-shops in quality locations. We also introduced new inventory control measures during the year. We have already seen some positive effects from these measures, with our retail business seeing an increased turnover of in-season products in the final quarter of 2013.

The following table shows the geographic distribution of our stores, by brand, as of 31 December 2013.

	Stella Luna	*What For*	*JKJY by Stella*	*Pierre Balmain*
Greater China				
Eastern China	45	18	5	1
Southern China	33	18	1	0
Northern China	38	35	3	1
North-East China	25	11	1	0
South-West China	37	22	2	0
Central China	18	12	1	0
Taiwan	3	0	0	0
Sub-total	199	116	13	2
Thailand				
Bangkok	7	2	1	0
Nonthaburi	0	1	0	0
Phuket	1	0	1	0
Samuth Prakarm	1	0	0	0
Sub-total	9	3	2	0
Philippines	3	1	1	0
Kuwait	2	2	0	0
Lebanon	9	9	0	0
United Arab Emirates	2	1	0	0
France	1	1	0	0
Total	225	133	16	2

Increasing Global Recognition of Retail Brands Reinforces Prestige

Our retail brands – *Stella Luna, What For* and *JKJY by Stella* – are not merely local Chinese retail brands: they are global brands based in China. We supported this position with the opening of our first European *What For* store in Paris' Le Marais district in December 2013, a year after the opening of the first Parisian store under our flagship brand *Stella Luna*. We also continued to invest in our joint-venture brand, Pierre Balmain during the year under review.

Our two retail stores in Paris have provided a boost to the international credentials of our brands in China, while allowing greater interaction with global designers and fashion figures. This included *Stella Luna's* recent tie-up with Belgian designer Anthony Vaccarello to create the *Stella Luna pour Anthony Vaccarello* shoe collections, which have been featured in a number of international media and seen worn by celebrities including Jennifer Lawrence, Gisele Bündchen and Blake Lively.

The opening of *What For's* Paris store also coincided with the global roll-out of the brand's revamped store layout and design, as well as an upgrade of its young and modern look to encompass the energy and creativity needed to become an international brand.

Closer to home, we continued to expand the footprint of *JKJY by Stella*, the Group's male-focused footwear brand and of its unique crossover fashion and sportswear collection. We have also started to adopt a multi-brand store concept that will see the introduction of *JKJY by Stella and Pierre Balmain* products in some of our *Stella Luna* stores.

As of 31 December 2013, *Stella Luna* footwear was priced between RMB1,700 and RMB6,000 a pair in China, while *What For* and *JKJY by Stella* products retailed for RMB1,100-RMB2,800 and RMB2,000-RMB4,000 respectively.

BUSINESS OUTLOOK

Unsteady Order Pipeline to Persist in First Half 2014

We expect our clients to maintain a conservative approach towards orders in the first half of 2014, a condition that could be exacerbated by the unseasonably cold spring and abnormal snowstorm experienced in the Northeast of the United States.

Labour costs and supply will remain a key challenge for the Group, with other key risks including a reversal of consumer sentiment improvements in our key export markets following the tapering of quantitative easing measures and interest rate hikes by central banks. We will also monitor the effects of any new industrial and economic policies introduced by the PRC Government in 2014.

Investing in people

People are the core of any manufacturing and retail business. We will continue to invest in the training and mentoring of our workforce to further boost their skills and capabilities and improve productivity, particularly at our inland China and Indonesian manufacturing facilities. We will also seek out and invest in new talent, including at management levels, to support the growth of our business.

We will continue to ensure that our industrial relations practices conform to the Group's strict Corporate Social Responsibility standards to uphold employee morale and to reduce labour turnover.

Further Implementation of Cost Control Measures

We will continue to minimise the impact of unstable customer orders by maintaining and expanding strict cost controls. We will also adopt further measures to improve productivity and efficiency, especially at our new inland China and Indonesian manufacturing facilities.

Continued Exploration of New Business Streams

As more premium and luxury brands seek to outsource the production of high-end accessories, we will prudently develop the best strategy for entering this promising business stream.

Positioning Retail for the Future

We plan to further optimise our retail business in 2014 to further improve its profitability and competitiveness. We will also refine and broaden the marketing of our retail brands – particularly in Europe – to further expand their global visibility and increase their desirability in the competitive Chinese retail market.

Part of this strategy will be the progressive introduction of additional retail points for *Stella Luna* and *What For* products in Europe, including the opening of corners in the famous Galeries Lafayette and Le Printemps in France.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group remained in a stable financial position throughout 2013, with cash and cash equivalents of about US$278.0 million (2012: US$303.6 million) as at 31 December 2013, representing a decrease of 8.4% as compared to the position as at 31 December 2012. The Group's net cash inflows from operating activities amounted to US$168.1 million (2012: US$140.4 million) for the year, representing an increase of 19.7%. Net cash outflows from investing and financing activities grew to US$64.6 million and US$107.7 million, respectively.

As at 31 December 2013, the Group had current assets of US$826.5 million (2012: US$857.4 million) and current liabilities of about US$253.0 million (2012: US$242.2 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.3 as at 31 December 2013, an indication of the Group's high liquidity and healthy financial position.

BANK BORROWINGS

Net cash outflows from financing activities was US$107.7 million (2012: US$98.8 million) in the year ended 31 December 2013. The Group had no bank borrowings as of 31 December 2013.

FOREIGN CURRENCY EXPOSURE

During the year ended 31 December 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 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

Net cash outflows from investing activities was US$64.6 million (2012: US$54.2 million) during the year under review, representing an increase of 19.2%. This was mostly attributable to higher capital expenditure, which amounted to approximately US$97.2 million (2012: US$89.3 million), of which approximately US$90.5 million was used in production capacity expansion and approximately US$6.7 million was used for the optimisation of our retail store network.

PLEDGE OF ASSETS

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

CONTINGENT LIABILITIES

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

EMPLOYEES

As at 31 December 2013, the Group had approximately 77,000 employees (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 attain, 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 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 2013, our recruitment efforts remained satisfactory, despite the labour shortages in our primary manufacturing locations in China.

corporate social responsibility

stella´s corporate philosophy emphasises respect for people

to improve efficiency and lower costs across all parts of manufacturing operations

Stella's ability to grow and prosper is dependent on its ability to overcome complex challenges, both in an environmentally sustainable manner and a way that protects our multiple stakeholders – including our workforce, clients, business partners and local communities.

Our goal is for Stella to become a leader among manufacturers and retailers for conducting business in an ethical and responsible manner.

In 2013, we introduced a number of new programs and initiatives, and extended existing ones, that have resulted in lower costs, increased efficiency and improved employee morale. Some highlights are outlined below.

IMPROVING WATER AND ENERGY EFFICIENCY

Population growth and scarcity are continuously pushing up the prices of energy, water and other resources. We recognised long ago the risks these pose to our operations, leading us to introduce a number of measures to regulate and reduce our use of the Earth's resources.

We are also a strong supporter of the Chinese State Council's recently announced policies to fight air pollution and improve air quality in key regions, including the Pearl River Delta, by 2017. We also recognise that we must do our part to reduce the carbon footprint of our increasingly global operations and reduce the scourge of climate change.


Compression machines at our Longchuan factory


Wastewater treatment

Over the past few years, we have greatly reduced our reliance on self-produced electricity – much of which is produced through the inefficient and carbon-heavy burning of fossil fuels – in favour of the municipal energy grid for our power supplies. Over time, this has significantly improved the energy efficiency of our manufacturing process – for example, between 2010 and 2011, we cut the amount of energy required to produce 10,000 pairs of shoes from 6.03 tce (tons of coal equivalent) to 5.36 tce.

Every day, we look for ways – both big and small – to improve energy efficiency and lower costs across all parts of our manufacturing operations. Some of these energy-saving measures include:

- Utilising geothermal energy and water to reduce the amount of energy used for heating water at our Hebei factory by two-thirds
- Recycling the heat generated by air compression machines to generate hot water at our Longchuan factory
- Utilising thermal energy to heat washing machines at our Longchuan factory, cutting energy consumption by 29,000 kWh a year
- Replacing standard pin lights with LED pin lights, cutting energy consumption by 12,504 kWh a year
- Installing energy-efficient fluorescent lamps at our Dongguan factories, cutting power use per unit by 15-40%
- Reducing the number of motors required to run some of our machines, cutting energy consumption by 899,560 kWh a year
- Replacing vacuum cleaners with more energy efficient models, cutting energy consumption by 110,991 kWh a year
- Replacing conventional shoe ovens with infrared shoe ovens, reducing energy use by 25-30%
- Reducing the energy used by our compression refrigerators and vulcanizers by more than half

Our energy conservation efforts are consistently recognised by the local government, with Stella being awarded the 'Annual Energy Saving' award for two consecutive years.

WASTE REDUCTION AND RECYCLING

We have implemented a number of measures to minimise the amount of waste produced by our manufacturing and retail operations, while also increasing the ways in which we can reuse resources such as packaging and water. Each of these initiatives is tracked against tangible KPIs and reduction targets.

A selection of these initiatives includes:

- Recycling up to 60% of waste water for purposes such as landscaping, flushing toilets and car washing
- Installing portable ventilation devices, which improved ventilation rates at some of our factories by more than four times and reduced emissions of hazardous chemicals
- Replacing top-pouring drums used for the storage of industrial chemicals with sealed reusable plastic containers with taps, saving up to 1,814 kg of chemicals a year in reduced spills and improving workplace safety
- Introducing more environmentally-friendly and less hazardous water-base glues
- Using paper instead of PVC for the packaging of shoes, reducing the number of PVC pieces used each year by 6 million
- Exploring potential ways to reuse high calorific value sludge (studies have shown can be a viable low carbon emission alternative to coal for industries such as cement making)

recognises the high value of a motivated, engaged and healthy workforce

Paper packaging replacing plastic packaging

Replacement of industrial chemical containers

A RESPONSIBLE EMPLOYER

As of 31 December 2013, our total workforce has grown to 77,000, spread across our global manufacturing and retail operations.

Stella is a responsible employer and recognises the high value of a motivated, engaged and healthy workforce. We strictly comply with all local employment laws and regulations covering working age, working hours, employment policies, wages and freedom of association. We have also continued to cap the number of overtime hours conducted by our colleagues in order to promote a better work and life balance.

Social events

We arrange regular recreational activities for our operators to help alleviate some of the pressures they face working far from home. These include dancing and singing competitions, barbeques and excursions to beaches and local cultural attractions. We also arrange a number of celebratory events to mark major holidays, such as New Year's Day, Christmas and the Mid-Autumn Festival.

Employment opportunities for the disabled

Stella is committed to creating employment opportunities for the disabled and has set up a Disabled Employment Skills Training Centre for teaching the skills of shoe-making and machinery operation. In 2013, we received RMB111,000 in government funding for the provision of training materials.

Educational scholarships

Education is of paramount importance in Chinese culture. However, the high cost of tuition means that university education is often off-limits to many working class families. In 2013, we funded and awarded seven university scholarships to children of employees at our Longchuan factory, many of whom have also chosen to take summer jobs at our factories.

Choir competition

Beach excursions for employees

Employment skills training for the disabled

Our seven university scholarship winners

Health benefits

Stella provided regular health check-ups to all employees throughout the year. In 2013, we arranged for eye specialists to visit our factories and offer our workers free eye exams. We also subsidised the cost of new glasses for workers who were prescribed them. We also invited a specialist health team to offer free women's health examinations at our factories to promote the importance of breast screenings for the early detection of cancer.

WORKPLACE HEALTH AND SAFETY

We are constantly working to further improve safety at our factories and provide continuous training to employees under International Environment Safety Health (ESH) guidelines to improve safety consciousness. These training sessions included detailed regular first aid, CPR and fire safety sessions, as well as frequent revision sessions to keep knowledge levels up-to-date.

We also maintain multiple notice boards and displays at our factories where we share updates, best practice safety examples and information on workplace hazards, chemical management and emergency procedures. We also maintain direct communication channels with our workers and encourage them to raise any problems or concerns they have for follow-up and action.

GIVING BACK TO THE COMMUNITY

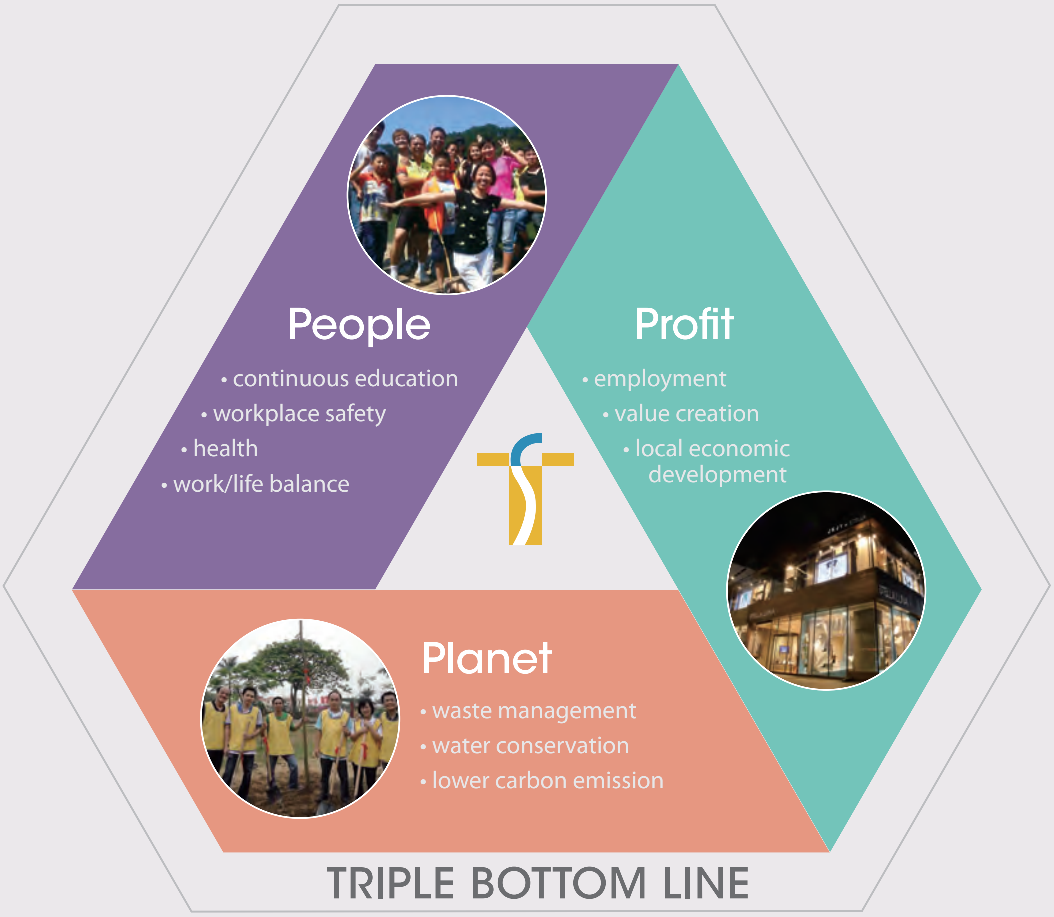
Every year, we work to make a positive impact in the local communities in which we operate. We organised a number of community events in 2013, including:

- Providing basic essentials, such as quilts, peanut oil, noodles and other gifts to needy families who reside near our Guangxi factory
- Providing 500 packets of rice and 16 boxes of cooking oil to nursing homes in Dongguan
- Donating items, such as water fountains, sports gear and desks to local schools
- Donating warm clothing and other items to local orphanages in Hunan
- Organising home visits to the elderly and needy in our local communities

Employees conducting home visits within our local communities

Free women's health screenings

CPR training



ONGOING COMMITMENT TO THE TRIPLE BOTTOM LINE

We are committed to ensuring that Stella's success and growth does not come at the expense of the welfare of our employees, the vitality of local communities or at the expense of the environment.

We look forward to further improving our Triple Bottom Line of 'People, Planet and Profit' by introducing more Corporate Social Reasonability best practices in the coming years.

Delivering basic essentials to needy families

Free eye exams

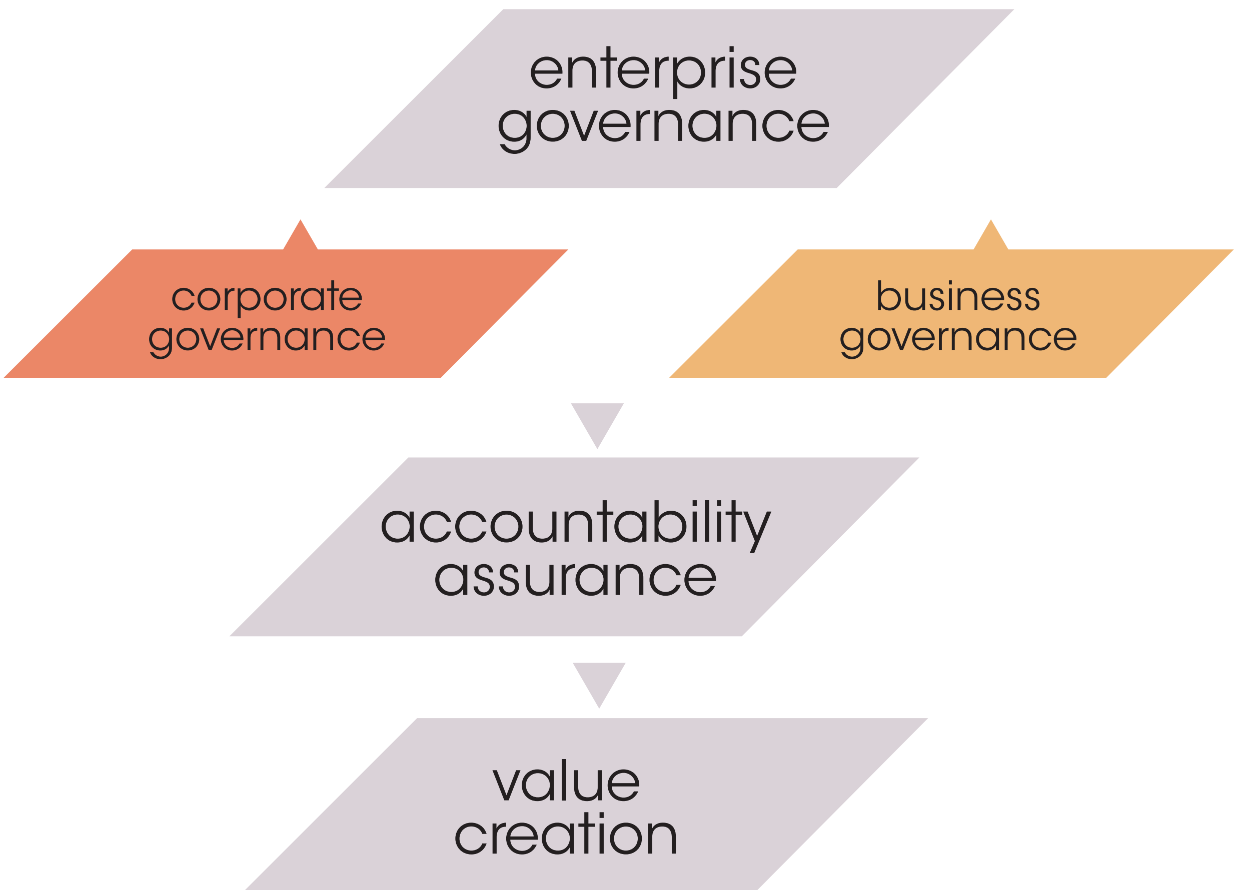
corporate governance report

building and protecting long-term value

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 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
- Memorandum on Disclosure of (1) Inside Information and (2) Information Necessary to Avoid a False Market
- Board Diversity 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 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 2013 except for code provisions B.1.5 and E.1.2, details of which are disclosed below. Save for the deviation from code provisions 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.

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 2013 are set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. Chiang Jeh-Chung, Jack *(Chairman)* 3/6 Mr. Chao Ming-Cheng, Eric *(Deputy Chairman)* 4/6 Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* 4/6 Mr. Chi Lo-Jen 4/6 Mr. Shih Takuen, Daniel [(1)] 4/4 **Independent Non-executive Directors** Mr. Chen Johnny 3/6 Mr. Bolliger Peter 6/6 Mr. Chan Fu Keung, William 6/6 Mr. Yue Chao-Tang, Thomas 6/6 **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.
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 2014 have already been scheduled to ensure compliance with the CG Code and to facilitate Directors' attendance.

Code Provisions	Compliance	Corporate Governance Practices
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.
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. Chao Ming-Cheng, Eric, is responsible for providing leadership and management to the Board. 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 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.
A.2.5 The chairman should take primary responsibility for ensuring that good corporate governance practices and procedures are established.	✓	

Code Provisions	Compliance	Corporate Governance Practices
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 and practices 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 the 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.

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 in its board diversity policy which is articulated in more detail below.

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.

Board Diversity Policy

The board diversity policy of the Company is:

1. Policy Statement

   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.

2. Nominations and Appointments

   The Nomination Committee is responsible for:

   - 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; and
   - making recommendations to the Board on the appointment or re-appointment of directors and succession for directors.

3. Measurable Objectives

   The Nomination Committee shall develop measurable objectives for implementing this policy, taking into account the Group's strategic plan and business needs.

4. Monitoring, Tracking and Reporting

   The Nomination Committee shall review this policy and report the same to the Board on an annual basis.

   The Nomination Committee shall also report annually, in the Corporate Governance Report a summary of this policy, the measurable objectives for implementing this Policy, and the progress made on achieving such measurable objectives.

The following objectives, which focus on the skills and experience of board members, have been set for implementing the policy:

1. Increase the diversity of functional experience in the board.
2. Increase understanding of our current and target markets.
3. Increase understanding of our target customer segments.

During the year, the following initiatives had been carried out:

1. To identify business skills required and rank which are the most essential.
2. To identify market-specific knowledge required, including geographies, cross-cultural requirements, etc., and rank which are the most essential.
3. To identify target customer demographics, e.g. age group, gender, industry/interests, educational background, professional experience, etc., and rank which are the most essential.
4. To review existing composition of the Board and identify which of the skills identified have been or have not been represented on our current Board.

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

<table>
<tr><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr>
<td>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.</td>
<td>✓</td>
<td>
The Company established the Nomination Committee pursuant to a resolution of all Directors passed on 15 June 2007. For the year ended 31 December 2013, the composition of the Nomination Committee was as follows:
<table>
<tr><th>Name of Directors</th><th>Position</th><th>Period</th></tr>
<tr><td>Independent Non-executive Directors</td><td></td><td></td></tr>
<tr><td>Mr. Chen Johnny</td><td>Chairman</td><td>1 January – 31 December 2013</td></tr>
<tr><td>Mr. Chan Fu Keung, William</td><td>Member</td><td>1 January – 31 December 2013</td></tr>
<tr><td>Mr. Yue Chao-Tang, Thomas</td><td>Member</td><td>1 January – 31 December 2013</td></tr>
<tr><td>Executive Director</td><td></td><td></td></tr>
<tr><td>Mr. Shih Takuen, Daniel (1)</td><td>Chairman</td><td>1 January – 13 August 2013</td></tr>
</table>
The Nomination Committee currently has four members comprising four independent non-executive Directors, namely, Mr. Chen Johnny, Mr. Chan Fu Keung, William, Mr. Yue Chao-Tang, Thomas and Mr. Bolliger Peter (appointed with effect from 13 January 2014). The chairman of the Nomination Committee is Mr. Chen Johnny.
During the year ended 31 December 2013, two Nomination Committee meetings were held and the attendance record is set out below:
<table>
<tr><th>Name</th><th>Attendance</th></tr>
<tr><td>Mr. Chen Johnny</td><td>1/2</td></tr>
<tr><td>Mr. Chan Fu Keung, William</td><td>2/2</td></tr>
<tr><td>Mr. Yue Chao-Tang, Thomas</td><td>2/2</td></tr>
<tr><td>Mr. Shih Takuen, Daniel (1)</td><td>1/1</td></tr>
</table>
During the year, the following work has been performed by the Nomination Committee:
(i) reviewed the structure, size and composition of the Board;
(ii) formulated a board diversity policy;
(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.
</td>
</tr>
</table>

Code Provisions	Compliance	Corporate Governance Practices
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 Stock Exchange's website and the Company's website.
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 empowered 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.	✓	
A.5.6 The nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report.	✓	Please refer to the disclosure made under A.3 in this report.

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. 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 in which the Group operates. During the year, Directors also participated in training sessions for 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.
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. Every Director has given sufficient time and attention to the Company's affairs. The independent non-executive Directors have brought a wide spectrum of their extensive knowledge and experience in their respective business undertakings to the Board for the fullest performance of its functions.

Code Provisions	Compliance	Corporate Governance Practices
A.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, 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. 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 Company Secretary Investor Relations Director

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. 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. Chao Ming-Cheng, Eric *(Deputy Chairman)* — A, B, C Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* — A, B, C Mr. Chi Lo-Jen — A, B, C Mr. Shih Takuen, Daniel [(1)] — A, B, C **Independent Non-executive Directors** Mr. Chen Johnny — A, B, C Mr. Bolliger Peter — A, B, C Mr. Chan Fu Keung, William — A, B, C Mr. Yue Chao-Tang, Thomas — A, B, C A: Legal/regulatory B: Business C: Financial

Code Provisions	Compliance	Corporate Governance Practices
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.
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.	✓	Please refer to the disclosure made under A.1.1, A.6.2 and A.6.3 in this report.
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 rely 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. For the year ended 31 December 2013, the Remuneration Committee was chaired by an independent non-executive Director and comprising a majority of independent non-executive Directors and the composition of the Remuneration Committee was as follows:

Name of Directors	Position	Period
Independent Non-executive Directors		
Mr. Chan Fu Keung, William	Chairman	1 January – 31 December 2013
Mr. Yue Chao-Tang, Thomas	Member	1 January – 31 December 2013
Mr. Chen Johnny	Member	13 August – 31 December 2013
Executive Director		
Mr. Shih Takuen, Daniel [(1)]	Member	1 January – 13 August 2013

The Remuneration Committee currently has three members comprising three independent non-executive Directors, 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 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 and making recommendation to the Board the management's remuneration proposals for Directors and reviewing the Group's overall human resources strategy.

During the year ended 31 December 2013, two Remuneration Committee meetings were held, and the attendance records are set out below:

Name	Attendance
Mr. Chan Fu Keung, William	2/2
Mr. Yue Chao-Tang, Thomas	2/2
Mr. Chen Johnny	1/1
Mr. Shih Takuen, Daniel [(1)]	1/1

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

(i) reviewed the Group's human resources and remuneration strategies;
(ii) reviewed and determined the policy for the remuneration of executive Directors;
(iii) reviewed the performance of executive Directors and senior management; and
(iv) made recommendations to the Board on the proposed remuneration packages of individual Directors and senior management.

Leadership Development Programme

During the year, Mr. Chan Fu Keung, William, the chairman of the Remuneration Committee, together with the Chief Executive Officer, continued to lead the leadership development programme (formerly called the Corporate Development Programme), which was first introduced in 2009. The independent non-executive Directors were invited to deliver trainings to the senior management; the topics of such trainings include role of the board and leadership. Further, an interactive workshop focusing on training development was organised for the senior management by outside consultants. 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 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.
B.1.5 Issuers should disclose details of any remuneration payable to members of senior management by band in their annual report.	✗	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 2013

Recommended Best Practices	Compliance	Corporate Governance Practices
B.1.7 A significant proportion of executive directors' remuneration should link rewards to corporate and individual performance.	✓	For the year ended 31 December 2013, the executive Directors' performance-based remuneration related to their executive roles constituted 77.1% 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.	✗	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 adopted a board evaluation programme in August 2013 with the following objectives: (i) reviewing current Board and committee practices with the view to improving efficiency and effectiveness; (ii) providing a periodic opportunity for the Board to review the company's corporate governance framework; (iii) testing Directors' knowledge of the business and its strategic situation; (iv) assessing the balance of skills, knowledge and experience on the Board and its committees; (v) identifying weaknesses that can be remedied by training and development; and (vi) improving the Board composition. Questionnaire containing statements in relation to leadership and responsibilities, process, supply of and access to information, Board composition, financial reporting and internal controls were completed by all Directors. Based on the results of the questionnaire, an independent consultant has given an analysis of the results and provided recommendations to the Board. The Board believes that board evaluation is an on-going process and shall continuously assess its performance on a regular basis.

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 Board meetings 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.	✓	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 comparing 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 auditor's 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 auditor of the Company have stated their responsibilities on pages 75 and 93 respectively of this annual report. The Board is responsible for the preparation of financial statements of the Company and ensuring that they give a true and fair view of the state of affairs of the Company according to the relevant statutory requirements and accounting standards. The Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Code Provisions	Compliance	Corporate Governance Practices
C.1.4 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.
C.1.5 The board should present a balanced, clear and understandable assessment in annual and interim reports, other price-sensitive announcements 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.	✗	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. Consequently, 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 such decision.	✗	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 the 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 risks mitigation. 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, which is COSO-based, 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 Executive Officer of the Company. Deloitte Touche Tohmatsu, the Company's external auditor, reported on matters concerning internal control of the Group for the year ended 31 December 2013 in accordance with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

Code Provisions	Compliance	Corporate Governance Practices
C.2.2 The board's annual review should, in particular, consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting and financial reporting function.	✓	
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 external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control system; (c) the extent and frequency of communication of monitoring results to the board which enables it to assess control of the issuer and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period; and (e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.	✓	The Company's review has generally covered the aspects as referred to in C.2.3 of the CG Code.

Recommended Best Practices	Compliance	Corporate Governance Practices
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 discussions 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..
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 such 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 auditor.

The Company established the Audit Committee pursuant to a resolution of all Directors passed on 15 June 2007. For the year ended 31 December 2013, the Audit Committee had three members comprising all independent non-executive Directors, namely Mr. Yue Chao-Tang, Thomas, Mr. Chen Johnny and Mr. Chan Fu Keung, William.

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 auditor 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 2013, three Audit Committee meetings were held, and the attendance records are set out below:

Name	**Attendance**
Mr. Yue Chao-Tang, Thomas *(Chairman)*	3/3
Mr. Chen Johnny	2/3
Mr. Chan Fu Keung, William	3/3

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 documentation and work plan for internal accounting and financial reporting system structure;
(iii) reviewed the effectiveness of the internal control and risk management system;
(iv) reviewed the findings of internal audit;
(v) reviewed the report of I.T. department;
(vi) reviewed and discussed interim and annual results; and
(vii) monitored the Group's tax planning.

External Auditor and Auditor's Remuneration
The remuneration paid/payable to the external auditor 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 2013 was US$458,000 and US$76,000 respectively. The non-audit services related primarily to tax consulting services. The external auditor will not be engaged for non-audit services unless such services constitute 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.
C.3.3 The audit committee's terms of reference should include at least: (a) Relationship with the issuer's auditor; (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 and the Company's website.

Code Provisions	Compliance	Corporate Governance Practices
C.3.5 Where the board disagrees with the audit committee's views on the selection, appointment, resignation or dismissal of the external auditor, 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.
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.

Code Provisions	Compliance	Corporate Governance Practices
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 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 issue.	✓	

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 of 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.
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 2013, the composition of the Corporate Governance Committee was as follows:

Name of Directors	Position	Period
Independent Non-executive Directors		
Mr. Bolliger Peter	Chairman	13 August – 31 December 2013
Mr. Chan Fu Keung, William	Member	1 January – 31 December 2013
Mr. Yue Chao-Tang, Thomas	Member	1 January – 31 December 2013
Executive Director		
Mr. Shih Takuen, Daniel (1)	Chairman	1 January – 13 August 2013

The Corporate Governance Committee currently has three members comprising three independent non-executive Directors, Mr. Bolliger Peter, Mr. Chan Fu Keung, William and Mr. Yue Chao-Tang, Thomas. The chairman of the Corporate Governance Committee is Mr. Bolliger Peter.

During the year ended 31 December 2013, three Corporate Governance Committee meetings were held, and the attendance records are set out below:

Name of Directors	Attendance
Mr. Bolliger Peter	1/1
Mr. Yue Chan-Tang, Thomas	3/3
Mr. Chan Fu Keung, William	3/3
Mr. Shih Takuen, Daniel (1)	2/2

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

(i) reviewed annual corporate governance report and corporate social responsibilities report and related disclosure in the annual and interim reports;
(ii) reviewed legal and regulatory compliance including the new statutory disclosure regime relating to continuing obligations concerning inside information;
(iii) monitored the progress of internal control system and enterprise risk mitigation program;
(iv) monitored investor relations activities;
(v) monitored the progress of succession planning and leadership development program; and
(vi) reviewed the board evaluation 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, 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.

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.	✓	At the annual general meeting held on 10 May 2013 ("2013 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 2013 AGM was held on 10 May 2013 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 the auditor of the Company; (ii) to declare a final dividend; (iii) to re-elect Directors; (iv) to re-appoint the auditor of the Company; (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. Voting of all resolutions were conducted by poll and all resolutions were approved by Shareholders. The results of the voting had 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 auditor's report, the accounting policies and auditor independence.	Partially complied with	The Chairman had not attended the 2013 AGM. Instead, Mr. Shih Takuen, Daniel[(1)], the then Deputy Chairman, took the chair at the 2013 AGM, and the chairman or member of the Audit Committee, Corporate Governance Committee, Remuneration Committee and Nomination Committee attended the 2013 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 auditor, had attended the 2013 AGM to answer Shareholders' questions. The Directors' attendance record for the 2013 AGM held on 10 May 2013 is set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. Chiang Jeh-Chung, Jack *(Chairman)* — 0/1 Mr. Chao Ming-Cheng, Eric — 0/1 Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* — 1/1 Mr. Chi Lo-Jen — 0/1 Mr. Shih Takuen, Daniel [(1)] — 1/1 **Independent Non-executive Directors** Mr. Chen Johnny — 1/1 Mr. Bolliger Peter — 0/1 Mr. Chan Fu Keung, William — 1/1 Mr. Yue Chao-Tang, Thomas — 1/1
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 2013 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 2013 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 is responsible for approving 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.

Code Provisions	Compliance	Corporate Governance Practices
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. Shih Takuen, Daniel resigned as an executive Director and the chief strategy officer of the Group with effect from 13 August 2013. Accordingly, Mr. Shih also ceased to be the deputy chairman of the Board, the chairman of the Corporate Governance Committee, a member of the Nomination Committee and a member of the Remuneration Committee.*

DIRECTORS' AND AUDITOR'S 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 auditor of the Company acknowledges its 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 63, 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 31 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 in 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. 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 31 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 in 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 53, 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 is responsible for the Group's corporate management. He has over 28 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 in design and marketing activities, manufacturing and retail business. 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 42, 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 18 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in 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 54, is an independent non-executive Director of the Company, and the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Board. Mr. Chen is currently the chairman of the life and general insurance businesses in China of Zurich Insurance Group ("Zurich") and the executive director of Zurich Insurance (Taiwan) Ltd. From 2005 to 2010, Mr. Chen was the chief executive officer of Greater China and South East Asia Regions of Zurich. From 2010 to 2013, Mr. Chen was the chief executive officer of the general insurance business in Asia Pacific Region 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. From July 2005 to January 2014, Mr. Chen was 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 69, is an independent non-executive Director of the Company, the chairman of the Corporate Governance Committee and a member of the Nomination 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, 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 65, 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, Committee on Professional Development of Teachers and Principals (COTAP), Sub-Committee on Operation and Governance under the Committee on Free Kindergarten Education and Committee on Certification for Principalship (CCFP). 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 60, is an independent non-executive Director of the Company, 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 35 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.

SENIOR MANAGEMENT

Mr. SHIEH Tung-Pi, Billy, aged 56, is the Chief Operating Officer of the Group. Mr. Shieh has been with the Group since 1982. Mr. Shieh has over 31 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 in 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 56, 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 in design and marketing activities and retail business.

Mr. CHEN Tung-Jui, aged 52, 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 28 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business.

Mr. CHU Chao-Min, aged 54, is the General Manager of the 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 20 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 in manufacturing business.

directors' report

building
and protecting
long-term value

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 2013.

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 major subsidiaries are set out in note 33 to the consolidated financial statements of the Group for the year ended 31 December 2013.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 95.

The Board recommended the payment of a final dividend of HK55 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2013. In addition to the payment of a final dividend, the Board recommended the payment of a special dividend of HK10 cents per ordinary share to the Shareholders for the year ended 31 December 2013 in recognition of the continual support of the Shareholders. The proposed final dividend and special dividend, amounting to approximately US$56.4 million and US$10.2 million respectively, will be paid to Shareholders whose names appear on the register of members of the Company on 28 May 2014, if the proposals are approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on 23 May 2014. It is expected that the final dividend and the special dividend, if approved, will be paid on or about 27 June 2014 and 28 August 2014 respectively.

In order to qualify for the proposed final dividend and special 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 28 May 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 May 2014 to 23 May 2014 (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 20 May 2014.

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 2013 are set out in the statement of changes in equity of the Group and note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2013 were US$283.0 million (2012: US$293.2 million).

DIRECTORS

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

Executive Directors:
Mr. Chiang Jeh-Chung, Jack
Mr. Chao Ming-Cheng, Eric
Mr. Chen Li-Ming, Lawrence
Mr. Chi Lo-Jen
Mr. Shih Takuen, Daniel (resigned with effect from 13 August 2013)

Independent Non-executive Directors:
Mr. Chen Johnny
Mr. Bolliger Peter
Mr. Chan Fu Keung, William
Mr. Yue Chao-Tang, Thomas

Mr. Shih Takuen, Daniel resigned as an executive Director and the chief strategy officer of the Group with effect from 13 August 2013. Accordingly, Mr. Shih also ceased to be the deputy chairman of the Board, the chairman of the Corporate Governance Committee, a member of the Nomination Committee and a member of the Remuneration Committee. On the same day, (i) Mr. Chao Ming-Cheng, Eric, an executive Director, was appointed as the deputy chairman of the Board; (ii) Mr. Bolliger Peter, an independent non-executive Director, was appointed as the chairman of the Corporate Governance Committee; and (iii) Mr. Chen Johnny, an independent non-executive Director, was appointed as a member of the Remuneration Committee.

In accordance with article 87(1) of the Company's articles of association, Mr. Chao Ming-Cheng, Eric, Mr. Chen Johnny and Mr. Bolliger Peter 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 31 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 31 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 31 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 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") (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

		Number of Shares				
Director	Capacity/ Nature of Interests	Personal Interest	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 31 December 2013, 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 2013, 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.	Interest of corporation controlled by the substantial shareholder	64,539,000	8.12%
Capital Research and Management Company	Investment manager	47,261,000	5.95%

Save as disclosed above, as at 31 December 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 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 development 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 benchmarks.

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 2013.

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

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.

On 5 July 2013, 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.

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 17.2% and 58.2% of the Group's total revenue for the year ended 31 December 2013 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 2013.

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.

AUDITOR

A resolution will be proposed to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company for the year ending 31 December 2014.

On behalf of the Board

Chiang Jeh-Chung, Jack
Chairman

21 March 2014

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 95 to 161, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 2013, 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 2014

consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2013

	Notes	2013 US$'000	2012 US$'000
Revenue	7	**1,541,471**	1,550,003
Cost of sales		**(1,188,329)**	(1,174,756)
Gross profit		**353,142**	375,247
Other income	8	**19,285**	16,297
Other gains and losses	9	**2,388**	15,799
Distribution and selling expenses		**(116,885)**	(118,755)
Administrative expenses		**(71,862)**	(72,680)
Research and development costs		**(48,693)**	(49,504)
Share of results of associates		**206**	763
Interest on bank borrowing wholly repayable within 5 years		**(237)**	(124)
Profit before tax		**137,344**	167,043
Income tax expense	10	**(14,528)**	(14,455)
Profit for the year	11	**122,816**	152,588
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**1,497**	780
Total comprehensive income for the year		**124,313**	153,368
Profit (loss) for the year attributable to:			
Owners of the Company		**122,656**	153,403
Non-controlling interests		**160**	(815)
		122,816	152,588
Total comprehensive income (expense) attributable to:			
Owners of the Company		**124,092**	154,189
Non-controlling interests		**221**	(821)
		124,313	153,368
Earnings per share (US$)	14		
– basic and diluted		**0.155**	0.194

consolidated statement of financial position

as at 31 December 2013

	Notes	2013 US$'000	2012 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**313,004**	247,863
Prepaid lease payments	*16*	**18,716**	18,776
Interests in associates	*17*	**7,858**	7,619
Deposit paid for acquisition of property, plant and equipment		**20,406**	27,316
		359,984	301,574
CURRENT ASSETS			
Inventories	*18*	**177,750**	179,183
Trade and other receivables	*19*	**324,132**	304,038
Bills receivables	*19*	**2,238**	–
Prepaid lease payments	*16*	**571**	477
Amounts due from associates	*20*	**43,872**	62,854
Derivative financial instruments	*21*	**–**	231
Held for trading investments	*22*	**29,299**	51,557
Tax recoverable	*10*	**–**	6,996
Cash and cash equivalents	*23*	**248,705**	252,039
		826,567	857,375
CURRENT LIABILITIES			
Trade and other payables	*24*	**201,934**	201,197
Amount due to an associate	*20*	**1,283**	–
Tax liabilities		**49,784**	41,000
		253,001	242,197
NET CURRENT ASSETS		**573,566**	615,178
		933,550	916,752
CAPITAL AND RESERVES			
Share capital	*25*	**10,160**	10,160
Share premium and reserves		**922,635**	906,058
Equity attributable to owners of the Company		**932,795**	916,218
Non-controlling interests		**755**	534
		933,550	916,752

The consolidated financial statements on pages 95 to 161 were approved and authorised for issue by the board of directors on 21 March 2014 and are signed on its behalf by:

Chen Li-Ming, Lawrence
DIRECTOR

Chi Lo-Jen
DIRECTOR

consolidated statements of changes in equity

for the year ended 31 December 2013

	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 2012	10,160	154,503	45,427	1,146	(1,674)	(3,350)	190	1,420	654,455	862,277	(277)	862,000
Other comprehensive income (expense) for the year	–	–	–	–	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
Other comprehensive income for the year	–	–	–	–	1,436	–	–	–	–	1,436	61	1,497
Profit for the year	–	–	–	–	–	–	–	–	122,656	122,656	160	122,816
Total comprehensive income for the year	–	–	–	–	1,436	–	–	–	122,656	124,092	221	124,313
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	14	–	14	–	14
Shares vested under long term incentive scheme	–	–	–	–	–	7	–	(4)	(3)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(107,529)	(107,529)	–	(107,529)
As at 31 December 2013	10,160	154,503	45,427	1,146	548	(2,722)	190	1,450	722,093	932,795	755	933,550

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 2013

	Note	2013 US$'000	2012 US$'000
OPERATING ACTIVITIES			
Profit before tax		**137,344**	167,043
Adjustments for:			
Depreciation of property, plant and equipment		**35,438**	27,343
Write down of inventories		**1,928**	3,615
Share of results of associates		**(206)**	(763)
Net loss on changes in fair value of derivative financial instruments		**231**	62
Net loss (gain) on changes in fair value of held for trading investments		**667**	(3,211)
Release of prepaid lease payments		**611**	429
Finance cost		**237**	124
Interest income		**(4,635)**	(6,186)
Share-based payment expenses		**14**	87
Gain on disposal of an associate		**–**	(11,828)
Loss on disposal of property, plant and equipment		**–**	106
Impairment loss of interests in associates		**–**	828
Operating cash flows before movements in working capital		**171,629**	177,649
Increase in trade and other receivables		**(22,332)**	(36,983)
Increase in inventories		**(1,333)**	(1,139)
Decrease (increase) in amounts due from associates		**20,265**	(6,506)
Decrease in held for trading investments		**21,591**	3,559
(Decrease) increase in trade and other payables		**(1,201)**	16,221
Cash generated from operations		**188,619**	152,801
Income tax paid		**(5,933)**	(8,808)
Refund of tax reserve certificate		**6,996**	–
NET CASH FROM OPERATING ACTIVITIES		**189,682**	143,993
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(82,074)**	(53,261)
Deposit paid for acquisition of property, plant and equipment		**(14,682)**	(27,195)
Prepaid lease payment of land use rights		**(445)**	(4,787)
Interest received		**4,635**	6,186
Proceeds from disposal of property, plant and equipment		**6,420**	4,959
Acquisition of subsidiaries	26	**–**	(4,100)
Dividend received from an associate		**–**	718
Proceeds from disposal of an associate, less of transaction costs		**–**	19,653
NET CASH USED IN INVESTING ACTIVITIES		**(86,146)**	(57,827)

	2013 US$'000	2012 US$'000
FINANCING ACTIVITIES		
Interest paid	**(237)**	(124)
Dividend paid	**(107,529)**	(100,335)
Capital injection from non-controlling interest	**–**	1,632
NET CASH USED IN FINANCING ACTIVITIES	**(107,766)**	(98,827)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(4,230)**	(12,661)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**252,039**	264,233
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**896**	467
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by	**248,705**	252,039
Bank balances and cash	**197,052**	193,389
Deposits placed in financial institutions	**51,653**	58,650
	248,705	252,039

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 33 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")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle
Amendments to HKFRS 7	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 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
Amendments to HKAS 1	Presentation of items of other comprehensive income
HK (IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

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

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

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

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 "Consolidated financial statements", HKFRS 11 "Joint arrangements", HKFRS 12 "Disclosure of interests in other entities", HKAS 27 (as revised in 2011) "Separate financial statements" and HKAS 28 (as revised in 2011) "Investments in associates and joint ventures", together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The application of HKFRS 10 and HKFRS 11 has had no material impact on the Group's financial performance and positions for the current and prior years.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 17 and 33 for details).

HKFRS 13 Fair value measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply 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 for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of 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. HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see note 6c for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised 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 Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the 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. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New and revised HKFRSs in issue 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:

HKFRS 9	Financial instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
HKFRS 14	Regulatory deferral accounts[5]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle[2]
HK(IFRIC) – INT 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.
[3] Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
[4] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
[5] Effective for annual periods beginning on or after 1 January 2016.

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 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

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.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors do not anticipate that the adoption of HKFRS 9 in the future will have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment entities

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 19 Defined benefit plans: Employee contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

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

Amendments to HKAS 32 Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to HKAS 36 Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

Amendments to HKAS 39 Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK (IFRIC) – INT 21 Levies

HK (IFRIC) – INT 21 "Levies" addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – INT 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

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

Annual improvements to HKFRSs 2010-2012 cycle

The "Annual improvements to HKFRSs 2010-2012 cycle" include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short– term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HAKS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the "Annual improvements to HKFRSs 2010-2012 cycle" will have a material effect on the Group's consolidated financial statements.

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

Annual improvements to HKFRSs 2011-2013 cycle

The "Annual improvements to HKFRSs 2011-2013 cycle" include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the "Annual improvements to HKFRSs 2011-2013 cycle" will have a material effect on the Group's 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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 structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 or a joint venture. 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 of disposal) 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.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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).

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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.

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.

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 recognised 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 on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items. 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 period, 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 exchange reserve (attributed to non-controlling interests as appropriate).

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 other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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 profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance lease) 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.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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).

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or a cash-generating unit) 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 (or a cash-generating unit) in prior year. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a 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)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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
- on initial recognition 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 stated at fair value, with any gains or losses arising on remeasurement recognised 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 and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 6c.

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 and cash and cash equivalents) 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 held for trading investments, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Equity instruments

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

Financial liabilities

Financial liabilities including trade and other payables and amount due to an associate are subsequently measured at amortised cost, using the effective interest method.

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.

Derivative financial instruments

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

Derecognition

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, 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.

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 2013, the carrying amount of trade receivables is approximately US$212,600,000 (31 December 2012: US$223,799,000).

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 2013, the carrying amount of amounts due from associates amounted to approximately HK$43,872,000 (2012: HK$62,854,000).

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 2013, the carrying amount of inventories was approximately US$177,750,000 net of allowance for inventories of US$15,291,000 (31 December 2012: US$179,183,000 net of allowance for inventories of US$12,190,000).

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

	2013 US$'000	2012 US$'000
Financial assets		
Held for trading investments	**29,299**	51,557
Loans and receivables (including cash and cash equivalents)	**542,761**	574,120
Derivative financial instruments	**–**	231
	572,060	625,908
Financial liabilities		
Amortised cost	**127,859**	119,873

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, amounts due from associates, 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.

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$11,387,000 (2012: US$11,277,000) 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	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
RMB	**39,258**	26,250	**53,649**	39,338
HKD	**3**	2	**15,859**	15,180
EUR	**976**	574	**1,754**	3,379
MOP	**885**	5,567	**2,307**	16
IDR	**2,459**	1,639	**2,754**	1,224
Other	**96**	213	**2,802**	2,176

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 exposures.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Currency risk (continued)

In addition, the Group is also exposed to foreign currency risk in respect of inter-company balances. The exchange difference in relation to inter-company balances 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.

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 positive.

	RMB Impact		EUR Impact		MOP Impact		IDR Impact	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000
Profit for the year	**(540)**	(491)	**(26)**	(93)	**(63)**	244	**(11)**	16
Other comprehensive income	**(41)**	(29)	**(2)**	(1)	**18**	15	**162**	19

Interest rate risk

The Group is exposed to fair value 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 point increase or 5 basis points decrease (2012: 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 2013 would increase by approximately US$464,000/decrease by approximately US$93,000 (2012: increase by approximately US$460,000/decrease by approximately US$92,000).

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 represent listed bonds carrying fixed interest rates with their market value generally linked to market interest rate. The management manages this exposure by maintaining a portfolio of investments with different risks.

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 2013 would increase/decrease by approximately US$1,099,000 (2012: US$1,312,000).

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 (2013: Nil).

If the market forward foreign exchange rate of RMB against US dollars had been 5% higher/lower, profit for the year ended 31 December 2012 would increase/decrease by US$105,000 (2013: Nil) as a result of the changes in the market forward foreign exchange rate of RMB against US dollars.

The Group's sensitivity to held-for-trading investments has not changed significantly from the prior year.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

At 31 December 2013 and 2012, the Group's maximum exposure to credit risk which will 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 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 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 83% (31 December 2012: 82%) of the total trade receivables as at 31 December 2013.

Regarding the Group's bank concentration credit risk, 91% (31 December 2012: 94%) of deposits are placed with 10 banks (31 December 2012: 10 banks).

The Group has concentration of credit risk on the amount due from an associate but the credit risk is limited because the associate has sufficient assets to cover the liabilities and good settlement record 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 non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	0 – 30 days	31 – 90 days	90 – 365 days	Total undiscounted cash flows	Carrying amount
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2013					
Non-derivative financial liabilities					
Trade and other payables	**80,812**	**38,045**	**9,002**	**127,859**	**127,859**

	0 – 30 days	31 – 90 days	90 – 365 days	Total undiscounted cash flows	Carrying amount
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2012					
Non-derivative financial liabilities					
Trade and other payables	**77,397**	**35,419**	**7,057**	**119,873**	**119,873**

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) 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).

Financial assets	Fair value as at 31 December 2013	Fair value hierarchy	Valuation technique(s) and key input(s)
Held-for-trading non-derivative financial assets classified as held for trading investments in the statement of financial position	Listed bonds in Hong Kong – US$9,596,000, and listed bonds in elsewhere – US$19,703,000	Level 1	Quoted bid prices in an active market

There were no transfers between Level 1 and 2 in the period.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Fair value hierarchy

	2013		
	Level 1 US$'000	Level 2 US$'000	Total US$'000
Financial assets			
Investments held for trading			
– Listed bonds	29,299	–	29,299
Total	29,299	–	29,299

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value measurements of financial instruments *(continued)*

Fair value hierarchy (continued)

	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

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 operating decision maker 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

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 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	464,158	956,085	121,228	1,541,471	–	1,541,471
Inter-segment sales	1,160	28,164	–	29,324	(29,324)	–
Total	465,318	984,249	121,228	1,570,795	(29,324)	1,541,471
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	68,001	156,220	1,035	225,256	–	225,256
Unallocated income						
– Interest income on bank balances						4,630
– Rental income						1,351
– Sale of scrap						1,088
– Net loss on change in fair value of held for trading investments						(667)
– Others						14,977
Unallocated expenses						
– Research and development costs						(48,693)
– Central administrative costs						(60,336)
– Net loss on changes in fair value of derivative financial instruments						(231)
– Interest expense						(237)
Share of results of associates						206
Profit before tax						137,344

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

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)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of corporate income and expenses, interest income on bank balances, net loss 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, share of results of associates, net (loss) gain on changes in fair value of held for trading investments and central administrative costs. This is the measure reported to the Group's chief executives for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

	2013 US$'000	2012 US$'000
Segment assets		
Men's footwear	**376,187**	341,913
Women's footwear	**437,026**	431,255
Footwear retailing and wholesaling	**92,725**	73,094
Total segment assets	**905,938**	846,262
Other assets	**280,613**	312,687
Consolidated assets	**1,186,551**	1,158,949

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment assets and liabilities *(continued)*

	2013 US$'000	2012 US$'000
Segment liabilities		
Men's footwear	**90,481**	79,274
Women's footwear	**86,095**	94,955
Footwear retailing and wholesaling	**15,682**	16,929
Total segment liabilities	**192,258**	191,158
Other liabilities	**60,743**	51,039
Consolidated liabilities	**253,001**	242,197

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, 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.

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Other segment information

2013

	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	22,380	74,877	6,680	103,937
Depreciation	12,112	21,373	1,953	35,438
Write-down of inventories	280	365	1,283	1,928
Interest in associates	–	7,002	856	7,858
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	–	10	196	206
Income tax expense	6,484	6,408	1,636	14,528

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Other segment information *(continued)*

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

(b) Revenue from major products and services

	2013 US$'000	2012 US$'000
Men's footwear	**464,159**	486,136
Women's footwear	**1,077,312**	1,063,867
	1,541,471	1,550,003

7. SEGMENT INFORMATION *(continued)*

(c) Geographical information

The Group's revenue from external customers is presented based on location of the customers. Information about the Group's non-current assets is presented based on geographical locations of the assets:

	Revenue from external customers		Non-current assets As at 31 December	
	2013 US$'000	2012 US$'000	**2013 US$'000**	2012 US$'000
United States of America	**722,816**	778,501	**–**	–
The PRC	**266,382**	259,711	**346,062**	290,942
United Kingdom	**149,407**	121,890	**–**	–
Netherlands	**73,817**	84,291	**–**	–
Thailand	**2,429**	4,381	**200**	143
Italy	**55,352**	51,367	**130**	10
Canada	**33,765**	37,883	**–**	–
Spain	**23,536**	24,223	**–**	–
Japan	**34,944**	28,601	**–**	–
Belgium	**30,342**	21,145	**–**	–
South Korea	**13,267**	13,311	**–**	–
Germany	**17,009**	15,755	**–**	–
Singapore	**3,412**	13,054	**–**	–
Switzerland	**7,549**	6,862	**–**	–
Australia	**12,695**	9,577	**–**	–
Panama	**6,325**	9,303	**–**	–
Portugal	**148**	376	**–**	–
Others	**88,276**	69,772	**13,592**	10,479
	1,541,471	1,550,003	**359,984**	301,574

7. SEGMENT INFORMATION *(continued)*

(d) Information about major customers

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

	2013 US$'000	2012 US$'000
Customer A[1]	**247,422**	270,125
Customer B[1]	**222,162**	222,864

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

8. OTHER INCOME

	2013 US$'000	2012 US$'000
Interest income on bank balances	**4,749**	6,186
Rental income	**1,226**	3,197
Sales of scrap	**1,088**	2,794
Others	**12,222**	4,120
	19,285	16,297

9. OTHER GAINS AND LOSSES

	2013 US$'000	2012 US$'000
Net exchange gain	**3,286**	1,756
Net (loss) gain from changes in fair value of held for trading investments	**(667)**	3,211
Net loss on changes in fair value of derivative financial instruments	**(231)**	(62)
Gain on disposal of an associate	**–**	11,828
Loss on disposal of property, plant and equipment	**–**	(106)
Impairment loss on interests in associates	**–**	(828)
	2,388	15,799

10. INCOME TAX EXPENSE

	2013 **US$'000**	2012 US$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**14,416**	14,205
Hong Kong Profits Tax	**25**	4
Other jurisdictions	**87**	246
	14,528	14,455

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%.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Stella International Trading (Macao Commercial Offshore) Limited ("SIT (MCO)") (formerly known as Bestsource Technology (Macao Commercial Offshore) Limited, a subsidiary acquired in year 2011 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$2,498,000 (31 December 2012: US$2,681,000) 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.

10. INCOME TAX EXPENSE *(continued)*

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

	2013 **US$'000**	2012 US$'000
Profit before tax	**137,344**	167,043
Tax at the applicable PRC EIT rate of 25% (2012: 25%)	**34,336**	41,761
Tax effect of expenses not deductible for tax purposes	**8,926**	4,997
Tax effect of income not taxable for tax purposes	**(4,493)**	(7,309)
Tax effect of share of results of associates	**(52)**	(191)
Effect of tax exemptions granted to SIT (MCO)	**(23,976)**	(24,767)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(213)**	(36)
Income tax expense	**14,528**	14,455

In October 2011, 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 to 2005/06.

From March 2012 to March 2013, 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) (equivalent to approximately US$6,996,000) for the year of assessment 2004/05 and 2005/06, which has been recorded as tax recoverable in the consolidated statement of financial position.

During the current year, 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.

11. PROFIT FOR THE YEAR

	2013 US$'000	2012 US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(note 12)*	**2,149**	2,976
Other staff costs	**306,975**	261,680
Share-based payment expenses, excluding directors	**14**	40
Retirement benefit scheme contributions, excluding directors	**280**	215
Total staff costs	**309,418**	264,911
Auditor's remuneration	**458**	359
Cost of inventories recognised as an expense (including write down of inventories of US$1,928,000 (2012: US$3,615,000))	**1,188,329**	1,174,756
Depreciation of property, plant and equipment	**35,438**	27,343
Release of prepaid lease payments	**611**	429
Share of taxation of associates (included in share of results of associates)	**96**	42

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$'000	Takuen, Daniel SHIH US$'000	Ming-Cheng, Eric CHAO US$'000	Li-Ming, Lawrence CHEN US$'000	Lo-Jen CHI US$'000	Johnny CHEN US$'000	Peter BOLLIGER US$'000	Fu-Keung William CHAN US$'000	Chao-Tang Thomas YUE US$'000	2013 US$'000
2013										
Fees	39	24	39	39	39	52	52	52	52	388
Other emoluments										
– salaries and other allowances	77	48	70	62	62	–	–	–	–	319
– bonus *(Note)*	400	–	320	320	400	–	–	–	–	1,440
– retirement benefit scheme contributions	1	–	–	1	–	–	–	–	–	2
	517	72	429	422	501	52	52	52	52	2,149

	Jeh-Chung, Jack CHIANG US$'000	Takuen, Daniel SHIH US$'000	Ming-Cheng, Eric CHAO US$'000	Li-Ming, Lawrence CHEN US$'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	77	70	62	62	–	–	–	–	–	348
– *bonus (Note)*	500	400	400	400	500	–	–	–	–	–	2,200
– share based payments	9	16	7	5	10	–	–	–	–	–	47
– retirement benefit scheme contributions	1	1	–	1	–	–	–	–	–	–	3
	626	533	516	507	611	51	26	51	51	4	2,976

Note: The performance related incentive payment is determined with reference to the financial performance of the Group and are first reviewed by the remuneration committee of the Board and then approved by the Board for the two years ended 31 December 2013.

Mr. Takuen Daniel SHIH resigned as an 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.

Employees

The five highest paid individuals in the Group in both years were all directors and the chief executive of the Company and details of their emoluments are set out above.

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

	2013 US$'000	2012 US$'000
2012 final dividend of HK75 cents per share (2012: 2011 final dividend of HK68 cents per share) paid	**76,797**	69,611
2013 interim dividend of HK30 cents per share (2012: HK30 cents per share) paid	**30,732**	30,724
	107,529	100,335

The final dividend of HK55 cents per share in total of US$56,350,000 and special dividend of HK10 cents per share in total of US$10,245,000 for the year ended 31 December 2013 have been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2013 US$'000	2012 US$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**122,656**	153,403
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**792,188,378**	792,492,017
Effect of dilutive potential ordinary shares: Unvested shares awarded	**1,208**	105,025
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**792,189,586**	792,597,042

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 29).

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 2012	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
Exchange adjustments	1,385	2,810	843	264	461	5,763
Additions	38,213	19,466	2,510	996	42,752	103,937
Transfer	14,274	1,331	14	3	(15,622)	–
Disposals	(4,419)	(9,136)	(415)	(308)	–	(14,278)
As at 31 December 2013	184,982	215,136	30,814	10,001	78,926	519,859
DEPRECIATION						
As at 1 January 2012	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
Exchange adjustments	916	1,211	426	148	–	2,701
Provided for the year	7,866	20,566	5,084	1,922	–	35,438
Eliminated on disposals	(3,391)	(4,189)	(7)	(271)	–	(7,858)
As at 31 December 2013	50,818	126,239	23,313	6,485	–	206,855
CARRYING VALUES						
As at 31 December 2013	134,164	88,897	7,501	3,516	78,926	313,004
As at 31 December 2012	90,102	92,014	10,052	4,360	51,335	247,863

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$8,442,000 (2012: US$9,496,000).

16. PREPAID LEASE PAYMENTS

	2013 **US$'000**	2012 US$'000
Current portion of prepaid lease payments	**571**	477
Non-current portion	**18,716**	18,776
	19,287	19,253

During the year, the Group acquired prepaid lease payment of approximately US$766,000 (2012: US$4,787,000) 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$3,002,000 (2012: US$3,092,000). The Group is in the process of obtaining the land use right certificates.

17. INTERESTS IN ASSOCIATES

	2013 US$'000	2012 US$'000
Cost of investments in associates – unlisted	**26,200**	26,200
Share of post-acquisition losses and other comprehensive income, net of dividend received	**(14,314)**	(14,553)
Impairment of an associate	**(4,028)**	(4,028)
	7,858	7,619

As at 31 December 2013 and 2012, the Group had interests in the following associates:

Name of entity	Form of business structure	Country of incorporation/ registration	Place of establishment/ principal place of operation	Class of share held	Proportion of nominal value of registered capital/ issued capital held by the Group		Proportion of voting rights held by the Group		Principal activities
					2013	2012	**2013**	2012	
辛集市寶得福皮業有限公司 (Xinji Baodefu Leather Co., Ltd.) ("Baodefu") *(Note)*	Sino-foreign co-operation joint venture	The PRC	The PRC	Capital injection	**60%**	60%	**40%**	40%	Manufacture and sales of leather products and footwear
Couture Accessories Limited	Limited company	Hong Kong	Hong Kong	Ordinary	**40%**	40%	**40%**	40%	Footwear wholesaling

Note: The Group holds 60% of the registered capital of Baodefu. However, under a shareholders' agreement, the other shareholder controls the composition of the board of directors and therefore the Group does not control Baodefu. The directors of the Company consider that the Group does exercise significant influence over Baodefu and, therefore it is classified as an associate of the Group.

The above table lists the associates of the group which, in the opinion of the Directors, principally affected the results of the year or form a substantial portion of the net assets of the group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

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:

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

Baodefu

	2013 US$'000	2012 US$'000
Current assets	**45,662**	47,971
Non-current assets	**15,779**	16,803
Current liabilities	**49,771**	57,781
Non-current liabilities	**–**	–

	2013 US$'000	2012 US$'000
Revenue	**146,693**	135,573
Profit and total comprehensive income for the year	**17**	88

17. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Baodefu *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 US$'000	2012 US$'000
Net assets of Baodefu	**11,670**	11,655
Proportion of the Group's ownership interest in Baodefu	**60%**	60%
Carrying amount of the Group's interest in Baodefu	**7,002**	6,993

Couture Accessories Limited

	2013 US$'000	2012 US$'000
Current assets	**2,545**	2,202
Non-current assets	**40**	70
Current liabilities	**445**	706
Non-current liabilities	**–**	–

	2013 US$'000	2012 US$'000
Revenue	**3,742**	2,972
Profit for the year	**490**	533
Other comprehensive income for the year	**85**	13
Total comprehensive income for the year	**575**	546

17. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Couture Accessories Limited *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 US$'000	2012 US$'000
Net assets of Couture Accessories Limited	2,140	1,566
Proportion of the Group's ownership interest in Couture Accessories Limited	40%	40%
Carrying amount of the Group's interest in Couture Accessories Limited	856	626

18. INVENTORIES

	2013 US$'000	2012 US$'000
Raw materials	46,212	44,992
Work-in-progress	56,871	57,453
Finished goods	74,667	76,738
	177,750	179,183

19. TRADE, BILLS 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 and bills 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:

	2013 US$'000	2012 US$'000
Trade and bills receivables:		
0 – 30 days	**139,204**	134,923
31 – 60 days	**54,440**	70,099
61 – 90 days	**14,648**	11,719
Over 90 days	**4,308**	7,058
	212,600	223,799
Other receivables	**113,770**	80,239
	326,370	304,038

Other receivables include prepayment to suppliers of US$65,585,000 (2012: US$43,475,000).

Included in the Group's trade, bills and other receivables balance are debtors with aggregate amount of US$7,829,000, US$94,000, US$342,000, US$2,296,000, US$731,000 and US$1,575,000 (2012: US$9,805,000, US$89,000, US$1,788,000, US$7,000, US$Nil and US$1,077,000) which are denominated in RMB, HKD, EUR, MOP, IDR 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 and bills receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade and bills receivable balance are debtors with aggregate carrying amount of US$13,187,000 (31 December 2012: US$7,640,000) 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.

19. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

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

	2013 US$'000	2012 US$'000
31-60 days	**9,065**	5,278
61-90 days	**671**	187
Over 90 days	**3,451**	2,175
	13,187	7,640

20. AMOUNTS DUE FROM(TO) ASSOCIATES

	As at 31 December		Maximum amount outstanding for year ended 31 December	
Name of company	**2013 US$'000**	2012 US$'000	**2013 US$'000**	2012 US$'000
Baodefu	**43,872**	62,604	**62,604**	62,604
Couture Accessories Limited	**–**	250	**250**	250
	43,872	62,854		

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

The amount due to an associate is trading balance, representing trade payable to an associate. The amount is unsecured and interest-free.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets	
	2013 US$'000	2012 US$'000
Foreign currency forward contracts	**–**	231

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 (2013: Nil).

21. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

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

	2013 **US$'000**	2012 US$'000
Bonds:		
– listed in Hong Kong	**9,596**	8,549
– listed overseas	**19,703**	26,447
Investment funds:		
– listed overseas	**–**	16,561
	29,299	51,557

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$11,387,000 (2012: US$11,277,000) 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$74,413,000 (2012: US$146,596,000) are subject to foreign exchange control.

Cash and cash equivalents of US$34,433,000, US$15,765,000, US$1,412,000, US$11,000, US$2,023,000 and US$1,227,000 (2012: US$18,256,000, US$15,091,000, US$1,591,000, US$9,000, US$1,224,000 and US$1,099,000) are denominated in RMB, HKD, EUR, MOP, IDR 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 0.28% to 2.85% (2012: 0.002% to 4.5%) per annum.

24. TRADE AND OTHER PAYABLES

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

	2013 US$'000	2012 US$'000
Trade payables:		
0 – 30 days	**56,983**	47,622
31 – 60 days	**8,302**	13,885
Over 60 days	**36,448**	36,511
	101,733	98,018
Other payables	**100,201**	103,179
	201,934	201,197

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$19,290,000, US$1,000, US$422,000, US$4,091,000, US$1,204,000 and US$157,000 (2012: US$26,250,000, US$2,000, US$574,000, US$5,567,000, US$1,639,000 and US$213,000) which are denominated in RMB, HKD, EUR, MOP, IDR 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 shares of HK$0.10 each			
Authorised:			
As at 1 January 2012, 31 December 2012 and 31 December 2013	5,000,000,000	500,000	63,975
Issued and fully paid:			
As at 1 January 2012, 31 December 2012 and 31 December 2013	794,379,500	79,438	10,160

26. ACQUISITION OF SUBSIDIARIES

On 17 February 2012, the Group acquired the entire equity interest in P.T. Young Tree Industries from an independent third party through the acquisition of the entire equity interest in Yang Fu Limited and Starry Thrive Limited. Yang Fu Limited, Starry Thrive Limited and P.T. 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 had gross contractual amounts of US$323,000. At the acquisition date, all contractual cash flows were expected to be collected.

26. ACQUISITION OF SUBSIDIARIES *(continued)*

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 year was a profit of US$3,440,000 contributed by PT Young Tree Group since the date of acquisition on 17 February 2012. Revenue for the period since the date of acquisition on 17 February 2012 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 was for illustrative purposes only and was 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 was it intended to be a projection of future results.

27. 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:

	2013 **US$'000**	2012 US$'000
Within one year	**50**	378
In the second to fifth year inclusive	**20**	68
	70	446

All of the properties held have committed tenants 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$1,227,000 (2012: US$3,197,000).

27. OPERATING LEASES *(continued)*

The Group as lessee

	2013 US$'000	2012 US$'000
Minimum lease payments paid under operating leases:		
during the year:		
– street level stores	**4,818**	4,410
– other properties	**5,242**	3,786
	10,060	8,196
Contingent rentals	**29,408**	29,500
	39,468	37,696

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:

	2013 US$'000	2012 US$'000
Within one year	**7,420**	7,957
In the second to fifth year inclusive	**9,003**	11,608
Over five years	**595**	6,608
	17,018	26,173

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.

28. CAPITAL COMMITMENTS

	2013 US$'000	2012 US$'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**56,066**	66,635
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**5,665**	33,572
	61,731	100,207

29. 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 (at the relevant time) 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.

29. 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 2013 and 2012 are as follows:

	Grant date	Vesting period	Outstanding at 1 January 2013	Vested during the year	Cancelled during the year	Outstanding at 31 December 2013
Employees	19 February 2009	19 February 2009 – 1 April 2013	4,900	(4,900)	–	–
	15 July 2012	15 July 2012 – 1 September 2013	5,000	–	(5,000)	–
	15 July 2012	15 July 2012 – 1 September 2014	7,500	–	(7,500)	–
	15 July 2012	15 July 2012 – 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 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.

During the year, US$14,000 (2012: US$772,000) was recognised as an expense in the consolidated statement of profit or loss and other comprehensive income with a corresponding credit to the share award reserve.

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

During the year, 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.

30. 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.

31. RELATED PARTY DISCLOSURES

(I) Related party transactions

Name of company	Nature of transactions	2013 US$'000	2012 US$'000
Baodefu[1]	Purchase of footwear products	**146,693**	135,573
Couture Accessories Limited[1]	Purchase of footwear products	**2,079**	715
	Sales of footwear products	**1,733**	1,545

Note:

(1) Associates of the Company.

(II) Related party balances

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

31. RELATED PARTY DISCLOSURES *(continued)*

(III) Compensation of key management personnel

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

	2013 US$'000	2012 US$'000
Short-term benefits	**2,250**	3,004
Post-employment benefits	**17**	5
Share-based payment expenses	**–**	48
	2,267	3,057

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.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31 December 2013 is as follows:

	Note	2013 US$'000	2012 US$'000
Investment in subsidiaries		**530,527**	530,527
Amount due from subsidiaries		**293,790**	303,811
Bank balances and cash		**516**	505
Other assets		**301**	304
Total Assets		**825,134**	835,147
Total Liabilities		**1,447**	1,325
Total Assets less Total Liabilities		**823,687**	833,822
Capital and Reserves			
Share capital		**10,160**	10,160
Share premium and reserves	*(a)*	**813,527**	823,662
		823,687	833,822

32. 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 2012	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
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	97,380	97,380
Recognition of equity-settled share-based payment	–	–	–	–	–	14	–	–	14
Shares vested under long term incentive scheme	–	–	–	7	–	(4)	–	(3)	–
Dividend recognised as distribution	–	–	–	–	–	–	–	(107,529)	(107,529)
As at 31 December 2013	10,160	154,503	1,146	(2,722)	190	1,450	530,465	128,495	823,687

33. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2013 and 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company				Proportion of voting power held by the Company				Principal activities
				2013		2012		2013		2012		
				Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	
Couture Accessories Distribution Limited	Hong Kong	Ordinary	US$4,000,000	–	60	–	60	–	60	–	60	Footwear retailing
P.T. Young Tree Industries	Indonesia	Ordinary	RP38,592,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
Stella International Trading (Macao Commercial Offshore) Limited (Formerly known as Bestsource Technology (Macao Commercial Offshore) Limited)	Macau	Ordinary	MOP200,000	–	100	–	100	–	100	–	100	Sales of footwear
Stella Fashion Group Limited	BVI	Ordinary	US$4	100	–	100	–	100	–	100	–	Investment holding and wholesaling of footwear
Stella Fashion SAS	France	Ordinary	EUR100,000	–	100	–	100	–	100	–	100	Footwear retailing
Stella Footwear Inc.	BVI	Ordinary	US$3,947	–	100	–	100	–	100	–	100	Investment holding, manufacturing and sales of footwear
Stella International Limited	Vanuatu	Ordinary	US$1	100	–	100	–	100	–	100	–	Investment holding, manufacturing and sales of footwear
Stella International Marketing Company Limited	Malaysia	Ordinary	US$10,000	100	–	100	–	100	–	100	–	Marketing activities
Stella Luna Sol Limited	Hong Kong	Ordinary	HK$1	–	100	–	100	–	100	–	100	Holding of intellectual property rights
Stellaluna (Thailand) Co., Ltd.	Thailand	Ordinary	Baht20,000,000	–	70.1	–	70.1	–	70.1	–	70.1	Footwear retailing
Stella Services Limited	Hong Kong	Ordinary	HK$300,000	100	–	100	–	100	–	100	–	Provision of secretary and accounting services
郴州興昂鞋業有限公司[1] (Chenzhou Selena Footwear Company Limited)	The PRC	Capital contribution	US$1,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
上海高緯飾品貿易有限公司[1] (Couture Accessories Distribution (Shanghai) Limited)	The PRC	Capital contribution	US$2,249,973[3]	–	60	–	60	–	60	–	60	Footwear retailing
東莞興昂鞋業有限公司[1] (Dongguan Stella Footwear Company Limited)	The PRC	Capital contribution	HK$191,810,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
洞口興雄鞋業有限公司[1] (Dongkou Selena Upper Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear

33. PARTICULARS OF 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	Proportion ownership interest held by the Company				Proportion of voting power held by the Company				Principal activities
				2013		2012		**2013**		2012		
				Direct %	**Indirect** %	Direct %	Indirect %	**Direct** %	**Indirect** %	Direct %	Indirect %	
廣西容縣興雄鞋面有限公司(1) (Guangxi Rong Yuan Selena Upper Company Limited)	The PRC	Capital contribution	US$2,700,000(3)	–	100	–	100	–	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	–	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	–	100	–	100	Manufacturing of footwear
廣西興力達鞋業有限公司(1) (Guangxi Xinglida Footwear Company Limited)	The PRC	Capital contribution	US$300,000(3)	–	100	–	100	–	100	–	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	–	100	–	100	Manufacturing of footwear
懷化興雄鞋業有限公司(1) (Huaihua Selena Footwear Company Limited)	The PRC	Capital contribution	RMB3,780,900	–	100	–	100	–	100	–	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	–	100	–	100	Manufacturing of footwear
隆回興昂鞋業有限公司(1) (Longhui Stella Footwear Company Limited)	The PRC	Capital contribution	US$25,000,000(3)	–	100	–	100	–	100	–	100	Manufacturing of footwear
隆回興隆鞋材有限公司(1)(2) (Longhui Stella Footwear Company Limited)	The PRC	Capital contribution	RMB10,000,000	–	100	–	–	–	100	–	–	Manufacturing of footwear
邵陽連泰鞋業有限公司(1)(3) (Shaoyang Liantai Footwear Company Limited)	The PRC	Capital contribution	RMB126,000,000(3)	–	100	–	100	–	100	–	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$135,280,000(3)	–	100	–	100	–	100	–	100	Manufacturing of footwear
興記時尚貿易(上海)有限公司(1) (Stella Fashion Inc. (formerly known Stella Luna Fashion Inc.))	The PRC	Capital contribution	US$11,000,000	–	100	–	100	–	100	–	100	Footwear retailing
威縣遠達制鞋有限公司(1)(3) (Wei County Yuanta Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000(3)	–	100	–	100	–	100	–	100	Manufacturing of footwear

33. PARTICULARS OF 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	Proportion ownership interest held by the Company				Proportion of voting power held by the Company				Principal activities
				2013		2012		2013		2012		
				Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	
武宣興萊鞋業有限公司[1] (Weixian Simona Footwear Company Limited)	The PRC	Capital contribution	US$1,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
興業興萊鞋業有限公司[1] (Xingye Simona Footwear Company Limited)	The PRC	Capital contribution	US$4,072,901[3]	–	100	–	100	–	100	–	100	Manufacturing of footwear
新化興昂鞋業有限公司[1] (Xinhua Selena Footwear Company Limited)	The PRC	Capital contribution	US$1,400,000[3]	–	100	–	100	–	100	–	100	Manufacturing of footwear
新寧興雄鞋業有限公司[1] (Xinning Selena Footwear Company Limited)	The PRC	Capital contribution	US$1,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
永州興昂鞋業有限公司[1] (Yongzhou Selena Footwear Company Limited)	The PRC	Capital contribution	RMB6,300,000[3]	–	100	–	100	–	100	–	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 during the year.

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

Financial Summary

	For the year ended 31 December				
	2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000	**2013** **US$'000**
RESULTS					
Revenue	1,008,598	1,293,521	1,494,531	1,550,003	**1,541,471**
Profit for the year	102,081	121,328	142,784	152,588	**122,816**
Attributable to:					
Equity owners of the Company	102,168	121,408	142,988	153,403	**122,656**
Non-controlling interests	(87)	(80)	(204)	(815)	**160**
	102,081	121,328	142,784	152,588	**122,816**

	As at 31 December				
	2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000	**2013** **US$'000**
ASSETS AND LIABILITIES					
Total assets	925,587	990,125	1,074,874	1,158,949	**1,186,551**
Total liabilities	(157,110)	(187,918)	(212,874)	(242,197)	**(253,001)**
Shareholders' funds	768,477	802,207	862,000	916,752	**933,550**

Note: The results for the two years ended 31 December 2013, and the assets and liabilities as at 31 December 2012 and 2013 have been extracted from the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of financial position as set out on page 95 and 96, respectively, of the annual report.

corporate information and financial calendar 2013/2014

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

REMUNERATION COMMITTEE

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

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

AUDITOR

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

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183 Queen's Road East, Wanchai, Hong Kong

REGISTERED OFFICE

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Grand Cayman KY1-1111, Cayman Islands

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STOCK CODE

1836

WEBSITE

www.stella.com.hk

FINANCIAL CALENDAR 2013/2014

2013 Interim Results Announcement	15 August 2013
Payment of Interim Dividend	30 September 2013
2013 Annual Results Announcement	21 March 2014
Closure of Register of Members	21 May 2014 to 23 May 2014
Annual General Meeting	23 May 2014
Ex-dividend Date	27 May 2014
Payment of Final Dividend	On or about 27 June 2014
2014 Interim Results Announcement	On or about 14 August 2014
Payment of Special Dividend	On or about 28 August 2014

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

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

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

* *for identification purpose only*