



INTERIM REPORT 2014

Stella International Holdings Limited

Stock Code: 1836

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CHAIRMAN'S STATEMENT

Dear Shareholders,

The business environment steadily improved in the first half of 2014 as continued economic recovery in the United States and Europe encouraged customers to become less conservative with their orders, particularly in May and June this year. The period also saw economic growth in China stabilise in response to recent government stimulus measures.

However, the 2.1% contraction in the United States economy in the first quarter of 2014 as a result of harsh winter weather underscores the fragility that still remains within the global economy and that any recovery in global demand could still be vulnerable to sudden shocks. Many risks still remain, ranging from stubbornly high unemployment rates in developed countries to the escalating conflicts in Ukraine and the Middle East.

Stella is not one to rest on its laurels and we are continuing to make a number of necessary adjustments to manage our cost base and labour resources, as well as to boost the competitiveness of our retail business.

Within our manufacturing business, we made further progress on several initiatives. We are continuing to actively explore the possibility of adding new product lines, such as high-quality leather goods and accessories, in order to open up new streams of revenue. Such a step would be a natural one for us given our well-recognised reputation for quality and growing customer base of high-end and luxury brands. It is also in line with a growing trend among retail brands seeking to outsource the production of accessories, such as handbags, similar to which we experienced for the manufacture of footwear products in the past. We also strengthened measures to help each of our branded customers better match footwear products with leather goods products in terms of design and quality, creating more value for them.

In the long-term, we hope to become a more diversified value chain partner to the world's leading brands, offering an expanded range of one-stop-shop solutions for leather accessories in the areas of design, research and development, as well as craftsmanship, in keeping with our motto of 'Making the Best Shoes'.

On the other side of the equation, we further strengthened cost controls and expanded efficiency enhancing measures to preserve our margins and returns for shareholders. This included a further expansion of capacity at our manufacturing facilities in Indonesia, Vietnam and Guangxi and Hunan provinces in China.

The first half of the year also saw a further optimisation of our retail business in China. Although this involved the further closure of some underperforming stores, I am pleased to say that we are starting to experience some positive effects, including improved profitability over the period. We also moved forward with expanding the international credentials of our retail brands following the expansion of our presence in France to 10 points of sales as of 30 June 2014.

Looking forward, we are cautiously optimistic about the prospects for our business in the second half of the year, especially in light of better than expected economic recovery in the United States in the second half of 2014. We tentatively expect the pick-up in orders experienced in recent months to continue through the end of the year, barring a sudden drop in consumer sentiment arising as a result of current geopolitical issues. We will continue to closely monitor any risks arising from such events in order to minimise its impact on our operations.

On behalf of the Board, I would like to once again extend my sincere gratitude to our shareholders, customers and business partners for their continued support in the first half of the year. I would also like to take this opportunity to thank all my colleagues for their ongoing contribution and commitment to Stella.

Chiang Jeh-Chung, Jack

Chairman

Hong Kong, 14 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Board”) of Stella International Holdings Limited (“Stella” or the “Company”) is pleased to present the interim report of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014.

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 customer base from premium to high end and from fashion to 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 a joint-venture brand *Pierre Balmain*. Our network of retail stores is primarily focused in Mainland China, with additional stores in France, Philippines, Thailand, Taiwan, Kuwait, Lebanon and United Arab Emirates.

Financial Highlights

Financial Performance Improves Alongside Pickup in Orders

The Group experienced improved momentum in the six months ended 30 June 2014, with cautious customer orders in the first quarter of the year being replaced by more active ordering activity in June 2014, in line with improving consumer sentiment in the United States and Europe.

Consolidated revenue for the interim period rose 3.6% to US\$722.6 million, compared to US\$697.6 million in the first half of 2013, despite a slight 0.4% decline in shipment volumes to 23.7 million pairs, compared to 23.8 million pairs in the corresponding period of last year. The average selling price (“ASP”) of Stella’s footwear products rose 5.6% to US\$28.4 per pair, compared to US\$26.9 per pair in the first half of last year, which was mostly attributable to rising input costs, particularly for leather.

Women’s fashion footwear continued to be the biggest contributor to overall revenue, at around 37.5% of total revenue. The contribution from the women’s and men’s casual footwear segments to the Group’s overall revenue was 22.6% and 22.6% respectively, while the men’s fashion footwear segment contributed around 10.1% of overall revenue.

Retail Business Restructure Delivering Improved Profitability

We oversaw a modest improvement in the profitability of our retail business during the six months under review after making further progress with the gradual restructure of our retail business. This restructure has seen us overhaul our operating strategy within our retail business and close some underperforming stores.

Despite the improvement in profitability, revenue from the retail business fell 13.5% to US\$51.9 million in the six months ended 30 June 2014, compared to US\$60.0 million in the first half of last year. Same-store sales (in China only) fell 8.6% during the six months under review to US\$42.3 million, compared to US\$46.3 million in the corresponding period of last year. The fall in revenue and same-store sales was mostly attributable to the ongoing consolidation of our store network, weakening economic growth and consumer confidence in China, as well as adjustments to our sales strategy in department stores.

Well Positioned for Expected Pick-up in Second Half of the Year

Gross profit across all business segments declined 6.1% to US\$154.6 million in the six month under review, compared to US\$164.7 million in the first half of last year. Net profit for the six months under review was US\$52.6 million, representing an increase of 4.6%. The Group's better cost controls and efficiency, along with better economic conditions, partially offset operational pressures arising from lower utilisation for the first five months of 2014.

Geographically, North America and Europe remained our two largest markets, accounting for 50.9% and 24.4% of the Group's total revenue respectively in the six months under review. This was followed by the PRC (including Hong Kong) accounting for 15.3%, Asia (other than the PRC) accounting for 5.9% and other geographic regions which accounted for 3.5%.

Business Review

Unmatched Flexibility Supporting Growing Customer Base

Flexibility and high-end manufacturing proficiency have long been hallmarks of our manufacturing business, which over the years have allowed Stella to develop and supply high quality footwear products to some of the world's foremost premium and luxury brands. Over the years, we have built an unparalleled reputation around our research and development capabilities and our ability to meet the bespoke requirements of our customers.

This reputation saw us attract more demand from well-known and niche customers during the six month under review, as more and more brands seek out value-adding manufacturing solutions that do not compromise quality.

Continued Exploration of New Products and Business Streams

The six months under review saw a further expansion of our product range to include more lines of fashion sneakers – a fashionable take on the traditional sports shoe which has become extremely popular among many fashion retailers. We also continued to explore the manufacture of quality leather goods and fashion accessories, such as handbags, as more and more fashion brands seek to outsource the production of accessories as they have done for footwear products in the past. We also strengthened measures to help each of our branded customers better match footwear products with leather goods products in terms of design and quality, creating more value for them.

Stella's growing reputation for designing, developing and producing high-quality products saw us receive a growing number of enquiries from both existing customers and new customers during the period under review. This reputation continues to be underpinned by our state-of-the-art design, research and development centres in Dongguan of China and Venice, which work closely with our customers to design innovative and value-adding products.

Further Stabilisation of Manufacturing Base

We continued to expand production capacity at our manufacturing facilities in inland China, Vietnam and Indonesia in order to better position our manufacturing business for an expected upturn in orders in the second half of 2014. This also included making further investments in improving the capabilities of our workforces in these locations.

Under our long-term resource optimisation strategy, 40% of our manufacturing capacity has been shifted away from coastal areas of China to regions with more favourable cost structures and availability of labour. This strategy has helped us maintain margins and a more stable labour force, while still producing high-quality and value-adding products for our customers.

Ongoing Restructure of Retail Business

We made some headway in combating the various challenges posed to our retail business from slowing economic growth and stiffer competition. This included the further roll-out of a revamped store layout and design for our brand *What For* – reflecting its recent emergence as a global brand. It also involved the closure of stores in sub-optimal locations in favour of new standalone stores and shop-in-shops in quality locations. Most important of all, we are adopting new sales and operational strategies, which have seen us reduce unprofitable sales.

These measures are already having a positive effect on our bottom-line, with the retail business seeing improved profitability across the board, as well as increased turnover of in-season products, during the six months under review.

As of 30 June 2014, *Stella Luna* footwear was priced between RMB1,700 and RMB6,000 per pair in China, while *What For* and *JKJY by Stella* footwear retailed between RMB1,100 and RMB2,800, and RMB1,400 and RMB4,800 per pair respectively in China.

The following table shows the geographic distribution of our stores, by brand, as of 30 June 2014.

	<i>Stella Luna</i>	<i>What For</i>	<i>JKJY by Stella</i>	<i>Pierre Balmain</i>
Greater China				
Eastern China	45	16	2	1
Southern China	32	13	1	0
Northern China	36	31	3	1
North-East China	24	11	1	0
South-West China	32	16	2	0
Central China	18	9	0	0
Taiwan	3	0	0	1
Sub-total	190	96	9	3
France	2	8	0	0
Philippines	2	1	1	0
Thailand	9	7	2	0
Kuwait	2	2	0	0
Lebanon	9	9	0	0
United Arab Emirates	2	1	0	0
Total	216	124	12	3

Expanding Global Footprint of Retail Brands

Our *Stella Luna* and *What For* stores in Europe continued to perform well in the six months under review and experienced improved traffic and sales conversion rates. During the same period, we also expanded the number of points of sales in France to 10, including counters at famous department stores including Galeries Lafayette and Le Printemps. We also launched an online store – <http://www.stellalunafashion.eu/> – based in France, to boost the visibility and availability of the Group's retail products in Europe.

This expansion further broadened the global recognition and desirability of our brands, particularly in China.

Business Outlook

Improving Prospects for Second Half of the Year

The 4.0% rebound in the United States economy in the second quarter of 2014 supports our relative optimism about the outlook for our business in the second half of the year. We expect global demand for our footwear products to gradually recover.

Potential risks for the second half of the year include sudden shocks to demand caused by the end of quantitative easing, interest rate hikes by central banks or economic sanctions imposed as a consequence of the conflict in eastern Ukraine. Labour costs and supply also remain key challenges for the Group and we will closely monitor how recent stimulus policies introduced by the PRC government will affect these areas.

Focus on Productivity and Cost Control

We will continue to strictly maintain current measures designed to control costs and to apply industrial engineering measures to further improve productivity, particularly at our inland China and Indonesian manufacturing facilities, in order to protect margins and meet narrowing shipping windows for some customer orders. Such measures will continue to safeguard Stella's reputation as a partner of choice for leading fashion and luxury footwear brands, as well as returns for the Group's stakeholders.

A More Diversified Provider of Solutions

We will continue to explore the feasibility and growth potential of new business streams, including the manufacture of quality leather goods, in particular for products that already appeal to Stella's established base of customers.

Continued Repositioning of China Retail Business and Overseas Expansion

We will continue to take necessary steps to further optimise our retail business in China to improve its long-term profitability and competitiveness. These steps include the closure of additional underperforming stores in some regions, as well as further adjustments to operational and inventory control measures.

We are also actively studying the creation of an e-commerce platform for Stella's retail products in China.

We will also continue to expand the footprint of our *Stella Luna* and *What For* brands in Europe to further grow their appeal as international brands, with a target of operating up to 15 points of sales in France by the end of 2014.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2014, the Group had cash and cash equivalents of about US\$178.7 million (31 December 2013: US\$278.0 million).

As at 30 June 2014, the Group had current assets of about US\$889.4 million (31 December 2013: US\$826.5 million) and current liabilities of about US\$354.9 million (31 December 2013: US\$253.0 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.5 as at 30 June 2014, an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US\$108.0 million as at 30 June 2014 (31 December 2013: nil).

Foreign Exchange Exposure

During the six months ended 30 June 2014, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars and RMB. Currency exposures were mostly in RMB and Hong Kong dollars against the functional currency of the relevant Group company. The Group has not adopted any formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

Capital Expenditure

Net Cash outflows from investing activities was US\$58.9 million during the period under review (for the six months ended 30 June 2013: US\$51.8 million), up 13.8%. This was mostly attributable to lower capital expenditure, which amounted to approximately US\$48.1 million during the period (for the six months ended 30 June 2013: US\$53.1 million), of which approximately US\$47.1 million was used in production capacity expansion and approximately US\$1.0 million was used for the optimisation of our retail store network.

Pledge of Assets

As at 30 June 2014, the Group had pledged its assets for US\$33.0 million (31 December 2013: Nil).

Contingent Liabilities

As at 30 June 2014, the Group had no material contingent liabilities (31 December 2013: Nil).

Employees

As at 30 June 2014, the Group had approximately 85,000 employees (31 December 2013: 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 30 June 2014, our recruitment efforts remain satisfactory, despite the labour shortages in our primary manufacturing locations in China.

Corporate Social Responsibility

Stella's ability to grow and prosper is dependent on our ability to overcome complex challenges in both an environmentally sustainable manner and in a way that protects our multiple stakeholders – including our workforce, 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. Over the past few years, this has included introducing a range of initiatives that improve our Triple Bottom Line of 'People, Plant and Profit'.

We continue to make considerable efforts to further improve safety at our factories, while providing more training to employees under international Environmental Safety Health (ESH) guidelines to further promote an internal safety culture. We have also introduced a number of measures to reduce water and energy use over the past few years, particularly our reliance on inefficient self-generated electricity.

We also continue to introduce and promote an increasing number of waste reduction and local community outreach programs to ensure that the growth of Stella's business does not come at the expense of the environment or the welfare of our employees and their families.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2014. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 16 September 2014. It is expected that the interim dividend will be paid on or about 26 September 2014. In order to qualify for the interim dividend for the six months ended 30 June 2014, 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 16 September 2014.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
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TO THE BOARD OF DIRECTORS OF STELLA INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Stella International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 10 to 21, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
14 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 US\$'000 (Unaudited)	2013 US\$'000 (Unaudited)
Revenue	3	722,612	697,552
Cost of sales		(567,993)	(532,818)
Gross profit		154,619	164,734
Other income		8,549	5,380
Other gains and losses		(2,181)	(1,733)
Distribution and selling costs		(41,383)	(60,042)
Administrative expenses		(38,882)	(29,255)
Research and development costs		(24,270)	(22,805)
Share of profit of associates		32	75
Interest on bank borrowings wholly repayable within 5 years		(86)	(67)
Profit before tax		56,398	56,287
Income tax expense	4	(4,020)	(5,561)
Profit for the period	5	52,378	50,726
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		(1,893)	533
Total comprehensive income for the period		50,485	51,259
Profit (loss) for the period attributable to:			
Owners of the Company		52,582	50,261
Non-controlling interests		(204)	465
		52,378	50,726
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		50,701	50,783
Non-controlling interests		(216)	476
		50,485	51,259
Earnings per share	7		
– Basic and diluted (US\$)		0.0663	0.0634

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	<i>Notes</i>	30 June 2014 US\$'000 (Unaudited)	31 December 2013 US\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	342,944	313,004
Prepaid lease payments		17,139	18,716
Interest in associates		7,847	7,858
Deposit paid for acquisition of property, plant and equipment	8	15,566	20,406
		383,496	359,984
CURRENT ASSETS			
Inventories		243,024	177,750
Trade and other receivables	9	413,139	324,132
Bills receivables	9	2,630	2,238
Prepaid lease payments		547	571
Amount due from an associate	10	51,327	43,872
Held for trading investments		41,943	29,299
Cash and cash equivalents		136,777	248,705
		889,387	826,567
CURRENT LIABILITIES			
Trade and other payables	11	193,095	201,934
Amount due to an associate	10	1,479	1,283
Derivative financial instruments		1,265	–
Bank borrowings	12	108,011	–
Tax liabilities		51,018	49,784
		354,868	253,001
NET CURRENT ASSETS			
		534,519	573,566
CAPITAL AND RESERVES			
Share capital	13	10,160	10,160
Share premium and reserves		906,727	922,635
Equity attributable to owners of the Company		916,887	932,795
Non-controlling interests		1,128	755
		918,015	933,550

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company											Total US\$'000
	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Capital reserve US\$'000	Exchange reserve US\$'000	Shares held for long term incentive scheme US\$'000	Capital redemption reserves US\$'000	Share award reserve US\$'000	Accumulated profits US\$'000	Subtotal US\$'000	Non- controlling interests US\$'000	
At 1 January 2013 (audited)	10,160	154,503	45,427	1,146	(888)	(2,729)	190	1,440	706,969	916,218	534	916,752
Profit for the period	-	-	-	-	-	-	-	-	50,261	50,261	465	50,726
Other comprehensive income for the period	-	-	-	-	523	-	-	-	-	523	11	534
Total comprehensive income for the period	-	-	-	-	523	-	-	-	50,261	50,784	476	51,260
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	14	-	14	-	14
Shares vested under long term incentive scheme	-	-	-	-	-	7	-	(4)	(3)	-	-	-
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(76,797)	(76,797)	-	(76,797)
At 30 June 2013 (unaudited)	10,160	154,503	45,427	1,146	(365)	(2,722)	190	1,450	680,430	890,219	1,010	891,229
Profit for the period	-	-	-	-	-	-	-	-	72,395	72,395	(305)	72,090
Other comprehensive income for the period	-	-	-	-	913	-	-	-	-	913	50	963
Total comprehensive income (expense) for the period	-	-	-	-	913	-	-	-	72,395	73,308	(255)	73,053
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(30,732)	(30,732)	-	(30,732)
At 31 December 2013 (audited)	10,160	154,503	45,427	1,146	548	(2,722)	190	1,450	722,093	932,795	755	933,550
Profit (loss) for the period	-	-	-	-	-	-	-	-	52,582	52,582	(204)	52,378
Other comprehensive expense for the period	-	-	-	-	(1,881)	-	-	-	-	(1,881)	(12)	(1,893)
Total comprehensive (expense) income for the period	-	-	-	-	(1,881)	-	-	-	52,582	50,701	(216)	50,485
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	589	589
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(66,609)	(66,609)	-	(66,609)
At 30 June 2014 (unaudited)	10,160	154,503	45,427	1,146	(1,333)	(2,722)	190	1,450	708,066	916,887	1,128	918,015

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 US\$'000 (Unaudited)	2013 US\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES:		
Increase in investments held for trading	(12,913)	(221)
Increase in trade and other receivables	(89,399)	(51,651)
Refund of tax reserve certificates	–	6,996
Other operating cash flows	(5,299)	36,358
	(107,611)	(8,518)
NET CASH USED IN INVESTING ACTIVITIES:		
Deposit paid for property, plant and equipment	(1,831)	(21,447)
Purchase of property, plant and equipment	(46,309)	(31,596)
Prepaid lease payment of land use right	–	(37)
Other investing cash flows	2,152	1,483
	(45,988)	(51,597)
NET CASH FROM (USED IN) FINANCING ACTIVITIES:		
New bank loans raised	108,011	30,000
Capital injection from non-controlling interest	589	–
Dividend paid	(66,609)	(76,797)
	41,991	(46,797)
Net decrease in cash and cash equivalents	(111,608)	(106,912)
Cash and cash equivalents at the beginning of the period	248,705	252,039
Effect of foreign exchange rate changes	(320)	307
Cash and cash equivalents at the end of the period	136,777	145,434
Represented by:		
Bank balances and cash	99,084	108,700
Deposits placed in financial institutions	37,693	36,734
	136,777	145,434

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities;
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities;
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets;
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting; and
HK(IFRIC) – Int 21	Levies

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

3. SEGMENT INFORMATION

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

Six months ended 30 June 2014

	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	236,385	433,049	53,178	722,612	–	722,612
Inter-segment sales	309	10,429	–	10,738	(10,738)	–
Group's revenue	236,694	443,478	53,178	733,350	(10,738)	722,612
Segment profit	32,784	74,242	332	107,358	–	107,358
Unallocated income						
– Interest income from banks						971
– Rental income						648
– Sale of scrap						1,303
– Others						5,246
Unallocated expenses						
– Research and development costs						(24,270)
– Central administration costs						(32,623)
Share of profit of associates						32
Other gains and losses						(2,181)
Finance cost						(86)
Profit before tax						56,398

Six months ended 30 June 2013

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing and wholesaling US\$'000	Segment total US\$'000	Eliminations US\$'000	Consolidated US\$'000
Revenue						
External sales	212,237	424,919	60,396	697,552	–	697,552
Inter-segment sales	–	11,230	–	11,230	(11,230)	–
Group's revenue	212,237	436,149	60,396	708,782	(11,230)	697,552
Segment profit	30,437	70,718	(183)	100,972	–	100,972
Unallocated income						
– Interest income from banks						1,483
– Rental income						662
– Sale of scrap						232
– Others						2,755
Unallocated expenses						
– Research and development costs						(22,805)
– Central administration costs						(25,287)
Share of profit of associates						75
Other gains and losses						(1,733)
Finance cost						(67)
Profit before tax						56,287

3. SEGMENT INFORMATION (continued)

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

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014 US\$'000	2013 US\$'000
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")	4,020	5,561

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

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

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

From March 2012 to March 2013, the IRD issued estimated profits tax assessments relating to the years of assessment 2004/2005 and 2005/06, that is, for the financial years ended 31 December 2004 and 2005, against certain subsidiaries of the Company. The Group lodged objections with the IRD against these estimated assessments. The IRD agreed to hold over the tax claimed subject to the purchasing of tax reserve certificates ("TRCs"). As at 31 December 2013, the Group purchased TRCs amounted to HK\$54,280,000 (equivalent to approximately US\$6,996,000) for the years of assessment 2004/05 and 2005/06, which has been recorded as tax recoverable in the condensed consolidated statement of financial position.

During the six months ended 30 June 2013, a settlement proposal was accepted by the IRD, no Hong Kong Profits Tax is payable by the Group in respect of the tax audit. Therefore, the TRCs previously purchased by the Group for the years of assessment 2004/05 and 2005/06 totalling HK\$54,280,000 (equivalent to approximately US\$6,996,000) was refunded to the Group.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2014 US\$'000	2013 US\$'000
Write-down of inventories (included in costs of sales)	167	1,116
Depreciation of property, plant and equipment	18,731	16,500
Release of prepaid lease payments	304	289
Share-based payments (included both in costs of sales and administrative expenses)	–	14
Net fair value (gain) loss on held for trading investments (included in other gains and losses)	(269)	1,248
Interest income on bank balances	(971)	(1,483)
Net fair value loss on derivative financial instruments (included in other gains and losses)	1,265	191

6. DIVIDENDS

	Six months ended 30 June	
	2014 US\$'000	2013 US\$'000
Final dividend declared and paid for 2013 – HK55 cents (2012: HK75 cents) per share	56,361	76,797
Special dividend declared and paid for 2013 – HK10 cents (2012: Nil) per share	10,248	–
Interim dividend declared subsequent to period end – HK30 cents (2013: HK30 cents) per share	30,788	30,732

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2014 of HK30 cents (2013: HK30 cents) per ordinary share to owners of the Company whose names appeared in the register of members of the Company at the close of business on 16 September 2014.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014 US\$'000 (Unaudited)	2013 US\$'000 (Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	52,582	50,261

	Six months ended 30 June	
	2014 '000	2013 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	792,602	792,599
Effect of dilutive potential ordinary shares: Unvested shares awarded	–	4
Weighted average number of ordinary shares for the purpose of diluted earnings per share	792,602	792,603

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 15*).

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately US\$52,629,000 (2013: US\$32,492,000) for business expansion.

In addition, during the current interim period, the Group paid approximately US\$1,831,000 (2013: US\$21,447,000) in deposits for acquisition of property, plant and equipment in order to expand its manufacturing capacities in the PRC.

9. TRADE, BILLS AND OTHER RECEIVABLES

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

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

	30 June 2014 US\$'000 (Unaudited)	31 December 2013 US\$'000 (Audited)
Trade and bills receivables:		
0 – 30 days	194,724	139,204
31 – 60 days	81,221	54,440
61 – 90 days	13,118	14,648
Over 90 days	9,993	4,308
	299,056	212,600
Other receivables	116,713	113,770
	415,769	326,370

Other receivables include prepayment to suppliers of US\$68,038,000 (2013: US\$65,585,000).

10. AMOUNT DUE FROM (TO) AN ASSOCIATE

The amount due from an associate is trading balance, representing prepayments to an associate for purchase of goods. The amount is 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.

11. TRADE AND OTHER PAYABLES

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

	30 June 2014 US\$'000 (Unaudited)	31 December 2013 US\$'000 (Audited)
Trade payables:		
0 – 30 days	78,827	56,983
31 – 60 days	10,777	8,302
Over 60 days	25,415	36,448
Other payables	115,019	101,733
	78,076	100,201
	193,095	201,934

12. BANK BORROWINGS

During the period, the Group obtained new bank loans denominated in United States dollars amounting to US\$108,011,000 (2013: Nil). The loans are repayable within one month and carry interest at fixed rates ranging from 0.95% to 1.91% per annum. The proceeds were used for general working capital purposes.

13. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
As at 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	794,379,500	79,438
Shown in financial statements as		US\$10,160,000

14. CAPITAL COMMITMENTS

	30 June 2014 US\$'000	31 December 2013 US\$'000
Capital expenditure authorised but not contracted for in respect of property, plant and equipment	25,702	56,066
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	7,119	5,665
	32,821	61,731

15. SHARE-BASED PAYMENTS

Long Term Incentive Scheme (the “Scheme”)

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

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

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

Details of the movement with respect to the grant of the Company’s shares during the period ended 30 June 2013 is as follow:

	Grant date	Vesting period	Outstanding at 1 January 2013	Vested during the period	Outstanding at 30 June 2013 <i>(Note)</i>
Employees	19 February 2009	19 February 2009 – 1 April 2013	4,900	(4,900)	–
	15 July 2011	15 July 2011 – 1 September 2013	5,000	–	5,000
	15 July 2011	15 July 2011 – 1 September 2014	7,500	–	7,500
	15 July 2011	15 July 2011 – 1 September 2015	10,000	–	10,000
			27,400	(4,900)	22,500

Note: 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 ended 31 December 2013, the Company cancelled the restricted unit awards for 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.

During the period under review, no shares of the Company were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding shares of the Company under the Scheme as at 30 June 2014.

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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

Financial asset	Fair value as at 30 June 2014	Fair value as at 31 December 2013	Fair value Hierarchy	Valuation technique(s) and key input(s)
1) Foreign currency option contracts classified as derivative financial instruments in the statement of financial position	Liabilities – US\$937,000	Nil	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchanges rates (from observable forward exchanges rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties
2) Foreign currency forward contracts classified as derivative financial instruments in the statement of financial position	Liabilities – US\$328,000	Nil	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchanges rates (from observable forward exchanges rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties
3) Held-for-trading non-derivative financial assets classified as held for trading investments in the statement of financial position	Listed bonds and funds in Hong Kong – US\$16,896,000; and listed bonds and funds in elsewhere – US\$25,047,000	Listed bonds in Hong Kong – US\$9,596,000; and listed bonds in elsewhere – US\$19,703,000	Level 1	Quoted bid prices in active markets

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

17. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June	
		2014 US\$'000	2013 US\$'000
辛集市寶得福皮業有限公司 (Xinji Baodefu Leather Co. Ltd.) (Note)	Purchase of footwear products	45,254	52,283
Couture Accessories Limited (Note)	Purchase of footwear products	594	420
	Sales of footwear products	296	394

Note: Associates of the Company.

(II) Compensation of key management personnel

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

	Six months ended 30 June	
	2014 US\$'000	2013 US\$'000
Short-term benefits	324	423

The remuneration of directors and key executives 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.

DISCLOSURE OF INTERESTS

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

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Aggregate long positions in shares and underlying shares of the Company

Director	Capacity/Nature of Interests	Number of Shares		Number of Underlying Shares	Total	Approximate Percentage of Shareholding
		Personal Interest	Corporate Interest			
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:

- 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.
- 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.
- 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.
- These interests were held by a company, the entire issued share capital of which was held by Mr. Chiang Jeh-Chung, Jack. Mr. Chiang Jeh-Chung, Jack was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2014, 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	87,478,500	11.01%
Capital Research and Management Company	Investment manager	47,261,000	5.95%

Save as disclosed above, as at 30 June 2014, no person (other than a Director or chief executive of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above), had an interest or short position in the shares and underlying shares of the Company that were required to be recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the “Shareholders”). The Company has applied the principles and complied with all code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2014, except for code provisions B.1.5 and E.1.2 of the CG Code, details of which are disclosed below.

For code provision B.1.5 of the CG Code, the Company had not disclosed the details of remuneration payable to members of senior management by band in the annual report of 2013 for observing competitive market practices and respecting individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (the “Chairman”) of the Board, had not attended the annual general meeting of the Company held on 23 May 2014 (the “2014 AGM”). Instead, Mr. Chen Li-Ming, Lawrence, the chief executive officer of the Group, took the chair at the 2014 AGM (on behalf Mr. Chao Ming-Cheng, Eric, the deputy chairman (the “Deputy Chairman”) of the Board), and the chairman or member of the audit committee, corporate governance committee, remuneration committee and nomination committee attended the 2014 AGM to answer Shareholders’ questions. The reason for such arrangement was that the Board had allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, was mainly responsible for managing major customers’ relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Chao Ming-Cheng, Eric, was 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 the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group’s prevailing circumstances.

Governance Model

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

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2014.

Board Practices

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

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

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

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

Internal Controls

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

Audit Committee

Pursuant to the requirements of the CG Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising three independent non-executive Directors, Mr. Yue Chao-Tang, Thomas, Mr. Chen Johnny and Mr. Chan Fu Keung, William, *BBS*. The chairman of the Audit Committee is Mr. Yue Chao-Tang, Thomas. The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations. The Audit Committee has reviewed the Group's interim report for the six months ended 30 June 2014.

Remuneration Committee

The Company has established a remuneration committee (the “Remuneration Committee”) pursuant to the requirements of the Listing Rules. The Remuneration Committee has three members comprising three independent non-executive Directors, Mr. Chan Fu Keung, William, *BBS*, Mr. Chen Johnny and Mr. Yue Chao-Tang, Thomas. The chairman of the Remuneration Committee is Mr. Chan Fu Keung, William, *BBS*. The principal duties of the Remuneration Committee include making recommendations to the Board on the Company’s policy and structure for all Directors’ and senior management’s remuneration, reviewing and making recommendations to the Board and the management’s remuneration proposals for Directors and reviewing the Group’s overall human resources strategy.

Nomination Committee

The Company has established a nomination committee (the “Nomination Committee”) in compliance with the CG Code. The Nomination Committee has four members comprising four independent non-executive Directors, Mr. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William, *BBS* and Mr. Yue Chao-Tang, Thomas. The chairman of the Nomination Committee is Mr. Chen Johnny. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

Corporate Governance Committee

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

OTHER INFORMATION

Update on Directors' Information

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

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 and a member of the audit committee 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, BBS, 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, the 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), a company listed on the Main Board of the Stock Exchange (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. 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 and the chairman of the Hospital Governing Committee of the Tuen Mun Hospital. In addition, he is a member of the 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. 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”). 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. From June 2008 to April 2014, Mr. Chen was an executive director of Zurich Insurance (Taiwan) Ltd. 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. 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 2011, Mr. Yue has also been appointed as an independent director and convener 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 convener of the audit committee of Uni-President Enterprises Corp., the shares of which are listed on the Taiwan Stock Exchange (Stock Code: 1216). Since June 2014, Mr. Yue has also been appointed as an independent director of Johnson Health Tech. Co., Ltd., the shares of which are listed on the Taiwan Stock Exchange (Stock Code: 1736). From June 2008 to June 2014, Mr. Yue was an independent director of WPG Holdings Limited, the shares of which are listed on the Taiwan Stock Exchange (Stock Code: 3702). In addition, he is a director of Taiwan Corporate Governance Association. Mr. Yue received a master’s degree and a bachelor’s degree in accounting from the National Cheng-Chi University and the National Cheng-Kung University respectively. In addition, Mr. Yue received a master’s degree in business administration from China Europe International Business School. Mr. Yue has been a certified public accountant of Taiwan since 1983. Mr. Yue has been appointed as an independent non-executive Director of the Company since January 2013.

Long Term Incentive Scheme

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

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

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

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

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

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

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

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

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

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

During the period under review, no Options were granted, exercised or cancelled under the Scheme and there were no outstanding Options under the Scheme as at 30 June 2014.

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.

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

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

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

Hong Kong, 14 August 2014

CORPORATE INFORMATION

Board of Directors

Executive Directors

CHIANG Jeh-Chung, Jack, *Chairman*
CHAO Ming-Cheng, Eric, *Deputy Chairman*
CHEN Li-Ming, Lawrence, *Chief Executive Officer*
CHI Lo-Jen

Independent Non-Executive Directors

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

Audit Committee

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

Corporate Governance Committee

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

Nomination Committee

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

Remuneration Committee

CHAN Fu Keung, William, *BBS*, *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

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

Registered Office

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Principal Place of Business in Hong Kong

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Stock Code

1836

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www.stella.com.hk

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from sustainably managed forests and controlled sources



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