Stella International Holdings Limited

Stock Code: 1836

Interim Report 2016

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

The first half of 2016 will be long remembered for the great level of uncertainty it brought: not just to global markets but also to the current economic and political order.

The United Kingdom's vote in June 2016 to leave the European Union caught many by surprise, notwithstanding the lack of a clear exit procedure or historical precedent for such a radical restructuring. All eyes are now turning towards how Europe will respond to this decline in its unity. Even in the absence of such information, many analysts agree that the impact of 'Brexit' on consumer confidence both in the UK and the broader European economy – our second largest export market – will be felt for years.

The recent terrorist attacks in France and Germany, as well as the failed military coup d'état in Turkey, a close geopolitical ally, only add to this uncertainty.

Across the Atlantic in the United States, our largest export market, the picture is a little better. Economic growth and job creation continues to hum along at a stable level, while New York's stock markets are once again hitting record highs. Yet even here, this progress remains uncertain. The current U.S. presidential race has exposed a high level of discontent on both sides of America's domestic political divide, with many voters voicing their dissatisfaction with stagnant wage growth and global trade policies. In reaction to this, both presidential candidates have expressed their intention to change Washington's approach to free trade agreements, including the recently concluded Trans-Pacific Partnership (TPP).

Finally, in the realm of fashion (a perhaps lighter but no less serious area of importance to our business), changing lifestyles and aspirations are rapidly transforming the landscape of footwear retailing. The most prevalent trend has been the rise of 'athleisure' footwear, a hybrid product segment that is replacing the space traditionally occupied by casual footwear.

All of these events have brought a fresh set of challenges to our business and were the primary reasons behind the declines in volume revenues, and margins during the six months ended 30 June 2016. In particular, the speed of the volume decline hurts the utilisation of our manufacturing facilities, as well as own efficiency, at least in the short-term.

None of these changes and uncertainties is likely to diminish in the second half of the year. However, our ability to respond to them is improving. Of key importance will be a continued focus on quality through ongoing investments in research and development and a better allocation of production, working hours and headcounts at our manufacturing facilities. This will ensure that we will be able to differentiate our products, meet the changing needs of our customers and reduce some of the pressure on our margins compared to the first half of this year.

Better planning will also help our retail business overcome slowing economic growth in China, under the guidance of our new retail management team.

On a final note, there is one thing that I am absolutely certain about in this time of rapid change: my gratitude for the unwavering support from our customers, business partners and shareholders. Their support has always seen Stella through challenging periods. At the same time, I am also extremely thankful for the dedication, hard work and service of my colleagues over the period.

Chiang Jeh-Chung, Jack
Chairman
Hong Kong, 26 August 2016

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 2016.

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 sports 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*. Our network of retail stores is primarily focused in Mainland China, with additional stores in France, the Philippines, Bahrain, Taiwan, Kuwait, Lebanon and the United Arab Emirates.

Financial Highlights

Lower Shipment Volumes and Unit Prices Affect Earnings

We experienced a slowdown in demand for our footwear products, particularly in the casual footwear segment, during the six months ended 30 June 2016, as a result of the weak retail environment in North America and Europe, as well as other factors. This resulted in lower utilisation of our non-sports footwear factories, resulting in a drop in efficiency and margins. The lower shipment volumes, combined with declining unit prices for our footwear products, negatively affected our financial performance during the period under review.

Our consolidated revenue for the six months ended 30 June 2016 fell 9.6% to US$721.4 million, compared to US$798.0 million in the first half of 2015. Shipment volumes fell 4.5% to 25.4 million pairs, compared to 26.6 million pairs in the corresponding period of last year. The average selling price ("ASP") of our footwear products fell to US$27.1 per pair, compared to US$28.6 per pair, which was attributable to falling raw material costs (particularly for leather), changes in product mix, as well as greater pricing competition.

Casual footwear continued to be the biggest contributor to overall revenue, at around 45.7% of total revenue. Orders for sports footwear continued to accelerate, accounting for 22.9% of overall revenue. Dress and fashion footwear maintained its contribution at 31.4% of overall revenue.

Geographically, North America and Europe remained our two largest markets, accounting for 49.2% and 26.9% of the Group's total revenue respectively in the six months under review. This was followed by the PRC (including Hong Kong), which accounted for 13.9%, Asia (other than the PRC), which accounted for 8.0% and other geographic regions, which accounted for 2.0%.

External Factors Weighing on Retail Business, Despite Some Improvements

We continued to implement our retail optimisation strategy during the six months under review, which included: the ongoing closure of underperforming stores and counters; the launch of multi-brand stores; the opening of new standalone stores in high-potential shopping malls in China; the refurbishment of older stores; the addition of more point-of-sales in Europe; as well as the use of online platforms to clear off-season merchandise.

This strategy has started to have some positive impact on the performance of our retail business, with same-store sales declines in China slowing markedly during most of the period under review. However, wet weather towards the end of the second quarter of 2016 impacted sales volumes for our new Spring/Summer season products, pushing overall retail sales lower in the first half of the year.

Retail revenue declined 9.7% to US$39.9 million during the six months ended 30 June 2016, compared to retail revenue of US$44.2 million in the first half of 2015. Same-store sales (in China only) fell 17.6% to US$24.7 million during the period under review, compared to US$30.9 million during the corresponding period of last year. Despite this, our retail business made a US$1.9 million profit in the six months under review.

Ongoing Profitability Despite Ongoing Challenges in the Business Environment

We continued to remain profitable, despite the above challenges. Gross profit across all of our business segments fell 17.7% to US$133.2 million in the six months under review, compared to US$161.9 million in the corresponding period of last year. Net profit for the period was US$30.4 million, down 43.7% compared to the same period of last year.

Business Review

Adjusting Production Processes to Meet Rising 'Athleisure' Trend

The performance of our manufacturing operations in the six months under review was marked by the growing popularity of 'athleisure' footwear products – a fashionable take on the traditional sports shoe. This shift in demand is being driven by a number of factors, including changing fashion and lifestyles that favour comfortable and casual wear. This has resulted in a falling propensity for spending on dress and high-end footwear in North America and Europe (our primary export markets), while also adding to the ongoing blurring of fitness and fashion footwear products.

As a result, athleisure products continued to be a major growth driver during the period under review, during which time we have remained a leading developer and manufacturer for this product segment. However, the growing demand for these products also cannibalised demand for casual footwear products, resulting in an overall fall in shipment volumes during the six months under review. This had other negative effects on our manufacturing business, particularly lower efficiencies and the under utilisation of some manufacturing facilities, which impacted our margins. Our margins were also affected by the hiring of additional headcount at our non-China factories during the period under review.

Continued Investment in New Value-adding Products

Changing global consumer tastes have made it even more important for Stella to maintain its unparalleled reputation for quality, flexibility and new product commercialisation, in order to differentiate our products and maintain our market share.

We continued to add new value-adding footwear products to our range during the period under review, particularly in the key athleisure segment. Our ability to do this was underpinned by our continued investment in our research and development centres. We are also continuing to explore the manufacture of quality leather goods and accessories, including handbags.

ASP Decline on Lower Input Costs, Changing Product Mix and Pricing Competition

The 5.2% decline in the ASP of our footwear products was the result of three main factors: falling raw material costs, particularly for leather; changing product mix; and increased pricing competition.

Leather prices continue to reflect lower slaughterhouse prices that were seen towards the end of 2015 following the breaking of drought conditions in major cattle markets. At the same time, many footwear brands have been broadening their product ranges, which widened the number of price points we need to cater for while pushing down the ASP of some of our products. Increasing competition, particularly in the causal footwear segment also impacted the ASP of some our footwear products.

Despite this, we continued to attract a higher ASP than the industry average during the period under review in reflection of the higher quality and value-adding attributes of our footwear products.

Retail Business Encountering Both Bright Spots and Challenges

The recent introduction of a new retail management team and the continued implementation of our retail optimisation strategy delivered some benefits to our retail business during the period under review. However, slowing economic growth in China and an unseasonably wet start to the Spring/Summer season posed challenges to these efforts.

We further reduced our store network in China as we continued to close underperforming stores and counters. However, the expanding presence of our *Stella Luna*, *What For* and *JKJY by Stella* brands in Europe continued to support the value of our retail brands in China.

In April 2016, we closed our last *Pierre Balmain* branded store in China, although *Pierre Balmain*-branded footwear remain available at our other retail stores in China.

As of 30 June 2016, our *Stella Luna* footwear was priced between RMB1,780 and RMB8,680 per pair in China, while our *What For* and *JKJY by Stella* products retailed for between RMB1,180 and RMB1,680 per pair and between RMB2,380 and RMB3,980 per pair respectively.

The following table shows the geographic distribution of our stores, by brand, as of 30 June 2016.

	Stella Luna	*What For*	*JKJY by Stella*
Greater China			
Eastern China	46	5	0
Southern China	31	12	0
Northern China	34	19	0
North-East China	19	6	0
South-West China	29	8	1
Central China	16	7	0
Taiwan	2	0	1
Subtotal	177	57	2
France	7	48	1
Philippines	2	1	1
Bahrain	1	1	0
Kuwait	2	2	0
Lebanon	9	8	0
United Arab Emirates	4	1	0
Total	202	118	4

Business Outlook

Challenging Conditions to Continue into Second Half of 2016

We expect that the current challenging environment will continue into the second half of 2016, with shipment volumes likely to be impacted by lower consumer confidence, particularly in Europe. We also expect more customers to confirm the details of their orders i.e. SKUs until the last minute, which may affect our production planning and efficiency.

However, the effect of both of these factors on our shipment volumes may be partially cushioned by rising demand for our sports fashion footwear products.

Other potential risks that could impact consumer sentiment and customer orders going forward include: a potential debt crisis in the Chinese or European financial sectors; a disorderly exit from the European Union by the United Kingdom; the increasingly vitriolic presidential election campaign in the United States and its potential impact on the future ratification of the TPP; as well as further violent attacks on civilians in Europe.

Measures to Reduce Margin Pressure

As the sports footwear category becomes an increasingly significant part of our business going forward, we will continue to make adjustments to our manufacturing business in order to increase efficiency and reduce pressure on margins. This includes increasing investment in research and design to further differentiate our products, allocating production processes across our manufacturing facilities more efficiently and better managing headcounts and working hours.

We will also continue to implement strict cost controls and other efficiency improvement measures, while also safeguarding our ability to cater for short lead times and narrow shipment windows, in order to deliver value to our customers.

Focus on Long-term Competitiveness of Retail Business

We will also continue to focus on restoring the long-term competitiveness of our retail business by selectively opening new standalone stores in high-potential locations in China and by expanding our presence in Europe.

We are also continuing to work with leading retailers around the world on new initiatives that will boost the global visibility of our brands. This may include the introduction of our *Stella Luna* brand shoes in globally renowned department stores, such as *Lane Crawford* and *Barneys New York*, bringing our retail brands to new markets, such as Hong Kong, China and the United States for the first time, while also making them available on their ecommerce channels.

Continued Commitment to Shareholders

We expect our capital requirements to remain modest following the earlier completion of our inland migration strategy and the recent consolidation of our manufacturing capacity in coastal China, despite our ongoing investment in our research and development capabilities and manufacturing facilities in South-East Asia.

Despite the emergence of more challenging operational conditions, we remain committed to returning profit to shareholders and maintaining our current dividend policy.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2016, the Group had cash and cash equivalents of about US$152.6 million (31 December 2015: US$186.2 million).

As at 30 June 2016, the Group had current assets of about US$884.4 million (31 December 2015: US$808.2 million) and current liabilities of about US$381.7 million (31 December 2015: US$255.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.3 as at 30 June 2016 (31 December 2015: 3.2), an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$159.5 million as at 30 June 2016 (31 December 2015: US$18.3 million).

Foreign Exchange Exposure

During the six months ended 30 June 2016, 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 entered into various foreign currency forward contracts to minimise the Group's exchange rate exposure.

Capital Expenditure

Net cash outflows from investing activities was US$47.2 million during the period under review (for the six months ended 30 June 2015: US$42.1 million), up 12.1%. Capital expenditure amounted to approximately US$49.3 million during the period (for the six months ended 30 June 2015: US$42.7 million), of which approximately US$39.9 million was used in production capacity expansion and approximately US$9.4 million was used for the optimisation of our retail store network.

Pledge of Assets

As at 30 June 2016, the Group had pledged US$5.6 million of its assets (31 December 2015: US$5.5 million).

Contingent Liabilities

As at 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

Employees

As at 30 June 2016, the Group had approximately 78,000 employees (31 December 2015: approximately 83,000). 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.

Corporate Social Responsibility (CSR)

Stella has long recognised its responsibility to ensure that its operations are environmentally sustainable and accountable to the safety, health and well being of both our employees and the communities in which we operate.

At the core of our 'CSR Vision' is the Triple Bottom Line of 'People, Planet and Profit', particularly in the areas of:

– *Product Stewardship:* by offering environmentally friendly products that meet the needs of our customers and the markets we serve

– *Regulatory Compliance:* by complying with all applicable laws and regulations covering our operations

– *Environmental Preservation:* by protecting valuable natural resources through the reduction, reuse and recycling of materials, while also reducing emissions.

We also adhere to a Code of Conduct, to which we also bind our suppliers and business partners. The Code outlines a number of minimum standards to eliminate the scourges of child labour, modern-day slavery, excessive working hours and all forms of discrimination, while ensuring freedom of association and the timely payment of wages and compensation.

We continued to make progress towards the achievement of our Sustainability Strategy 2014-2017, in particular the continued rollout of annual centralised audits at each of our manufacturing facilities, including in China, Vietnam, Bangladesh, Indonesia and the Philippines. The goal of the Strategy is to rapidly increase the sustainability of Stella's operations, while infusing strong CSR and compliance standards into everything that we do.

We also continued to work hard towards meeting our 'Stella 2020' targets for waste management. By the year 2020, our goal is to reduce our fresh water usage to around 35 litres/pair, while also reducing the level of solid and hazardous waste to less than 150g/pair and 13g/pair respectively. Another goal is to increase the percentage of wastewater treated by wastewater treatment plants to between 85-100%, depending on the location.

Other areas of focus during the current period under review, as well as in the coming years will be to make further improvements to workplace health and safety by creating a culture of empowerment among employees to support a collaborative, safe and healthy work environment. We will also continue to act as a responsible employer by capping the number of overtime hours worked and by providing health benefits, social activities and personal development opportunities.

We look forward to continuing our CSR mission in the second half of 2016 and beyond.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2016. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 30 September 2016. It is expected that the interim dividend will be paid on or about 14 October 2016. In order to qualify for the interim dividend for the six months ended 30 June 2016, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 30 September 2016.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the condensed consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 11 to 24, which comprise the condensed consolidated statement of financial position as of 30 June 2016 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
26 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June 2016 US$'000 (Unaudited)	2015 US$'000 (Unaudited)
Revenue	3	**721,388**	798,052
Cost of sales		**(588,164)**	(636,134)
Gross profit		**133,224**	161,918
Other income		**11,380**	11,060
Other gains and losses		**1,979**	411
Distribution and selling expenses		**(43,303)**	(44,186)
Administrative expenses		**(39,948)**	(44,743)
Research and development costs		**(30,720)**	(27,074)
Share of result of a joint venture		**540**	–
Share of results of associates		**(76)**	63
Finance costs		**(194)**	(114)
Profit before tax		**32,882**	57,335
Income tax expense	4	**(2,438)**	(3,898)
Profit for the period	5	**30,444**	53,437
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**(207)**	(271)
Share of exchange differences of associates and a joint venture		**(11)**	25
Other comprehensive expense for the period, net of income tax		**(218)**	(246)
Total comprehensive income for the period		**30,226**	53,191
Profit (loss) for the period attributable to:			
Owners of the Company		**30,380**	54,018
Non-controlling interests		**64**	(581)
		30,444	53,437
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**30,189**	53,744
Non-controlling interests		**37**	(553)
		30,226	53,191
Earnings per share	7		
– Basic and diluted (US$)		**0.0383**	0.0682

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30 June 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**388,130**	375,339
Prepaid lease payments		**17,337**	18,044
Interests in associates		**8,045**	8,141
Interest in a joint venture		**6,177**	5,631
Deposit paid for acquisition of property, plant and equipment	8	**39,162**	27,893
		458,851	435,048
CURRENT ASSETS			
Inventories		**250,843**	208,482
Trade and other receivables	9	**426,163**	362,295
Bills receivables	9	**285**	317
Loan receivable		**832**	840
Prepaid lease payments		**585**	593
Amounts due from associates	10	**38,376**	37,544
Amount due from a joint venture	11	**14,795**	11,897
Derivative financial assets	12	**24,952**	–
Held for trading investments		**32,822**	41,084
Cash and cash equivalents		**94,774**	145,126
		884,427	808,178
CURRENT LIABILITIES			
Trade and other payables	13	**174,476**	186,169
Bank borrowings – due within one year	14	**156,135**	15,140
Tax liabilities		**50,890**	53,626
Derivative financial liabilities	12	**198**	788
		381,699	255,723
NET CURRENT ASSETS		**502,728**	552,455
		961,579	987,503
CAPITAL AND RESERVES			
Share capital	15	**10,160**	10,160
Share premium and reserves		**948,808**	974,909
Equity attributable to owners of the Company		**958,968**	985,069
Non-controlling interests		**(740)**	(777)
TOTAL EQUITY		**958,228**	984,292
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	14	**3,351**	3,211
		961,579	987,503

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Capital reserve US$'000	Exchange reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000	Share award reserve US$'000	Accumulated profits US$'000	Subtotal US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2015 (audited)	10,160	154,503	45,427	1,146	(3,791)	(2,722)	190	1,450	745,490	951,853	856	952,709
Profit (loss) for the period	–	–	–	–	–	–	–	–	54,018	54,018	(581)	53,437
Other comprehensive (expense) income for the period	–	–	–	–	(274)	–	–	–	–	(274)	28	(246)
Total comprehensive (expense) income for the period	–	–	–	–	(274)	–	–	–	54,018	53,744	(553)	53,191
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	3	3
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(56,360)	(56,360)	–	(56,360)
At 30 June 2015 (unaudited)	10,160	154,503	45,427	1,146	(4,065)	(2,722)	190	1,450	743,148	949,237	306	949,543
Profit (loss) for the period	–	–	–	–	–	–	–	–	67,029	67,029	(315)	66,714
Other comprehensive (expense) income for the period	–	–	–	–	(451)	–	–	–	–	(451)	68	(383)
Total comprehensive (expense) income for the period	–	–	–	–	(451)	–	–	–	67,029	66,578	(247)	66,331
Acquisition of additional interest in a subsidiary	–	–	–	–	2	–	–	–	–	2	(836)	(834)
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(30,748)	(30,748)	–	(30,748)
At 31 December 2015 (audited)	10,160	154,503	45,427	1,146	(4,514)	(2,722)	190	1,450	779,429	985,069	(777)	984,292
Profit for the period	–	–	–	–	–	–	–	–	30,380	30,380	64	30,444
Other comprehensive expense for the period	–	–	–	–	(191)	–	–	–	–	(191)	(27)	(218)
Total comprehensive (expense) income for the period	–	–	–	–	(191)	–	–	–	30,380	30,189	37	30,226
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(56,290)	(56,290)	–	(56,290)
At 30 June 2016 (unaudited)	10,160	154,503	45,427	1,146	4,705	(2,722)	190	1,450	753,519	958,968	(740)	958,228

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES:		
Decrease (increase) in investments held for trading	**9,394**	(1,684)
Increase in trade and other receivables	**(64,173)**	(79,219)
Other operating cash flows	**(7,967)**	4,178
	(62,746)	(76,725)
NET CASH USED IN INVESTING ACTIVITIES:		
Deposit paid for acquisition of property, plant and equipment	**(13,163)**	(110)
Purchase of derivative financial instruments	**(25,000)**	–
Purchase of property, plant and equipment	**(36,117)**	(42,549)
Other investing cash flows	**2,087**	2,279
	(72,193)	(40,380)
NET CASH FROM FINANCING ACTIVITIES:		
New short-term bank borrowings raised	**140,995**	138,937
New long-term bank borrowing raised	**3,351**	–
Repayment of long-term bank borrowing	**(3,211)**	–
Capital injection from non-controlling interests	**–**	3
Dividend paid	**(56,290)**	(56,360)
Other financing cash flows	**(194)**	–
	84,651	82,580
Net decrease in cash and cash equivalents	**(50,288)**	(34,525)
Cash and cash equivalents at the beginning of period	**145,126**	131,601
Effect of foreign exchange rate changes	**(64)**	(92)
Cash and cash equivalents at the end of period, represented by bank balances and cash	**94,774**	96,984

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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 ("HKICPA") 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, as appropriate.

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 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following 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 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKAS 27	Equity method in separate financial statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported 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 2016

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
Revenue						
External sales	222,167	459,362	39,859	721,388	–	721,388
Inter-segment sales	476	16,162	–	16,638	(16,638)	–
Total	222,643	475,524	39,859	738,026	(16,638)	721,388
Inter-segment sales are charged at prevailing market rates						
Results						
– Segment results	25,260	57,656	1,948	84,864	–	84,864
Unallocated income						
– Interest income on bank balances						454
– Interest income from held for trading investments						1,633
– Rental income						581
– Sale of scrap						470
– Net gain on changes in fair value of derivative financial instruments						542
– Net gain on changes in fair value of held for trading investments						1,132
– Others						8,444
Unallocated expenses						
– Research and development costs						(30,720)
– Central administrative costs						(34,788)
Finance costs						(194)
Share of result of a joint venture						540
Share of results of associates						(76)
Profit before tax						32,882

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2015

	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	266,511	487,311	44,230	798,052	–	798,052
Inter-segment sales	412	8,915	–	9,327	(9,327)	–
Total	266,923	496,226	44,230	807,379	(9,327)	798,052
Inter-segment sales are charged at prevailing market rates						
Results						
– Segment results	43,103	73,391	(300)	116,194	–	116,194
Unallocated income						
– Interest income on bank balances						375
– Interest income from held for trading investments						1,904
– Rental income						664
– Sale of scrap						559
– Net gain on changes in fair value of derivative financial instruments						368
– Net gain on changes in fair value of held for trading investments						449
– Others						7,152
Unallocated expenses						
– Research and development costs						(27,074)
– Central administrative costs						(43,205)
Finance costs						(114)
Share of results of associates						63
Profit before tax						57,335

Segment profit represents the profit earned by each segment without allocation of interest income on bank balances, interest income from held for trading investments, net gain on changes in fair value of derivative financial instruments, rental income, sale of scrap, research and development costs, share of results of associates, share of result of a joint venture, net gain on changes in fair value of held for trading investments, central administrative costs, and finance costs. This is the measure reported to the Group's chief executives for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")		
Current tax	**6,388**	7,377
Overprovision in prior years	**(4,015)**	(3,493)
	2,373	3,884
Other jurisdictions	**65**	14
	2,438	3,898

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, which was acquired in 2011, is exempted from Macao Complementary Tax.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
	(Unaudited)	(Unaudited)
(Reversal of) write-down of inventories (included in cost of sales)	**(1,220)**	3,461
Depreciation of property, plant and equipment	**21,937**	19,644
Release of prepaid lease payments	**469**	311
Net fair value gain on held for trading investments (included in other gains and losses)	**(1,132)**	(449)
Interest income on bank balances	**(454)**	(375)
Interest income from held for trading investments	**(1,633)**	(1,904)
Net fair value gain on derivative financial instruments (included in other gains and losses)	**(542)**	(368)

6. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	US$'000	US$'000
Final dividend declared and paid for 2015 – HK55 cents (2014: HK55 cents) per share	**56,290**	56,360
Interim dividend declared subsequent to period end – HK30 cents (2015: HK30 cents) per share	**30,730**	30,748
	87,020	87,108

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2016 of HK30 cents (30 June 2015: 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 30 September 2016.

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	
	2016	2015
	US$'000	US$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**30,380**	54,018

	Six months ended 30 June	
	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**792,602**	792,602

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 17).

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately US$37,967,000 (30 June 2015: US$42,779,000) for business expansion.

In addition, during the current interim period, the Group paid approximately US$13,163,000 (30 June 2015: US$110,000) in deposits for acquisition of property, plant and equipment in order to expand its manufacturing capacities in the PRC,Philippines and Myanmar.

The Group has pledged freehold land and buildings with net book values of approximately US$3,433,000 (31 December 2015: US$3,373,000) and US$2,156,000 (31 December 2015: US$2,171,000), respectively to secure a bank loan granted to the Group.

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 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
Trade and bills receivables:		
0 – 30 days	**184,251**	142,420
31 – 60 days	**94,727**	66,190
61 – 90 days	**8,588**	11,224
Over 90 days	**4,862**	18,846
	292,428	238,680
Other receivables	**134,020**	123,932
	426,448	362,612

Other receivables include prepayment to suppliers of US$88,647,000 (31 December 2015: US$75,284,000).

9. TRADE, BILLS AND OTHER RECEIVABLES (continued)

Movement in the allowance for doubtful debts

	30 June 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
Balance at beginning of the period/year	**1,500**	2,636
Impairment loss recognised on trade receivables	**–**	1,000
Amounts written off as uncollectable	**(402)**	(2,136)
Balance at end of the period/year	**1,098**	1,500

10. AMOUNTS DUE FROM ASSOCIATES

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

11. AMOUNT DUE FROM A JOINT VENTURE

The amount due from a joint venture is trading balance, representing prepayments to a joint venture for purchase of goods. The amount is unsecured and interest-free.

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets	
	30 June 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
Dual currency deposits	**24,952**	–

	Liabilities	
	30 June 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
Foreign currency option contract	**198**	788

The Group entered into derivative financial instruments, including foreign currency option contract and dual currency deposits ("DCD"), to manage exposure to foreign exchange fluctuations and to improve the returns on its cash assets.

DCD is a US$ denominated transaction that provides an enhanced guaranteed interest payment at maturity. However, the currency delivered at maturity depends upon a specified conversion rate ("Strike Rate") on the valuation date. The Group will receive the final payment amount at maturity in US$ plus the coupon (comprised of interest portion and premium portion) if the spot rate on the valuation date is above the Strike Rate. If the spot rate on the valuation date is equal to or less than the Strike Rate, the Group will receive final payment amount in EUR plus the coupon, both converted at a rate equivalent to the Strike Rate.

As at 30 June 2016, the Group hold the following dual currency deposits.

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

30 June 2016

Nominal amount	Net fair value as at 30 June 2016 in US$	Coupon rate	Maturity	Strike rate
US$10,000,000	US$9,996,200	3.3% per annum	5 July 2016	EUR1:USD1.0840
US$3,000,000	US$2,970,294	14.42% per annum	5 July 2016	EUR1:USD1.1140
US$7,000,000	US$6,985,972	7.94% per annum	5 July 2016	EUR1:USD1.1040
US$5,000,000	US$5,000,000	4.00% per annum	7 July 2016	EUR1:USD1.0880

As at 30 June 2016 and 31 December 2015, the major terms of outstanding foreign currency option contract are as follows:

30 June 2016 and 31 December 2015

Notional amount	Maturity	Exchange rate
US$16,000,000	8 August 2016	USD1:RMB6.33

The above derivatives were measured at fair value at the end of the reporting period. Their fair value were determined based on equivalent instruments at the end of reporting period.

13. 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 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
Trade payables:		
0 – 30 days	**71,931**	67,535
31 – 60 days	**7,130**	7,050
Over 60 days	**23,007**	14,276
	102,068	88,861
Other payables	**72,408**	97,308
	174,476	186,169

14. BANK BORROWINGS

	30 June 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
Bank borrowings comprised of:		
Bank loan – secured	**3,351**	3,351
Bank loans – unsecured	**156,135**	15,000
	159,486	18,351

As at 31 December 2015, included in bank borrowings was a secured bank loan denominated in New Taiwan dollars amounting to US$3,351,000, which was repayable within twenty years and carrying fixed interest rate at 1.85% per annum. It was secured by the Group's freehold land and building with carrying amounts of US$3,373,000 and US$2,171,000 respectively. The proceeds were used mainly for general working capital purposes. This balance was shown under current and non-current liabilities as at 31 December 2015, and was early repaid in full during the six months ended 30 June 2016.

14. BANK BORROWINGS (continued)

As at 30 June 2016, included in bank borrowings is a new secured bank loan denominated in New Taiwan dollars amounting to US$3,351,000, which is repayable within 5 years with 1 year grace period and carrying at benchmark interest rate per month. The effective interest rate during the period (which is equal to contractual interest rate) of this bank borrowing is 1.09% per month. It is secured by the Group's freehold land and building with carrying amounts of US$3,433,000 and US$2,156,000 respectively. The proceeds are used mainly for general working capital purposes. This balance is shown under non-current liabilities.

During the six months ended 30 June 2016, the Group also obtained new bank loans denominated in United States dollars amounting to approximately US$409,129,000 and repaid these bank loans of approximately US$268,189,000. These loans are repayable within one year and carry interest at fixed rate ranging from 0.65% to 1.18% per annum. The proceeds were used mainly for general working capital purposes. This balance was shown under current liabilities.

15. SHARE CAPITAL

	Number of shares	**Nominal value** HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
As at 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	794,379,500	79,438
Shown in financial statements as		US$10,160,000

16. CAPITAL COMMITMENTS

	30 June 2016 US$'000 (Unaudited)	31 December 2015 US$'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**4,452**	15,118

17. SHARE-BASED PAYMENTS

Long Term Incentive Scheme (the "Scheme")

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.

As at 30 June 2016, the Trustee maintained a pool of 1,778,000 shares (31 December 2015: 1,778,000 shares) which are available for the Trustee to satisfy the Scheme upon their respective vesting or future grant.

During the six months ended 30 June 2016 and the year ended 31 December 2015, 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 both of the end of reporting periods.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Financial assets/ financial liabilities	Fair value as at 30 June 2016	31 December 2015	Fair value Hierarchy	Valuation technique(s) and key input(s)
		US$'000	US$'000		
1)	Held-for-trading non-derivative financial assets classified as held for trading investments in the condensed consolidated statement of financial position	Listed bonds in Hong Kong – US$10,614; Listed bonds and funds in elsewhere – US$22,208	Listed bonds in Hong Kong – US$14,110; Listed bonds and funds in elsewhere – US$26,974	Level 1	Quoted bid prices in an active market
2)	Foreign currency option contract classified as derivative financial instruments in the condensed consolidated statement of financial position	Liabilities – US$198	Liabilities – US$788	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)	Dual currency deposits classified as derivative financial instruments in the condensed consolidated statement of financial position	Assets – US$24,952	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

Fair value measurements and valuation process

The board of directors of the Company has closely monitored and determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

19. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June 2016 US$'000 (Unaudited)	2015 US$'000 (Unaudited)
辛集市寶得福皮業有限公司 (Xinji Baodefu Leather Co. Ltd.) [(1)]	Purchase of footwear products	**35,322**	38,527
Couture Accessories Limited [(1)]	Purchase of footwear products	**262**	599
	Sales of footwear products	**–**	254
Bay Footwear Company Limited [(2)]	Purchase of footwear products	**27,656**	–

Notes:

(1) Associates of the Company.
(2) A joint venture 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 2016 US$'000 (Unaudited)	2015 US$'000 (Unaudited)
Short-term benefits	**374**	374

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 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Aggregate long positions in shares and underlying shares of the Company

Director	Capacity/Nature of Interests	Number of Shares Personal Interest	 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	238,000	21,921,870 *(Note 2)*	–	22,159,870	2.79%
Chi Lo-Jen	Beneficial owner	1,783,500	–	–	1,783,500	0.22%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	331,500	28,551,674 *(Note 3)*	–	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 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 2016, 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 2016, 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	79,951,500	10.06%
Capital Research and Management Company	Investment manager	47,261,000	5.95%

Save as disclosed above, as at 30 June 2016, 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 Divisions 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 2016, 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 2015 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 26 May 2016 (the "2016 AGM"). Instead, Mr. Chao Ming-Cheng, Eric, the Deputy Chairman of the Board, took the chair at the 2016 AGM, and the chairman or member of the audit committee, corporate governance committee, remuneration committee and nomination committee attended the 2016 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 2016.

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.

Risk Management and Internal Control

The effectiveness of the risk management and internal control systems and the progress of internal audit are reviewed, and their respective aspects that can be strengthened 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 risk management and internal control systems of the Group, which helps managing enterprise risks and improving its risk mitigation. 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.

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 2016.

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.

Executive Committee

To facilitate more efficient day-to-day operations of the Group and to handle such matters as delegated by the Board from time to time, the Company has established an executive committee (the "Executive Committee") in July 2015. The Executive Committee has four members comprising all executive Directors, Mr. Chen Li-Ming, Lawrence, Mr. Chiang Jeh-Chung, Jack, Mr. Chao Ming-Cheng, Eric and Mr. Chi Lo-Jen. The chairman of the Executive Committee is Mr. Chen Li-Ming, Lawrence, the chief executive officer of the Group. The principal duties of the Executive Committee include monitoring and reviewing the implementation of business plans or projects approved by and policies laid down by the Board, discussing and making decisions on matters relating to the management and operations of the Group including but not limited to corporate matters, financial/treasury planning and business and operating strategies and considering and making recommendations to the Board on acquisition, disposals or investments in business or any other projects.

OTHER INFORMATION

Update on Directors' Information

In April 2016, Mr. BOLLIGER Peter, an independent non-executive Director of the Company, was appointed as the non-executive chairman of Kurt Geiger, London. The updated biography of Mr. Bolliger is set out as below:

Mr. BOLLIGER Peter, aged 71, 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., a well-known optical retail company in the world. In addition, he is the non-executive chairman of Kurt Geiger, London. Mr. Bolliger has been appointed as independent non-executive Director of the Company since October 2010.

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 2016.

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, 26 August 2016

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

Executive Committee

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

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

Auditors

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway, Hong Kong

Principal Bankers

Chinatrust Commercial Bank, Ltd.
The Hongkong and Shanghai Banking Corporation Limited
Citibank Taiwan Ltd.

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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1836

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In the event of inconsistency, the English version of this interim report shall prevail over the Chinese version

This Interim Report is printed on environmentally friendly paper
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

* *for identification purpose only*