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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1836)**

**PROCESSING AGREEMENT  
FOR PRODUCTION OF FOOTWEAR PRODUCTS IN THE PRC  
OPTION TO ACQUIRE INTEREST IN THE PLANT  
AND  
TERMINATION OF TENANCY AGREEMENT  
  
CONNECTED TRANSACTIONS AND  
CONTINUING CONNECTED TRANSACTIONS**

As disclosed in the Company's prospectus dated 22 June 2007, the Group had entered into the Tenancy Agreement with Huizhou Stella on 21 May 2007, pursuant to which the Group leased the Plant from Huizhou Stella with the intent to use the Plant as the Group's new factory in Huizhou, the PRC. Manufacturing facilities and machineries have been installed at the Plant since then, and the Plant is currently ready for commercial production. Nevertheless, the Group has not yet established a new wholly foreign-owned enterprise in Huizhou for the operation of the Plant.

To secure immediate utilisation of the production capacity of the Plant and for the reasons as set out in the section headed "Reasons for and benefits of the Transactions" below, on 24 November 2008, the Group entered into (a) the Processing Agreement pursuant to which Huizhou Stella has agreed to process and manufacture the Products from time to time ordered by the Group at the Plant and supply the Products to the Group at their costs, on an exclusive basis and on other normal commercial terms; and (b) the Option Deed, pursuant

\* For identification purpose only

to which Seville Development, being the sole shareholder of Huizhou Stella, has granted to the Group the Option to purchase the Option Share, being the entire issued share capital of Marvel Power, which will hold the entire equity interest in Huizhou Stella pursuant to an internal reorganisation. Given the above arrangement, the Group has also entered into the Termination Agreement with Huizhou Stella to terminate the Tenancy Agreement with effect from the date thereof.

Huizhou Stella is a wholly-owned subsidiary of Seville Development, which is indirectly owned by Mr. Chen Li Ming, Lawrence, an executive Director. Accordingly, each of Huizhou Stella and Seville Development is a connected person of the Company under the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Processing Agreement is expected to be less than 2.5% for the period from 24 November 2008 to 31 December 2008 and for the year ending 31 December 2009, the purchases of the Products by the Group from Huizhou Stella under the Processing Agreement constitute the continuing connected transactions for the Company and are only subject to the announcement and reporting requirements under Rules 14A.45 and 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements pursuant to Rule 14A.48 of the Listing Rules.

The acceptance of the Option by the Group under the Option Deed and the termination of the Tenancy Agreement under the Termination Agreement constitute connected transactions of the Company and are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will issue further announcement and comply with the relevant requirements under Chapters 14 and/or 14A of the Listing Rules if necessary, as and when the Option is exercised.

## **BACKGROUND OF THE TRANSACTIONS**

As disclosed in the Company's prospectus dated 22 June 2007, the Group had entered into the Tenancy Agreement with Huizhou Stella on 21 May 2007, pursuant to which the Group leased the Plant from Huizhou Stella with the intent to use the Plant as the Group's new factory in Huizhou, the PRC. Manufacturing facilities and machineries have been installed at the Plant since then, and the Plant is currently ready for commercial production. Nevertheless, the Group has not yet established a wholly foreign-owned enterprise as its new factory in Huizhou for the operation of the Plant.

To secure immediate utilisation of the production capacity of the Plant and for the reasons as set out in the section headed “Reasons for and benefits of the Transactions” below, on 24 November 2008, the Group entered into the Processing Agreement with Huizhou Stella for the processing, manufacture and supply of the Products from Huizhou Stella.

The Group has also entered into the Option Deed to secure its right to acquire the entire interests in Huizhou Stella, and the Termination Agreement to terminate the Tenancy Agreement with effect from the date thereof.

## **THE PROCESSING AGREEMENT**

Date: 24 November 2008

Parties: Stella International (for itself and on behalf of the other members of the Group), as purchaser

Huizhou Stella, as supplier

Pursuant to the Processing Agreement, Huizhou Stella has agreed to process and manufacture the Products from time to time ordered by the Group at the Plant and supply the Products to the Group at their costs, on an exclusive basis and on other normal commercial terms.

Under the Processing Agreement, the Group shall provide all production materials (including raw materials, supplements and packaging materials) while Huizhou Stella shall provide all production machinery and equipment, electricity and manpower for processing and production of the Products. The processing fee to be payable by the Group to Huizhou Stella will be determined on a cost reimbursement basis by reference to the actual costs and expenses incurred by Huizhou Stella in the processing and production of the Products.

During the term of the Processing Agreement, Huizhou Stella has undertaken not to, directly or indirectly, produce, manufacture, process and/or supply the Products to the parties other than the Group without the prior written consent of the Company. The Processing Agreement is for a period from 24 November 2008 to 31 December 2009 unless terminated earlier in accordance with the terms and conditions of the Processing Agreement.

The terms of the Processing Agreement were arrived at after arm’s length negotiation between the Group and Huizhou Stella.

## **ANNUAL CAPS**

As the Group's existing manufacturing facilities in the PRC and Vietnam have been operating at full capacity, the Group has been identifying alternative production plants located at the cost-efficient area so as to expand its production capacity. By reference to the anticipated demand of the Products from the Group's customers, the estimated production capacity and the projected rate of growth of the Group, the Annual Caps for the consideration to be payable by the Group for the purchase of the Products under the Processing Agreement are expected to be (i) US\$1.5 million (equivalent to approximately HK\$11.6 million) for the period from 24 November 2008 to 31 December 2008; and (ii) US\$10 million (equivalent to approximately HK\$77.4 million) for the year ending 31 December 2009.

In the event that the aggregate consideration payable by the Group under the Processing Agreement exceeds the respective Annual Caps for each of the periods from 24 November 2008 to 31 December 2008 and the year ending 31 December 2009, the Company will comply with all the relevant requirements of Chapter 14A of the Listing Rules.

## **THE OPTION DEED**

On 24 November 2008, the Group entered into the Option Deed with Seville Development, pursuant to which Seville Development has granted to the Group the Option, exercisable by Stella International for a period from the date of the Option Deed to 31 December 2009, to purchase the Option Share, being the entire issued share capital of Marvel Power, owned by Seville Development. The consideration payable by the Group for the grant of the Option by Seville Development is HK\$1 and was paid in full upon signing of the Option Deed.

Under the Option Deed, Seville Development shall undergo an internal reorganisation pursuant to which Huizhou Stella will be organised as a wholly-owned subsidiary of Marvel Power through the Acquisition. Completion of the sale and purchase of the Option Share pursuant to the exercise of the Option by the Group shall be conditional upon, among other conditions, the Acquisition having been completed and the approval by the Shareholders (or, as the case may be, independent Shareholders) of the transactions contemplated by the exercise of the Option by the Group, if necessary. Such completion shall take place on the later of (i) the date falling five business days after fulfillment or as the case may be, waiver of these conditions, or (ii) the date as specified in the exercise notice.

The total consideration payable by the Group upon exercise of the Option for the purchase of the Option Share shall be determined by reference to the consolidated net asset value of Marvel Power as at the financial year end date for the financial year immediately prior to the date of the exercise of the Option as shown in the relevant audited consolidated accounts of Marvel Power or, if such audited consolidated accounts have not yet been issued by the auditors of Marvel Power as at the date of the exercise of the Option, such consolidated net asset value of Marvel Power as shown in a management account prepared by Seville Development in accordance with the generally accepted accounting principles in Hong Kong.

The terms of the Option Deed were arrived at after arm's length negotiation between the Group and Seville Development.

## **THE TERMINATION AGREEMENT**

As disclosed in the Company's prospectus dated 22 June 2007, the Group had entered into the Tenancy Agreement with Huizhou Stella on 21 May 2007, pursuant to which Huizhou Stella had agreed to lease the Plant to the Group, with the intent to use the Plant as the Group's new factory in Huizhou, the PRC. The Tenancy Agreement was for a term for three years effective from the date of establishment of the Group's new factory in Huizhou and, subject to compliance with the Listing Rules regarding connected transactions, renewable for a term of three years.

As the Plant will be used by Huizhou Stella for manufacture and sale of the Products to the Group pursuant to the Processing Agreement instead, on 24 November 2008 and by mutual consent, the Group and Huizhou Stella entered into the Termination Agreement to terminate the Tenancy Agreement with effect from the date of the Termination Agreement.

All obligations and liabilities of Stella International and Huizhou Stella under the Tenancy Agreement (whether or not accrued before or after signing of the Termination Agreement), and the litigation, arbitration, claim, damages and expenses arising from such obligations and liabilities shall be released under the Termination Agreement.

The terms of the Termination Agreement were arrived at after arm's length negotiation between the Group and Huizhou Stella.

## **REASONS FOR AND BENEFITS OF THE TRANSACTIONS**

By entering into the Processing Agreement, the Group will be able to save the time, investment cost and resources required for the Group to establish its new wholly foreign-owned enterprise as its new factory in Huizhou for the operation of the Plant. The Processing Agreement enables the Group to secure its immediate utilisation of the production capacity of the Plant, to enhance its operational efficiency and flexibility through placing orders with Huizhou Stella as and when required in accordance with its then production plan and sale schedule. Leveraging from the experience of Huizhou Stella in manufacture of footwear components, its affiliation with the Group and the existing manufacturing facilities and machineries of the Plant, the procurement of the Products by the Group can be better coordinated, with more efficient monitoring on the quality of the Products and at purchase cost which is expected to be lower than that from independent subcontractors. It is no longer necessary for the Group to lease the Plant under the Tenancy Agreement and to pay rents thereunder as the Plant will be operated by Huizhou Stella instead.

The grant of the Option by Seville Development to the Group enables the Group to gain the full control of, and to smoothen the operational and management efficiency of, the Plant by acquiring the entire equity interest in Huizhou Stella through the exercise of the Option. The right to acquire Huizhou Stella can also prevent any potential conflict of interests of Mr. Chen Li Ming, Lawrence, one of the executive Directors, that may arise from the transactions contemplated under the Processing Agreement.

The Directors (including the independent non-executive Directors) are of the view that each of the Processing Agreement, the Option Deed and the Termination Agreement is on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **INFORMATION ON THE PARTIES TO THE TRANSACTIONS**

The Group has been principally engaged in the development and manufacturing of footwear products for casual and fashion footwear companies worldwide. It has also established its retail distribution network and introduced its own brand of fashion footwear.

Stella International is an international company with limited liability incorporated in the Republic of Vanuatu and is principally engaged in investment holding.

Huizhou Stella has been principally engaged in the manufacturing and sale of footwear components in the PRC.

Seville Development is an international business company incorporated in the British Virgin Islands and is principally engaged in investment holding.

## **LISTING RULES IMPLICATIONS**

Huizhou Stella is a wholly-owned subsidiary of Seville Development, which is indirectly owned by Mr. Chen Li Ming, Lawrence, an executive Director. Accordingly, each of Huizhou Stella and Seville Development is a connected person of the Company under the Listing Rules. The purchase of the Products by the Group from Huizhou Stella pursuant to the Processing Agreement constitute continuing connected transactions while the transactions contemplated under the Option Deed and the Termination Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Processing Agreement is expected to be less than 2.5% for the period from 24 November 2008 to 31 December 2008 and for the year ending 31 December 2009, the purchases of the Products by the Group from Huizhou Stella under the Processing Agreement constitute the continuing connected transactions for the Company and are only subject to the announcement and reporting requirements under Rules 14A.45 and 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements pursuant to Rule 14A.48 of the Listing Rules.

The acceptance of the Option by the Group under the Option Deed and the termination of the Tenancy Agreement under the Termination Agreement constitute connected transactions for the Company and are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will issue further announcement and comply with the relevant requirements under Chapters 14 and/or 14A of the Listing Rules if necessary, as and when the Option is exercised.

## DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

“Acquisition”	the proposed acquisition by Marvel Power of the entire equity interest in Huizhou Stella from Seville Development
“Annual Caps”	the maximum aggregate annual value for the purchase of the Products by the Group pursuant to the Processing Agreement as set out under the section headed “Annual Caps” in this announcement
“applicable percentage ratio”	the percentage ratios as defined under Rule 14.07 of the Listing Rules
“Company”	Stella International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Directors”	directors of the Company
“Group”	the Company and its subsidiary
“Huizhou Stella”	惠州興昂鞋業有限公司 (Huizhou Stella Footwear Co., Ltd.), a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of Seville Development
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited



“Marvel Power”	Marvel Power Limited, a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of Seville Development
“Option”	the call option granted by Seville Development to Stella International pursuant to which the Group shall have the right to require Seville Development to sell the Option Share to the Group in accordance with the terms and conditions of the Option Deed
“Option Deed”	the option deed dated 24 November 2008 and entered into between Seville Development and Stella International in respect of the grant of the Option
“Option Share”	one ordinary share of HK\$1.00 of Marvel Power, being its entire issued share capital
“Plant”	the industrial premises owned by Huizhou Stella at Xinqu Industrial Park, Mann County, Huicheng District, Huizhou, the PRC
“PRC”	the People’s Republic of China
“Processing Agreement”	the processing agreement dated 24 November 2008 and entered into between Stella International (for itself and on behalf of the other members of the Group) and Huizhou Stella in relation to the processing, manufacture and supply of the Products by the Group from Huizhou Stella
“Products”	the footwear products manufactured and sold by the Group from time to time
“Seville Development”	Seville Development Limited, an international business company incorporated in the British Virgin Islands
“Shareholders”	the shareholders of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stella International”	Stella International Limited, an international company with limited liability incorporated in the Republic of Vanuatu and a wholly-owned subsidiary of the Company
“Transactions”	the transactions contemplated under the Processing Agreement, the Option Deed and the Termination Agreement
“Tenancy Agreement”	the tenancy agreement dated 10 May 2007 and entered into between Huizhou Stella and Stella International in relation to the lease of the Plant
“Termination Agreement”	the termination agreement dated 24 November 2008 and entered into between Huizhou Stella and Stella International in relation to the termination of the Tenancy Agreement
“US\$”	United States dollars, the lawful currency of the United States of America

*For the purpose of this announcement, exchange rate of HK\$7.74 = US\$1 has been used for currency conversions. This is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or US\$ have been, could have been or may be converted at such rate or any other exchange rates.*

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

Hong Kong, 24 November 2008

*As at the date of this announcement, the executive Directors are Mr. Chiang Jeh-Chung, Jack, Mr. Shih Takuen, Daniel, Mr. Chao Ming-Cheng, Eric, Mr. Chen Li-Ming, Lawrence, Mr. Shieh Tung-Pi, Billy and Mr. Chi Lo-Jen, Stephen and the independent non-executive Directors are Mr. Chu Pao-Kuei and Mr. Ng Hak-Kim, JP.*