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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The board of directors (the "Board") of Stella International Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007

		Six months ended 30 June	
	NOTES	**2007**	2006
		US$'000	*US$'000*
		(Unaudited)	*(Unaudited)*
Revenue	*3*	**417,325**	352,221
Cost of sales		**(320,796)**	(272,431)
Gross profit		**96,529**	79,790
Other income		**4,317**	5,568
Selling and distribution costs		**(16,101)**	(13,114)
Administrative expenses		**(17,637)**	(16,072)
Research and development costs		**(14,815)**	(13,446)
Finance costs		**(80)**	(4)
Profit before taxation		**52,213**	42,722
Taxation	*4*	**(2,058)**	(1,250)
Profit for the period	*5*	**50,155**	41,472
Attributable to:			
Equity holder of the Company		**50,193**	41,472
Minority interests		**(38)**	—
		50,155	41,472
Dividends	6	**220,000**	—
Earnings per share	7		
— Basic *(US$)*		**0.086**	0.071

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2007

	NOTES	**30 June 2007 US$'000 (Unaudited)**	31 December 2006 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**148,594**	144,647
Prepaid lease payments — non-current portion		**9,474**	9,452
Deposit paid for acquisition of property, plant and equipment		**578**	584
		158,646	154,683
CURRENT ASSETS			
Inventories		**114,921**	77,908
Trade and other receivables	*9*	**154,517**	127,976
Prepaid lease payments — current portion		**228**	228
Amounts due from related companies	*10*	**117,174**	78,653
Investments held for trading		**43,428**	49,850
Cash and cash equivalents		**32,236**	73,673
		462,504	408,288
CURRENT LIABILITIES			
Trade and other payables	*11*	**114,026**	105,563
Amounts due to related companies	*12*	**—**	15,083
Dividend payable		**130,000**	—
Tax payable		**5,056**	3,004
Bank borrowings — due within one year	*13*	**107,550**	—
		356,632	123,650
NET CURRENT ASSETS		**105,872**	284,638
		264,518	439,321
CAPITAL AND RESERVES			
Share capital	*14*	**13**	—
Share premium and reserves		**264,355**	439,321
Equity attributable to equity holder of the Company		**264,368**	439,321
Minority interests		**150**	—
		264,518	439,321

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holder of the Company								
	Share capital	Share premium	Merger reserve	Capital reserve	Exchange reserve	Accumulated profits	Subtotal	Minority interests	Total
	US$'000	*US$'000*	*US$'000*	*US$'000* (*Note i*)	*US$'000* (*Note ii*)	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2006 (audited)	—	45,440	—	—	7,618	322,960	376,018	—	376,018
Exchange differences on translation of foreign operations recognised directly in equity	—	—	—	—	(1,756)	—	(1,756)	—	(1,756)
Profit for the period	—	—	—	—	—	41,472	41,472	—	41,472
Total recognised income and expense for the period	—	—	—	—	(1,756)	41,472	39,716	—	34,716
At 30 June 2006 (unaudited)	—	45,440	—	—	5,862	364,432	415,734	—	415,734
Exchange differences on translation of foreign operations recognised directly in equity	—	—	—	—	(4,528)	—	(4,528)	—	(4,528)
Profit for the period	—	—	—	—	—	49,902	49,902	—	49,902
Total recognised income and expense for the period	—	—	—	—	(4,528)	49,902	45,374	—	45,374
Dividend recognised as distribution	—	—	—	—	—	(21,787)	(21,787)	—	(21,787)
At 31 December 2006 (audited)	—	45,440	—	—	1,334	392,547	439,321	—	439,321
Exchange differences on translation of foreign operations recognised directly in equity	—	—	—	—	(6,149)	—	(6,149)	—	(6,149)
Profit for the period	—	—	—	—	—	50,193	50,193	(38)	50,155
Total recognised income and expense for the period	—	—	—	—	(6,149)	50,193	44,044	(38)	44,006
Arising from group reorganisation	13	(45,440)	45,427	—	—	—	—	—	—
Capital contribution from minority shareholders	—	—	—	—	—	—	—	188	188
Recognition of equity-settled share-based payment expenses	—	—	—	1,003	—	—	1,003	—	1,003
Dividend recognised as distribution	—	—	—	—	—	(220,000)	(220,000)	—	(220,000)
At 30 June 2007 (unaudited)	13	—	45,427	1,003	(4,815)	222,740	264,368	150	264,518

Notes:

(i) The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of share capital of (i) Stella International Limited ("Stella International"), (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to the Group Reorganisation.

(ii) During the period, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International to an employee of the Group by way of gift, as an incentive to attract and retain the employee to the Group prior to the Group Reorganisation. This transaction has been accounted for as an equity-settled share-based payment transaction and the Group measured the services rendered by the employee, and the corresponding increase in equity, directly, based on the fair value of the shares at the grant date.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months ended 30 June	
	2007	2006
	US$'000	*US$'000*
	(Unaudited)	*(Unaudited)*
Net cash used in operating activities	**(58,130)**	(10,064)
Net cash from (used in) investing activities:		
Purchase of investments held for trading	**(43,606)**	(49,083)
Purchase of property, plant and equipment	**(8,648)**	(10,417)
Proceeds from disposal of investments held for trading	**49,354**	34,261
Other investing cash flows	**1,682**	2,728
	(1,218)	(22,511)
Net cash from financing activities:		
New bank borrowings raised	**107,550**	—
Capital contribution from minority shareholders	**188**	—
Dividend paid	**(90,000)**	—
Other financing cash flows	**(80)**	—
	17,658	—
Net decrease in cash and cash equivalents	**(41,690)**	(32,575)
Cash and cash equivalents at 1 January	**73,673**	63,167
Effect of foreign exchange rate changes	**253**	391
Cash and cash equivalents at 30 June	**32,236**	30,983
Being:		
Bank balances and cash	**20,779**	25,400
Deposits placed in financial institutions	**11,457**	5,583
	32,236	30,983

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 March 2007 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 6 July 2007.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 13 June 2007. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 22 June 2007 (the "Prospectus").

The condensed consolidated income statements, condensed consolidated statements of changes in equity and condensed consolidated cash flow statements are prepared as if the current group structure had been in existence throughout the six-month period ended 30 June 2006 and 2007 or since the respective dates of incorporation/establishment of the relevant entity, where this is a shorter period. The condensed consolidated balance sheet as at 30 June 2007 presents the assets and liabilities of the companies now comprising the Group which had been incorporated/established as at the balance sheet date as if the current group structure had been in existence at that date. The Group Reorganisation completed on 13 June 2007 was to intersperse the Company between Cordwalner Bonaventure Inc., the immediate holding company, and Stella International Limited ("Stella International"), N.O.I. Holding Company Limited, Stella International Marketing Company Limited and Stella Luna Sol Limited.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34"), Interim Financial Reporting.

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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006 included in the Prospectus. In addition, the Group has applied the following accounting policies during the current interim period.

Share-based payment transactions

Shares granted by the shareholder

The fair value of services received determined by reference to the fair value of share granted at the grant date is recognised as an expense at the granted date when the shares granted vested immediately, with a corresponding increase in equity (capital reserve).

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

Accounting standards not yet effective

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) — Int 12	Service Concession Arrangements[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions:

Men's footwear	—	manufacturing and sales of men's footwear
Women's footwear	—	manufacturing and sales of women's footwear
Footwear retailing	—	retailing of footwear

These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

For the period ended 30 June 2007

	Men's footwear	**Women's footwear**	**Footwear retailing**	**Eliminations**	**Combined**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
INCOME STATEMENT					
REVENUE					
External sales	168,429	245,050	3,846	—	417,325
Inter-segment sales	—	1,222	—	(1,222)	—
Total	168,429	246,272	3,846	(1,222)	417,325

Inter-segment sales are charged at prevailing market rates

RESULT					
Segment results	29,461	52,554	(351)	—	81,664
Unallocated corporate income					2,455
Unallocated corporate expenses					(31,826)
Finance costs					(80)
Profit before taxation					52,213
Taxation					(2,058)
Profit for the period					50,155

For the period ended 30 June 2006

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing *US$'000*	Eliminations *US$'000*	Combined *US$'000*
INCOME STATEMENT					
REVENUE					
External sales	135,942	215,992	287	—	352,221
Inter-segment sales	—	449	—	(449)	—
Total	135,942	216,441	287	(449)	352,221

Inter-segment sales are charged at prevailing market rates

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing *US$'000*	Eliminations *US$'000*	Combined *US$'000*
RESULT					
Segment results	22,275	47,088	(520)	—	68,843
Unallocated corporate income					1,625
Unallocated corporate expenses					(27,742)
Finance costs					(4)
Profit before taxation					42,722
Taxation					(1,250)
Profit for the period					41,472

4. TAXATION

	Six months ended 30 June **2007** ***US$'000***	 2006 *US$'000*
The charge comprises:		
Foreign Enterprise Income tax ("FEIT")	**2,058**	1,250

No provision for Hong Kong Profits Tax has been made as the Group's profits neither arose in, nor derived from Hong Kong during both periods.

In accordance with Article 8 of the FEIT Law of the People's Republic of China (the "PRC"), foreign investment enterprises ("FIEs") of production nature are eligible to enjoy two years of exemption and three years of 50% reduction in FEIT starting from the first profit-making year (the "2+3 tax holidays"). According to the local practices in Dongguan and Longchuan, the PRC, for production FIEs, the local FEIT would also be exempted during the 2+3 tax holidays. Long Chuan Simona Footwear Company Limited ("Long Chuan") and Dongguan Stella Footwear Company Limited ("Stella Dongguan"), both subsidiaries of the Company, are production FIEs established in the PRC and are subject to FEIT at 27%. According to 粵府[1992]52 號 promulgated by the Guangdong Provincial Government on 24 April 1992, the local FEIT of 3% is exempted for FIEs located in Guangdong Province during the 2+3 tax holidays. During the 2+3 tax holidays, the applicable FEIT rates were 0% and 12% during the two-year exemption period and three-year 50% reduction period, respectively.

Stella Dongguan is entitled to the exemptions from the FEIT and 50% relief from the FEIT for the period ended 30 June 2006 and 2007, respectively, whilst Long Chuan is entitled to 50% relief from the FEIT for both periods.

Stella Luna Fashion Inc., a subsidiary of the Company, is subject to FEIT at rate of 33% for both periods.

The income of Stella International and Selena Footwear Inc., both subsidiaries of the Company, derived from production, business operations and other sources in the PRC are subject to FEIT at rate of 33% for the both periods.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2007	2006
	US$'000	*US$'000*
Depreciation of property, plant and equipment	**7,748**	6,503
Dividend income	**(96)**	(73)
Interest income on bank balances	**(1,571)**	(757)
Interest income on debentures	**(546)**	(737)
Interest on bank borrowings wholly repayable within five years	**80**	4
Loss on changes in fair value of investments held for trading	**674**	3,075
Loss on disposal of property, plant and equipment	**24**	101
Release of prepaid lease payments	**124**	113

6. DIVIDENDS

On 15 June 2007, a special dividend amounted to US$220 million was declared to the sole shareholder of the Company.

The directors have resolved to declare an interim dividend of HK30 cents per share for the six months ended 30 June 2007.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the profit attributable to equity holder of the Company of US$50,193,000 (1.1.2006 to 6.30.2006: US$41,472,000) and on the number of shares of 585,000,000 (1.1.2006 to 6.30.2006: 585,000,000) ordinary shares deemed to be in issue. The calculations of basic earnings per share for the six months ended 30 June 2006 and 2007 were based on the Company's 585,000,000 shares deemed to be issued throughout the period assuming the Group Reorganisation had been effective and the capitalisation of 584,000,000 shares had been existed on 1 January 2006.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during both periods.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of US$9,496,000 for the business expansion.

9. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period of 30 days to 90 days to its trade customers.

The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	30 June 2007	31 December 2006
	US$'000	*US$'000*
Trade receivables:		
0 — 30 days	**92,503**	75,762
31 — 60 days	**31,854**	25,918
61 — 90 days	**5,313**	4,331
Over 90 days	**4,205**	3,428
	133,875	109,439
Other receivables	**20,642**	18,537
	154,517	127,976

10. AMOUNTS DUE FROM RELATED COMPANIES

The balances are unsecured, interest-free and are fully repaid subsequent to the balance sheet date.

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	30 June 2007	31 December 2006
	US$'000	*US$'000*
Trade payables:		
0 — 30 days	**28,477**	31,033
31 — 60 days	**6,152**	26,972
Over 60 days	**32,754**	9,469
	67,383	67,474
Other payables	**46,643**	38,089
	114,026	105,563

12. AMOUNTS DUE TO RELATED COMPANIES

At 31 December 2006, the balances were unsecured, interest-free and were fully settled during the period ended 30 June 2007.

13. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of approximately US$107,550,000. The borrowings bear interest ranged from 5.30% to 5.83% per annum. Except for US$103,800,000 of bank borrowings as at 30 June 2007 which were secured by the bank deposit and/or the corporate guarantee of the sole shareholder, the remaining balance is unsecured. The bank borrowings are fully repaid subsequent to the balance sheet date.

14. SHARE CAPITAL

	Notes	**Number of share**	**Nominal value**
			HK$'000
Ordinary of HK$0.10 each			
Authorised:			
At the date of incorporation	*(i)*	3,800,000	380
Increase on 15 June 2007	*(ii)*	4,996,200,000	499,620
As at 30 June 2007		5,000,000,000	500,000
Issued and fully paid:			
Allotted and issued at the date of incorporation	*(i)*	1	—
Issue of shares on the Group Reorganisation	*(iii)*	999,999	100
As at 30 June 2007		1,000,000	100
Shown in financial statements as			US$13

The following changes in the share capital of the Company took place during the period from 5 March 2007 (date of incorporation) to 30 June 2007.

(i) The Company was incorporated on 5 March 2007 with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each. As at the date of incorporation, one share of HK$0.10 was allotted and issued.

(ii) Pursuant to the written resolutions passed by the sole shareholder on 15 June 2007 to effect the Group Reorganisation, the authorised share capital of the Company was increased from HK$380,000 to HK$500,000,000 by the creation of additional 4,996,200,000 ordinary shares of HK$0.10 each.

(iii) On 13 June 2007, the Company issued 999,999 shares of HK$0.10 each for the acquisition of (i) Stella International, (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to the Group Reorganisation.

All the shares issued during the period rank pari passu in all respects with the then existing shares.

The share capital at 31 December 2006 in the condensed consolidated balance sheet represented the share capital of Stella International before the Group Reorganisation.

15. CAPITAL COMMITMENTS

	30 June 2007	31 December 2006
	US$'000	*US$'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**1,206**	1,181

16. CONTINGENT LIABILITIES

At 31 December 2006, the Group had given guarantees of approximately US$10,000,000 to a bank in respect of banking facilities granted to Simona Tanning Inc., a company under the control of the directors of the Group. Such guarantees have been released during the period ended 30 June 2007.

17. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June 2007 US$'000	2006 US$'000
興昂制革(惠州)有限公司[1]	Purchase of materials	**10,866**	2,320
Sincerely International Limited[2]	Purchase of consumables	**1,311**	914
東莞興和塑膠制品有限公司[1]	Purchase of materials	**944**	640
Sanford International Limited[2]	Purchase of consumables	**4,212**	3,526
	Rental income	**117**	109
興鵬國際股份有限公司[1]	Purchase of materials	**8,834**	11,966
	Purchase of machinery	**382**	1,019
東莞市長安統來刀模加工廠[2]	Purchase of materials	**2,487**	1,778
	Rental income	**45**	36
東莞興騰鞋廠有限公司[2]	Purchase of materials	**2,634**	—

[1] *Companies under the control of the directors of the Company*

[2] *Companies under the control of other key management personnel of the Group*

During both periods, the Group occupied the buildings of Sanford International Limited without paying any consideration.

In July 2000, the Group entered into an agreement with an independent third party to rent factory buildings for a period of ten years with a fixed monthly rental of RMB530,000. These factory buildings were occupied and the related rental expenses were borne by Sanford International Limited during the period ended 30 June 2006 and 2007. The lease arrangement was terminated in May 2007.

(II) Related party balances

Details of the Group's outstanding balances with related parties are set out on the condensed consolidated balance sheets and in notes 10 and 12.

(III) Credit facilities

At 31 December 2006, credit facilities of US$20,000,000 granted to the Group and Simona Tanning Inc., together were guaranteed by Mr. Chen Jiann-Min, Jimmy, a director of the Company, and a key management personnel of the Group. In addition, the Group had given corporate guarantee of US$10,000,000 to secure the banking facilities granted to Simona Tanning Inc., as at 31 December 2006 as disclosed in note 16. The personal guarantee by the director and the key management personnel and the corporate guarantee has been released during the period ended 30 June 2007.

At 30 June 2007, bank borrowings of approximately US$103,800,000 were secured by the bank deposit and/or corporate guarantee of the sole shareholder as disclosed in note 13. The securities are released upon the subsequent repayment of bank borrowings.

(IV) Compensation of key management personnel

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

	Six months ended 30 June	
	2007	2006
	US$'000	*US$'000*
Short-term benefits	**147**	130

The remuneration of directors and key executives were determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

18. POST BALANCE SHEET EVENTS

Subsequent to 30 June 2007, the Group has the following significant post balance sheet events:

a) On 5 July 2007, the Company allotted and issued 584,000,000 ordinary shares of HK$0.10 each as fully paid to the sole shareholder by the capitalisation of an amount of HK$58,400,000 in the share premium account of the Company.

   On the same date, the Company issued a total of 195,000,000 ordinary shares of HK$0.10 each at the price of HK$15.50 per share by means of global offering.

   On 26 July 2007, the Company issued additional 29,250,000 ordinary shares of HK$0.10 each at the price of HK$15.50 per share by means of full exercise of the over-allotment option as set out in the Prospectus.

b) The Group has fully settled the special dividend in the amount of US$130 million by way of (i) transfer of the investments held for trading and (ii) set-off of amounts due from related companies, prior to the listing of the Company's shares on the Stock Exchange on 6 July 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary

Listed on the main board of the Stock Exchange of Hong Kong on 6 July 2007, the Group enjoys a leading position as a developer and manufacturer of quality footwear products.

Our customers include top casual footwear brands, like Camper, Clarks, Deckers, ECCO, Merrell, Rockport and Timberland and leading fashion footwear brands, like Cole Haan, Kenneth Cole, Nine West and UGG.

We also develop and manufacture footwear for a number of high-fashion brands including Celine, Christian Lacroix, Donna Karan New York, Emilio Pucci, Enzo Angiolini, Givenchy, Kenzo, Loewe, Marc by Marc Jacobs, Paul Smith, Sigerson Morrison and Via Spiga. In addition, we design, develop and manufacture private label footwear for several well-known large chain store retailers, such as J.C. Penney.

Unlike other footwear manufacturers in Asia, the Group provides integrated, value-added services to its customers at the design and development stages. This positions the Group as more than just a manufacturer. In fact, it makes us an integral partner of our customers during each stage of the manufacturing process.

We are also able to achieve cost effectiveness and economies of sale by manufacturing high-quality footwear in small and customized batches. This is especially important as the practice of ordering small and customized batches is becoming increasingly prevalent in today's marketplace.

These, along with our other competitive strengths, are in line with our mission, which is to make the best shoes and implement the strategy to build on these strengths and target the fast-growing and highly profitable men's and women's fashion segments.

Financial Highlights

Total turnover of the Group for the 6 months ended 30 June 2007 was US$417.3 million, representing a year-on-year gain of 18.5%. The main factors attributing to this increase were the robust demand for quality shoes from respected brand owners worldwide, accompanied by their recognition of our high-quality manufacturing capabilities and our value-added services.

The Group's gross profit for the period was US$96.5 million. This increase of 21.0% over the 6 months ended 30 June 2006 was a result of the Group's economies of scale and continued efforts towards stringent cost control with regard to raw materials and manufacturing costs. Gross profit margin was 23.1%, representing an improvement of 0.5 percentage point over the first half of 2006. In addition, operating margin improved to 12.5%. It stood at 12.1% over the corresponding period of the previous year.

The resulting profit attributable to shareholders of the Group for the first half of 2007 increased by 21.0% year-on-year, reaching US$50.2 million. Excluding the net one-time expenses of US$2.2 million associated with the listing, profit attributable to shareholders would have increased 26.6% to US$52.4 million.

For the period under review, shipment of the Group's manufacturing business totaled 22.2 million pairs, up 10.7% from the 20.1 million pairs sold in the first half of 2006. The average selling price per pair was US$18.4, representing a year-on-year gain of 7.9%.

An analysis of the sales by product mix reveals that the Group's strongest segments for the period were women's casual and men's casual footwear, generating 33.4% and 35.8% respectively of the Group's total revenue. These were followed by men's fashion and women's fashion footwear, which equated to 20.8% and 4.3% respectively of the total revenue. The women's private label business generated 4.3% of the group's total revenue. Finally, the Group's retail business amounted to US$3.8 million and represented 0.9% of the total revenue, an increase of almost twelve times over the same period of the previous year.

Geographically, North America and Europe remained as the Group's major markets, with 57.8% and 31.2% respectively of the Group's total revenue for the period being derived from sales to customers in these regions. They were followed by Asia (2.5%), the PRC and Hong Kong (4.3%), as well as other geographical regions (4.1%).

Manufacturing Business

During the period under review, the Group operated a total of four state-of-the-art manufacturing facilities in Guangdong Province, the PRC, all of which continually operated at full capacity. Three of these were located in the city of Dongguan while the fourth was situated in Longchuan. In addition, the Group manufactured finished footwear at four other facilities in Dongguan and two other facilities in Vietnam, pursuant to processing agreements and contractual arrangements respectively.

Each of the Group's facilities manufactured either men's or women's footwear and housed multiple production lines that had segmental classifications so as to create a more streamlined and efficient manufacturing process. In addition, they were serviced by more than 300 development teams that had a combined skilled workforce of over 3,100 artisans.

The Group is happy to report that its total footwear production volume increased relatively well for the 6 months ended 30 June 2007, reaching a final tally of 23 million pairs. This represented a satisfactory improvement in production volume as compared to the same period of the previous year and was a direct result of an increase in the number of orders from its customers, the majority of whom have built long-term partnerships with the Group.

The Group also put forth timely efforts during the period to further improve its mix of product offerings. This enabled the Group to maximize its profitability for the period by taking full advantage of the casual footwear and fashion footwear segments that exhibited the strongest growth.

It is important to reiterate that the Group also witnessed an improvement with regard to the average selling price of its products during the first six months of 2007. Thus, the Group's products remain priced at a significant premium to that of the market average, which is just a further evidence of the successful execution of the Group's business model.

The Group will continue to build on its competitive strengths in order to better focus its manufacturing efforts on the fast-growing and highly profitable men's and women's fashion segments.

Retail Business

The Group launched its Stella Luna retail chain in March 2006. The chain sells women's affordable luxury fashion footwear, as well as handbags and other accessories, to the emerging and growing middle-class of the PRC, with the price per pair of shoes ranging from RMB 700 to RMB 2,000.

The Stella Luna brand has been quickly accepted by our targeted consumers. This is clearly evidenced by the fact that cash flow breakeven took place within 6 months of the start of operation. The fast acceptance of the brand has also greatly facilitated broad coverage and deep penetration of the target market over a short period of time.

During the period under review, the Group owned and operated a total of 41 retail stores, of which 39 were located in the PRC while the remaining were situated in Thailand. They included the Stella Luna flagship store on Shanghai's Huaihai Road, boutique stores in Raffles City and Grand Gateway, concessionary stores in popular department stores found in 22 major cities in the PRC, and retail stores in Bangkok and Phuket.

On the back of the success of the Stella Luna brand, detailed plans have been put together for the introduction of another brand under the Group. The name of this brand is What For, and it will be positioned by the Group so as to mainly target a different segment of the market.

In terms of the expansion of the retail business, the Group plans to prioritize its efforts in the Greater China region, in other words, the PRC, Hong Kong, Macau and Taiwan. The Group believes that doing this will enable it to fully capture the opportunities that are evidencing themselves in the world's fastest-growing economy.

Future Plans and Prospects

Manufacturing Business

As with the current period under review, the Group plans to continue maintaining a prudent approach towards manufacturing capacity expansion. In this endeavor, HK$272 million (US$35 million), or approximately 8% of the proceeds of the recent global offering, has been dedicated to the setting up of a new manufacturing facility in the PRC city of Huizhou and the expansion of production capacity and capability at the Vietnam-2 Plant.

The Group is confident that construction of its new manufacturing facility in Huizhou will be completed by the end of the year, thus enabling it to commence operation at the beginning of 2008. This new facility is expected to produce 3 million pairs of footwear in 2008, increasing the total capacity of the Group by approximately 6%.

The expansion plans that have been put into motion for the Vietnam-2 Plant will increase annual production capacity by 3.3 million pairs.

Retail Business

The Group has set aside HK$233 million (US$30 million), or approximately 7% of the proceeds of the recent global offering, to fund the expansion of its retail and branding business. This expansion plan includes the roll-out of 29 new Stella Luna retail stores to reach a total of 68 retail points by the end of the year in prime locations across the PRC.

While the Stella Luna brand has fast become popular and quickly accepted among the emerging and growing middle-class in the PRC, the Group will aim for similar success from a different segment of the market with its new What For brand.

What For, a contemporary and lifestyle footwear brand that targets a more extensive customer segment than Stella Luna, was officially launched in July of this year. The Group believes that the immediate success of What For at the launch will greatly facilitate its roll-out plan, namely, a penetration of 10 stores that will be opened in all the first tier cities in the PRC in 2007.

Mergers and Acquisitions

The Group has earmarked HK$1,800 million (US$230 million), or approximately 53% of the proceeds of the recent global offering for potential acquisitions of footwear and related accessories brands and businesses.

In this endeavor, the Group's current priority is acquiring production plants and facilities whose existing capacities not only complement those of its current manufacturing business but go so far as to create an overall synergy with the business as well. The Group is in discussion with several potential targets. This will aid the Group to further expand its production capacity quickly while enhancing its product offerings and maintaining a high level of production efficiency.

Use of Proceeds from Initial Public Offering

The Company issued 195,000,000 shares at HK$15.50 per share by way of global offering (as set out in details in the prospectus issued by the Company dated June 22, 2007 (the "Prospectus")) on 6 July 2007 and 29,250,000 shares upon the exercise of the over-allotment option at HK$15.50 per share on 26 July 2007. The Company intends to apply the net proceeds of approximately HK$3,357 million in accordance with the proposed allocation as stipulated in the Prospectus.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2007, the Group had cash and cash equivalents of about US$32.2 million (31 December 2006: US$73.7 million) and total bank borrowings of about US$107.6 million (31 December 2006: US$0). The gearing ratio (total borrowings to total equity) was 40.7% (2006: 0%) and the net debt to equity ratio (total borrowings net of cash on hand to total equity) was 28.5% (2006: 0%).

As at 30 June 2007, the Group had current assets of US$462.5 million (31 December 2006: US$408.3 million) and current liabilities of about US$356.6 million (31 December 2006: US$123.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 1.3 as at 30 June 2007 which indicated the Group's high liquidity and healthy financial position.

Foreign Exchange Exposure

The majority of the Group's sales, purchase and operating expenses were denominated in RMB, HK dollars and US dollars. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

Capital Expenditure

During the period under review, the Group's total expenditure amounted to approximately US$8.6 million, of which approximately US$8.4 million was used in the production capacity expansion and approximately US$0.2 million was used in the retail network expansion.

Pledge of Assets

As at 30 June 2007, the Group has not pledged any of its assets.

Contingent Liabilities

As at 30 June 2007, the Group had no material contingent liabilities.

Employees

As at 30 June 2007, the Group employed 25,306 staff (As at 30 June 2006: 22,539). The Group cultivates a caring culture among the employees and believes that human resources are significant assets to the Group's development and expansion. The Group seeks to grow the management team internally through effective training and promotion programs. The Group adopts a remuneration system based on employees' performance, skill and knowledge, together with reference to the remuneration benchmarks in the industry and prevailing market conditions.

INTERIM DIVIDEND

The board of directors (the "Board") has resolved to declare an interim dividend of HK30 cents per share for the six months ended 30 June 2007. The interim dividend will be paid to shareholders listed on the register of members of the Company on Wednesday, 19 September 2007. It is expected that the interim dividend will be paid on or about Wednesday, 3 October 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 17 September 2007 to Wednesday, 19 September 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2007, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm on Friday, 14 September 2007.

CORPORATE GOVERNANCE

Since the Company was only listed on the Stock Exchange on 6 July 2007 (the "Listing Date"), the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules was not applicable to the Company for the period under review.

However, none of the directors of the Company is aware of any information that would reasonably indicate that the Company or any of its directors is not or was not, for any part of the period between the Listing Date and the date of this report, in due compliance with the Corporate Governance Code.

Model Code for Securities Transactions by Directors

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 of the Company. The Company has made specific enquiry of all its directors regarding any non-compliance with the Model Code. All the directors of the Company confirmed that they have complied with the required standard set out in the Model Code since the Listing Date.

Audit Committee

Pursuant to the requirements of the Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three independent non-executive directors, namely Mr. CHU Pao-Kuei, Mr. NG Hak Kim, JP. and Mr. HUNG John Terence, SBS, JP. The Chairman of the Audit Committee is Mr. CHU Pao-Kuei. 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 2007.

Remuneration Committee

The Company has established a remuneration committee ("Remuneration Committee") in compliance with the Code. The Remuneration Committee has three members comprising two independent non-executive directors and a non-executive director of the Company, namely, Mr. NG Hak-Kim, JP., Mr. CHU Pao-Kuei and Mr. SHIH Takuen, Daniel. The chairman of the Remuneration Committee is Mr. NG Hak-Kim, JP. The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, the review of the Company's overall human resources strategy, determining the specific remuneration packages of all executive directors and senior management and administering and overseeing the Company's share option and share award scheme in accordance with the terms of the long term incentive scheme of the Company.

Nomination Committee

The Company has established a nomination committee ("Nomination Committee") in compliance with the Code. The Nomination Committee has four members comprising three independent non-executive directors and a non-executive director and of the Company, namely Mr. HUNG John Terence, SBS, JP, Mr. CHU Pao-Kuei, Mr. NG Hak-Kim, JP and Mr. SHIH Takuen, Daniel, The chairman of the Nomination Committee is Mr. HUNG John Terence, SBS, JP. The principal duties of the Nomination Committee include the review of the structure, size and composition of the Board, making recommendations to the Board on the selection and nomination of directors and the assessment of the independence of independent non-executive directors.

Corporate Governance Committee

The Company has established a corporate governance committee ("Corporate Governance Committee") in compliance with the Code. The Corporate Governance Committee has four members comprising a non-executive director, two independent non-executive directors and an executive director of the Company, namely Mr. SHIH Takuen, Daniel, Mr. CHU Pao-Kuei, Mr. HUNG John Terence, SBS, JP and Mr. CHEN Jiann-Min, Jimmy. The chairman of the Corporate Governance Committee is Mr. SHIH Takuen, Daniel. The principal duties of the Corporate Governance Committee include the review of the corporate governance practice of the Company and monitoring compliance with the relevant requirements under the Listing Rules and any applicable laws and regulations and monitoring each of the Audit Committee, Remuneration Committee and Nomination Committee of the performance of their respective duties and obligation in accordance with their respective terms of reference, the Listing Rules and any applicable laws and regulations.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the shares of the Company were not listed on the Stock Exchange during the six months ended 30 June 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the reporting period.

By Order of the Board
Chen Jiann-Min, Jimmy
Chairman

Hong Kong, 31 August 2007

As at the date of this announcement, the executive Directors are Mr. Chen Jiann-Min, Jimmy, Mr. Chiang Jeh-Chung, Jack, Mr. Chao Ming-Cheng, Eric, Mr. Shieh Tung-Pi, Billy and Mr. Chi Lo-Jen, Stephen, the non-executive Director is Mr. Shih Takuen, Daniel and the independent non-executive Directors are Mr. Chu Pao-Kuei, Mr. Ng Hak-Kim, JP and Mr. Hung John Terence, SBS, JP.

** For identification purpose only*