



# Stella International Holdings Limited

## 九興控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

### THIRD QUARTER RESULTS

#### FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007

The board of directors (the “Board”) of Stella International Holdings Limited (the “Company”) is pleased to announce the unaudited third quarter results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2007 respectively. This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	For the nine months ended 30 September		For the three months ended 30 September	
	2007 US\$'000 (Unaudited)	2006 US\$'000 (Unaudited)	2007 US\$'000 (Unaudited)	2006 US\$'000 (Unaudited)
Revenue	702,428	599,592	285,103	247,371
Cost of sales	(537,479)	(468,824)	(216,683)	(196,393)
Gross profit	164,949	130,768	68,420	50,978
Other income	11,259	6,495	6,942	927
Selling and distribution costs	(26,498)	(22,737)	(10,397)	(9,623)
Administrative expenses	(30,290)	(22,381)	(12,653)	(6,309)
Research and development costs	(23,611)	(18,568)	(8,796)	(5,122)
Finance costs	(398)	(45)	(318)	(41)
Profit before taxation	95,411	73,532	43,198	30,810
Taxation	(4,316)	(1,753)	(2,258)	(503)
Profit for the period	<u>91,095</u>	<u>71,779</u>	<u>40,940</u>	<u>30,307</u>
Attributable to:				
Equity holders of the Company	91,155	71,779	40,962	30,307
Minority interests	(60)	—	(22)	—
	<u>91,095</u>	<u>71,779</u>	<u>40,940</u>	<u>30,307</u>
Dividends	<u>251,241</u>	<u>21,788</u>	<u>31,241</u>	<u>21,788</u>

## 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 nine months ended 30 September 2007*

	<b>Men's footwear</b> <i>US\$'000</i>	<b>Women's footwear</b> <i>US\$'000</i>	<b>Footwear retailing</b> <i>US\$'000</i>	<b>Elimination</b> <i>US\$'000</i>	<b>Consolidated</b> <i>US\$'000</i>
External sales	251,048	444,960	6,420	—	702,428
Inter-segment sales	—	3,936	—	(3,936)	—
<b>Total</b>	<b>251,048</b>	<b>448,896</b>	<b>6,420</b>	<b>(3,936)</b>	<b>702,428</b>
Segment results	42,136	96,893	(211)	—	138,818
Unallocated corporate income					9,643
Unallocated corporate expenses					(52,652)
Finance cost					(398)
					95,411
Taxation					(4,316)
					<b>91,095</b>

*For the three months ended 30 September 2007*

	<b>Men's footwear</b> <i>US\$'000</i>	<b>Women's footwear</b> <i>US\$'000</i>	<b>Footwear retailing</b> <i>US\$'000</i>	<b>Elimination</b> <i>US\$'000</i>	<b>Consolidated</b> <i>US\$'000</i>
External sales	99,744	182,785	2,574	—	285,103
Inter-segment sales	—	2,714	—	(2,714)	—
<b>Total</b>	<b>99,744</b>	<b>185,499</b>	<b>2,574</b>	<b>(2,714)</b>	<b>285,103</b>
Segment results	12,675	44,339	140	—	57,154
Unallocated corporate income					7,188
Unallocated corporate expenses					(20,826)
Finance cost					(318)
					43,198
Taxation					(2,258)
					<b>40,940</b>

## CONDENSED CONSOLIDATED BALANCE SHEET

	As at <b>30 September</b> <b>2007</b> <i>US\$'000</i> <i>(Unaudited)</i>	As at 31 December 2006 <i>US\$'000</i> <i>(Audited)</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	150,676	144,647
Prepaid lease payments — non-current portion	9,445	9,452
Deposit paid for acquisition of property, plant and equipment	494	584
	<u>160,615</u>	<u>154,683</u>
<b>CURRENT ASSETS</b>		
Inventories	92,146	77,908
Trade and other receivables	138,623	127,976
Prepaid lease payments — current portion	228	228
Amounts due from related companies	—	78,653
Investments held for trading	—	49,850
Cash and cash equivalents	438,706	73,673
	<u>669,703</u>	<u>408,288</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	87,006	105,563
Amounts due to related companies	5,349	15,083
Dividend payable	31,241	—
Tax payable	6,981	3,004
	<u>130,577</u>	<u>123,650</u>
<b>NET CURRENT ASSETS</b>	<u>539,126</u>	<u>284,638</u>
	<u><b>699,741</b></u>	<u><b>439,321</b></u>
<b>CAPITAL AND RESERVES</b>		
Share capital	10,350	—
Share premium and reserves	689,263	439,321
	<u>699,613</u>	<u>439,321</u>
Equity attributable to equity holders of the Company	699,613	439,321
Minority interests	128	—
	<u><b>699,741</b></u>	<u><b>439,321</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Attributable to equity holders of the Company

	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Capital reserve US\$'000 (Note i)	Exchange reserve US\$'000 (Note ii)	Accumulated profits US\$'000	Subtotal US\$'000	Minority interests US\$'000	Total 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	—	—	—	—	(7,251)	—	(7,251)	—	(7,251)
Profit for the period	—	—	—	—	—	71,779	71,779	—	71,779
Total recognised income and expense for the period	—	—	—	—	(7,251)	71,779	64,528	—	64,528
Dividend recognised as distribution	—	—	—	—	—	(21,787)	(21,787)	—	(21,787)
At 30 September 2006 (unaudited)	—	45,440	—	—	367	372,952	418,759	—	418,759
Exchange differences on translation of foreign operations recognised directly in equity	—	—	—	—	967	—	967	—	967
Profit for the period	—	—	—	—	—	19,595	19,595	—	19,595
Total recognised income and expense for the period	—	—	—	—	967	19,595	20,562	—	20,562
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	—	—	—	—	(9,906)	—	(9,906)	—	(9,906)
Profit for the period	—	—	—	—	—	91,155	91,155	(60)	91,095
Total recognised income and expense for the period	—	—	—	—	(9,906)	91,155	81,249	(60)	81,189
Effect of group reorganisation	13	(45,440)	45,427	—	—	—	—	—	—
Shares issued at premium through initial public offer	10,337	418,801	—	—	—	—	429,138	—	429,138
Capital contribution from minority shareholders	—	—	—	—	—	—	—	188	188
Recognition of equity-settled share-based payment expenses	—	—	—	1,146	—	—	1,146	—	1,146
Dividend recognised as distribution	—	—	—	—	—	(251,241)	(251,241)	—	(251,241)
At 30 September 2007 (unaudited)	<u>10,350</u>	<u>418,801</u>	<u>45,427</u>	<u>1,146</u>	<u>(8,572)</u>	<u>232,461</u>	<u>699,613</u>	<u>128</u>	<u>699,741</u>

### 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. Certain employees of the Group subscribed for preferred shares of Cordwalner Bonaventure Inc., the immediate holding company of the Group as an incentive scheme for the benefit of these employees. These two transactions have been accounted for as an equity-settled share-based payment transaction and the Group measured the services rendered by the employees, and the corresponding increase in equity, directly, based on the fair value of the shares at the grant date.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Nine months ended 30 September	
	2007	2006
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
<b>Net cash generated from operating activities</b>	<b>121,863</b>	58,880
<b>Net cash from (used in) investing activities:</b>		
Purchase of investments held for trading	(43,606)	(23,876)
Purchase of property, plant and equipment	(14,394)	(22,751)
Proceeds from disposal of investments held for trading	92,782	14,883
Other investing cash flows	6,294	2,365
	<b>41,076</b>	(29,379)
<b>Net cash from (used in) financing activities:</b>		
New bank borrowings raised	107,550	—
Repayment of bank borrowings	(107,550)	—
Issuance of shares net of expenses	426,131	—
Capital contribution from minority shareholders	188	—
Dividend paid ( <i>Note i</i> )	(220,000)	(21,788)
Other financing cash flows	(398)	—
	<b>205,921</b>	(21,788)
<b>Net increase in cash and cash equivalents</b>	<b>368,860</b>	7,713
<b>Cash and cash equivalents at 1 January</b>	<b>73,673</b>	63,167
<b>Effect of foreign exchange rate changes</b>	<b>(3,827)</b>	(2,172)
<b>Cash and cash equivalents at 30 September</b>	<b>438,706</b>	68,708

*Note:*

- (i) During the period, the Group paid the special dividend of US\$220 million of which an amount of US\$130 million was settled by way of (i) transfer of the investments held for trading and (ii) set-off of amounts due from related companies.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Highlights

The Group, a leading developer and manufacturer of quality footwear products, announced its third quarter results for the three months and nine months ended 30 September 2007 respectively.

For the three months ended 30 September 2007, the total revenue of the Group was approximately US\$285.1 million, representing a 15.3% year-on-year growth as compared to the same period last year. The satisfactory growth was attributable to the organic growth of casual and fashion footwear market segments and the steady demand from our premium worldwide brand owners customers. This also signifies the successful implementation of the Group's supply chain strategy.

For the three months ended 30 September 2007, the Group recorded an increase of 34.2% in gross profit as compared to the same period last year, amounting to approximately US\$68.4 million, while gross profit margin improved to 24.0% for the three months ended 30 September 2007 from 20.6% for the last corresponding period. EBITDA increased by 22.2% to approximately US\$41.3 million, as compared to approximately US\$33.8 million for the last period. The growth was driven by quantity increase and continuous improvement in average selling price.

The net profit for the three months ended 30 September 2007 was approximately US\$40.9 million, representing an encouraging growth of 35.1% on a year-on-year basis as compared to the same period last year. The improvement was a result of continued efforts towards stringent cost control, raising average selling price as well as the successful downstream of its self-owned brand development of Stella Luna retail chain which has started to contribute earnings to the Group after just one and a half year of operation.

In light of the satisfactory business performance recorded in the first three quarters in 2007, the Group achieved a turnover of approximately US\$702.4 million for the nine months ended 30 September 2007, representing a strong year-on-year growth of 17.2% as compared to the same period in 2006. Gross profit and EBITDA for the first nine months of 2007 reached approximately US\$164.9 million and approximately US\$99.1 million respectively, representing a 26.1% and 22.3% growth as compared to the last corresponding period. Net Profit surged to approximately US\$91.1 million, representing a 27.0% growth as compared to approximately US\$71.8 million for the last period.

The Group continued to perform well in the women's fashion and men's casual footwear segments. It has been the Group's strategy to target the women's fashion footwear market by leveraging our strength in this segment which requires precise manufacturing skill, craftsmanship and expertise in design and development. An analysis of revenue by business segments can be illustrated in the table below:

	Revenue			Revenue		
	for the nine months			for the three months		
	ended 30 September			ended 30 September		
	2007	2006	Growth	2007	2006	Growth
	US\$'000	US\$'000	(%)	US\$'000	US\$'000	(%)
Men's Casual	<b>223,589</b>	214,516	4.2	<b>92,148</b>	91,980	18.3
Men's Fashion	<b>24,965</b>	21,606	15.5	<b>7,069</b>	8,018	(11.8)
Men's Others	<b>2,494</b>	2,000	24.7	<b>527</b>	807	(34.7)
Subtotal	<b>251,048</b>	238,122	5.4	<b>99,744</b>	100,805	(1.1)
Women's Casual	<b>183,971</b>	231,469	(20.5)	<b>74,355</b>	95,165	(21.8)
Women's Fashion	<b>231,484</b>	99,466	132.7	<b>98,385</b>	37,812	160.2
Women's Private Label	<b>25,045</b>	26,459	(5.3)	<b>9,065</b>	11,660	(22.2)
Women's Others	<b>4,460</b>	3,031	47.1	<b>980</b>	1,171	(16.3)
Subtotal	<b>444,960</b>	360,425	23.5	<b>182,785</b>	145,808	25.4
Retail	<b>6,420</b>	1,045	514.3	<b>2,574</b>	758	239.6
<b>Total</b>	<b><u>702,428</u></b>	<b><u>599,592</u></b>	<b><u>17.2</u></b>	<b><u>285,103</u></b>	<b><u>247,371</u></b>	<b><u>15.3</u></b>

In terms of geographical mix, North America and Europe remained as the largest two markets for the Group, accounting for 61.6% and 28.4% of the Group's total revenue for the nine months ended 30 September 2007 respectively. They were followed by Asia (2.6%), Greater China (3.8%), as well as other geographical regions (3.6%).

## Business Review

### *Manufacturing Business*

During the nine months ended 30 September 2007, the Group's manufacturing facilities in Guangdong, China and Vietnam continued to operate at full capacity. The total footwear production volume increased steadily, which was attributed to the organic sales growth as a result of the Group's broad customer base and the established long-term relationships with the leading casual and fashion footwear brand companies worldwide.

The Group has also recorded a steady growth of average selling price primarily due to our value added services to manufacture high-quality footwear in small and customized orders to meet the needs of our brand customers.

An analysis of the growth in both quantity and average selling price in the manufacturing business is shown in the table below:

	For the nine months ended 30 September			For the three months ended 30 September		
	2007	2006	Growth (%)	2007	2006	Growth (%)
Quantity (pairs in million)	<b>35.4</b>	32.4	9.1	<b>13.2</b>	12.4	6.6
Average Selling Price (US\$/pair)	<b><u>19.6</u></b>	<u>18.1</u>	<u>8.4</u>	<b><u>21.5</u></b>	<u>19.7</u>	<u>9.5</u>

### *Retail Business*

As the China retail market continues to grow at a rapid pace coupled with the rising purchasing power, the Group has successfully established its foothold in the retail business in China in order to achieve further expansion and profitability. During the last three quarters, the Group has made impressive progress in its business operation, retail expansion as well as brand and marketing initiatives. Particularly, our branding business, building on the affordable luxury ladies fashion footwear sector, is investing to build an infrastructure to support multi-complementary brands with distinctive brand positioning and identity. Currently we have the strong back-up in place in design, development, sourcing, logistics, distribution and administration.

The Group's own Stella Luna retail chain continues to appeal to the middle and upper class segment which the Group targets for. In addition, another brand of the Group, namely What For, which targets the contemporary and lifestyle market segment, was well received by the customers following its launch in Shanghai in July 2007. During the three months ended 30 September 2007, the Group opened a total of 27 new retail stores of Stella Luna and What For in the PRC, making an aggregate number of retail stores in China increased to 66 as at 30 September 2007 (30 September 2006: 39)

The following table sets out the distribution of the Stella Luna and What For stores as at 30 September 2007 in China:

<b>District</b>	<b>Number of Stella Luna Shops</b>	<b>Number of What For Shops</b>
Eastern China	16	1
Southern China	7	1
Northern China	13	1
South-West China	7	1
North-East China	9	1
Central China	8	1
	<hr/>	<hr/>
Total	<u>60</u>	<u>6</u>

As at 30 September 2007, the Group operated five Stella Luna shops in Thailand, four of which are located in Bangkok and the remaining one in Phuket.

Retail sales, as noted above, amounted to approximately US\$2.6 million and approximately US\$6.4 million respectively for the three months and nine months ended 30 September 2007, representing a robust growth of 239.4% and 514.3% respectively as compared to the last corresponding periods. The growth was driven by both volume surge and average selling price increase.

The Group launched its first Stella Luna retail chain in March 2006. As compared to the last corresponding period, the Group's retail business has reported a significant same-stores-sales growth of 58.7 % for the three months ended 30 September 2007. The Group has also recorded a 42.5% and 11.3% of growth for quantity and average selling price respectively when comparing the two periods.

The retail sales for October 2007 in China was approximately US\$1.52 million, which represents a 79.7% same-stores-sales growth as compared to last October. Quantity and average selling price were recorded at a 68% and 7% growth respectively when comparing the two periods.

## **Future Plans and Prospects**

### ***Manufacturing Business***

The construction of a new manufacturing facility in Huizhou, the PRC, is in good progress and is expected to complete by the end of 2007 as planned.

In October 2007, the Group has set up a cooperative joint venture in Hebei, the PRC with an independent third party which is engaged in tannery. The joint venture, which is engaged in footwear manufacturing hosted at the tannery factory, is held as to 40% by the Group and as to 60% by the business partner. It is expected the production would commence by early 2008 and shall have the capacity to manufacture 1.6 million pairs and 3.8 million pairs of shoes in 2008 and 2009 respectively.

It is the Group's strategic plan to set up more satellite factories, for the stitching of uppers for leather shoes, and to meet the needs for the expansion of production capacity. The satellite factories, two in Dongguan and one in Hunan, are currently under construction.

## ***Retail Business***

The Group has exceeded the original roll-out plan of opening 68 retail points by the end of the year to reach an aggregate of 74 shops as of today. The Group is committed to maintaining its growth momentum and has set the target to open up more outlets in Hong Kong, Macau and major cities in China, to more than 80 by the end of 2007.

Attributed to the growth of disposable income in China, an expanding middle class is emerging. The Group believes that this would contribute to the growth of affordable luxury market in China in which its current chains are positioned, and hence create vast opportunities for the Group to facilitate the retail penetration in such a lucrative market.

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

Hong Kong, 30 November 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 purposes only*