



**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 2008**

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 2008 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 2008*

	For the three months ended		For the nine months ended	
	30 September	30 September	30 September	30 September
	2008	2007	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	<b>331,790</b>	285,103	<b>825,516</b>	702,428
Cost of sales	<b>(254,479)</b>	(216,683)	<b>(631,835)</b>	(537,479)
Gross profit	<b>77,311</b>	68,420	<b>193,681</b>	164,949
Other income	<b>1,748</b>	6,942	<b>8,656</b>	11,259
Selling and distribution costs	<b>(13,166)</b>	(10,397)	<b>(36,111)</b>	(26,498)
Administrative expenses	<b>(12,986)</b>	(12,653)	<b>(39,452)</b>	(30,290)
Research and development costs	<b>(8,055)</b>	(8,796)	<b>(23,312)</b>	(23,611)
Share of results of associates	<b>(433)</b>	–	<b>(940)</b>	–
Finance costs	–	(318)	–	(398)
Profit before taxation	<b>44,419</b>	43,198	<b>102,522</b>	95,411
Taxation	<b>(2,912)</b>	(2,258)	<b>(5,373)</b>	(4,316)
Profit for the period	<b>41,507</b>	40,940	<b>97,149</b>	91,095
Attributable to:				
Equity holders of the Company	<b>41,511</b>	40,962	<b>97,137</b>	91,155
Minority interests	<b>(4)</b>	(22)	<b>12</b>	(60)
	<b>41,507</b>	40,940	<b>97,149</b>	91,095
Dividends	<b>31,124</b>	31,241	<b>93,420</b>	251,241

\* For identification purpose only

## 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 three months ended 30 September 2008*

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing <i>US\$'000</i>	Elimination <i>US\$'000</i>	Consolidated <i>US\$'000</i>
<b>INCOME STATEMENT</b>					
<b>REVENUE</b>					
External sales	120,141	204,992	6,657	–	331,790
Inter-segment sales	<u>–</u>	<u>5,760</u>	<u>–</u>	<u>(5,760)</u>	<u>–</u>
Total	<u><u>120,141</u></u>	<u><u>210,752</u></u>	<u><u>6,657</u></u>	<u><u>(5,760)</u></u>	<u><u>331,790</u></u>
Segment results	<u>21,328</u>	<u>41,931</u>	<u>(350)</u>	<u>–</u>	62,909
Unallocated corporate income					1,727
Unallocated corporate expenses					<u>(20,217)</u>
Profit before taxation					44,419
Taxation					<u>(2,912)</u>
Profit for the period					<u><u>41,507</u></u>

*For the nine months ended 30 September 2008*

	<b>Men's footwear US\$'000</b>	<b>Women's footwear US\$'000</b>	<b>Footwear retailing US\$'000</b>	<b>Elimination US\$'000</b>	<b>Consolidated US\$'000</b>
<b>INCOME STATEMENT</b>					
<b>REVENUE</b>					
External sales	271,154	536,295	18,067	–	825,516
Inter-segment sales	<u>–</u>	<u>9,663</u>	<u>–</u>	<u>(9,663)</u>	<u>–</u>
Total	<u><u>271,154</u></u>	<u><u>545,958</u></u>	<u><u>18,067</u></u>	<u><u>(9,663)</u></u>	<u><u>825,516</u></u>
Inter-segment sales are charged at prevailing market rates					
Segment results	<u>43,623</u>	<u>111,406</u>	<u>(1,289)</u>	<u>–</u>	153,740
Unallocated corporate income					8,604
Unallocated corporate expenses					<u>(59,822)</u>
Profit before taxation					102,522
Taxation					<u>(5,373)</u>
Profit for the period					<u><u>97,149</u></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2008

	As at <b>30 September</b> <b>2008</b> <i>US\$'000</i> <b>(Unaudited)</b>	As at 31 December 2007 <i>US\$'000</i> <b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	162,359	158,165
Prepaid lease payments – non-current portion	8,556	8,527
Interests in associates	18,770	1,911
Deposit paid for acquisition of property, plant and equipment	555	1,197
	<u>190,240</u>	<u>169,800</u>
<b>CURRENT ASSETS</b>		
Inventories	105,093	97,888
Trade and other receivables	162,408	174,119
Prepaid lease payments – current portion	248	239
Amounts due from associates	21,849	7,129
Derivative financial instruments	217	595
Cash and cash equivalents	377,488	406,960
	<u>667,303</u>	<u>686,930</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	104,367	115,553
Derivative financial instruments	25	343
Tax payable	13,374	7,714
	<u>117,766</u>	<u>123,610</u>
<b>NET CURRENT ASSETS</b>	<u>549,537</u>	<u>563,320</u>
	<u><u>739,777</u></u>	<u><u>733,120</u></u>
<b>CAPITAL AND RESERVES</b>		
Share capital	10,350	10,350
Share premium and reserves	729,308	722,647
	<u>739,658</u>	<u>732,997</u>
Equity attributable to equity holders of the Company	739,658	732,997
Minority interests	119	123
	<u><u>739,777</u></u>	<u><u>733,120</u></u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008

Attributable to equity holders of the Company											
	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Merger reserve <i>US\$'000</i> <i>(Note i)</i>	Capital reserve <i>US\$'000</i> <i>(Note ii)</i>	Shares held for share award scheme <i>US\$'000</i>	Exchange reserve <i>US\$'000</i>	Share award reserve <i>US\$'000</i>	Accumulated profits <i>US\$'000</i>	Subtotal <i>US\$'000</i>	Minority interests <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2007 (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
Arising from group reorganisation	13	(45,440)	45,427	–	–	–	–	–	–	–	–
Issue of shares at premium through initial public offerings	2,494	384,084	–	–	–	–	–	–	386,578	–	386,578
Issue of shares at premium through exercise of the over-allotment option	374	57,612	–	–	–	–	–	–	57,986	–	57,986
Issue of shares by capitalisation of share premium account	7,469	(7,469)	–	–	–	–	–	–	–	–	–
Transaction costs attributable to issue of new shares	–	(15,426)	–	–	–	–	–	–	(15,426)	–	(15,426)
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>167,560</u>	<u>45,427</u>	<u>1,146</u>	<u>–</u>	<u>(8,572)</u>	<u>–</u>	<u>483,702</u>	<u>699,613</u>	<u>128</u>	<u>699,741</u>
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	–	10,106	–	–	10,106	7	10,113
Profit for the period	–	–	–	–	–	–	–	23,540	23,540	(12)	23,528
Total recognised income and expense for the period	–	–	–	–	–	10,106	–	23,540	33,646	(5)	33,641
Transaction costs attributable to issue of new shares	–	(262)	–	–	–	–	–	–	(262)	–	(262)
At 31 December 2007 (audited)	<u>10,350</u>	<u>167,298</u>	<u>45,427</u>	<u>1,146</u>	<u>–</u>	<u>1,534</u>	<u>–</u>	<u>507,242</u>	<u>732,997</u>	<u>123</u>	<u>733,120</u>
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	–	3,445	–	–	3,445	(16)	3,429
Profit for the period	–	–	–	–	–	–	–	97,137	97,137	12	97,149
Total recognised income and expense for the period	–	–	–	–	–	3,445	–	97,137	100,582	(4)	100,578
Recognition of equity-settled share-based payment	–	–	–	–	–	–	2,500	–	2,500	–	2,500
Shares purchased for share award scheme	–	–	–	–	(3,001)	–	–	–	(3,001)	–	(3,001)
Dividend recognised as distribution	–	–	–	–	–	–	–	(93,420)	(93,420)	–	(93,420)
At 30 September 2008 (unaudited)	<u>10,350</u>	<u>167,298</u>	<u>45,427</u>	<u>1,146</u>	<u>(3,001)</u>	<u>4,979</u>	<u>2,500</u>	<u>510,959</u>	<u>739,658</u>	<u>119</u>	<u>739,777</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 to rationalise the structure of the Company and its subsidiaries in preparation for the listing of the Company in 2007.
  
- (ii) 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 directly in equity and the Group measured the services rendered by the employee based on the fair value of the shares at the grant date.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Net cash generated from operating activities</b>	<b>100,425</b>	121,863
<b>Net cash (used in) from investing activities:</b>		
Acquisition of investment in an associate	(17,800)	–
Advance to associates	(14,720)	–
Purchase of property, plant and equipment	(11,620)	(14,394)
Purchase of investments held for trading	–	(43,606)
Proceeds from disposal of investments held for trading	–	92,782
Other investing cash flows	7,513	6,294
	<b>(36,627)</b>	41,076
<b>Net cash (used in) from financing activities:</b>		
Dividend paid ( <i>Note</i> )	(93,420)	(220,000)
Capital contribution from minority shareholders	–	188
Issuance of shares net of expenses	–	426,131
New bank borrowings raised	–	107,550
Repayment of bank borrowings	–	(107,550)
Other financing cash flows	–	(398)
	<b>(93,420)</b>	205,921
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(29,622)</b>	368,860
<b>Cash and cash equivalents at 1 January</b>	<b>406,960</b>	73,673
<b>Effect of foreign exchange rate changes</b>	<b>150</b>	(3,827)
<b>Cash and cash equivalents at 30 September</b>	<b>377,488</b>	438,706
<i>Note:</i>		
Final dividend paid for 2007 – HK60 cents per share (2006: Nil)	62,296	–
Special dividend paid to the sole shareholder	–	220,000
Interim dividend declared and paid subsequent to interim period end – HK30 cents (2007: HK30 cents declared) per share	31,124	–
	<b>93,420</b>	220,000

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Highlights

The global economy has been greatly weakened by tighter credit conditions and slender demand caused by recent financial turmoil. Faced with such extraordinary challenges, the Group was able to achieve a steady growth thanks to our full efforts to strengthening our value-added services and stringent cost control.

For the three months ended 30 September 2008, the total revenue of the Group was approximately US\$331.8 million, representing a 16.4% year-on-year growth. The increase in revenue was attributable to improvement in average selling price (“ASP”) driven by sales mix changes, organic growth driven by women’s and men’s fashion footwear businesses as well as the steady demand of quality footwear products from our premium global brand owners and customers.

Despite surging raw material costs, together with rising overheads in the PRC and the appreciation of the Renminbi, the Group maintained a moderate growth of 13.0% in gross profit compared to the same period last year, to approximately US\$77.3 million for the three months ended 30 September 2008. Our continued effort in moving up the value chain from components manufacturing, assembly, engineering and design to branding and retailing was recognised and rewarded. Gross profit margin was 23.3% for the three months ended 30 September 2008. Net profit for the three months ended 30 September 2008 recorded a 1.3% year-on-year growth to approximately US\$41.5 million. In spite of rising overheads and production costs, the decline in net profit margin was limited to 1.9 percentage points, from 14.4% to 12.5% in third quarter of 2008 when compared to the year-ago period.

For the nine months ended 30 September 2008, the Group’s revenue achieved a 17.5% year-on-year growth to approximately US\$825.5 million. Gross profit for the first nine months of 2008 grew 17.4 % to approximately US\$193.7 million. Net profit increased to approximately US\$97.1 million, translating to an 6.6% growth compared to the same period last year.

Despite volatile operating environment and uncertainty brought by the global economic crisis, the Group is able to maintain a healthy financial position and a solid balance sheet. As at 30 September 2008, the Group’s cash and cash equivalents stood at US\$377 million and zero leveraging.

For the nine months ended 30 September 2008, the Group's women's fashion segment, accounted for 37.0% of the Group's total revenue and continued to increase its contribution to the Group's overall performance. There was a balanced mix in men's casual and women's casual footwear segments, contributing 25.6% and 25.1% to overall revenue, respectively. On the other hand, contribution from men's fashion segment increased from 3.6% of total revenue in the full year of 2007 to 6.9% in first three quarters of 2008. Detailed segmental revenue is illustrated in the table below:

	Revenue for the three months ended 30 September		Revenue for the nine months ended 30 September	
	2008	2007	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Men's Casual	<b>81,264</b>	92,148	<b>211,130</b>	223,589
Men's Fashion	<b>37,872</b>	7,069	<b>57,013</b>	24,965
Men's Others	<b>1,005</b>	527	<b>3,011</b>	2,494
<b>Subtotal</b>	<b>120,141</b>	99,744	<b>271,154</b>	251,048
Women's Casual	<b>57,748</b>	74,355	<b>207,081</b>	183,971
Women's Fashion	<b>136,156</b>	98,385	<b>305,181</b>	231,484
Women's Private Label	<b>9,478</b>	9,065	<b>18,014</b>	25,045
Women's Others	<b>1,610</b>	980	<b>6,019</b>	4,460
<b>Subtotal</b>	<b>204,992</b>	182,785	<b>536,295</b>	444,960
Retail	<b>6,657</b>	2,574	<b>18,067</b>	6,420
<b>Total</b>	<b>331,790</b>	285,103	<b>825,516</b>	702,428

North America and Europe market remained the two major contributors to the Group, accounting for 63.2% and 25.9% respectively of the Group's total revenue for the nine months ended 30 September 2008, followed by China (Mainland China and Hong Kong) at 4.1%, Asia (ex. China) at 3.8% and other geographical regions at 3.0%.

## Business Review

### *Manufacturing Business*

During the period under review, the Group's manufacturing facilities in Guangdong, China and Vietnam continued to operate at full capacity. Our high standard manufacturing capabilities and value-added services have made the Group resilient to the economic slowdown. Thanks to the Group's dedicated commitment in "making the best shoes" and being the preferred partner for footwear products and associated services, we recorded steady growth, both in terms of quantity sold and ASP.

In August 2008, the Group completed the acquisition of 40% of the issued share capital of Cosmic Gold Enterprise Ltd. at a total consideration of US\$16,800,000. The acquisition will further increase the Group's total annual production capacity by 2 million pairs per year and hence support the Group's future development in ensuring sufficient production capacity to meet demands.

An analysis of the change in both quantity and ASP in the manufacturing business is shown in the table below:–

	For the three months ended			For the nine months ended		
	30 September			30 September		
	2008	2007	Growth (%)	2008	2007	Growth (%)
Quantity (pairs in million)	13.2	13.2	–	36.1	35.4	2.0
ASP (US\$/pair)	25.1	21.5	16.7	22.4	19.6	14.3

### *Retail Business*

The performance of the Group's two retail brands, *Stella Luna* and *What For*, continued to deliver satisfactory results in the third quarter of 2008. For the three months ended 30 September 2008, retail sales of the Group's two brands, *Stella Luna* and *What For* amounted to US\$ 6.7 million, representing an impressive growth of 157.7%. Gross profit and operating profit achieved strong year-on-year growth by 135.6% and 48.8% to US\$4.8 million and US\$1.1 million respectively. The same-stores-sales of china in the third quarter of 2008 was US\$3.8 million, representing an increase of 22.4% as compared to same period last year.

For the nine months ended 30 September 2008, revenue, gross profit and operating profit from retail operation were US\$18.1 million, US\$13.5 million and US\$3.0 million, representing increases of 181.4%, 171.9% and 207.3% respectively from the year-ago period.

As of 30 September 2008, we had a total of 93 *Stella Luna* stores in all major cities in the Greater China, 13 in Thailand. We also operates 58 *What For* stores in the Greater China.

	<b>As at 30 September 2008</b>	
	<b>Number of <i>Stella Luna</i> Shops</b>	<b>Number of <i>What For</i> Shops</b>
<b>Greater China</b>		
Eastern China	23	11
Southern China	11	8
Northern China	23	14
North-east China	12	8
South-west China	13	8
Central China	9	8
Macau	1	1
Taiwan	1	0
<b>Thailand</b>		
Bangkok	11	0
Phuket	2	0
<b>Total:</b>	106	58

## **Future Plans and Prospects**

The global economic turmoil has imposed difficulties on every industry in the world. In view of that, the Group has adopted a prudent business approach and implemented stringent cost control measures to sustain growth and profitability.

The Group will continue to strengthen and consolidate our leadership position in developing and manufacturing quality footwear products. At the same time, we will further improve our offer for customers and brand owners to fulfill their needs with innovative, cost effective and high quality solutions. Furthermore, we will continue to explore potential strategic partnerships that will create added value and synergistic benefits to our existing business.

### ***Manufacturing Business***

Although the global economic turmoil has imposed difficulties on the industry, the Group's prudent development strategy and cost-control measures helped the Group to stabilise costs and sustain growth. In the first month of the fourth quarter of 2008, the Group's turnover recorded US\$80.7 million, representing an increase of 32.0% as compared to October 2007. Total shipment in October 2008 went up 13.4% to 3.6 million pairs while ASP increased 16.4% to US\$22.7 per pair.

In view of the escalating manufacturing costs in the PRC, we are in the process of identifying more cost-effective locations for the possible relocation of our production facilities. That and other effective cost control measures we have put in place will leave the Group well-equipped to weather any upcoming challenges.

In addition, the expansion of our Vietnam facilities is progressing well and the new production facilities are expected to increase annual capacity by an additional two million pairs to 10 million pairs by 2010. The new manufacturing facility in Huizhou is expected to commence operation in the fourth quarter of 2008. With the new facilities in place, the Group's annual capacity is expected to reach 50 million pairs by the end of 2008.

### ***Retail Business***

The retail sales in October 2008 reached approximately US\$3.0 million, representing an increase of 81.5%. The same-stores-sales of China in October 2008 was US\$2.2 million representing a 12.9% growth as compared to last October. We are confident the development of our retail operation in the PRC will be on track to meet the stated target of having over 160 sales points by the end of 2008.

### ***Strategic Partnership with Deckers***

In July 2008, the Group has established a strategic joint venture with Deckers Asia Pacific Limited to develop retail shops and wholesale distribution of footwear under the UGG Australia® brand in the PRC. Preliminary work is progressing well and it is expected that the JV company will open one retail store in Beijing by the end of 2008.

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

Hong Kong, 20 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.*