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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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The board (the “Board”) of directors (the “Directors”) of Stella International Holdings Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2008, together with comparative figures for the previous financial year.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

		For the year ended 31 December	
		2008	2007
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	4	1,102,116	937,164
Cost of sales		(839,557)	(716,149)
Gross profit		262,559	221,015
Other income		13,172	15,911
Distribution and selling expenses		(57,169)	(38,549)
Administrative expenses		(47,522)	(45,750)
Research and development costs		(38,491)	(33,025)
Share of results of associates		(986)	(89)
Finance costs		–	(297)
Profit before tax		131,563	119,216
Income tax expense	5	(6,585)	(4,593)
Profit for the year	6	124,978	114,623

* *For identification purpose only*

CONSOLIDATED INCOME STATEMENT (Continued)

For the year ended 31 December 2008

		For the year ended	
		31 December	
		2008	2007
	Notes	US\$'000	US\$'000
Attributable to:			
Equity holders of the Company		124,993	114,695
Minority interests		<u>(15)</u>	<u>(72)</u>
		<u>124,978</u>	<u>114,623</u>
Dividends	7	<u>93,420</u>	<u>251,241</u>
Earnings per share – Basic (US\$)	8	<u>0.155</u>	<u>0.165</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

		As at 31 December	
		2008	2007
	Notes	US\$'000	US\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		161,076	158,165
Prepaid lease payments		8,631	8,527
Interests in associates		18,215	1,911
Deposit paid for acquisition of property, plant and equipment		418	1,197
		188,340	169,800
CURRENT ASSETS			
Inventories		103,921	97,888
Trade and other receivables	9	199,153	174,119
Prepaid lease payments		249	239
Amounts due from associates		31,535	7,129
Derivative financial instruments		–	595
Pledged bank deposits		10,068	–
Cash and cash equivalents		355,011	406,960
		699,937	686,930
CURRENT LIABILITIES			
Trade and other payables	10	120,691	115,553
Derivative financial instruments		–	343
Tax payable		14,604	7,714
		135,295	123,610
NET CURRENT ASSETS			
		564,642	563,320
		752,982	733,120
CAPITAL AND RESERVES			
Share capital		10,160	10,350
Share premium and reserves		742,732	722,647
Equity attributable to equity holders of the Company		752,892	732,997
Minority interests		90	123
		752,982	733,120

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company										
	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Capital reserve US\$'000	Exchange reserve US\$'000	Shares held for share award scheme US\$'000	Capital redemption reserves US\$'000	Accumulated profits US\$'000	Total US\$'000	Minority interests US\$'000	Total US\$'000
As at 1 January 2007	-	45,440	-	-	1,334	-	-	392,547	439,321	-	439,321
Exchange difference on translation of foreign operations recognised directly in equity	-	-	-	-	200	-	-	-	200	-	200
Profit for the year	-	-	-	-	-	-	-	114,695	114,695	(72)	114,623
Total recognised income and expense for the year	-	-	-	-	200	-	-	114,695	114,895	(72)	114,823
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	-	(15,688)	-	-	-	-	-	-	(15,688)	-	(15,688)
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	195	195
Recognition of equity-settled share-based payment expenses	-	-	-	1,146	-	-	-	-	1,146	-	1,146
Dividend recognised as distribution	-	(251,241)	-	-	-	-	-	-	(251,241)	-	(251,241)
As at 31 December 2007	10,350	167,298	45,427	1,146	1,534	-	-	507,242	732,997	123	733,120
Exchange difference on translation of foreign operations recognised directly in equity	-	-	-	-	4,308	-	-	-	4,308	(18)	4,290
Profit for the year	-	-	-	-	-	-	-	124,993	124,993	(15)	124,978
Total recognised income and expense for the year	-	-	-	-	4,308	-	-	124,993	129,301	(33)	129,268
Purchase of shares for unvested shares under share award scheme	-	-	-	-	-	(3,001)	-	-	(3,001)	-	(3,001)
Cancellation upon repurchase of own shares	(190)	(12,795)	-	-	-	-	190	(190)	(12,985)	-	(12,985)
Dividend recognised as distribution	-	-	-	-	-	-	-	(93,420)	(93,420)	-	(93,420)
As at 31 December 2008	10,160	154,503	45,427	1,146	5,842	(3,001)	190	538,625	752,892	90	752,982

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	For the year ended 31 December	
	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
OPERATING ACTIVITIES		
Profit before tax	131,563	119,216
Adjustments for:		
Depreciation of property, plant and equipment	18,774	15,284
Impairment loss recognised on inventories	2,693	1,632
Share of results of associates	986	89
Loss (gain) on changes in fair value of derivative financial instruments	252	(252)
Release of prepaid lease payments	245	301
Loss on disposal of property, plant and equipment	72	241
Interest income	(9,021)	(10,089)
Share-based payment expenses	–	1,146
Interest expense	–	297
Dividend income	–	(96)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	145,564	127,769
Increase in inventories	(8,844)	(21,612)
Increase in trade and other receivables	(25,034)	(46,143)
Increase in amounts due from associates	(24,406)	(7,129)
Increase in trade and other payables	2,957	4,231
Decrease in amounts due to related companies	–	(15,130)
	<hr/>	<hr/>
Cash generated from operations	90,237	41,986
Income tax paid	(121)	–
Payment for purchase of shares under share award scheme	(3,001)	–
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	87,115	41,986
INVESTING ACTIVITIES		
Investments in associates	(17,290)	(2,000)
Purchase of property, plant and equipment	(15,153)	(22,575)
Increase in pledged bank deposit	(10,068)	–
Increase in deposit paid for acquisition of property, plant and equipment	(418)	(1,197)
Interest received	9,021	10,089
Proceeds from disposal of property, plant and equipment	894	424
Dividend received	–	96
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(33,014)	(15,163)

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

For the year ended 31 December 2008

	For the year ended 31 December	
	2008	2007
	US\$'000	US\$'000
FINANCING ACTIVITIES		
Dividend paid	(93,420)	(122,738)
Repurchase of own shares	(12,985)	–
Proceeds from initial public offerings	–	444,564
New bank borrowings raised	–	120,000
Capital contribution from minority shareholders of subsidiaries	–	195
Repayment of bank borrowings	–	(120,000)
Payment of share issue expenses	–	(15,688)
Interest paid	–	(297)
	<hr/>	<hr/>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(106,405)	306,036
	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(52,304)	332,859
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	406,960	73,673
	<hr/>	<hr/>
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	355	428
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by	355,011	406,960
	<hr/> <hr/>	<hr/> <hr/>
Bank balances and cash	240,495	364,539
Deposits placed in financial institutions	114,516	42,421
	<hr/>	<hr/>
	355,011	406,960
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Notes:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendment)	Eligible Hedged Items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments ²
HKFRS 8	Operating Segments ²
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives ⁴
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁵
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁶
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners ³
HK(IFRIC) – Int 18	Transfer of Assets from Customers ⁷

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods ending on or after 30 June 2009

⁵ Effective for annual periods beginning on or after 1 July 2008

⁶ Effective for annual periods beginning on or after 1 October 2008

⁷ Effective for transfers on or after 1 July 2009

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs) (Continued)

The application of HKFRS 3 (revised) may affect the Group’s accounting treatment for business combinations for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (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 consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement are prepared as if the group structure upon the Group Reorganisation had been in existence throughout the year ended 31 December 2007 or since the respective dates of incorporation/ establishment of the relevant entity, where this is a shorter period. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

4. 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.

4. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2008

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing <i>US\$'000</i>	Eliminations <i>US\$'000</i>	Consolidated <i>US\$'000</i>
CONSOLIDATED INCOME STATEMENT					
REVENUE					
External sales	345,784	729,700	26,632	–	1,102,116
Inter-segment sales	–	11,018	–	(11,018)	–
Total	<u>345,784</u>	<u>740,718</u>	<u>26,632</u>	<u>(11,018)</u>	<u>1,102,116</u>
Inter-segment sales are charged at cost plus a percentage of mark-up					
RESULTS					
Segment results	<u>54,739</u>	<u>150,885</u>	<u>(4,638)</u>	<u>–</u>	200,986
Unallocated corporate income					12,748
Unallocated corporate expenses					(81,185)
Share of results of associates	–	(888)	(98)	–	(986)
Profit before tax					131,563
Income tax expense					(6,585)
Profit for the year					<u>124,978</u>
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	174,893	248,716	41,391	–	465,000
Interests in associates	–	17,823	392	–	18,215
Unallocated corporate assets					405,062
Consolidated total assets					<u>888,277</u>
LIABILITIES					
Segment liabilities	54,487	41,973	18,394	–	114,854
Unallocated corporate liabilities					20,441
Consolidated total liabilities					<u>135,295</u>
OTHER INFORMATION					
Capital additions	6,627	6,567	3,156	–	16,350
Depreciation of property, plant and equipment	9,427	8,120	1,227	–	18,774
Release of prepaid lease payments	60	185	–	–	245
Loss on disposal of property, plant and equipment	48	24	–	–	72
Impairment loss recognised on inventories	269	195	2,229	–	2,693

4. REVENUE AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

For the year ended 31 December 2007

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing US\$'000	Eliminations US\$'000	Consolidated US\$'000
CONSOLIDATED INCOME STATEMENT					
REVENUE					
External sales	323,335	602,900	10,929	–	937,164
Inter-segment sales	–	4,239	–	(4,239)	–
Total	<u>323,335</u>	<u>607,139</u>	<u>10,929</u>	<u>(4,239)</u>	<u>937,164</u>
Inter-segment sales are charged at cost plus a percentage of mark-up					
RESULTS					
Segment results	<u>50,016</u>	<u>129,566</u>	<u>(465)</u>	<u>–</u>	179,117
Unallocated corporate income					15,911
Unallocated corporate expenses					(75,426)
Share of results of associates	–	(89)	–	–	(89)
Finance costs					<u>(297)</u>
Profit before tax					119,216
Income tax expense					<u>(4,593)</u>
Profit for the year					<u>114,623</u>
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	227,750	196,396	15,587	–	439,733
Interests in associates	–	1,911	–	–	1,911
Unallocated corporate assets					<u>415,086</u>
Consolidated total assets					<u>856,730</u>
LIABILITIES					
Segment liabilities	55,631	56,508	270	–	112,409
Unallocated corporate liabilities					<u>11,201</u>
Consolidated total liabilities					<u>123,610</u>
OTHER INFORMATION					
Capital additions	10,747	10,262	2,150	–	23,159
Depreciation of property, plant and equipment	8,466	6,524	294	–	15,284
Release of prepaid lease payments	61	240	–	–	301
Loss on disposal of property, plant and equipment	73	168	–	–	241
Impairment loss recognised on inventories	718	914	–	–	1,632

4. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
North America	669,929	566,242
Europe	291,279	266,428
The People's Republic of China (the "PRC"), including Hong Kong	57,035	39,794
Asia, other than the PRC	56,130	34,346
Others	27,743	30,354
	<u>1,102,116</u>	<u>937,164</u>

Over 90% of the identifiable assets of the Group are located in the PRC, no analysis on carrying amount of segment assets or additions to property, plant and equipment is presented.

5. INCOME TAX EXPENSE

	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
Current tax:		
PRC Enterprise Income Tax ("EIT")/Foreign Enterprise Income Tax ("FEIT")	4,885	4,593
Underprovision in prior year	1,700	–
	<u>6,585</u>	<u>4,593</u>

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

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Dongguan Stella Footwear Company Limited ("Dongguan Stella") and Long Chuan Simona Footwear Company Limited ("Long Chuan Simona") were subject to FEIT at the rate of 12% for the year ended 31 December 2007.

5. INCOME TAX EXPENSE *(Continued)*

Stella Luna Fashion Inc. (“Stella Luna”) was subject to FEIT at a rate of 33% for the year ended 31 December 2007.

The income of Stella International and Selena Footwear Inc. (“Selena Footwear”) derived from production, business operations and other sources in the PRC are subject to FEIT at a rate of 33% for the year ended 31 December 2007.

On 16 March 2007, the PRC government promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law (“Implementation Regulations”). The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain tax exemption and deduction for the FEIT is still applicable until the end of the five-year transitional period under the New Law.

The tax status of each of the above companies under the New Law and Implementation Regulations will be as follows:

- Dongguan Stella continues to enjoy the preferential tax treatment (12.5% tax rate, i.e. 50% of the applicable tax rate of 25%) for the years from 2008 to 2009. Thereafter, the tax rate will ratchet up to 25% from 2010;
- Long Chuan Simona continues to enjoy the preferential tax treatment (12.5% tax rate, i.e. 50% of the applicable tax rate of 25%) for the year of 2008. Thereafter, the tax rate will ratchet up to 25% from 2009;
- The tax rate for Stella Luna, Stella International and Selena Footwear derived from production, business operations and other sources in the PRC are subject to EIT at a rate of 25% effective from 2008.

According to the New Law, starting from 1 January 2008, withholding income tax will be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Deferred tax has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

5. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the profit before tax per consolidated income statement as follows:

	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
Profit before tax	131,563	119,216
Tax at the applicable PRC EIT/FEIT rate of 12.5% (2007: 12%)	16,445	14,306
Tax effect of expenses not deductible for tax purposes (<i>Note 1</i>)	6,642	5,726
Tax effect of income not taxable for tax purposes (<i>Note 2</i>)	(18,171)	(15,226)
Tax effect of share of losses of associates	118	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(149)	(213)
Underprovision in respect of prior years	1,700	–
Income tax expense	<u>6,585</u>	<u>4,593</u>

Notes:

1. Tax effect of expenses not deductible mainly represents the subcontracting charges and operating expenses in the PRC with payment receipts but no invoices for tax deduction claim under the relevant tax jurisdictions.
2. Tax effect of income not taxable is the income of Stella International which are not assessable under the relevant tax jurisdictions. As Stella International has no fixed place to carry out the operation, it subcontracted and engaged other companies as services providers to perform supporting activities and remunerate them with the service fee.

6. PROFIT FOR THE YEAR

	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' emoluments	2,369	3,060
Other staff costs	177,771	118,301
Share-based payment expenses	–	1,113
Retirement benefit scheme contributions, excluding directors	<u>1,590</u>	<u>1,262</u>
 Total staff costs	 <u>181,730</u>	 <u>123,736</u>
 Impairment loss recognised on inventories	 2,693	 1,632
Auditor's remuneration	671	601
Cost of inventories recognised as an expenses	836,864	714,517
Depreciation of property, plant and equipment	18,774	15,284
Listing expenses charged to consolidated income statement	–	2,840
Loss (gain) on changes in fair value of derivative financial instruments	252	(252)
Loss on disposal of property, plant and equipment	72	241
Net exchange loss	1,583	740
Release of prepaid lease payments	245	301
Share of taxation of associates (included in share of results of associates)	<u>96</u>	<u>–</u>

7. DIVIDENDS

	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
2007 final dividend of HK60 cents per share (2006: Nil final dividend) paid	62,296	–
2008 interim dividend of HK30 cents per share (2007: HK30 cents per share) paid	31,124	31,241
Special dividend (<i>Note</i>)	–	220,000
	<u>93,420</u>	<u>251,241</u>

Note: A special dividend of US\$220 million was paid to the then shareholders of the Company prior to the listing of the Company's shares on the Stock Exchange in July 2007.

The final dividend of HK50 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
Profit for the year and earnings for the purposes of basic earnings per share	<u>124,978</u>	<u>114,623</u>
	2008	2007
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>807,227,902</u>	<u>693,906,164</u>

The calculations of basic earnings per share for the year ended 31 December 2007 were based on the Company's 585,000,000 shares deemed to be issued throughout the years assuming the Group Reorganisation had been effective and the capitalisation of 584,000,000 shares had been existed on 1 January 2007.

Diluted earnings per share is not presented as there were no outstanding potentially dilutive ordinary shares during both years.

9. TRADE RECEIVABLES

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

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

	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Trade receivables:		
0 – 30 days	115,085	97,296
31 – 60 days	37,771	34,415
61 – 90 days	9,843	7,830
Over 90 days	8,167	6,572
	170,866	146,113

10. TRADE PAYABLES

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

	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Trade payables:		
0 – 30 days	49,831	54,255
31 – 60 days	5,543	7,095
Over 60 days	17,209	10,856
	72,583	72,206

FINANCIAL HIGHLIGHTS

Sustained Business Growth Despite Challenging Environment

The economic downturn around the world brought about by the subprime mortgage crisis in the U.S. and credit crunch has led to drastic changes in the global economic landscape, and created an uncertain business environment in Asia. In spite of the challenging market conditions, the Group was able to sustain business growth and achieve satisfactory results during the year, as we continued to strengthen value-added services and maintain our competitive edge.

During the year under review, the Group recorded a total revenue of US\$1,102.1 million, representing a year-on-year growth of 17.6%, while net profit attributable to equity holders of the Company grew by 9.0% year-on-year to US\$125.0 million. The satisfactory performance was attributable to an increase in average selling price (“ASP”) driven by a better sales mix, organic growth in women’s and men’s fashion footwear businesses as well as stable demand for quality shoes from our premium global brand owners and customers. Basic earnings per share decreased by 6.1% year-on-year to US\$0.155 (2007: US\$0.165), based on the weighted average number of ordinary shares of 807,227,902 shares in 2008 (2007: 693,906,164 shares).

Despite market uncertainties and slow consumer spending in the U.S. and Europe, the Group’s total shipment maintained at 48.4 million pairs in 2008, representing a slight increase of 1.4% compared with 47.7 million pairs sold in 2007. Thanks to our excellent craftsmanship and value-added services, the overall ASP improved to US\$22.2 per pair, representing a year-on-year growth of 15.0%.

The Group achieved sustained growth and was able to maintain healthy margins. Gross profit for the year amounted to US\$262.6 million, representing an increase of 18.8% over 2007 (2007: US\$221.0 million). Our continued effort to move up the value chain from components manufacturing, assembly, engineering and design to branding and retailing was recognised and rewarded.

In spite of rising overheads and production costs, gross profit margin was maintained at 23.8% for the year under review (2007: 23.6%), and was attributable to the improved mix of product offerings. Net profit margin for the year dropped slightly by 0.9 percentage points to 11.3%.

During the year under review, all our business segments performed well. The Group's women's fashion footwear business, which contributed 38.5% to the Group's total revenue (2007: 33.5%), continued to be the largest business segment in 2008, followed by women's and men's casual footwear business, making up 26.0% (2007: 27.5%) and 25.3% (2007: 30.5%) of overall revenue respectively. Contribution from men's fashion segment increased from 3.7% of total revenue in the previous year to 5.9% in 2008.

Geographically, North America and Europe continued to be the Group's two largest markets, accounting for 60.8% and 26.4% respectively of the Group's total revenue for the reporting year, followed by China (Mainland China and Hong Kong) at 5.2%, Asia (ex. China) at 5.1% and other geographical regions at 2.5%

BUSINESS REVIEW

Higher Flexibility, Greater Competitiveness

Our high standard manufacturing capabilities and value-added services have made the Group resilient to the economic slowdown. Amid the below trend demand growth and upward pressure on manufacturing costs, we were able to sustain growth momentum and achieve satisfactory performance.

In times of low market visibility, Stella's unique value-added and quality skill-based services, which include short lead time, small batch production, and innovative design and development capabilities, allow our customers to enjoy higher flexibility and be more competitive in this current volatile market, and simultaneously enable us to achieve a higher ASP than the industrial average. During the reporting year, orders from existing major customers increased, with the addition of new high-end international brand customers which further fueled our sales growth.

An Integral Partner for Leading International Brands

During the year under review, our top five customers accounted for 62.4% of our total revenue (2007: 59.9%). Stella's dedication and quality service has made us the integral partner of many of the world's top brands. Currently, our client base includes six of the world's top ten casual footwear companies and several leading footwear brands. We also develop and manufacture footwear for a number of revered high-fashion brands and well-known large chain store retailers.

Enhanced Manufacturing Competencies

To further strengthen our core competency, the Group continued to improve its product offerings and strengthen its design and development capabilities during the year. We also exercised stringent cost control and made a dedicated effort to explore new production techniques and substitution materials to keep production costs stable.

During the year under review, the Group's manufacturing facilities in Guangdong, China and Vietnam continued to operate at full capacity. In late 2008, the Group, as a purchaser, entered into a processing agreement with Huizhou Stella Footwear Co., Ltd., as a supplier, under which the supplier has agreed to process and manufacture footwear products ordered by the Group on an exclusive basis by utilising the production capacity at the new manufacturing facility in Huizhou, which commenced its operation in the second half of 2008. This processing arrangement is aligned with our strategy to boost production capability and the manufacturing facility in Huizhou will serve initially as a subcontracting facility for our Dongguan factories. With the new facilities in operation, the Group's annual manufacturing capacity has reached 50 million pairs. In August 2008, the Group acquired 40% of the issued share capital of Cosmic Gold Enterprise Corp., which is principally engaged in the footwear manufacturing business, to further expand the Group's production capability. This initiative will further expand the Group's total annual production capacity by two million pairs, and hence support the Group's future development by ensuring sufficient production capacity to meet customers' demand in the long run.

Thriving Retail Business

Our retail business maintained strong growth and achieved encouraging results for the year ended 31 December 2008. During the year, we embarked on an aggressive store expansion plan and further strengthened our foothold and market position in the consumer market in the Greater China region.

Our two retail brands, *Stella Luna* and *What For*, received overwhelming response in the consumer market and achieved an impressive year-on-year sales growth of 144.0%, with total sales revenue reaching US\$26.6 million in 2008. Gross profit and operating profit surged 67.0% and 59.9% to US\$17.8 million and US\$3.2 million respectively in 2008. Same-store sales also recorded significant growth of 82.1% during 2008 on robust consumer spending, together with our successful marketing initiatives and enhanced operational efficiency. The retail business contributed 2.4% to the Group's total revenue in 2008 compared to 1.2% in the previous year.

As of 31 December 2008, the Group owned and operated a total of 113 *Stella Luna* stores, of which 95 stores were located in the major cities in the PRC, 14 in Thailand, 1 in Macau and 3 in Taiwan. The number of *What For* stores in the PRC increased by almost five folds to 60 during the year.

Strategic Alliance with Deckers

Riding on the success of the *Stella Luna* and *What For* brands, the Group established a joint venture with Deckers Asia Pacific Limited ("Deckers") in July 2008 for the opening of retail stores and wholesale distribution of footwear under the UGG Australia® brand in the PRC. During the year, the joint venture launched its first UGG retail store in Beijing, which was well received by its target customers. We believe this strategic alliance with Deckers will enable Stella to leverage on our design, development and manufacturing capabilities and our distribution network in Greater China, thus enable us to increase our presence in the consumer sector throughout Greater China.

BUSINESS OUTLOOK

Continue to Move Up the Value Chain

Looking forward, the uncertain economic climate is likely to continue to affect the demand for footwear globally, but Stella is confident that it can maintain its competitiveness by moving up the value chain and adopting stringent cost-control measures.

Strengthen Our Competitive Edge

In 2009, we will focus on strengthening our competitive edge and consolidate our leadership position in developing and manufacturing quality footwear products. We will further expand our product offerings to customers and brand owners, and to enhance our product quality and craftsmanship. At the same time, we will take on prudent development strategy and cost-control measures to stabilise costs and sustain growth. In face of escalating manufacturing costs in the PRC, we are exploring more cost-effective locations for the possible relocation of our production facilities.

Further Expand Our Foothold

Despite the global financial turmoil, the Chinese retail market is continuing to rise to higher horizon. The management believes that the China's footwear market will continue to experience robust growth in the coming years on the back of a healthy and steadily growing economy. In view of this, Stella will further expand into the PRC market to capture opportunities in the mid to upper market segment. We will also endeavor to tap into the growing market of affordable luxury footwear in the Asia Pacific region.

In 2009, we target to set up an additional 25 *Stella Luna* stores and 40 *What For* stores in the Asia Pacific region to further expand our retail network. At the same time, we will continue to focus on increasing same-store growth by improving our operational efficiency.

Encouraged by the success of our first strategic partnership with Deckers, we will continue to explore other potential strategic partnerships to create more value and synergistic benefits to our existing business.

We believe those strategies and comprehensive business plans will leave the Group well-positioned to overcome any challenges ahead and capitalise on any opportunities that arise.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2008, the Group had cash and cash equivalents of about US\$365.1 million (2007: US\$407.0 million).

As at 31 December 2008, the Group had current assets of US\$699.9 million (2007: US\$686.9 million) and current liabilities of about US\$135.3 million (2007: US\$123.6 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 5.2 as at 31 December 2008 which indicated the Group's high liquidity and healthy financial position.

BANK BORROWINGS

The Group did not have any bank borrowings as at 31 December 2008 (2007: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2008, the Group's sales were mainly denominated in the U.S. dollars, while purchase of raw materials and operating expenses were mainly denominated in Renminbi ("RMB") or the U.S. dollars. The currency exposures were mainly in RMB and Hong Kong dollars against the functional currency of the relevant group companies. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year under review.

CAPITAL EXPENDITURE

During the year under review, the Group's total expenditure amounted to approximately US\$16.4 million, of which approximately US\$13.2 million was used in the production capacity expansion and approximately US\$3.2 million was used in the retail network expansion.

PLEDGE OF ASSETS

As at 31 December 2008, the Group pledged bank deposit of US\$10.1 million (2007: Nil) to a bank to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2008, the Group had approximately 21,000 employees (31 December 2007: approximately 25,000). The Group cultivates a caring, sharing and learning culture among the employees and believes that human resources are significant assets to the Group's development and expansion. The Group seeks to attract, train and retain individuals who are energetic and committed with a passion for our business. We will also continue to build a strong 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.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK50 cents per ordinary share to shareholders listed on the register of members of the Company on 8 May 2009. It is expected that the final dividend will be paid on or about 22 May 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2009 to 8 May 2009 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend for the year ended 31 December 2008 and attending and voting at the forthcoming annual general meeting, 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 5 May 2009.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2008 except for Code E.1.2 that, the chairman of the Board (the “Chairman”) had not attended the annual general meeting of the Company held on 7 May 2008 (the “2008 AGM”), but Mr. Shih Takuen, Daniel, the deputy chairman of the Board (the “Deputy Chairman”), took the chair at the 2008 AGM to answer shareholders’ questions instead. The reason for such arrangement is that the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, is responsible for managing major customers’ relationship, overseeing and planning the business strategies of the Group as well as providing leadership and management to the Board, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is responsible for handling matters relating to investor relations and communication with the Company’s shareholders. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Company’s shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group’s prevailing circumstances. Save for the said deviation from the Code, the Group upholds a high standard of corporate governance and the Company has adopted practices for corporate governance which, the Directors believe, are of higher standard than that required under the Code in various aspects as more particularly described in the annual report of the Company to be despatched to shareholders in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

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, Mr. Chu Pao-Kuei, Mr. Ng Hak Kim, *JP.* and Mr. Chen Johnny. 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 consolidated annual results of the Group for the year ended 31 December 2008.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the “Remuneration Committee”) in compliance with the Code. The Remuneration Committee has three members comprising two independent non-executive Directors, Mr. Ng Hak Kim, *JP.*, Mr. Chu Pao-Kuei and an executive Director, 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, determination of the specific remuneration packages of all executive Directors and senior management and administration and oversight of 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 (the “Nomination Committee”) as recommended by the Code. The Nomination Committee has four members comprising three independent non-executive Directors, Mr. Chen Johnny, Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *JP.* and an executive Director, Mr. Shih Takuen, Daniel. The chairman of the Nomination Committee is Mr. Chen Johnny. 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

To facilitate more effective implementation of corporate governance practices, the Company has established a corporate governance committee (the “Corporate Governance Committee”). The Corporate Governance Committee has three members comprising an executive Director, Mr. Shih Takuen, Daniel, and two independent non-executive Directors, Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *JP*. 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 practices 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 obligations 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

At the annual general meeting held on 7 May 2008, the Directors were granted a general mandate to purchase the shares of the Company not exceeding 10% of the aggregate nominal amount of its issued share capital as at the date of passing of the relevant resolution. During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2008	Number of shares of nominal value of HK\$0.10 each repurchased	Consideration per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
October 2008	9,344,000	7.50	6.41	66,026,855
November 2008	2,572,500	6.60	6.30	16,660,563
December 2008	2,954,000	6.40	5.92	18,336,042

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year.

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

Hong Kong, 20 March 2009

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, Mr. Ng Hak Kim, JP and Mr. Chen Johnny.