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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)

**INTERIM RESULTS FOR THE SIX MONTHS
 ENDED 30 JUNE 2009**

The board (the “Board”) of directors (the “Directors”) 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 2009, together with the comparative figures for the corresponding period in 2008 as follows:–

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE SIX MONTHS ENDED 30 JUNE 2009**

		Six months ended 30 June	
		2009	2008
	<i>NOTES</i>	<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	459,174	493,726
Cost of sales		(345,645)	(377,356)
Gross profit		113,529	116,370
Other income		6,516	6,908
Distribution and selling costs		(27,020)	(22,945)
Administrative expenses		(23,000)	(26,466)
Research and development costs		(16,758)	(15,257)
Impairment loss on goodwill	9	(3,303)	–
Share of results of an associate		487	(507)
Finance costs		(1)	–
Profit before taxation		50,450	58,103
Income tax expense	4	(2,968)	(2,461)
Profit for the period	5	47,482	55,642

* For identification purpose only

		Six months ended 30 June	
		2009	2008
	<i>NOTES</i>	US\$'000	<i>US\$'000</i>
		(Unaudited)	(Unaudited)
Other comprehensive (expense) income			
Exchange differences arising on translation of foreign operation		<u>(196)</u>	<u>4,533</u>
		<u>47,286</u>	<u>60,175</u>
Profit (loss) for the period attributable to:			
Owners of the Company		47,518	55,626
Minority interests		<u>(36)</u>	<u>16</u>
		<u>47,482</u>	<u>55,642</u>
Total comprehensive income attributable to:			
Owners of the Company		47,322	60,173
Minority interests		<u>(36)</u>	<u>2</u>
		<u>47,286</u>	<u>60,175</u>
Dividends	6	<u>51,248</u>	<u>62,296</u>
Earnings per share	7		
– Basic (<i>US\$</i>)		<u>0.060</u>	<u>0.069</u>
– Diluted (<i>US\$</i>)		<u>0.059</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2009

	<i>NOTES</i>	30 June 2009 US\$'000 (Unaudited)	31 December 2008 US\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	154,497	161,076
Prepaid lease payments – non-current portion		8,509	8,631
Interest in an associate	9	13,441	18,215
Deposit paid for acquisition of property, plant and equipment		29	418
		176,476	188,340
CURRENT ASSETS			
Inventories		123,759	103,921
Trade and other receivables	10	195,510	199,153
Prepaid lease payments – current portion		249	249
Amount due from an associate		24,648	31,535
Pledged bank deposit		–	10,068
Cash and cash equivalents		353,407	355,011
		697,573	699,937
CURRENT LIABILITIES			
Trade and other payables	11	109,503	120,691
Tax payable		15,348	14,604
		124,851	135,295
NET CURRENT ASSETS			
		572,722	564,642
		749,198	752,982
CAPITAL AND RESERVES			
Share capital	12	10,160	10,160
Share premium and reserves		738,984	742,732
Equity attributable to owners of the Company		749,144	752,892
Minority interests		54	90
		749,198	752,982

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Attributable to equity holder 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>	Exchange reserve <i>US\$'000</i>	Shares held for long term incentive scheme <i>US\$'000</i>	Capital redemption reserves <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 2008 (audited)	10,350	167,298	45,427	1,146	1,534	-	-	-	507,242	732,997	123	733,120
Profit for the period	-	-	-	-	-	-	-	-	55,626	55,626	16	55,642
Exchange differences on translation of foreign operations recognised	-	-	-	-	4,547	-	-	-	-	4,547	(14)	4,533
Total comprehensive income for the period	-	-	-	-	4,547	-	-	-	55,626	60,173	2	60,175
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(62,296)	(62,296)	-	(62,296)
At 30 June 2008 (unaudited)	<u>10,350</u>	<u>167,298</u>	<u>45,427</u>	<u>1,146</u>	<u>6,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,572</u>	<u>730,874</u>	<u>125</u>	<u>730,999</u>
Profit (loss) for the period	-	-	-	-	-	-	-	-	131,663	131,663	(31)	131,632
Exchange differences on translation of foreign operations recognised	-	-	-	-	(239)	-	-	-	-	(239)	(4)	(243)
Total comprehensive (expense) income for the period	-	-	-	-	(239)	-	-	-	131,663	131,424	(35)	131,389
Purchase of shares for long term incentive 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)
At 31 December 2008 (audited)	<u>10,160</u>	<u>154,503</u>	<u>45,427</u>	<u>1,146</u>	<u>5,842</u>	<u>(3,001)</u>	<u>190</u>	<u>-</u>	<u>538,625</u>	<u>752,892</u>	<u>90</u>	<u>752,982</u>
Profit (loss) for the period	-	-	-	-	-	-	-	-	47,518	47,518	(36)	47,482
Exchange differences on translation of foreign operations recognised	-	-	-	-	(196)	-	-	-	-	(196)	-	(196)
Total comprehensive (expense) and income for the period	-	-	-	-	(196)	-	-	-	47,518	47,322	(36)	47,286
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	863	-	863	-	863
Purchase of shares for long term incentive scheme	-	-	-	-	-	(685)	-	-	-	(685)	-	(685)
Vesting of shares under long term incentive scheme	-	-	-	-	-	1,090	-	(859)	(231)	-	-	-
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(51,248)	(51,248)	-	(51,248)
At 30 June 2009 (unaudited)	<u>10,160</u>	<u>154,503</u>	<u>45,427</u>	<u>1,146</u>	<u>5,646</u>	<u>(2,596)</u>	<u>190</u>	<u>4</u>	<u>534,664</u>	<u>749,144</u>	<u>54</u>	<u>749,198</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 a group reorganisation to rationalise the structure of the Group 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 STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Six months ended 30 June	
	2009	2008
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	<u>37,715</u>	<u>(10,373)</u>
Net cash generated from (used in) used in investing activities:		
Decrease in pledged bank deposit	10,068	–
Purchase of property, plant and equipment	(5,019)	(9,012)
Dividend received from an associate	1,958	–
Other investing cash flows	<u>4,766</u>	<u>7,419</u>
	<u>11,773</u>	<u>(1,593)</u>
Cash used in financing activities:		
Dividend paid	(51,248)	(62,296)
Interest expenses	<u>(1)</u>	<u>–</u>
	<u>(51,249)</u>	<u>(62,296)</u>
Net decrease in cash and cash equivalents	(1,761)	(74,262)
Cash and cash equivalents at the beginning of the period	355,011	406,960
Effect of foreign exchange rate changes	<u>157</u>	<u>121</u>
Cash and cash equivalents at the end of the period	<u><u>353,407</u></u>	<u><u>332,819</u></u>
Represented by:		
Bank balances and cash	202,328	119,977
Deposits placed in financial institutions	<u>151,079</u>	<u>212,842</u>
	<u><u>353,407</u></u>	<u><u>332,819</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

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 and with Hong Kong Accounting Standard 34 (“HKAS 34”), “Interim Financial Reporting”.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

During the period ended 30 June 2009, as a result of the grant of restricted unit awards to eligible directors and employees on 19 February 2009 in accordance with the Company’s long term incentive scheme (details please refer to Note 14), the Group has applied accounting policy of equity-settled share-based payment transactions for the restricted unit awards granted to eligible directors and employees. In addition, a number of new or advised standards and interpretations are effective for the financial period beginning on 1 January 2009.

Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2008.

Equity-settled share-based payment transactions

Restricted unit awards granted to directors and employees

The fair value of service received, determined by reference to the fair value of restricted unit awards granted at the grant date, is expensed as staff costs on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

At each balance sheet date, the Group revises its estimates of the number of the restricted unit awards that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to the share award reserve.

At the time when the restricted unit awards are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares (the shares held under the long term incentive scheme) will be transferred to accumulated profits.

Hong Kong Financial Reporting Standard (“HKFRS”) 8 “Operating Segments”

(effective for annual periods beginning on or after 1 January 2009)

HKFRS 8 “Operating Segments” is a disclosure standard that has resulted in a redesignation of the Group’s reportable segment (*see Note 3*), but has had no impact on the reported results or financial position of the Group.

Hong Kong Accounting Standard (“HKAS”) 1 (revised 2007) “Presentation of Financial Statements”
(effective for annual periods beginning on or after 1 January 2009)

HKAS 1 (revised 2007) “Presentation of Financial Statements” has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) “Presentation of Financial Statements” has had no impact on the reported results or financial position of the Group.

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

HKFRS 5 (Amendment)	<i>Improvements to HKFRSs 2008¹</i>
HKFRSs (Amendments)	<i>Improvements to HKFRSs 2009²</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements¹</i>
HKAS 39 (Amendment)	<i>Eligible Hedged Items¹</i>
HKFRS 2 (Amendment)	<i>Group Cash-settled Share-based Payment Transactions³</i>
HKFRS 3 (Revised)	<i>Business Combinations¹</i>
HK(IFRIC) – Int 17	<i>Distribution of Non-cash Assets to Owners¹</i>
HK(IFRIC) – Int 18	<i>Transfer of Assets from Customers⁴</i>

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

² *Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*

³ *Effective for annual periods beginning on or after 1 January 2010*

⁴ *Effective for transfers on or after 1 July 2009*

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary.

The Directors anticipate that, the application of the other new or revised standards, amendments or interpretations will have no material impact on how the results and financial position of the Group are prepared and presented.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard, HKAS 14 “Segment Reporting”, required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s “system of internal financing reporting to key management personnel” serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group’s reportable segments has changed.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker for making strategic decisions. The segments are managed separately as each business offers different models/types of products which vary in materials used, craftsmanship and design and service which require different production/service information to formulate different marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- 1) Men's footwear – the manufacturing and sales of men's footwear
- 2) Women's footwear – the manufacturing and sales of women's footwear
- 3) Retailing and wholesaling of footwear

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of HKFRS 8.

The following is an analysis of the Group's revenue and results by operating segments for the periods under review:

	Revenue		Segment profit	
	Six months ended 30 June			
	2009	2008	2009	2008
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Men's footwear	135,080	151,013	24,187	22,295
Women's footwear	304,040	331,303	58,754	69,475
Footwear retailing and wholesaling	20,054	11,410	(10)	(939)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>459,174</u>	<u>493,726</u>	82,931	90,831
Corporate income				
– Interest income from banks			3,594	5,437
– Rental income			1,908	995
– Exchange gain			157	381
– Others			755	64
Central administration costs			(36,078)	(39,098)
Impairment loss on goodwill			(3,303)	–
Share of loss of associates			487	(507)
Finance costs			(1)	–
			<hr/>	<hr/>
Profit before taxation			<u>50,450</u>	<u>58,103</u>

All of the segment revenue reported above is from external customers.

Segment profit represents profit attributable to each segment without allocation of corporate income, central administration costs and finance costs. This is the measure reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by operating segment:

	At 30 June 2009 US\$'000 (Unaudited)	At 31 December 2008 US\$'000 (Audited)
Men's footwear	187,460	174,893
Women's footwear	246,898	248,716
Footwear retailing and wholesaling	41,366	41,391
	<hr/>	<hr/>
Total segment assets	<u>475,724</u>	<u>465,000</u>

4. INCOME TAX EXPENSE

	Six months ended 30 June 2009 US\$'000	2008 US\$'000
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The charge comprises:

Enterprise Income tax ("EIT") in the People's Republic of China (the "PRC")	<u>2,968</u>	<u>2,461</u>
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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.

Dongguan Stella Footwear Company Limited ("Dongguan Stella") and Long Chuan Simona Footwear Company Limited ("Long Chuan Simona") enjoy preferential tax treatment (12.5% tax rate, i.e., 50% of the applicable tax rate of 25%) (the "Preferential Tax Treatment") for the six-month period ended 30 June 2008. Dongguan Stella continues to enjoy the Preferential Tax Treatment for the period ended 30 June 2009 whilst the tax rate for Long Chuan Simona is subject to EIT at a rate of 25% effective from 1 January 2009.

The income of Stella Luna Fashion Inc., Stella International Limited and Selena Footwear Inc. derived from production, business operations and other sources in the PRC is subject to EIT at a rate of 25% for the six-month periods ended 30 June 2008 and 2009.

No deferred tax has been provided in the condensed consolidated financial statements in respect of the temporary differences attributable to profits generated by both Dongguan Stella and Long Chuan Simona 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.

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

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2009	2008
	<i>US\$'000</i>	<i>US\$'000</i>
Impairment loss recognised on inventories	1,060	171
Depreciation of property, plant and equipment	10,857	9,422
Release of prepaid lease payments	123	160
Share-based payments included in administrative expenses	863	–
Net loss on changes in fair value of derivative financial instruments	–	134
Interest income on bank balances	(3,605)	(5,443)
(Gain) loss on disposal of property, plant and equipment	(1)	69
	<u> </u>	<u> </u>

6. DIVIDENDS

	Six months ended 30 June	
	2009	2008
	<i>US\$'000</i>	<i>US\$'000</i>
Final dividend declared and paid for 2008		
– HK50 cents per share (2007: HK60 cents)	<u>51,248</u>	<u>62,296</u>
Interim dividend declared subsequent to period end		
– HK30 cents (2008: HK30 cents) per share	<u>30,750</u>	<u>31,124</u>

The Board has determined the payment of an interim dividend in respect of the six-month period ended 30 June 2009 of HK30 cents (2008: HK30 cents) per ordinary share to shareholders whose names appeared in the register of members of the Company at the close of business on 11 September 2009.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2009	2008
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to equity holders of the Company	47,518	55,626
	792,139	809,250
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share		
Effect of dilutive potential ordinary shares:		
Unvested shares awarded	1,759	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	793,898	N/A

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by Teeroy Limited (*see Note 14*).

Diluted earnings per share was not presented as there were no dilutive potential ordinary shares in existence for the period ended 30 June 2008.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US\$5,019,000 for business expansion.

9. IMPAIRMENT LOSS ON GOODWILL/INTERESTS IN ASSOCIATES

Included in the costs of investments in associates was goodwill of approximately US\$5,261,000 arising from the acquisition of Cosmic Gold Enterprise Limited (“Cosmic Gold”) during the year ended 31 December 2008.

For the purposes of impairment testing, goodwill is allocated to the individual cash generating unit (“CGU”), being footwear manufacture by Cosmic Gold. Impairment test for the goodwill was performed because the initial purpose for the acquisition of Cosmic Gold was to expand the Group’s production capacity for its excessive sales orders and due to economic downturn, the management expected that the Group’s future sales orders might not allow the Group to fully utilise Cosmic Gold’s production capacity as initially planned, resulting in an impairment loss of approximately US\$3,303,000 (for the six months ended 30 June 2008: Nil) identified and recognised in the condensed consolidated statement of comprehensive income.

The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period, and a discount rate of 16%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the unit’s past performance and management’s expectation for the market development.

10. 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 2009 US\$’000	31 December 2008 US\$’000
Trade receivables:		
0 – 30 days	137,010	115,085
31 – 60 days	5,552	37,771
61 – 90 days	3,708	9,843
Over 90 days	16,110	8,167
	162,380	170,866
Other receivables	33,130	28,287
	195,510	199,153

11. TRADE AND OTHER PAYABLES

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

	30 June 2009 US\$'000	31 December 2008 US\$'000
Trade payables:		
0 – 30 days	58,095	49,831
31 – 60 days	1,954	5,543
Over 60 days	2,413	17,209
	<hr/>	<hr/>
	62,462	72,583
Other payables	47,041	48,108
	<hr/>	<hr/>
	109,503	120,691
	<hr/> <hr/>	<hr/> <hr/>

12. SHARE CAPITAL

	Number of share	Nominal value HK\$
Ordinary of HK\$0.10 each		
<i>Authorised:</i>		
As at 1 January 2009 and 30 June 2009	5,000,000,000	500,000,000
	<hr/> <hr/>	<hr/> <hr/>
<i>Issued and fully paid:</i>		
As at 1 January 2009 and 30 June 2009	794,379,500	79,437,950
	<hr/> <hr/>	<hr/> <hr/>
Shown in financial statements as		US\$10,160,000
		<hr/> <hr/>

13. CAPITAL COMMITMENTS

	30 June 2009 US\$'000	31 December 2008 US\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	1,990	91
	<hr/> <hr/>	<hr/> <hr/>

14. SHARE-BASED PAYMENT TRANSACTIONS

Long Term Incentive Scheme (the “LTI Scheme”)

The Company’s LTI Scheme was adopted pursuant to a resolution passed on 15 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 14 June 2017. Under the LTI Scheme, the board of directors of the Company may grant an award, either by way of, 1) option to subscribe the Company’s shares (the “Shares”), 2) Shares or 3) conditional right, to acquire the Shares, to eligible employees, including directors of the Company and its subsidiaries. Any offer proposed to be made to a director or a chief executive or a substantial shareholder or a connected person of the Company or any of his, her or its associates must be approved by all the independent non-executive directors, excluding an independent non-executive director who is the proposed grantee.

The total number of Shares in respect of which an award may be granted under the LTI Scheme is not permitted to exceed 30% of the Shares in issue at any point in time, without prior approval from the Company’s shareholders. The number of Shares issued and to be issued to any individual in any one year is not permitted to exceed 1% of the Shares in issue without prior approval from the Company’s shareholders. The total number of Shares issued or to be issued to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company’s share capital and with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

On 19 February 2009, restricted unit awards were granted to certain eligible directors and employees. Pursuant to the terms of LTI Scheme, the Company entered into a deed of settlement dated 27 August 2008 with a trustee, Teeroy Limited (“Trustee”), for the purpose of administering the granting of restricted unit awards under the LTI Scheme.

During the period under review, a total of 2,445,500 restricted unit awards have been granted to 85 eligible participants including six directors with the remaining being 79 employees of the Group at a consideration HK\$1 per person.

Details of the movement of the grant of the restricted unit awards during the period are as follows:

	Vesting date	Outstanding at 1 January 2009	Granted during the period	Vested during the period	Cancelled during the period	Outstanding at 30 June 2009
Directors	1 April 2009	–	306,000	(306,000)	–	–
	1 April 2010	–	306,000	–	–	306,000
	1 April 2011	–	306,000	–	–	306,000
Employees	1 April 2009	–	609,900	(605,900)	(4,000)	–
	1 April 2010	–	453,900	–	(1,000)	452,900
	1 April 2011	–	453,900	–	(1,000)	452,900
	1 April 2012	–	4,900	–	–	4,900
	1 April 2013	–	4,900	–	–	4,900
		<u>–</u>	<u>2,445,500</u>	<u>(911,900)</u>	<u>(6,000)</u>	<u>1,527,600</u>

As at 30 June 2009, there were a total of 2,175,600 Shares of the Company held in trust by the Trustee, of which 1,527,600 Shares were held for the benefit of selected eligible participants and the remaining 648,000 Shares are maintained and are available for the Trustee to satisfy the granting of the restricted unit awards.

For the period, the total fair value of the granted restricted unit awards of approximately US\$1,278,000 (for the six months ended 30 June 2008: Nil) was determined at the date of the grant/award using the Binomial Option Pricing model and was recognised as an expense in the condensed consolidated statement of comprehensive income with a corresponding credit to share award reserve.

The fair value of the restricted unit awards was assessed by Greater China Appraisal Limited, an independent valuer. The inputs used in the model in determining the fair value at the grant date were as follows:

19 February 2009

Share price at date of grant/award	HK\$12.40
Contractual life (years) for vesting date on:	
– 1 April 2009	0.59
– 1 April 2010	1.59
– 1 April 2011	2.59
– 1 April 2012	3.59
– 1 April 2013	4.59
Risk-free rate for vesting date on:	
– 1 April 2009	1.28%
– 1 April 2010	1.86%
– 1 April 2011	2.23%
– 1 April 2012	2.54%
– 1 April 2013	2.74%
Expected dividend yield	7.26%
Volatility for vesting date on:	
– 1 April 2009	39.62%
– 1 April 2010	37.18%
– 1 April 2011	33.89%
– 1 April 2012	32.89%
– 1 April 2013	33.32%

15. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June	
		2009 US\$'000	2008 US\$'000
興昂制革(惠州)有限公司 ¹	Purchase of leather and tannery products	13,133	17,552
Sincerely International Limited ¹	Purchase of mods	1,755	1,084
東莞興和塑膠制品有限公司 ¹	Purchase of lasts	1,958	1,303
Sanford International Limited ¹	Purchase of sole materials	2,680	3,727
	Rental expense	49	65
東莞市長安統來刀模加工廠 ²	Purchase of die cuts	1,947	1,871
	Rental income	–	51
東莞興騰鞋材有限公司 ¹	Purchase of sole materials	8,794	6,421
惠州興昂鞋業有限公司 ¹	Purchase of footwear products	1,194	–
辛集市寶得福皮業有限公司 ³	Purchase of footwear products	34,625	3,516
Cosmic Gold Enterprise Limited ³	Processing fee paid	2,203	–

¹ Companies under the control of the directors of the Company

² Companies under the control of other key management personnel of the Group

³ An associate of the Company

(II) Compensation of key management personnel

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

	Six months ended 30 June	
	2009	2008
	US\$'000	US\$'000
Short-term benefits	<u>395</u>	<u>285</u>

The remuneration of directors and key executives were determined by the Board after taking into advices given by the remuneration committee of the Board, where appropriate, and having regard to the performance of individuals and market trends.

CHAIRMAN'S STATEMENT

It is my pleasure to present to you the interim results of the Group for the six months ended 30 June 2009.

The first six months of 2009 have been full of challenges for the manufacturers and exporters in Asia. Having said that, our key markets of North America and Europe have shown signs of recovery. Improvements in consumer confidence and disposable income will help foster a more favourable operating environment for the global retail and manufacturing industries.

Due to a 15.7% drop in shipment volume, revenue of the Group for the period under review recorded a decrease of 7.0% to US\$459.2 million. Despite the difficult market conditions, Stella managed to achieve a 8.1% growth in average selling price of our shipments. The results were attributed to our industry-leading manufacturing capability in producing quality and stylish footwear products in small batches, which proves to be an unique competitive advantage in the current operating environment. Our distinct business strategies, prudent expansion initiatives, quality management and solid business foundation have helped ensure the Group remains resilient in the face of adversities. The flexibility that we offer our customers, in the form of highly efficient supply chain service and shorter manufacturing lead-time, has further strengthened our relationships with international high-fashion brands.

In recent years, Stella has been moving up the value chain with resounding success in improving the Stella brand's competitiveness and extending our foothold in the affordable luxury women footwear market in the Asia region. Despite stiff competition in the market, exciting progress has been made in our retail operation and the Group has started to reap the benefits from *Stella Luna* and *What For's* rising brand recognition and status. During the six months under review, the number of shops under the *Stella Luna* and *What For* brands grew to 131 and 75, respectively, while revenue from our retail arm jumped approximately 75.4%.

For the second half of the year, low order visibility in the current global economic environment is likely to continue to depress the manufacturing and retail industries. However, with the initial signs of recovery for the global economy, we remain confident of the top and high-fashion footwear markets in the long run. In view of that, the Group has made plans to increase its annual production capacity to ensure customers' demand will be met, while keeping a tight rein on product quality, craftsmanship, production costs and production efficiency. We are confident that our competitive edge will continue to set us apart from other industry players and help us weather through the current market downturn.

Going forward, our retail business will have an increasingly important role to play in the Group's overall development. We plan to further enhance the *Stella Luna* and *What For* brands by expanding our network and strengthening their market positions in a prudent manner. The Group will also explore opportunities for the development of new brands to widen our customer base. Results from our first strategic partnership with Deckers have been encouraging. In view of that, we will continue to look out for other potential strategic partnerships to add value and create synergies for our existing business.

While continuing our efforts in moving up the value chain, we will also emphasize on investing in our people which is always the most important asset in our pursuit for excellence. We believe our unrivalled capability in providing our business partners with products and services of the best quality will help shield us from the current economic storm and we will emerge stronger as a result.

Finally, I would like to take this opportunity to express my gratitude to our shareholders for their support, and to the management team and colleagues for their hard work and unwavering commitment over the years. We are confident that we will be able to deliver encouraging performance in the near future and continue to create solid and consistent returns for our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

Although the market has shown signs of recovery in the first half of 2009, consumer confidence remained lackluster as a result of the global financial crisis. Faced with a challenging operating environment, the Group recorded total revenue of US\$459.2 million during the period under review, representing a 7.0% drop from the same period last year. Net profit attributable to shareholders fell 14.6% to US\$47.5 million, while total shipment amounted to 19.4 million pairs, representing a 15.7% decline year on year.

Average selling price (“ASP”) of our products amounted to US\$22.6 per pair, representing a growth of 8.1% compared to the corresponding period last year as a result of our unique value-added services and excellent craftsmanship. By keeping a tight lid on operating costs and overheads, the Group was able to maintain healthy margins for its manufacturing operations. Gross profit amounted to US\$113.5 million, a slight decrease of 2.4% compared to corresponding period last year, while gross and net profit margins held steady at 24.7% and 10.3%, respectively.

During the first half of 2009, women’s fashion footwear was still the largest business segment during the period, accounting for 36.7% of the Group’s total revenue. It was followed by women’s and men’s casual footwear businesses, which contributed 28.0% and 23.3% respectively to the Group’s overall revenue.

For its retail operations, the Group continued to exploit opportunities in the robust consumer market in China during the period by increasing the presence of its *Stella Luna* and *What For* brands. Revenue from the Group’s retail business, which accounted for 4.4% of total revenue, recorded a substantial growth of 75.4% over the corresponding period last year.

Geographically, North America and Europe continued to be the Group’s two largest markets, accounting for 52.5% and 33.0% respectively of the Group’s total revenue for the reporting period, followed by Greater China at 7.3%, Asia (excluding Greater China) at 4.9% and other geographical regions at 2.3%

Business Review

Custom design and development

The number of shoes shipped in the first half of 2009 fell by 15.7% to 19.4 million pairs from 23.0 million pairs in the corresponding period of the previous year as a result of smaller orders and shorter lead time from customers coping with slowing market conditions in the US and Europe. In spite of that, our production facilities in China’s Guangdong province and Vietnam continued to operate at a high level of capacity utilisation, contributing to a stable operating margin for our manufacturing business.

Our unique capability in delivering value-added services to customers with innovative designs and development remains our key competitive advantage. We continued to offer maximum product and cost flexibility to our customers, allowing them to enjoy higher market competitiveness under the current market condition. This has helped expand our customer base to include more high-end luxury brands in the first half of 2009, reinforcing our already strong client portfolio which encompasses top casual footwear companies and leading fashion footwear brands.

To stay competitive, we have implemented stringent controls on operating costs and overheads. The processing agreement we entered into with Huizhou Stella Footwear Co., Ltd. in late 2008 has provided us with additional flexibility in managing operating costs through adjusting our subcontract activities.

Strong retail business growth

Consumer spending in the PRC did not suffer from the slowdown of the global economy since the later half of 2008 and the PRC retail market remained relatively vibrant in the first half of 2009. Our retail business had achieved healthy growth during the period under review.

We are on track to execute our aggressive store expansion plan in the first tier cities in the PRC to feed on the growing appetite for higher-end women fashion footwear. As of 30 June 2009, we had a total of 107 *Stella Luna* stores and 75 *What For* stores in Greater China. This represented an increase of 8 and 15 stores for *Stella Luna* and *What For* respectively as compared to the end of last year, which was in line with our expansion plan. Our target is to operate 122 *Stella Luna* and 102 *What For* stores in the region by the end of 2009.

The following table sets out the geographical distribution of *Stella Luna* and *What For* stores as of 30 June 2009:

	<i>Stella Luna</i>	<i>What For</i>
Greater China		
Eastern China	28	14
Southern China	10	9
Northern China	26	16
North-east China	14	10
South-west China	14	12
Central China	11	12
Macau	1	1
Taiwan	3	1
	<hr/>	<hr/>
Subtotal	107	75
	<hr/>	<hr/>
Thailand		
Bangkok	12	0
Phuket	2	0
Chon Buri	1	0
	<hr/>	<hr/>
Subtotal	15	0
	<hr/>	<hr/>
Philippines	4	0
Lebanon	4	0
United Arab Emirates	1	0
	<hr/>	<hr/>
Total	<u>131</u>	<u>75</u>

The market's response to our retail business continued to be overwhelming. We recorded strong growth in our retail business in the first six months of 2009. During the period, revenue from our retail operations grew 75.4% to US\$20.0 million as compared with the corresponding period from a year earlier. Operating profit margin remained stable at 13.3%. Of the 83 stores out of 196 which were qualified for same-store comparison, the overall same-store sales growth was up 33.0% compared to the corresponding period in 2008.

The Group has invested more resources in marketing and brand building during the period under review to further raise market awareness and reputation of its brands in the market.

Business Outlook

Grasping opportunities in downturns

For the remainder of this year, low visibility in the current global economic environment is likely to continue to depress the manufacturing and retail industries. To combat this, the Group has put in place a number of measures to maintain its growth momentum and reinforce its leading position in the market.

Retail segment to be a major income contributor

The retail segment has achieved encouraging results in the first half of 2009 and is expected to increase its contribution to the Group's overall revenue mix going forward. In view of this, the Group will continue to expand its retail operations with prudence. To sustain that growth momentum, the Group plans to continue to expand its retail network and enhance the market positions of *Stella Luna* and *What For*.

In the second half of 2009, the Group targets to set up 15 *Stella Luna* stores and 27 *What For* stores in Greater China to further expand its retail network. At the same time, the Group hopes to further enhance same-store growth by improving its operating efficiency.

The Group will also explore opportunities for the development of new brands to widen our customer base. To add value and create synergies for its existing businesses, the Group will continue to look for other potential strategic partnership opportunities.

Raise production capacity to meet customers' demands

Looking forward, the Group expects to see a more steady market ahead and is confident of a recovery in the retail market in the long run. To keep up with future demands, the Group will further its annual production capacity while keeping a tight rein on product quality, costs and production efficiency.

It is expected that the future plans for expansion in both retail network and manufacturing capacity shall be satisfied by internal source of funds.

Sharpen Our Distinctive Edge

The Group distinguishes itself from other industry players with its continuous effort to move up the value chain and its ability to meet customers' needs regardless of their operating environment.

The Group is committed to continuing to enhance the quality and craftsmanship of its products for customers and brand owners. At the same time, we will continue to monitor our costs closely while growing the business in a prudent manner.

We believe our unrivalled capability in providing business partners with products and services of the best quality will help consolidate our market leading position, in both good and difficult times.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2009, the Group had cash and cash equivalents of about US\$353.4 million (as at 31 December 2008: US\$365.1 million).

As at 30 June 2009, the Group had current assets of US\$697.6 million (as at 31 December 2008: US\$699.9 million) and current liabilities of about US\$124.9 million (as at 31 December 2008: US\$135.3 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 5.6 as at 30 June 2009 which indicated the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group did not have any bank borrowings as at 30 June 2009 (as at 31 December 2008: Nil).

Foreign Exchange Exposure

During the six months ended 30 June 2009, 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 period under review.

Capital Expenditure

During the period under review, the Group's total expenditure amounted to approximately US\$5.0 million (for the six months ended 30 June 2008: US\$9.0 million), of which approximately US\$3.6 million was used in the production capacity expansion and approximately US\$1.4 million was used in the retail network expansion.

Pledge of Assets

As at 30 June 2009, the Group did not pledge any of its assets (as at 31 December 2008: US\$10 million).

Contingent Liabilities

As at 30 June 2009, the Group had no material contingent liabilities (as at 31 December 2008: Nil).

Employees

As at 30 June 2009, the Group, together with its subcontracting and contracted factories, had approximately 54,000 employees on a full-time equivalent basis (as at 31 December 2008: approximately 58,000). The Group cultivates a caring, sharing and learning culture among the employees and believes that human resources are the most important 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.

REVIEW OF ACCOUNTS BY AUDIT COMMITTEE

The audit committee of the Board has reviewed the interim results for the six months ended 30 June 2009.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per share for the six months ended 30 June 2009. The interim dividend will be paid to shareholders listed on the register of members of the Company on 11 September 2009. It is expected that the interim dividend will be paid on or about 18 September 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 9 September 2009 to 11 September 2009, 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 2009, all share transfers accompanied by the relevant share certificates must be lodged with the Company's 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 8 September 2009.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance to ensure and enhance a high standard of corporate governance practices through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company ("Shareholders"). The Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2009, except the following deviation:

For Code E.1.2, the chairman of the Board (the "Chairman") had not attended the annual general meeting of the Company held on 8 May 2009 (the "2009 AGM"), but Mr. Shih Takuen, Daniel, the deputy chairman (the "Deputy Chairman"), took the chair at the 2009 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 the Group's corporate communications including corporate governance, investor relations and Shareholders' communication. 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 Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Governance Model

The Company advocates a governance model which combines both corporate governance and business governance in order to build long-term interests for the Group. Corporate governance emphasises on conformance with relevant laws and regulations while business governance focuses on business performance. We believe the combination of both will enhance accountability and assurance to the Shareholders which are the key drivers for value creation for the Group.

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. 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 during the six months ended 30 June 2009.

Purchase, Sale or Redemption of the Company's Listed Securities

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
Stella International Holdings Limited
Chiang Jeh-Chung, Jack
Chairman

Hong Kong, 20 August 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 and Mr. Ng Hak Kim, JP and Mr. Chen Johnny.