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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 2010**

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 2010, together with the comparative figures for the corresponding period in 2009 as follows:–

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE SIX MONTHS ENDED 30 JUNE 2010**

		Six months ended	
		30 June	
	<i>NOTES</i>	2010	2009
		<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	544,461	459,174
Cost of sales		(427,563)	(345,645)
Gross profit		116,898	113,529
Other income		4,210	6,516
Distribution and selling costs		(27,085)	(27,020)
Administrative expenses		(26,834)	(23,000)
Research and development costs		(20,128)	(16,758)
Impairment loss on interests in an associate		–	(3,303)
Share of profit of associates		471	487
Finance costs		–	(1)

* *For identification purpose only*

		Six months ended 30 June	
	<i>NOTES</i>	2010	2009
		US\$'000	US\$'000
		(Unaudited)	(Unaudited)
Profit before tax		47,532	50,450
Income tax expense	4	<u>(1,507)</u>	<u>(2,968)</u>
Profit for the period	5	46,025	47,482
Exchange differences arising on translation of foreign operation		<u>(4,791)</u>	<u>(196)</u>
Total comprehensive income for the period		<u>41,234</u>	<u>47,286</u>
Profit for the period attributable to:			
Owners of the Company		46,083	47,518
Non-controlling interests		<u>(58)</u>	<u>(36)</u>
		<u>46,025</u>	<u>47,482</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		41,292	47,322
Non-controlling interests		<u>(58)</u>	<u>(36)</u>
		<u>41,234</u>	<u>47,286</u>
Earnings per share	7		
– Basic (<i>US\$</i>)		<u>0.0583</u>	<u>0.0600</u>
– Dilutive (<i>US\$</i>)		<u>0.0582</u>	<u>0.0599</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

		30 June	31 December
		2010	2009
	<i>NOTES</i>	<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	149,370	149,152
Prepaid lease payments		8,290	8,387
Interest in associates		16,505	11,707
Deposit paid for acquisition of property, plant and equipment		304	445
		174,469	169,691
CURRENT ASSETS			
Inventories		165,058	107,725
Trade and other receivables	9	249,793	192,820
Prepaid lease payments		249	249
Amounts due from associates	10	46,843	29,832
Derivative financial instruments	11	179	33
Bank deposits		15,752	108,117
Cash and cash equivalents		275,520	317,120
		753,394	755,896
CURRENT LIABILITIES			
Trade and other payables	12	139,323	127,022
Bills payable		8,082	10,542
Amount due to an associate		74	879
Derivative financial instruments	11	11	9
Tax liabilities		19,842	18,658
		167,332	157,110
NET CURRENT ASSETS			
		586,062	598,786
		760,531	768,477

		30 June	31 December
		2010	2009
	<i>NOTES</i>	<i>US\$'000</i>	<i>US\$'000</i>
		(Unaudited)	(Audited)
CAPITAL AND RESERVES			
Share capital	<i>13</i>	10,160	10,160
Share premium and reserves		750,426	758,314
		<hr/>	<hr/>
Equity attributable to owners of the Company		760,586	768,474
Non-controlling interests		(55)	3
		<hr/>	<hr/>
		760,531	768,477
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to owners of the Company											Total
	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Merger reserve <i>US\$'000</i> <i>(Note 1)</i>	Capital reserve <i>US\$'000</i> <i>(Note 2)</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>	Non- controlling interests <i>US\$'000</i>	
At 1 January 2009 (audited)	10,160	154,503	45,427	1,146	5,842	(3,001)	190	-	538,625	752,892	90	752,982
Profit (loss) for the period	-	-	-	-	-	-	-	-	47,518	47,518	(36)	47,482
Exchange differences on translation of foreign operations	-	-	-	-	(196)	-	-	-	-	(196)	-	(196)
Total comprehensive (expense) 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 unvested shares under long term incentive scheme	-	-	-	-	-	(685)	-	-	-	(685)	-	(685)
Shares vested 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>
Profit (loss) for the period	-	-	-	-	-	-	-	-	54,650	54,650	(51)	54,599
Exchange differences on translation of foreign operations	-	-	-	-	(515)	-	-	-	-	(515)	-	(515)
Total comprehensive (expense) income for the period	-	-	-	-	(515)	-	-	-	54,650	54,135	(51)	54,084
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	342	-	342	-	342
Purchase of shares for unvested shares under long term inactive scheme	-	-	-	-	-	(4,397)	-	-	-	(4,397)	-	(4,397)
Shares vested under long term incentive scheme	-	-	-	-	-	(48)	-	27	21	-	-	-
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(30,750)	(30,750)	-	(30,750)
At 31 December 2009 (audited)	<u>10,160</u>	<u>154,503</u>	<u>45,427</u>	<u>1,146</u>	<u>5,131</u>	<u>(7,041)</u>	<u>190</u>	<u>373</u>	<u>558,585</u>	<u>768,474</u>	<u>3</u>	<u>768,477</u>

Attributable to owners of the Company

	Share capital	Share premium	Merger reserve	Capital reserve	Exchange reserve	Shares held for long term incentive scheme	Capital redemption reserves	Share award reserve	Accumulated profits	Subtotal	Non-controlling interests	Total
	US\$'000	US\$'000	US\$'000 (Note 1)	US\$'000 (Note 2)	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Profit (loss) for the period	-	-	-	-	-	-	-	-	46,083	46,083	(58)	46,025
Exchange differences on translation of foreign operations	-	-	-	-	(4,791)	-	-	-	-	(4,791)	-	(4,791)
Total comprehensive (expense) income for the period	-	-	-	-	(4,791)	-	-	-	46,083	41,292	(58)	41,234
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	1,979	-	1,979	-	1,979
Shares vested for long term incentive scheme	-	-	-	-	-	1,985	-	(1,418)	(567)	-	-	-
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(51,159)	(51,159)	-	(51,159)
At 30 June 2010 (unaudited)	10,160	154,503	45,427	1,146	340	(5,056)	190	934	552,942	760,586	(55)	760,531

Notes:

- (1) 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 Company in preparation for the listing of the Company in 2007.
- (2) The capital reserve arises from the following transactions:
 - (i) During the year ended 31 December 2007, 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.
 - (ii) During the year ended 31 December 2007, Cordwalner Bonaventure Inc. (“Cordwalner”), the Company’s then ultimate and immediate holding company, issued and allotted 1.17% preferred shares in Cordwalner with a subscription price US\$3,150,000 to Eagle Mate Capital Limited, a company owned by an employee, who holds these shares on behalf of, among others, certain employees of the Group as an incentive to attract and retain such employees of the Group after listing of the Company’s shares in 2007.

These transactions were accounted for as equity-settled share-based payment transactions measured based on the fair value of the relevant shares at the grant date and recognised in the condensed consolidated statement of comprehensive income over the vesting period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010	2009
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Net cash (used in) generated from operating activities:		
Increase in inventories	(57,695)	(20,883)
Increase in trade and other receivables	(56,973)	(11,583)
(Increase) decrease in amounts due from associates	(16,937)	6,887
Other operating cash flows	<u>62,063</u>	<u>63,294</u>
	<u>(69,542)</u>	<u>37,715</u>
Net cash generated from investing activities:		
Decrease in bank deposits	92,365	–
Dividend received from an associate	2,673	1,958
Decrease in pledged bank deposit	–	10,068
Purchase of property, plant and equipment	(13,484)	(5,019)
Investments in an associate	(7,000)	–
Other investing cash flows	<u>4,860</u>	<u>4,766</u>
	<u>79,414</u>	<u>11,773</u>
Cash used in financing activities:		
Dividend paid	(51,159)	(51,248)
Interest paid	<u>–</u>	<u>(1)</u>
	<u>(51,159)</u>	<u>(51,249)</u>
Net decrease in cash and cash equivalents	(41,287)	(1,761)
Cash and cash equivalents at the beginning of the period	317,120	355,011
Effect of foreign exchange rate changes	<u>(313)</u>	<u>157</u>
Cash and cash equivalents at the end of the period	<u><u>275,520</u></u>	<u><u>353,407</u></u>
Represented by:		
Bank balances and cash	160,130	202,328
Deposits placed in financial institutions	<u>115,390</u>	<u>151,079</u>
	<u><u>275,520</u></u>	<u><u>353,407</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	<i>Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008</i>
HKFRSs (Amendments)	<i>Improvements to HKFRSs 2009</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 (Amendment)	<i>Eligible Hedged Items</i>
HKFRS 1 (Amendment)	<i>Additional Exemptions for First-time Adopters</i>
HKFRS 2 (Amendment)	<i>Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>

The Group applies Hong Kong Financial Reporting Standard (“HKFRS”) 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

As part of improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of amendment to HKAS 17 has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	<i>Improvements to HKFRSs 2010¹</i>
HKAS 24 (Revised)	<i>Related Party Disclosures⁴</i>
HKAS 32 (Amendment)	<i>Classification of Rights Issues²</i>
HKFRS 1 (Amendment)	<i>Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters³</i>
HKFRS 9	<i>Financial Instruments⁵</i>
HK(IFRIC)-Int 14 (Amendment)	<i>Prepayments of a Minimum Funding Requirement⁴</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments³</i>

¹ *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate*

² *Effective for annual periods beginning on or after 1 February 2010*

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

⁴ *Effective for annual periods beginning on or after 1 January 2011*

⁵ *Effective for annual periods beginning on or after 1 January 2013*

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

3. SEGMENT INFORMATION

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

Six months ended 30 June 2010

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Segment total <i>US\$'000</i>	Eliminations <i>US\$'000</i>	Consolidated <i>US\$'000</i>
Revenue						
External sales	158,871	357,467	28,123	544,461	-	544,461
Inter-segment sales	-	7,917	-	7,917	(7,917)	-
Group's revenue	<u>158,871</u>	<u>365,384</u>	<u>28,123</u>	<u>552,378</u>	<u>(7,917)</u>	<u>544,461</u>
Segment profit (loss)	<u>20,192</u>	<u>62,053</u>	<u>(1,010)</u>	<u>81,235</u>	<u>-</u>	<u>81,235</u>
Unallocated income						
- Interest income from banks						1,328
- Rental income						1,757
- Gain on changes in fair value of derivative financial instruments						153
- Others						632
Unallocated expenses						
- Research and development expenses						(20,128)
- Central administration costs						(17,603)
- Exchange loss						(313)
Share of profit of associates						<u>471</u>
Profit before tax						<u><u>47,532</u></u>

Six months ended 30 June 2009

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Segment total <i>US\$'000</i>	Eliminations <i>US\$'000</i>	Consolidated <i>US\$'000</i>
Revenue						
External sales	135,080	304,040	20,054	459,174	–	459,174
Inter-segment sales	–	5,513	–	5,513	(5,513)	–
Group's revenue	<u>135,080</u>	<u>309,553</u>	<u>20,054</u>	<u>464,687</u>	<u>(5,513)</u>	<u>459,174</u>
Segment profit (loss)	<u>24,187</u>	<u>58,754</u>	<u>(10)</u>	<u>82,931</u>	<u>–</u>	82,931
Unallocated income						
– Interest income from banks						3,594
– Rental income						1,908
– Exchange gain						157
– Others						755
Unallocated expenses						
– Research and development costs						(16,758)
– Central administration costs						(19,320)
Impairment loss on interests in associates						(3,303)
Share of profit of associates						487
Finance costs						<u>(1)</u>
Profit before tax						<u>50,450</u>

Segment result represents profit (loss) attributable to each segment without allocation of interest income from banks, rental income, gain on change in fair value of derivative financial instruments, sales of scrap, exchange gain, research and development costs, central administration costs, impairment loss on interests in an associate, share of profit of associates and finance costs. This is the measure reported to the chief operating decision maker, the Group's chief executive officer, for the purposes of resource allocation and performance assessment.

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

	At 30 June 2010 US\$'000 (Unaudited)	At 31 December 2009 US\$'000 (Audited)
Men's footwear	241,942	191,120
Women's footwear	322,678	239,001
Footwear retailing and wholesaling	<u>40,764</u>	<u>39,976</u>
Total segment assets	<u><u>605,384</u></u>	<u><u>470,097</u></u>

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010 US\$'000	2009 US\$'000
Enterprise Income tax in the People's Republic of China	<u><u>1,507</u></u>	<u><u>2,968</u></u>

The income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 25% for the six months ended 30 June 2010 (2009: 25%).

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2010 US\$'000	2009 US\$'000
Impairment loss recognised on inventories (included in costs of sales)	344	1,060
Depreciation of property, plant and equipment	10,169	10,857
Release of prepaid lease payments	125	123
Share-based payments (included both in distribution and selling costs and administrative expenses)	1,979	863
Loss (gain) on disposal of property, plant and equipment	247	(1)
Interest income on bank balances	(1,353)	(3,605)
Net gain on changes in fair value of derivative financial instruments (included in other income)	<u><u>(153)</u></u>	<u><u>–</u></u>

6. DIVIDENDS

	Six months ended	
	30 June	
	2010	2009
	<i>US\$'000</i>	<i>US\$'000</i>
Final dividend declared and paid for 2009 – HK40 cents (2008: 50 cents) per share and a special dividend declared and paid for 2009 – HK10 cents (2008: Nil) per share	51,159	51,248
Interim dividend declared subsequent to period end – HK30 cents (2009: HK30 cents) per share	30,730	30,750

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2010 of HK30 cents (2009: HK30 cents) per ordinary share to shareholders whose names appeared in the register of members of the Company at the close of business on 10 September 2010.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended	
	30 June	
	2010	2009
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	46,083	47,518
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	790,362	792,139
Effect of dilutive potential ordinary shares:		
Unvested shares awarded	1,144	1,759
Weighted average number of ordinary shares for the purpose of diluted earnings per share	791,506	793,898

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share have been arrived at after deducting the shares held by Teeroy Limited (*see Note 15*).

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US\$13,626,000 (2009: US\$12,040,000) for business expansion.

9. TRADE AND OTHER RECEIVABLES

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

The following is an analysis of the Group's trade receivables by age, presented based on the invoice date, net of allowance for doubtful debts at the end of reporting period:

	30 June 2010 US\$'000	31 December 2009 US\$'000
Trade receivables:		
0 – 30 days	187,205	98,902
31 – 60 days	13,908	36,638
61 – 90 days	2,417	10,165
Over 90 days	4,288	16,768
	207,818	162,473
Other receivables	41,975	30,347
	249,793	192,820

10. AMOUNTS DUE FROM ASSOCIATES

The Group generally allows an average credit period of 60 days for its trade balances with its associates.

The following is an analysis of the Group's trade balances with its associates by age, presented based on the invoice date, net of allowance for doubtful debts at the end of reporting period:

	30 June 2010 US\$'000	31 December 2009 US\$'000
0 – 30 days	18,589	16,237
31 – 60 days	14,896	8,752
61 – 90 days	12,932	4,843
Over 90 days	426	–
	46,843	29,832

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Group is a party to a variety of foreign currency forward contracts, which are either to buy Renminbi and sell United States dollar or vice versa, in the management of its exchange rate exposures.

The foreign currency forward contracts were measured at fair value based on quoted forward exchange rates for equivalent instruments at the end of reporting period.

12. TRADE AND OTHER PAYABLES

The following is an analysis of the Group's trade payables by age, presented based on the payment due date at the end of reporting period:

	30 June 2010 US\$'000	31 December 2009 US\$'000
Trade payables:		
0 – 30 days	56,106	47,250
31 – 60 days	4,171	5,258
Over 60 days	<u>16,199</u>	<u>7,855</u>
	76,476	60,363
Other payables	<u>62,847</u>	<u>66,659</u>
	<u>139,323</u>	<u>127,022</u>

13. SHARE CAPITAL

	Number of share	Nominal value HK\$'000
Ordinary of HK\$0.10 each		
<i>Authorised:</i>		
As at 1 January 2010 and 30 June 2010	<u>5,000,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
As at 1 January 2010 and 30 June 2010	<u>794,379,500</u>	<u>79,438</u>
Shown in financial statements as		<u>US\$10,160</u>

14. CAPITAL COMMITMENTS

	30 June 2010 US\$'000	31 December 2009 US\$'000
Capital expenditure authorised but not contracted for in respect of property, plant and equipment	9,226	13,100
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>1,509</u>	<u>1,509</u>
	<u>10,735</u>	<u>14,609</u>

15. SHARE-BASED PAYMENTS

Long Term Incentive Scheme (the "Scheme")

On 19 February 2009, a total of 2,445,500 shares of the Company was granted to 85 eligible participants including six directors of the Company at the relevant time with the remaining being 79 employees of the Group at a consideration HK\$1 per person. Pursuant to the Scheme, the Company appointed a trustee, Teeroy Limited (the "Trustee"), for the purpose of administering the Scheme and holding the awarded shares before they vest.

On 19 March 2010, another 1,428,000 shares of the Company were granted to 125 eligible participants including six directors of the Company at the relevant time with the remaining being 119 employees of the Group also at a consideration of HK\$1 per person.

Details of the movement with respect to the grant of the Company's shares during the periods ended 30 June 2010 and 2009 are as follows:

		For the six months ended 30 June 2010				
	Vesting date	Outstanding at 1 January 2010	Granted during the period	Vested during the period	Cancelled during the period	Outstanding at 30 June 2010
Directors	1 April 2010	306,000	–	(306,000)	–	–
(Note)	12 April 2010	–	198,000	(198,000)	–	–
	1 April 2011	306,000	198,000	–	–	504,000
	1 April 2012	–	198,000	–	–	198,000
Employees	1 April 2010	446,400	–	(444,900)	(1,500)	–
	12 April 2010	–	369,000	(368,000)	(1,000)	–
	1 April 2011	446,400	227,500	–	(3,000)	670,900
	1 April 2012	4,900	229,500	–	(3,000)	231,400
	1 April 2013	4,900	8,000	–	(5,500)	7,400
		<u>1,514,600</u>	<u>1,428,000</u>	<u>(1,316,900)</u>	<u>(14,000)</u>	<u>1,611,700</u>

		For the six months ended 30 June 2009				
		Outstanding	Granted	Vested	Cancelled	Outstanding
		at	during	during	during	at
		1 January	the period	the period	the period	30 June
	Vesting date	2009				2009
Directors	1 April 2009	–	306,000	(306,000)	–	–
(Note)	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
		–	2,445,500	(911,900)	(6,000)	1,527,600

Note: Mr. Shieh Tung-Pi, Billy, one of the then directors of the Company and one of the grantees, resigned as an executive director of the Company on 19 August 2010.

As at 30 June 2010, the Trustee had purchased and maintained a pool of 3,327,700 shares (31 December 2009: 4,644,600 shares) which are available for the Trustee to satisfy the Scheme upon their respective vesting or future grant.

The total fair value of the shares awarded during the period of approximately US\$2,733,000 (for the six months ended 30 June 2009: US\$2,221,000) was determined at the date of the grant based on the market value of the shares.

During the period, US\$1,979,000 (for the six months ended 30 June 2009: US\$863,000) was recognised as an expense in the condensed consolidated statement of comprehensive income with a corresponding credit to share award reserve.

16. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June	
		2010	2009
		US\$'000	US\$'000
興昂制革(惠州)有限公司 (Simona Tannery Co., Ltd.) ¹	Purchase of leather and tannery products	19,784	13,133
東莞興立精密模具 有限公司(Sincerely International Ltd.) ¹	Purchase of molds	1,850	1,755
東莞興和塑膠制品有限公司 (Sabina Footwear Co., Ltd.) ¹	Purchase of lasts	–	1,958

Company	Transactions	Six months ended 30 June	
		2010	2009
		US\$'000	US\$'000
東莞興泰鞋材有限公司 (Sanford International Co., Ltd.) ¹	Purchase of sole materials	4,473	2,680
	Rental expense	50	49
東莞市長安統來刀模加工廠 ²	Purchase of die cuts	2,270	1,947
東莞興騰鞋材有限公司 (Dongguan Xintan Footwear Co., Ltd.) ¹	Purchase of sole materials	13,470	8,794
惠州興昂鞋業有限公司 (Huizhou Stella Footwear Co., Ltd.) ¹	Purchase of footwear products	45	1,194
辛集市寶得福皮業有限公司 ³	Purchase of footwear products	34,807	34,625
Cosmic Gold Enterprise Limited ³	Processing fee paid	1,974	2,203
Mountain Gear Group ⁴	Sales of footwear products	148	–
Ace Opportunity Group ⁵	Sales of footwear products	392	–

¹ Companies wholly and ultimately owned by a director of the Company

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

³ Associates of the Company

⁴ Ultimately owned as to 45% by a director of the Company

⁵ Ultimately owned as to 66.7% by a director 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	
	2010	2009
	US\$'000	US\$'000
Short-term benefits	398	395
Share-based payment expenses	786	510
	<u>1,184</u>	<u>905</u>

The remuneration of directors and key executives were determined by the board and its remuneration committee 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 Stella International Holdings Limited (“Stella” or the “Company”) together with its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2010.

The first half of the year saw the continued recovery of world trade as signified by the renewed export figures of many Asian economies. More promisingly, consumer demand in China has continued to exhibit strong growth, despite the scaling down of the government's stimulus and liquidity boosting measures.

These events bode well for us, as demonstrated by the strong revenue growth recorded by both our OEM and retail businesses. Our position at the premium end of the value chain, due to the strong craftsmanship and efficiency of our manufacturing business, has meant that we are uniquely positioned to benefit from the continuation of the outsourcing trend that we are seeing amongst many of the world's leading luxury brands.

Equally promising is the continued enthusiasm amongst Chinese consumers for quality fashion footwear which has further supported the growth of our retail business. With our *Stella Luna* and *What For* brands firmly establishing themselves in the market, we continue to remain confident in the growth prospects for this segment of the business, both in China and regionally.

This year, however, has not been without its challenges. Wage issues have recently come to the fore following a series of high profile labour disputes, which has seen Chinese-based manufacturers come under renewed cost pressure from base salary increases. More recently, the government's removal of the currency peg on the RMB has further heightened risk for China's export-dependent sectors.

While Stella, along with all manufacturers, must bear some of these costs, these recent events have vindicated our foresight in proactively preparing for these challenges. In anticipation of the wage pressure that would be brought by a tightening labour market and the government's increase of the minimum wage, the Group raised the basic wage of its workers back in February, allowing us to avoid the disruptions that have affected other companies.

In preparation for the long term, we have continued to expand our capacity in the inland provinces of China, particularly in Guangxi and Hunan. This will allow us to further refine our manufacturing chain, raise production efficiency, reduce operating costs and secure a stable labour supply.

In the second half of the year, we expect to maintain production at full capacity, while improving our quality and efficiency as well as finding new ways to support the specialised needs of our customers. Furthermore, we expect that our retail business will continue to grow strongly as China maintains its double-digit economic growth. We will also continue to monitor opportunities for strategic partnerships that can add value to and grow our retail business.

On behalf of the Board, I would like to extend our sincere gratitude to our shareholders, customers and business partners for their unwavering support so far this year. In addition, I would also like to take this opportunity to thank all our colleagues and staff for their continued contribution and unyielding commitment to Stella.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

Global Economic Recovery Fuels Shipment Volumes and Revenue Growth

The first half of 2010 saw a resurgence in shipment volumes as the global economic recovery boosted consumer confidence in the Group's export markets. Total shipment volumes for the six months ended 30 June 2010 rose 25.3% to 24.3 million pairs, up from 19.4 million pairs in the corresponding period of last year. This surge in shipment volumes saw total revenue grow to US\$544.5 million for the period under review, an 18.6% increase over the previous period.

The women's fashion footwear business remains the Group's largest business segment, accounting for 35.2% of the Group's total revenue for the period. Contributions from the Group's women's and men's casual footwear business were 28.1% and 23.4% of overall revenue respectively, while the contribution from the men's fashion footwear segment was 5.3%.

The Group's average selling price ("ASP") for its products fell 5.8% over the period to US\$21.3 per pair due to a reduction in raw material costs and as last year's decision to "share the pain" by reducing ASPs continued to filter through. As a result, the Group's gross and net margins fell slightly over the period. This margin pressure has dissipated over the past few months as the Group's order book approached capacity.

Retail Business Riding the Wave of Chinese Consumer Spending

The Group's retail business in China and other markets continued to be a major growth driver. The *Stella Luna* and *What For* brands have continued to gain more and more attention from the media and consumers, and are rapidly establishing themselves in the Chinese affordable luxury market, and in other emerging markets in Asia.

Sales for the Group's retail business in the six months ended 30 June 2010 reached US\$28.1 million, a 39.9% increase over the corresponding period of last year. Same-store sales (for China stores only) grew 13.9% to US\$13.1 million during the period under review, and was strongly supported by the successful launch of the 2010 Spring/Summer collection.

Sound Financial Performance in the Midst of Global Economic Recovery

Total gross profit across all business segments for the six months under review was US\$116.9 million, an 3.0% increase over the corresponding period of last year. Gross and net profit margins fell slightly over the period to 21.5% and 8.5% respectively.

Geographically, North America and Europe continued to be the Group's two largest markets, accounting for 52.7% and 29.5% of the Group's total revenue for the first half of the year respectively. This was followed by Asia (other than the PRC) at 7.7%, the PRC (including Hong Kong and Macau) at 7.6% and other regions at 2.5%.

Business Review

Well Positioned to Leverage off the Global Economic Recovery

The strong recovery of Stella's export volumes over the first half of the year is testament to its strong design and development capabilities. The Group's reputation for being able to service niche clients, particularly luxury brands, gives us a premium position on the value chain and an ability to attract a higher ASP than the industrial average.

The Group's commitment to craftsmanship, innovation, short lead times and small batch production also offers its customers maximum flexibility. This year, the Group will open its first design studio in Italy to strengthen its R&D capabilities, enabling it to move closer to its high-end customers and respond quickly to their needs and specifications. This unique value-adding proposition has seen many of the Group's European customers gradually increase their orders overtime.

In the first half of 2010, the Group added more high-end brands and niche players to its customer base. This has allowed the Group to expand its manufacturing capabilities to cover new types of products, such as physiological shoes which target well-being, reinforcing Stella's reputation for being able to meet the unique needs of its clients.

Proactively Overcoming Emerging Challenges

The first half of 2010 saw the emergence of new challenges in the OEM sector in China, particularly wage inflation. In anticipation of this, the Group is already well advanced in implementing a number of cost efficiency measures to lower input costs and secure a stable labour supply.

The Group proactively raised the basic pay rate in February 2010 in order to counteract an increasingly tight labour market and a government sanctioned increase of the minimum wage. Retention rates following the Lunar New Year holiday were satisfactory, allowing Stella to avoid the problems experienced by other manufacturers in China.

As consumer demand continues to increase, the Group has also been prudently expanding its production capacity into South-East Asia and the inland areas of China over the last decade. New factories are being developed in Guangxi and Hunan which, once online, will help Stella maintain its cost competitiveness and efficiency by shifting its more labour intensive processes away from the more expensive coastal regions. This gradual shift of production facilities inland will allow the Group to control its manufacturing costs and optimize its production.

Established Retail Presence

Despite the gradual wind down of the PRC government's stimulus policies, the appetite for quality fashion footwear amongst Chinese consumers has continued to grow unabated. Throughout the first half of 2010, the Group maintained its store expansion strategy by opening 32 *Stella Luna* and 43 *What For* stores in China and across the region. 2010 also saw Stella open its second UGG store in China as part of its joint venture with Deckers Asia Pacific Limited, with two additional stores in Shanghai set to launch in the near future.

Stella Luna is the Group's retail brand targeting the high-end fashion footwear and leather goods markets, with prices per pair ranging from RMB1,000 to RMB2,800. The *What For* retail brand targets the contemporary and lifestyle markets, with prices per pair ranging from RMB600 to RMB1,500.

The Group has continued to build up the industry knowledge and retail capabilities of its retail team over the period. It currently oversees a total of 164 *Stella Luna* and 124 *What For* stores in China and the surrounding region. The majority of these stores (in Greater China and Thailand) are operated directly by the Group, while its stores in the Philippines, Lebanon and the United Arab Emirates are operated by its distributors in those countries.

The following table shows the geographic distribution of the Group's *Stella Luna* and *What For* stores as of 30 June 2010.

	<i>Stella Luna</i>	<i>What For</i>
Greater China		
Eastern China	33	22
Southern China	22	13
Northern China	31	31
North-East China	18	14
South-West China	17	18
Central China	14	18
Macau	1	1
Taiwan	3	0
	<hr/>	<hr/>
Sub-total	139	117
	<hr/>	<hr/>
Thailand		
Bangkok	12	6
Phuket	2	0
	<hr/>	<hr/>
Sub-total	14	6
	<hr/>	<hr/>
Philippines	4	1
Lebanon	6	0
United Arab Emirates	1	0
	<hr/>	<hr/>
Total	<u>164</u>	<u>124</u>

Business Outlook

Strong Order Pipeline to Improve Margins

The Group is confident that it will continue to run at full capacity in the second half of 2010, with export volumes expected to grow at a satisfactory pace. With its order book back to full from the beginning of this year, the Group expects existing margin pressures to ease as more customers agree to share increase in cost.

Potential challenges for the rest of the year include cost pressures brought about by the appreciation of the RMB and a mismatch between seasonality and capacity, which may affect future margins. To avoid this, the Group will maintain its prudent development strategy and cost-control measures.

Capacity Expansion and Strengthening the Bottom Line

With the future completion of the factories in Guangxi and Hunan, the Group will continue to expand manufacturing capacity into the inland provinces of China in order to counteract wage costs and secure a stable labour supply.

Going forward, the Group is also prudently exploring opportunities to expand additional capacity into a third country outside China and Vietnam in an effort to further lower input costs.

Maintain Retail Business Expansion

The Group is confident in the future growth of the Chinese retail sector as economic expansion and increasing social mobility support the demand for quality footwear. As a result, the Group still sees room to extend its store expansion strategy in the second half of the year. While China will remain the primary focus for expansion, the Group will consider expanding its presence in other markets as opportunities emerge.

The Group maintains its full year store target of 135 *Stella Luna* and 150 *What For* stores (in China only) and will continue to pursue strong growth in retail revenue through same-store sales and space expansion in order to improve the Group's overall revenue mix. The Group will also prudently consider any potential opportunities to acquire selected footwear and related accessories brands/channels in order to further expand its retail business.

Move up the Value Chain

The Group is committed to further enhancing the quality and craftsmanship of its products while meeting the specialised needs of its customers and delivering the quality and flexibility they require. The Group will continue to seek ways to improve its design and manufacturing processes, while growing the business in a prudent and responsible manner.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2010, the Group had bank deposits and cash equivalents of about US\$291.3 million (31 December 2009: US\$425.2 million).

As at 30 June 2010, the Group had current assets of US\$753.4 million (31 December 2009: US\$755.9 million) and current liabilities of about US\$167.3 million (31 December 2009: US\$157.1 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 4.5 as at 30 June 2010 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 2010 (31 December 2009: Nil).

Foreign Exchange Exposure

During the six months ended 30 June 2010, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in Renminbi ("RMB") or U.S. dollars. Currency exposures were mostly in RMB and Hong Kong dollars against the functional currency of the relevant group companies. The Group has not adopted any 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 capital expenditure amounted to approximately US\$13.5 million (for the six months ended 30 June 2009: US\$5.0 million), of which approximately US\$11.0 million was used in the production capacity expansion and approximately US\$2.5 million was used in the retail network expansion.

Pledge of Assets

As at 30 June 2010, the Group did not pledge any of its assets (31 December 2009: Nil).

Contingent Liabilities

As at 30 June 2010, the Group had no material contingent liabilities (31 December 2009: Nil).

Employees

As at 30 June 2010, the Group had approximately 66,000 employees (31 December 2009: approximately 50,000). The Group cultivates a caring, sharing and learning culture among its employees and believes that human resources are a significant asset for the Group's development and expansion. The Group seeks to attract, train and retain individuals who are energetic, committed and with a passion for the business. The Group has continued to build a strong management team internally through effective learning and promotion programs, including through the "Leadership Program" that was launched this year to identify potential high caliber employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources related measures.

To cope with the labour shortage issue and the PRC government's increase of the minimum wage, the Group raised the basic pay rate of its workforce in February 2010, together with the granting of restricted unit awards under the long term incentive scheme of the Company, in order to maintain labour force stability. As of 30 June 2010, the Group's recruitment efforts have remained satisfactory, despite the labour shortage.

REVIEW OF ACCOUNTS BY AUDIT COMMITTEE

The audit committee of the Board has reviewed the interim results for the six months ended 30 June 2010.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per share for the six months ended 30 June 2010. The interim dividend will be paid to shareholders listed on the register of members of the Company on 10 September 2010. It is expected that the interim dividend will be paid on or about 17 September 2010.

Closure of Register of Members

The Register of Members of the Company will be closed from 8 September 2010 to 10 September 2010, 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 2010, 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 Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 7 September 2010.

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 (the “Shareholders”). The Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2010, except the following deviation:

In deviation from provision E.1.2 of the Code, the chairman of the Board (the “Chairman”) had not attended the annual general meeting of the Company held on 7 May 2010 (the “2010 AGM”). Instead, Mr. Shih Takuen, Daniel, the deputy chairman (the “Deputy Chairman”), took the chair at the 2010 AGM, and the chairman or member of each of the audit, corporate governance, remuneration and nomination committees attended the 2010 AGM to answer Shareholders’ questions. 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 mainly responsible for managing major customers’ relationship and overseeing the implementation of strategies of the Group, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is mainly responsible for providing leadership and management to the Board and handling matters relating to 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 2010.

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

Hong Kong, 19 August 2010

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 and Mr. Chi Lo-Jen and the independent non-executive Directors are Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, JP and Mr. Chen Johnny.