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**Stella International Holdings Limited**  
**九興控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1836)**

**ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

The board (the “Board”) of directors (the “Directors”) of Stella International Holdings Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2012, together with the comparative figures for the previous financial year.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the year ended 31 December 2012*

	<i>Note</i>	<b>2012</b> <i>US\$'000</i>	2011 <i>US\$'000</i>
Revenue	3	<b>1,550,003</b>	1,494,531
Cost of sales		<b>(1,174,756)</b>	<u>(1,142,066)</u>
Gross profit		<b>375,247</b>	352,465
Other income		<b>16,297</b>	14,467
Other gain and loss		<b>15,799</b>	(3,894)
Distribution and selling expenses		<b>(118,755)</b>	(100,675)
Administrative expenses		<b>(72,680)</b>	(61,221)
Research and development costs		<b>(49,504)</b>	(44,753)
Share of results of associates		<b>763</b>	525
Interest on bank borrowing wholly repayable within 5 years		<b>(124)</b>	<u>—</u>

\* *For identification purpose only*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** *(continued)**For the year ended 31 December 2012*

	<i>Notes</i>	<b>2012</b> <i>US\$'000</i>	2011 <i>US\$'000</i>
Profit before tax		<b>167,043</b>	156,914
Income tax expense	4	<u><b>(14,455)</b></u>	<u>(14,130)</u>
Profit for the year	5	<b>152,588</b>	142,784
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operation		<u>780</u>	<u>1,063</u>
Total comprehensive income for the year		<u><b>153,368</b></u>	<u>143,847</u>
Profit (loss) for the year attributable to:			
Owners of the Company		<b>153,403</b>	142,988
Non-controlling interests		<u><b>(815)</b></u>	<u>(204)</u>
		<u><b>152,588</b></u>	<u>142,784</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		<b>154,189</b>	144,040
Non-controlling interests		<u><b>(821)</b></u>	<u>(193)</u>
		<u><b>153,368</b></u>	<u>143,847</u>
Earnings per share (US\$)			
— basic	7	<u><b>0.194</b></u>	<u>0.181</u>
— diluted		<u><b>0.194</b></u>	<u>0.180</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 US\$'000	2011 US\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		247,863	186,603
Prepaid lease payments		18,776	13,230
Interests in associates		7,619	15,744
Deposit paid for acquisition of property, plant and equipment		27,316	33,272
		<u>301,574</u>	<u>248,849</u>
<b>CURRENT ASSETS</b>			
Inventories		179,183	182,497
Trade and other receivables	8	304,038	266,732
Prepaid lease payments		477	320
Amounts due from associates		62,854	56,348
Derivative financial instruments		231	293
Held for trading investments		51,557	51,905
Tax recoverable		6,996	3,697
Cash and cash equivalents		252,039	264,233
		<u>857,375</u>	<u>826,025</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	201,197	145,164
Bills payable	9	—	35,842
Tax liabilities		41,000	31,868
		<u>242,197</u>	<u>212,874</u>
<b>NET CURRENT ASSETS</b>			
		<u>615,178</u>	<u>613,151</u>
		<u>916,752</u>	<u>862,000</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		10,160	10,160
Share premium and reserves		906,058	852,117
		<u>916,218</u>	<u>862,277</u>
Equity attributable to owners of the Company		916,218	862,277
Non-controlling interests		534	(277)
		<u>916,752</u>	<u>862,000</u>

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company											Total US\$'000
	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000 (Note 1)	Capital reserve US\$'000 (Note 2)	Exchange reserve US\$'000	Shares held for share award scheme US\$'000	Capital redemption reserve US\$'000 (Note 3)	Share award reserve US\$'000	Accumulated profits US\$'000	Sub- total US\$'000	Non- controlling interests US\$'000	
As at 1 January 2011	10,160	154,503	45,427	1,146	(2,726)	(5,056)	190	1,026	597,621	802,291	(84)	802,207
Exchange difference on translation of foreign operations	—	—	—	—	1,052	—	—	—	—	1,052	11	1,063
Profit for the year	—	—	—	—	—	—	—	—	142,988	142,988	(204)	142,784
Total comprehensive income (expense) for the year	—	—	—	—	1,052	—	—	—	142,988	144,040	(193)	143,847
Recognition of equity-settled share-based payment	—	—	—	—	—	—	—	772	—	772	—	772
Shares vested under long term incentive scheme	—	—	—	—	—	1,706	—	(378)	(1,328)	—	—	—
Dividend recognised as distribution	—	—	—	—	—	—	—	—	(84,826)	(84,826)	—	(84,826)
As at 31 December 2011	10,160	154,503	45,427	1,146	(1,674)	(3,350)	190	1,420	654,455	862,277	(277)	862,000
Exchange difference on translation of foreign operations	—	—	—	—	786	—	—	—	—	786	(6)	780
Profit for the year	—	—	—	—	—	—	—	—	153,403	153,403	(815)	152,588
Total comprehensive income (expense) for the year	—	—	—	—	786	—	—	—	153,403	154,189	(821)	153,368
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	—	—	1,632	1,632
Recognition of equity-settled share-based payment	—	—	—	—	—	—	—	87	—	87	—	87
Shares vested under long term incentive scheme	—	—	—	—	—	621	—	(67)	(554)	—	—	—
Dividend recognised as distribution	—	—	—	—	—	—	—	—	(100,335)	(100,335)	—	(100,335)
As at 31 December 2012	10,160	154,503	45,427	1,146	(888)	(2,729)	190	1,440	706,969	916,218	534	916,752

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(continued)*

*For the year ended 31 December 2012*

### *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 the 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.
- (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 in the Group prior to the group reorganisation.
  - (ii) During the year ended 31 December 2007, Cordwalner Bonaventure Inc. (“Cordwalner”) issued and allotted 1.17% preferred shares in Cordwalner with subscription price US\$3,150,000 to Eagle Mate Capital Limited, a company owned by an employee, which will hold these shares on behalf of the employees as an incentive to attract and retain the employee in the Group after the listing of the Company’s shares.

These transactions were accounted for as an equity-settled share-based payment transactions in equity, over the vesting period, based on the fair value of the relevant shares at the grant date.

- (3) During the year ended 31 December 2008, the Company repurchased an aggregate of 14,870,500 own ordinary shares on the Stock Exchange (as defined in Note 1 to the consolidated financial statements) and these repurchased shares were cancelled prior to 31 December 2008. The issued share capital of the Company was reduced by the nominal value of these repurchased shares in the amount of HK\$1,487,000 (US\$190,000) and the equivalent amount was transferred from accumulated profits to the capital redemption reserve pursuant to 37(4) of the Companies Law (2007 Revision) of the Cayman Islands. The premium paid on the repurchase of these shares in the amount of US\$12,795,000 was charged to share premium. The aggregate consideration to repurchase these shares in the amount of US\$12,985,000 was deducted from shareholders’ equity.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 US\$'000	2011 US\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax	167,043	156,914
Adjustments for:		
Depreciation of property, plant and equipment	27,343	25,851
Write down of inventories	3,615	1,687
Share of results of associates	(763)	(525)
Net loss (gain) on changes in fair value of derivative financial instruments	62	(84)
Net (gain) loss on changes in fair value of held for trading investments	(3,211)	619
Gain on disposal of an associate	(11,828)	—
Release of prepaid lease payments	429	512
Loss on disposal of property, plant and equipment	106	183
Finance cost	124	—
Interest income	(6,186)	(4,892)
Share-based payment expenses	87	772
Impairment loss of interests in associates	828	3,200
Impairment loss of goodwill	—	2,423
	<hr/>	<hr/>
Operating cash flows before movements in working capital	177,649	186,660
Increase in trade and other receivables	(36,983)	(38,499)
Increase in amounts due from associates	(6,506)	(20,544)
Increase in inventories	(1,139)	(41,066)
Decrease (increase) in held for trading investments	3,559	(29,243)
Increase in trade and other payables	16,221	10,944
Decrease in amounts due from related companies	—	1,514
	<hr/>	<hr/>
Cash generated from operations	152,801	69,766
Income tax paid	(8,808)	(10,297)
	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>143,993</b>	<b>59,469</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS** *(continued)**For the year ended 31 December 2012*

	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(53,261)	(41,163)
Deposit paid for acquisition of property, plant and equipment	(27,195)	(33,272)
Prepaid lease payment of land use rights	(4,787)	(5,165)
Acquisition of subsidiaries	(4,100)	—
Dividend received from an associate	718	—
Proceeds from disposal of property, plant and equipment	4,959	370
Interest received	6,186	4,892
Proceeds from disposal of an associate	19,653	—
Investment in an associate	—	(400)
	<u>(57,827)</u>	<u>(74,738)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Interest paid	(124)	—
Dividend paid	(100,335)	(84,826)
Capital injection from non-controlling interest	1,632	—
	<u>(98,827)</u>	<u>(84,826)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	(12,661)	(100,095)
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT BEGINNING OF THE YEAR</b>	264,233	360,210
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		
	467	4,118
<b>CASH AND CASH EQUIVALENTS AT END</b>		
<b>OF THE YEAR,</b>		
represented by	<u>252,039</u>	<u>264,233</u>
Bank balances and cash	193,389	219,832
Deposits placed in financial institutions	58,650	44,401
	<u>252,039</u>	<u>264,233</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

#### Revised standards applied in the current year

In the current year, the Group has applied the following amendments to standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 — 2011 Cycle <sup>1</sup>
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities <sup>2</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 10	Consolidated Financial Statements <sup>1</sup>
HKFRS 11	Joint Arrangements <sup>1</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>1</sup>
HKFRS 13	Fair Value Measurement <sup>1</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>1</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>1</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>1</sup>
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income <sup>4</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012.

## HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Based on the consolidated statement of financial position of the Group as at 31 December 2012, the directors anticipate that the application of HKFRS 9 will not have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

### **New and revised standards on consolidation, joint arrangements, associates and disclosure**

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation — Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the

amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2013. The application of these five standards is not expected to have a significant impact on the consolidated financial statements.

### **HKFRS 13 Fair Value Measurement**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may result in more extensive disclosures in the consolidated financial statements.

### **Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income**

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

## **3. SEGMENT INFORMATION**

Information reported to the chief executive of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of footwear manufactured and on footwear retailing and wholesaling. This is also the basis upon which the Group is organised and managed. No operating segments identified by the chief executive have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

- (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) Footwear retailing and wholesaling

(a) **Operating segments**

*Segment revenues and results*

*For the year ended 31 December 2012*

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing and wholesaling US\$'000	Segment total US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>REVENUE</b>						
External sales	486,370	944,233	119,400	1,550,003	—	1,550,003
Inter-segment sales	752	32,424	—	33,176	(33,176)	—
Total	<u>487,122</u>	<u>976,657</u>	<u>119,400</u>	<u>1,583,179</u>	<u>(33,176)</u>	<u>1,550,003</u>
Inter-segment sales are charged at prevailing market rates						
<b>RESULTS</b>						
Segment results	<u>72,406</u>	<u>176,814</u>	<u>(441)</u>	<u>248,779</u>	<u>—</u>	248,779
Unallocated income						
— Interest income on bank balances						6,003
— Rental income						3,197
— Sale of scrap						2,794
— Gain on disposal of an associate						11,828
— Net gain on change in fair value of held for trading investments						3,211
— Others						3,367
Unallocated expenses						
— Research and development costs						(49,504)
— Central administrative costs						(62,381)
— Net loss on changes in fair value of derivative financial instruments						(62)
— Impairment loss on interests in associates						(828)
— Interest expense						(124)
Share of results of associates						
						<u>763</u>
Profit before tax						<u>167,043</u>

*For the year ended 31 December 2011*

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing and wholesaling US\$'000	Segment total US\$'000	Eliminations US\$'000	Consolidated US\$'000
<b>REVENUE</b>						
External sales	471,197	924,381	98,953	1,494,531	—	1,494,531
Inter-segment sales	—	40,785	—	40,785	(40,785)	—
Total	<u>471,197</u>	<u>965,166</u>	<u>98,953</u>	<u>1,535,316</u>	<u>(40,785)</u>	<u>1,494,531</u>
Inter-segment sales are charged at prevailing market rates						
<b>RESULTS</b>						
Segment results	<u>60,672</u>	<u>177,008</u>	<u>6,716</u>	<u>244,396</u>	<u>(460)</u>	243,936
Unallocated income						
— Interest income on bank balances						4,748
— Net gain on changes in fair value of derivative financial instruments						84
— Rental income						4,359
— Sale of scrap						172
— Others						5,301
Unallocated expenses						
— Research and development costs						(44,753)
— Central administrative costs						(51,216)
— Net Loss on change in fair value of held for trading investments						(619)
— Impairment loss on interests in associates						(3,200)
— Impairment loss on goodwill						(2,423)
Share of results of associates						<u>525</u>
Profit before tax						<u>156,914</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents profit attributable to each segment without allocation of corporate income and expenses, interest income on bank balances, net gain on changes in fair value of derivative financial instruments, rental income, sale of scrap, research and development costs, gain on disposal of an associate, impairment loss on interests in associates, impairment loss on goodwill, share of results of associates, net gain (loss) on changes in fair value of held for trading investments and central administration costs. This is the measure reported to the Group's chief executives for the purposes of resource allocation and assessment of segment performance.

### ***Segment assets and liabilities***

The following is an analysis of the Group's assets and liabilities by reportable segment:

	<b>2012</b> <i>US\$'000</i>	2011 <i>US\$'000</i>
<b>Segment assets</b>		
Men's footwear	<b>341,913</b>	240,864
Women's footwear	<b>431,255</b>	389,549
Footwear retailing and wholesaling	<b>73,094</b>	78,464
	<hr/>	<hr/>
Total segment assets	<b>846,262</b>	708,877
Other assets	<b>312,687</b>	365,997
	<hr/>	<hr/>
Consolidated assets	<b>1,158,949</b>	1,074,874
	<hr/> <hr/>	<hr/> <hr/>
	<b>2012</b> <i>US\$'000</i>	2011 <i>US\$'000</i>
<b>Segment liabilities</b>		
Men's footwear	<b>79,274</b>	81,172
Women's footwear	<b>94,955</b>	84,845
Footwear retailing and wholesaling	<b>23,768</b>	12,931
	<hr/>	<hr/>
Total segment liabilities	<b>197,997</b>	178,948
Other liabilities	<b>44,200</b>	33,926
	<hr/>	<hr/>
Consolidated liabilities	<b>242,197</b>	212,874
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For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than tax recoverable, held for trading investments, derivative financial assets, cash and cash equivalents and unallocated corporate assets; and
- all liabilities are allocated to reportable segments other than tax liabilities and unallocated corporate liabilities not belonging to any operating segments.

***Other segment information***

**2012**

	<b>Men's Footwear US\$'000</b>	<b>Women's Footwear US\$'000</b>	<b>Footwear retailing and wholesaling US\$'000</b>	<b>Total US\$'000</b>
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	28,283	53,775	6,055	88,113
Depreciation	12,742	10,874	3,727	27,343
Loss on disposal of property, plant and equipment	1	105	—	106
Write-down of inventories	58	815	2,742	3,615
Interest in associates	—	7,000	619	7,619
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Share of profit of associates	—	53	710	763
Income tax expense	6,076	6,632	1,747	14,455

*Other segment information*

2011

	Men's Footwear <i>US\$ '000</i>	Women's Footwear <i>US\$ '000</i>	Footwear retailing and wholesaling <i>US\$ '000</i>	Total <i>US\$ '000</i>
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	29,604	16,007	3,373	48,984
Depreciation	10,362	11,813	3,676	25,851
Loss on disposal of property, plant and equipment	2	181	—	183
(Reversal) write-down of inventories	(793)	570	1,910	1,687
Interest in associates	—	10,013	5,731	15,744
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Share of (loss) profit of associates	—	(2,202)	2,727	525
Income tax expense	4,390	7,696	2,044	14,130

**(b) Revenue from major products and services**

	2012 <i>US\$ '000</i>	2011 <i>US\$ '000</i>
Men's footwear	486,136	471,197
Women's footwear	1,063,867	1,023,334
	<b>1,550,003</b>	<b>1,494,531</b>

(c) **Geographical information**

The Group's revenue from external customers based on location of the customers and information about its non-current assets by geographical locations of the assets are detailed below:

	Revenue from external customers		Non-current assets As at 31 December	
	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>
United States of America	778,501	720,160	—	—
The PRC (country of domicile)	259,711	161,060	290,942	248,849
United Kingdom	121,890	152,955	—	—
Netherlands	84,291	88,772	—	—
Thailand	4,381	61,454	143	—
Italy	51,367	57,426	10	—
Canada	37,883	36,687	—	—
Spain	24,223	28,028	—	—
Japan	28,601	26,293	—	—
Belgium	21,145	25,113	—	—
South Korea	13,311	13,342	—	—
Germany	15,755	13,248	—	—
Singapore	13,054	12,761	—	—
Switzerland	6,862	11,683	—	—
Australia	9,577	9,489	—	—
Panama	9,303	6,288	—	—
Portugal	376	452	—	—
Others	69,772	69,320	10,479	—
	<u>1,550,003</u>	<u>1,494,531</u>	<u>301,574</u>	<u>248,849</u>

(d) **Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>
Customer A <sup>1</sup>	270,125	272,574
Customer B <sup>1</sup>	222,864	225,193

<sup>1</sup> Revenue from both men's and women's footwear operating segments in aggregate.

#### 4. INCOME TAX EXPENSE

	2012 US\$'000	2011 US\$'000
Current tax:		
PRC Enterprise Income Tax (“EIT”)	14,205	14,121
Hong Kong Profits Tax	4	9
Other jurisdictions	246	—
	<u>14,455</u>	<u>14,130</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the law of the PRC on EIT and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25%.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Bestsource Technology (Macau Commercial Offshore) Limited (“Bestsource”), a subsidiary acquired in year 2010 is exempted from Macao Complementary Tax.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to US\$2,681,000 (31 December 2011: US\$2,570,000) 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 in other jurisdictions including Thailand, Malaysia, Indonesia and Italy is calculated at the rate prevailing in the relevant jurisdictions.

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

	2012 US\$'000	2011 US\$'000
Profit before tax	<u>167,043</u>	<u>156,914</u>
Tax at the applicable PRC EIT rate of 25% (2011: 25%)	41,761	39,229
Tax effect of expenses not deductible for tax purposes ( <i>Note i</i> )	4,997	4,516
Tax effect of income not taxable for tax purposes ( <i>Note ii</i> )	(7,309)	(7,117)
Tax effect of share of results of associates	(191)	(131)
Effect of tax exemptions granted to Bestsource	(24,767)	(22,442)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(36)</u>	<u>75</u>
Income tax expense	<u>14,455</u>	<u>14,130</u>

*Notes:*

- i. The tax effect of expenses not deductible mainly represents the subcontracting charges and operating expenses in the PRC with payment receipts but no invoices for tax deduction claim under the relevant tax jurisdictions.
- ii. The tax effect of income not taxable mainly represents the gain on disposal of an associate, net gain from changes in fair value of held for trading investments and the income of Stella International which are not assessable under their relevant tax jurisdictions. As Stella International has no fixed place to carry out the operation, it subcontracted and engaged other companies as services providers to perform supporting activities and remunerate them with the service fee.

In October 2010, the Inland Revenue Department (“IRD”) initiated a tax audit on the Hong Kong tax affairs of certain subsidiaries of the Company for the years of assessment from 2004/05 to 2005/06.

From March 2011 to March 2012, the IRD issued estimated profits tax assessments relating to the years of assessment 2004/05 and 2005/06, that is, for the financial years ended 31 December 2004 and 2005, against certain subsidiaries of the Company. The Group lodged objections with the IRD against these estimated assessments. The IRD agreed to hold over the tax claimed subject to the purchasing of tax reserve certificates (“TRCs”). As at 31 December 2012, the Group purchased TRCs amounted to HK\$54,280,000 (31 December 2011: HK\$28,700,000) (equivalent to approximately US\$6,996,000 (31 December 2011: US\$3,697,000)) for the years of assessment 2004/05 and 2005/06, which has been recorded as tax recoverable in the consolidated statement of financial position.

In the opinion of the directors of the Company, no profits tax should be payable by the Group in Hong Kong as the subsidiaries in question did not carry out any business nor derive any profits in Hong Kong.

Against this background and following subsequent negotiations with the IRD, a settlement was reached with the IRD in late December 2012 for the whole tax audit for the years of assessment from 2004/05 to 2005/06 and for years of assessment 2006/07 to 2011/12 by applying the same assessment basis and it was concluded that no profits tax is payable by the Group. Accordingly, no additional provision for Hong Kong Profits Tax is considered necessary in respect of the tax audit.

## 5. PROFIT FOR THE YEAR

	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' emoluments	2,976	3,625
Other staff costs	261,680	244,663
Share-based payment expenses, excluding directors	40	395
Retirement benefit scheme contributions, excluding directors	215	186
	<u>264,911</u>	<u>248,869</u>
Total staff costs	<u>264,911</u>	<u>248,869</u>
Auditor's remuneration	359	439
Cost of inventories recognised as an expense (including write down of inventories of US\$3,615,000 (2011: US\$1,687,000))	1,174,756	1,142,066
Depreciation of property, plant and equipment	27,343	25,851
Release of prepaid lease payments	429	512
Share of taxation of associates (included in share of results of associates)	42	22
	<u>42</u>	<u>22</u>

## 6. DIVIDENDS

	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>
2011 final dividend of HK68 cents per share (2011: 2010 final dividend of HK53 cents per share) paid	69,611	54,227
2012 interim dividend of HK30 cents per share (2011: HK30 cents per share) paid	30,724	30,599
	<u>30,724</u>	<u>30,599</u>
	<u>100,335</u>	<u>84,826</u>

The final dividend of HK75 cents per share in total of US\$76,700,000 for the year ended 31 December 2012 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 7. EARNINGS PER SHARE

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

	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>
<b>Earnings</b>		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>153,403</u>	<u>142,988</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	792,492,017	791,903,937
Effect of dilutive potential ordinary shares: Unvested shares awarded	<u>202,289</u>	<u>369,900</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>792,694,306</u>	<u>792,273,837</u>

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share have been arrived at after deducting the shares held in trust for the Company by Teeroy Limited.

## 8. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade receivables net of allowance for bad debts presented based on invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>
Trade receivables:		
0 – 30 days	134,923	139,867
31 – 60 days	70,099	45,120
61 – 90 days	11,719	7,798
Over 90 days	<u>7,058</u>	<u>3,935</u>
	223,799	196,720
Other receivables	<u>80,239</u>	<u>70,012</u>
Total trade and other receivables	<u>304,038</u>	<u>266,732</u>

Other receivables include prepayment to suppliers of US\$40,431,000 (2011: US\$49,314,000).

Included in the Group's trade and other receivables balance are debtors with aggregate amount of US\$9,805,000, US\$89,000, US\$1,788,000, US\$7,000 and US\$1,077,000 (2011: US\$3,530,000, US\$39,000, US\$nil, US\$4,000 and US\$885,000) which are denominated in RMB, HKD, EUR, MOP and other currencies other than the functional currency of the respective group entities and are exposed to currency risk.

Before accepting a new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. The majority of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US\$7,640,000 (31 December 2011: US\$11,506,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables based on the invoice date which are past due but not impaired:

	<b>2012</b>	2011
	<i>US\$'000</i>	<i>US\$'000</i>
31 – 60 days	<b>5,278</b>	6,551
61 – 90 days	<b>187</b>	818
Over 90 days	<b>2,175</b>	4,137
	<u><b>7,640</b></u>	<u>11,506</u>

## 9. TRADE, BILLS AND OTHER PAYABLES

The following is an aged analysis of the Group's trade and bills payables presented based on invoice date at the end of the reporting period:

	<b>2012</b>	2011
	<i>US\$'000</i>	<i>US\$'000</i>
Trade and bills payables:		
0 – 30 days	<b>47,622</b>	46,979
31 – 60 days	<b>13,885</b>	13,693
Over 60 days	<b>36,511</b>	30,269
	<u><b>98,018</b></u>	<u>90,941</u>
Other payables	<b>103,179</b>	90,065
	<u><b>201,197</b></u>	<u>181,006</u>

The average credit period on purchase of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Included in the Group's trade and other payables balance are creditors with aggregate amount of US\$26,250,000, US\$2,000, US\$574,000, US\$5,567,000, US\$1,639,000 and US\$213,000 (2011: US\$12,715,000, US\$3,000, US\$nil, US\$nil, US\$nil and US\$1,902,000) which are denominated in RMB, HKD, EUR, MOP and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

## CHAIRMAN'S STATEMENT

2012 was a volatile year for the global economy, with the first half of the year marked by a deepening of the European debt crisis and a delayed US economic recovery. This set the tone for weak consumer confidence in our primary export markets throughout most of the year, with some signs of improvement in the final months.

Consumers in China have also felt the pinch, with slowing economic growth leading many to tighten their purse strings. Manufacturers too were hit by weaker demand for Chinese exports, as well as rising labour costs.

Stella has not been immune to these challenges, with the Group experiencing a dip in shipment volumes and a slowdown in the growth of the retail business during the year. However, our overall performance was respectable due to our long-standing commitment to quality and our strong relationships with clients.

Our efforts to lower input costs and stabilise our labour force within our manufacturing business began to bear fruit this year, with our new production facilities in inland China and South-East Asia coming online. We will also evaluate expanding our manufacturing capability to Bangladesh and Myanmar to further optimise production allocation. This is part of a carefully planned rationalisation process which is allowing the Group to achieve important structural changes to secure long-term growth. We also reinforced our competitiveness by continuing to invest in R&D, including in our China and Italian design studios, further carving-out our position as a unique high-end, value-adding manufacturer. Our recent move into leather goods have also helped our brand customers expand their product portfolios at the same time.

Despite the weaker consumer confidence, 2012 has still been an eventful year for our retail business. We launched two new retail brands in China as part of our strategy to enter more niche footwear markets — *JKJY*, our first self-developed footwear brand for men and *Pierre Balmain*, a joint-venture with the French retailer of the same name. Furthermore, our flagship brand *Stella Luna* has gone global, opening its first store in the world's fashion capital — Paris.

Our focus in the next few years is to gradually build an international platform for our brands, using marketing vehicles like the Paris store to gain experience and develop a global audience. The attention on our Paris store inspires our next move — to open more concept stores in major cities in Europe in the next few years. We will also continue to explore new markets with new brands and products, including leather goods, in the coming years.

Looking forward, we expect the business environment to remain unstable, with economic recovery likely to be fragile. However, demand for our products is expected to remain stable, particularly at the high end. We will also continue to work closely with our valued brand customers to support them through any further economic uncertainty by amplifying their product portfolios. On the retail side, we will continue our efforts to broaden same-store sales and our product base, while refining our retail store network to boost overall competitiveness.

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Model and Strategy**

Stella is a leading developer, manufacturer and retailer of quality footwear products. Our manufacturing business was founded in 1982 with a simple mission of “making the best shoes”; and it currently provides a one-stop shop for the design, development and manufacturing of quality and affordable luxury footwear.

Our business is positioned at the high-end of the value chain, offering craftsmanship, innovation, short lead times and small batch production. Our commitment to quality has enabled us to attract a growing client base of premium fashion and casual brands.

We launched our retail business in 2006 in order to diversify our business and tap growing demand for affordable luxury footwear in China and across the region. All our retail products are designed and manufactured in-house and have quickly attracted a strong following among China’s upwardly mobile consumers.

Our retail business currently consists of three self-developed brands — *Stella Luna*, *What For* and *JKJY* — and joint-venture brand *Pierre Balmain*. Our network of retail stores is primarily focused in Mainland China, with additional stores in Thailand, Taiwan, Philippines, Lebanon, United Arab Emirates and Kuwait. In 2012, we opened our first *Stella Luna* store in Paris to build a global platform for our products.

## **Financial Highlights**

### ***Focus on Quality Sustains Performance in Volatile Conditions***

Stella's financial performance held up reasonably well in 2012 — a volatile year for the global economy. Our continued focus on quality saw us through a sharp downturn in global consumer confidence in the first half of the year, with conditions stabilising later in the year.

The Group's consolidated revenue rose 3.7% year-on-year to US\$1,550.0 million (2011: US\$1,494.5 million), boosted by a pick-up in our manufacturing business in the second half of the year. However, temporary capacity constraints, control on labour overtime and a lag caused by slower global demand in the first half of 2012 resulted in a 3.4% fall in total shipments to 50.8 million pairs (2011: 52.6 million pairs). The full-year net profit attributable to equity holders of the Company rose 7.3% to US\$153.4 million (2011: US\$143.0 million).

The average selling price ("ASP") of our footwear products rose 5.5% in 2012, to US\$28.6 per pair (2011: US\$27.1) due to cost inflation, further recognition of the quality of our footwear products and continuous improvements to product mix, despite falling prices for raw materials towards the end of the year. Basic earnings per share rose 7.2% year-on-year to US\$0.194 (2011: US\$0.181), based on the weighted average number of 792,492,017 ordinary shares in 2012 (2011: 791,903,937 shares).

All segments of our manufacturing business performed satisfactorily during the year. Women's fashion footwear continued to be our largest fashion segment, contributing 37.8% to total revenue (2011: 36.3%). Contribution from our women's and men's casual footwear businesses was 22.7% (2011: 24.5%) and 23.3% (2011: 25.6%) of overall revenue respectively, while the contribution from the men's fashion segment rose to 8.2% (2011: 5.9%).

### ***Retail Business Continues to Deliver***

Our retail business delivered another year of solid performance, adding new brands and expanding to new locations during the year. Retail revenue rose 20.6% to US\$119.4 million (2011: US\$99.0 million), with the retail business' contribution to the Group's total revenue rising to 7.7%, up from 6.6% in the previous year. Same-store sales growth (in China only) slowed to 2.3% in 2012, rising to US\$68.1 million from US\$66.6 million in the preceding year. This is partially due to a high base, lower domestic consumer confidence in China and efforts to integrate *What For* with our Italian design studio.

Gross profit for the retail business was US\$80.5 million in 2012 (2011: US\$68.6 million), representing an increase of 17.3% from the previous year.

## ***Growing Profits despite Challenging Conditions***

Total gross profit across all business segments in 2012 was US\$375.2 million, representing an increase of 6.4% from the previous year (2011: US\$352.5 million). This was mostly attributed to the resilient performance of our manufacturing business and our value-adding production process. Gross profit margins rose to 24.2% (2011: 23.6%), while net profit margins improved slightly to 9.9% (2011: 9.6%).

During the year under review, the Group's cash flow remained stable, with cash generated from operations amounting to US\$152.8 million (2011: US\$88.0 million). We invested US\$89.3 million in CAPEX for capacity expansion in 2012 and returned US\$100.3 to shareholders as dividends.

Geographically, North America and Europe continued to be our two largest markets, accounting for 52.7% and 23.0% of total revenue in 2012. This was followed by the PRC (including Hong Kong), accounting for 15.0%, Asia (other than the PRC), accounting for 5.3%, and other geographical regions which accounted for 4.0%.

## **BUSINESS REVIEW**

### **Commitment to Quality and Delivering Promises Support Performance**

Stella's reputation for quality, flexibility and reliability ensured continued demand for our products, despite the volatile global economy. Our biggest asset is the long-term relationships and level of trust we have forged with our clients by consistently exceeding customers' expectations.

Our ability to deliver quality customised products saw us attract more niche brands as clients this year. This reduced Stella's overall reliance on larger customers, with our top five customers accounting for 56.5% of total revenue in 2012, down from 58.3% in the previous year.

### **Stable Margins despite Higher Labour Costs**

Stella has not been immune to the various labour force challenges faced by Asian manufacturers, including high labour turnover and increasing wages. Despite this, our profit margins throughout the year remained steady, due to:

- Stable global demand for high-end products, as industry consolidation pushes a number of brands to engage specialised suppliers such as Stella
- Our high position in the value chain and design-led process, allowing us to attract a higher ASP than the industry average
- Cutting-edge R&D capabilities, led by our design studios in Dongguan, China and Venice, Italy
- The expansion of our production base in low-cost locations, which allowed us to control costs and stabilise our labour supply

## **Removal of Temporary Capacity Constraints**

The Group ramped up production at our new low-cost facilities in inland China (Guangxi and Hunan) and Indonesia in the second half of 2012, removing the temporary capacity constraints that were partially responsible for lower shipment volume this year. Capacity during the year was also temporarily affected by the closing of a trade-processing factory in Dongguan, China (upon the expiration of a trade-processing contract with the local government) and stricter controls on overtime labour hours.

The push to expand our low-cost production base is part of our long-term plan to shift labour-intensive operations away from coastal regions of China where the labour turnover rate is high. However, design and higher-skilled processes will continue to remain in Dongguan, China allowing us to increase operational efficiency, without compromising quality.

Our other manufacturing facilities in Dongguan, China and Vietnam operated at close-to-full capacity throughout the year.

## **Growing Portfolio of Retail Brands**

The Group introduced two new retail brands in 2012 as part of our efforts to diversify our retail business and tap more niche markets. In the first half of the year, we launched *JKJY*, our first male-focused retail brand, opening 9 stores in China. *JKJY* crossovers fashion and sports footwear and retails for between RMB2,000 to RMB4,000 per pair.

We also opened our first 2 joint-venture stores in China with prestigious Paris-based brand *Pierre Balmain*.

Our *Stella Luna* and *What For* brands continued to increase their reach in the affordable luxury footwear markets of China and other regions, opening new standalone stores at quality retail locations in line with the Group's retail strategy.

*Stella Luna* targets the high-end footwear and leather goods markets, with prices ranging from RMB1,200 to RMB6,000 per pair. *What For*, our contemporary and lifestyle brand, retails for between RMB800 to RMB2,800 per pair.

We added a net 17 *Stella Luna* and 2 *What For* stores in China during the year under review. The following table shows the geographic distribution of our stores by brands as of 31 December 2012.

	<b>Stella Luna</b>	<b>What For</b>	<b>JKJY</b>	<b>Pierre Balmain</b>
<b>Greater China</b>				
Eastern China	47	33	4	2
Southern China	35	30	2	—
Northern China	37	40	2	—
North-East China	33	28	1	—
South-West China	41	35	—	—
Central China	18	18	—	—
Taiwan	3	—	—	—
Sub-total	214	184	9	2
<b>Thailand</b>				
Bangkok	6	6	—	—
Nonthaburi	—	1	—	—
Phuket	1	—	—	—
Samuth Prakarn	1	1	—	—
Sub-total	8	8	—	—
<b>France</b>	1	—	—	—
<b>Philippines</b>	4	1	1	—
<b>Lebanon</b>	9	9	—	—
<b>United Arab Emirates</b>	2	1	—	—
<b>Kuwait</b>	2	2	—	—
<b>Total</b>	240	205	10	2

### **Introducing our Brands on the Global Stage**

We opened our first *Stella Luna* store in Paris in December 2012. Located in the city's high-end Saint-Germain shopping district, the store will be the centre of our global marketing and public relations efforts to build a global presence for our brands and to interact more with the western retail market.

## **BUSINESS OUTLOOK**

### **Steady Order Pipeline despite Volatile Economic Outlook**

We expect the challenging operating environment present in 2012 will continue in 2013. However, our order pipeline should remain steady as a result of our strong client relationships and our unique positioning as a high-quality manufacturer.

Labour costs and availability will remain a challenge, although we are well advanced in shifting production to locations with labour and cost advantages. We expect the cost of raw materials to remain steady or slightly decline in 2013.

Key risks in the coming years will include a sudden downturn in consumer sentiment in our main export markets. We will also closely monitor the effects of policies adopted by the Chinese government that may provoke RMB inflation or affect the price of input costs.

### **Addition of more Niche Retail Brands to Further Diversify Retail Business**

We remain cautiously optimistic about the medium-to-long term growth potential for mid-to-upper tier footwear products in China. In particular, we feel there is room for growth in niche segments of the market which are emerging alongside the continued sophistication of Chinese consumers.

The launch of our new *JKJY* and joint venture *Pierre Balmain* brands this year is the first part of our strategy to engage these niche markets. Leveraging on the experience we build with these brands, we will prudently consider introducing additional brands, either self-developed or as a joint-venture, in order to further diversify our business.

### **Setting the Stage for Future Growth**

As an experienced high-end footwear manufacturer, we will continue to help our customers expand and improve their product categories (including in areas such as leather goods) and consolidate resources for their portfolios.

On the retail side, we will leverage on our recently opened Paris store to build a global platform for our brands and as a stage for future expansion in the years ahead. Closer to home, we will continue our efforts to broaden same-store sales and our product base to further develop our retail business in China. This includes the possibility of extending the retail products offered by some of our brands to include leather goods.

Another focus in the coming year will be the prudent refining and optimisation of our existing retail store network, in order to boost our overall competitiveness and set a solid foundation for future growth and success.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 31 December 2012, the Group had cash and cash equivalents of about US\$303.6 million (2011: US\$316.1 million).

As at 31 December 2012, the Group had current assets of US\$857.4 million (2011: US\$826.0 million) and current liabilities of about US\$242.2 million (2011: US\$212.9 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.5 as at 31 December 2012 which indicated the Group's high liquidity and healthy financial position.

## **BANK BORROWINGS**

The Group did not have any bank borrowings as at 31 December 2012 (2011: Nil).

## **FOREIGN EXCHANGE EXPOSURE**

During the year ended 31 December 2012, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars or RMB. Currency exposures were mostly denominated in RMB and Hong Kong dollars against the functional currency of the relevant Group company. The Group has not adopted any formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year under review.

## **CAPITAL EXPENDITURE**

During the year under review, the Group's total capital expenditure amounted to approximately US\$89.3 million, of which approximately US\$83.3 million was used in the production capacity expansion and approximately US\$6.0 million was used for the expansion of the retail store network.

## **PLEDGE OF ASSETS**

As at 31 December 2012, the Group had not pledged any of its assets (31 December 2011: Nil).

## **CONTINGENT LIABILITIES**

As at 31 December 2012, the Group had no material contingent liabilities.

## **EMPLOYEES**

As at 31 December 2012, the Group had approximately 77,000 employees (2011: approximately 70,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets for the Group's development and expansion. We actively seek to attract, train and retain individuals who are proactive, positive, committed to and passionate about the business.

The Group has continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership Program" to identify potential high calibre employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures.

As of 31 December 2012, the Group's recruitment efforts have remained satisfactory, despite continuing labour shortages in our primary manufacturing locations in China.

## **DIVIDEND**

The Board recommended the payment of a final dividend of HK75 cents per ordinary share to shareholders of the Company (the “Shareholders”) for the year ended 31 December 2012. The proposed final dividend, amounting to approximately US\$76.7 million, will be paid to Shareholders whose names appear on the register of members of the Company on 15 May 2013, if the proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company (the “AGM”) to be held on 10 May 2013. It is expected that the final dividend, if approved, will be paid on or about 24 May 2013.

In order to qualify for the proposed final dividend to be approved at the AGM, 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 4:30 p.m. on 15 May 2013.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 8 May 2013 to 10 May 2013 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the forthcoming AGM of the Company, 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 4:30 p.m. on 7 May 2013.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2012 except for code provisions A.6.7, B.1.5 and E.1.2 as follows:-

For code provision A.6.7 of the CG Code, two independent non-executive Directors, namely Mr. Chu Pao-Kuei <sup>(note)</sup> and Mr. Chen Johnny, had not attended the annual general meeting of the Company held on 4 May 2012 (the “2012 AGM”) due to their other business commitments.

For code provision B.1.5 of the CG Code, the Company decided not to disclose details of remuneration payable to members of senior management by band in the annual report of 2012. The reason for not making such disclosure is that the Board would like to observe the competitive market practices and to respect individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (“Chairman”) of the Board, had not attended the 2012 AGM, but Mr. Shih Takuen, Daniel, the deputy chairman (the “Deputy Chairman”) of the Board, took the chair at the 2012 AGM, and the chairman or member of each of the audit, corporate governance, remuneration and nomination committees attended the 2012 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 strategies of the Group, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is responsible for providing leadership and management to the Board and handling matters relating to investor relations and communication with Shareholders. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Save for the said deviations from the CG Code, the Group has been in compliance with the CG Code in all material respects and has upheld a high standard of corporate governance which, the Directors believe, are of higher standard than that required under the CG code in various aspects.

*(note: Mr. Chu Pao-Kuei resigned as an independent non-executive Director and the chairman of the audit committee and a member of each of the corporate governance committee, the nomination committee and the remuneration committee with effect from 1 January 2013.)*

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2012.

## **REVIEW OF FINANCIAL STATEMENTS**

The audit committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2012.

## **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 year.

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

Hong Kong, 21 March 2013

*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. Chen Johnny, Mr. Bolliger Peter, Mr. Chan Fu Keung, William and Mr. Yue Chao-Tang, Thomas.*