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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 2013

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 2013, together with the comparative figures for the corresponding period in 2012 as follows:–

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

| | | Six months ended 30 June | |
|--|--------------|--|--|
| | <i>Notes</i> | 2013 <i>US\$'000</i> (Unaudited) | 2012 <i>US\$'000</i> (Unaudited) |
| Revenue | 3 | 697,552 | 683,107 |
| Cost of sales | | (532,818) | (513,590) |
| Gross profit | | 164,734 | 169,517 |
| Other income | | 5,380 | 8,141 |
| Other gains and losses | | (1,733) | 13,627 |
| Distribution and selling costs | | (60,042) | (60,617) |
| Administrative expenses | | (29,255) | (34,350) |
| Research and development costs | | (22,805) | (23,395) |
| Share of profit of associates | | 75 | 281 |
| Interest on bank borrowings wholly repayable within 5 years | | (67) | (49) |
| Profit before tax | | 56,287 | 73,155 |
| Income tax expense | 4 | (5,561) | (6,632) |

* *For identification purpose only*

| | | Six months ended | |
|---|--------------|-------------------------|--------------------|
| | | 30 June | |
| | <i>Notes</i> | 2013 | 2012 |
| | | US\$'000 | US\$'000 |
| | | (Unaudited) | (Unaudited) |
| Profit for the period | 6 | 50,726 | 66,523 |
| Other comprehensive income | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Exchange differences arising on translation of foreign operation | | <u>533</u> | <u>492</u> |
| Total comprehensive income for the period | | <u>51,259</u> | <u>67,015</u> |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | 50,261 | 66,557 |
| Non-controlling interests | | <u>465</u> | <u>(34)</u> |
| | | <u>50,726</u> | <u>66,523</u> |
| Total comprehensive income (expense) for the period attributable to: | | | |
| Owners of the Company | | 50,783 | 67,049 |
| Non-controlling interests | | <u>476</u> | <u>(34)</u> |
| | | <u>51,259</u> | <u>67,015</u> |
| Earnings per share | 8 | | |
| – Basic and diluted (US\$) | | <u>0.0634</u> | <u>0.0840</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

| | <i>Notes</i> | 30 June 2013 <i>US\$'000</i> (Unaudited) | 31 December 2012 <i>US\$'000</i> (Audited) |
|--|--------------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | <i>9</i> | 264,742 | 247,863 |
| Prepaid lease payments | | 18,300 | 18,776 |
| Interest in associates | <i>5</i> | 7,694 | 7,619 |
| Deposit paid for acquisition of property, plant and equipment | <i>9</i> | 48,220 | 27,316 |
| | | 338,956 | 301,574 |
| CURRENT ASSETS | | | |
| Inventories | | 218,341 | 179,183 |
| Trade and other receivables | <i>10</i> | 355,689 | 304,038 |
| Prepaid lease payments | | 578 | 477 |
| Amounts due from associates | <i>11</i> | 68,395 | 62,854 |
| Derivative financial instruments | | 40 | 231 |
| Held for trading investments | | 53,026 | 51,557 |
| Tax recoverable | | – | 6,996 |
| Cash and cash equivalents | | 145,434 | 252,039 |
| | | 841,503 | 857,375 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | <i>12</i> | 205,361 | 201,197 |
| Bills payable | <i>12</i> | 3,722 | – |
| Bank borrowings | <i>13</i> | 30,000 | – |
| Tax liabilities | | 50,147 | 41,000 |
| | | 289,230 | 242,197 |
| NET CURRENT ASSETS | | | |
| | | 552,273 | 615,178 |
| | | 891,229 | 916,752 |
| CAPITAL AND RESERVES | | | |
| Share capital | <i>14</i> | 10,160 | 10,160 |
| Share premium and reserves | | 880,059 | 906,058 |
| | | 890,219 | 916,218 |
| Equity attributable to owners of the Company | | 890,219 | 916,218 |
| Non-controlling interests | | 1,010 | 534 |
| | | 891,229 | 916,752 |
| | | 891,229 | 916,752 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|--|---|--|--|---|------------------------------|---|--------------------------|
| | Share capital <i>US\$'000</i> | Share premium <i>US\$'000</i> | Merger reserve <i>US\$'000</i> | Capital reserve <i>US\$'000</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> | Sub-total <i>US\$'000</i> | Non- controlling interests <i>US\$'000</i> | Total <i>US\$'000</i> |
| At 1 January 2012 (audited) | 10,160 | 154,503 | 45,427 | 1,146 | (1,674) | (3,350) | 190 | 1,420 | 654,455 | 862,277 | (277) | 862,000 |
| Profit (loss) for the period | - | - | - | - | - | - | - | - | 66,557 | 66,557 | (34) | 66,523 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | 492 | - | - | - | - | 492 | - | 492 |
| Total comprehensive (expense) income for the period | - | - | - | - | 492 | - | - | - | 66,557 | 67,049 | (34) | 67,015 |
| Capital injection from non-controlling interests | - | - | - | - | - | - | - | - | - | - | 1,632 | 1,632 |
| Recognition of equity-settled share-based payments | - | - | - | - | - | - | - | 79 | - | 79 | - | 79 |
| Shares vested under long term incentive scheme | - | - | - | - | - | 617 | - | (66) | (551) | - | - | - |
| Dividend recognised as distribution | - | - | - | - | - | - | - | (69,611) | (69,611) | - | - | (69,611) |
| At 30 June 2012 (unaudited) | 10,160 | 154,503 | 45,427 | 1,146 | (1,182) | (2,733) | 190 | 1,433 | 650,850 | 859,794 | 1,321 | 861,115 |
| Profit (loss) for the period | - | - | - | - | - | - | - | - | 86,846 | 86,846 | (781) | 86,065 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | 294 | - | - | - | - | 294 | (6) | 288 |
| Total comprehensive (expense) income for the period | - | - | - | - | 294 | - | - | - | 86,846 | 87,140 | (787) | 86,353 |
| Recognition of equity-settled share-based payments | - | - | - | - | - | - | - | 8 | - | 8 | - | 8 |
| Shares vested under long term incentive scheme | - | - | - | - | - | 4 | - | (1) | (3) | - | - | - |
| Dividend recognised as distribution | - | - | - | - | - | - | - | (30,724) | (30,724) | - | - | (30,724) |
| At 31 December 2012 (audited) | 10,160 | 154,503 | 45,427 | 1,146 | (888) | (2,729) | 190 | 1,440 | 706,969 | 916,218 | 534 | 916,752 |
| Profit for the period | - | - | - | - | - | - | - | - | 50,261 | 50,261 | 465 | 50,726 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | 523 | - | - | - | - | 523 | 11 | 534 |
| Total comprehensive income for the period | - | - | - | - | 523 | - | - | - | 50,261 | 50,784 | 476 | 51,260 |
| Recognition of equity-settled share-based payments | - | - | - | - | - | - | - | 14 | - | 14 | - | 14 |
| Shares vested under long term incentive scheme | - | - | - | - | - | 7 | - | (4) | (3) | - | - | - |
| Dividend recognised as distribution | - | - | - | - | - | - | - | (76,797) | (76,797) | - | - | (76,797) |
| At 30 June 2013 (unaudited) | 10,160 | 154,503 | 45,427 | 1,146 | (365) | (2,722) | 190 | 1,450 | 680,430 | 890,219 | 1,010 | 891,229 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

| | | Six months ended 30 June | |
|--|-------------|---|--|
| | <i>Note</i> | 2013 <i>US\$'000</i> (Unaudited) | 2012 <i>US\$'000</i> (Unaudited) |
| NET CASH USED IN OPERATING ACTIVITIES | | | |
| Refund (purchase) of tax reserve certificates | | 6,996 | (3,299) |
| Increase in investments held for trading | | (221) | (1,687) |
| Other operating cash flows | | (15,293) | (71,778) |
| | | (8,518) | (76,764) |
| NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES: | | | |
| Prepaid lease payment of land use right | | (37) | (1,512) |
| Deposit paid for property, plant and equipment | | (21,447) | (3,854) |
| Purchase of property, plant and equipment | | (31,596) | (8,762) |
| Net proceeds from disposal of interest in an associate (net of transaction cost) | | – | 19,974 |
| Acquisition of a subsidiary | 18 | – | (4,100) |
| Other investing cash flows | | 1,483 | 3,632 |
| | | (51,597) | 5,378 |
| NET CASH USED IN FINANCING ACTIVITIES: | | | |
| New bank loans raised | | 30,000 | 25,000 |
| Dividend paid | | (76,797) | (69,611) |
| Capital injection from non-controlling interests | | – | 1,632 |
| | | (46,797) | (42,979) |
| Net decrease in cash and cash equivalents | | (106,912) | (114,365) |
| Cash and cash equivalents at the beginning of the period | | 252,039 | 264,233 |
| Effect of foreign exchange rate changes | | 307 | 443 |
| Cash and cash equivalents at the end of the period | | 145,434 | 150,311 |
| Represented by: | | | |
| Bank balances and cash | | 108,700 | 126,531 |
| Deposits placed in financial institutions | | 36,734 | 23,780 |
| | | 145,434 | 150,311 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 10 | Consolidated Financial Statements; |
| HKFRS 11 | Joint Arrangements; |
| HKFRS 12 | Disclosure of Interests in Other Entities; |
| Amendments to HKFRS 7 | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities; |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance; |
| HKFRS 13 | Fair Value Measurement; |
| HKAS 19 (as revised in 2011) | Employee Benefits; |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures; |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income; |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009-2011 Cycle; |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine. |

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKFRS 13 Fair Value Measurement (Continued)

The scope of HKFRS 13 is broad, and 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, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 17.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for 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 additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are 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 existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKAS 34 Interim Financial Reporting

(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to HKAS 34 *Interim Financial Reporting* as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

The application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

Six months ended 30 June 2013

| | 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 | 212,237 | 424,919 | 60,396 | 697,552 | - | 697,552 |
| Inter-segment sales | - | 11,230 | - | 11,230 | (11,230) | - |
| Group's revenue | <u>212,237</u> | <u>436,149</u> | <u>60,396</u> | <u>708,782</u> | <u>(11,230)</u> | <u>697,552</u> |
| Segment profit | <u>30,437</u> | <u>70,718</u> | <u>(129)</u> | <u>101,026</u> | <u>-</u> | <u>101,026</u> |
| Unallocated income | | | | | | |
| - Interest income from banks | | | | | | 1,429 |
| - Rental income | | | | | | 662 |
| - Sale of scrap | | | | | | 232 |
| - Others | | | | | | 2,755 |
| Unallocated expenses | | | | | | |
| - Research and development costs | | | | | | (22,805) |
| - Central administration costs | | | | | | (25,287) |
| Share of profit of associates | | | | | | 75 |
| Other gains and losses | | | | | | (1,733) |
| Finance cost | | | | | | (67) |
| Profit before tax | | | | | | <u>56,287</u> |

3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2012

| | 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 | 222,611 | 404,952 | 55,544 | 683,107 | – | 683,107 |
| Inter-segment sales | – | 15,241 | – | 15,241 | (15,241) | – |
| Group's revenue | <u>222,611</u> | <u>420,193</u> | <u>55,544</u> | <u>698,348</u> | <u>(15,241)</u> | <u>683,107</u> |
| Segment profit | <u>31,271</u> | <u>75,610</u> | <u>623</u> | <u>107,504</u> | <u>–</u> | <u>107,504</u> |
| Unallocated income | | | | | | |
| – Interest income from banks | | | | | | 2,825 |
| – Rental income | | | | | | 1,205 |
| – Sale of scrap | | | | | | 2,725 |
| – Others | | | | | | 1,298 |
| Unallocated expenses | | | | | | |
| – Research and development costs | | | | | | (23,395) |
| – Central administration costs | | | | | | (32,866) |
| Share of profit of associates | | | | | | 281 |
| Other gains and losses | | | | | | 13,627 |
| Finance cost | | | | | | <u>(49)</u> |
| Profit before tax | | | | | | <u>73,155</u> |

Segment profit represents profit attributable to each segment without allocation of interest income from banks, rental income, sale of scrap, research and development costs, central administration costs, share of results of associates, other gains and losses and finance cost. This is the measure reported to the chief operating decision maker, the Group's chief executives, for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|--------------------------|--------------|
| | 2013 | 2012 |
| | US\$'000 | US\$'000 |
| | (Unaudited) | (Unaudited) |
| Enterprise Income Tax (“EIT”) in the People’s Republic of China (“PRC”) | <u>5,561</u> | <u>6,632</u> |

EIT in the PRC is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC.

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

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

From March 2011 to March 2012, the IRD issued estimated profits tax assessments relating to the years of assessment 2004/2005 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 (equivalent to approximately US\$6,996,000) for the years of assessment 2004/05 and 2005/06, which has been recorded as tax recoverable in the condensed consolidated statement of financial position.

During the current interim period, a settlement proposal was accepted by the IRD, no Hong Kong Profits Tax is payable by the Group in respect of the tax audit. Therefore, the TRCs previously purchased by the Group for the years of assessment 2004/05 and 2005/06 totalling HK\$54,280,000 (equivalent to approximately US\$6,996,000) was refunded to the Group.

5. DISPOSAL OF AN ASSOCIATE

On 2 April 2012, the Group disposed of 49% interest in StellaDeck Fashion Limited (“StellaDeck”) to a third party. Before the disposal, the Group owned 49% interest in StellaDeck and the investment was previously accounted for as an investment in an associate using the equity method of accounting. This transaction has resulted in the recognition of a gain of US\$11,177,000 in profit or loss (included in other gains and losses).

6. PROFIT FOR THE PERIOD

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

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2013 | 2012 |
| | US\$'000 | US\$'000 |
| | (Unaudited) | (Unaudited) |
| Write-down of inventories (included in costs of sales) | 1,116 | 3,168 |
| Depreciation of property, plant and equipment | 16,500 | 14,029 |
| Release of prepaid lease payments | 289 | 263 |
| Share-based payments (included both in costs of sales and administrative expenses) | 14 | 79 |
| Net fair value loss (gain) on held for trading investments (included in other gains and losses) | 1,248 | (1,308) |
| Interest income on bank balances | (1,483) | (2,914) |
| Net fair value loss on derivative financial instruments (included in other gains and losses) | 191 | 207 |
| Impairment loss recognised in respect of interest in associates (included in other gains and losses) | – | 809 |
| | <u>–</u> | <u>809</u> |

7. DIVIDENDS

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2013 | 2012 |
| | US\$'000 | US\$'000 |
| | (Unaudited) | (Unaudited) |
| Final dividend declared and paid for 2012 – HK75 cents (2011: HK68 cents) per share | <u>76,797</u> | <u>69,611</u> |
| Interim dividend declared subsequent to period end – HK30 cents (2012: HK30 cents) per share | <u>30,732</u> | <u>30,724</u> |

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2013 of HK30 cents (2012: HK30 cents) per ordinary share to owners of the Company whose names appeared in the register of members of the Company at the close of business on 3 September 2013.

10. TRADE AND OTHER RECEIVABLES

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

The following is an analysis of the Group's trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

| | 30 June 2013 US\$'000 (Unaudited) | 31 December 2012 US\$'000 (Audited) |
|--------------------|--|--|
| Trade receivables: | | |
| 0 – 30 days | 162,466 | 134,923 |
| 31 – 60 days | 73,517 | 70,099 |
| 61 – 90 days | 15,933 | 11,719 |
| Over 90 days | 13,834 | 7,058 |
| | <hr/> | <hr/> |
| | 265,750 | 223,799 |
| Other receivables | 89,939 | 80,239 |
| | <hr/> | <hr/> |
| | 355,689 | 304,038 |
| | <hr/> <hr/> | <hr/> <hr/> |

Other receivables include prepayment to suppliers of US\$89,461,000 (2012: US\$80,094,000).

11. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are trading balances, representing prepayments to an associate for purchase of goods. The amounts are unsecured and interest-free.

12. TRADE, BILLS AND OTHER PAYABLES

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

| | 30 June 2013 US\$'000 (Unaudited) | 31 December 2012 US\$'000 (Audited) |
|---------------------------|--|--|
| Trade and bills payables: | | |
| 0 – 30 days | 63,538 | 47,622 |
| 31 – 60 days | 10,062 | 13,885 |
| Over 60 days | 48,128 | 36,511 |
| | 121,728 | 98,018 |
| Other payables | 87,355 | 103,179 |
| | 209,083 | 201,197 |

13. BANK BORROWINGS

During the six months ended 30 June 2013, the Group obtained new bank loans denominated in United States dollars amounting to US\$30,000,000 (2012: Nil). The loans carry interest at fixed rates of 2% per annum. The proceeds were used for general working capital purposes.

14. SHARE CAPITAL

| | Number of share | Nominal value HK\$'000 |
|--|----------------------------|-----------------------------------|
| Ordinary of HK\$0.10 each | | |
| <i>Authorised:</i> | | |
| As at 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013 | 5,000,000,000 | 500,000 |
| <i>Issued and fully paid:</i> | | |
| As at 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013 | 794,379,500 | 79,438 |
| Shown in financial statements as | | US\$10,160,000 |

15. CAPITAL COMMITMENTS

| | 30 June 2013 <i>US\$'000</i> (Unaudited) | 31 December 2012 <i>US\$'000</i> (Audited) |
|---|---|---|
| Capital expenditure authorised but not contracted for in respect of property, plant and equipment | 42,700 | 66,635 |
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment | <u>27,369</u> | <u>33,572</u> |
| | <u>70,069</u> | <u>100,207</u> |

16. SHARE-BASED PAYMENTS

Long Term Incentive Scheme (the “Scheme”)

On 19 February 2009, a total of 2,445,500 shares of the Company were awarded 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 of 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 behalf of the Company.

On 19 March 2010, another 1,428,000 shares of the Company were awarded 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.

On 15 July 2011, a total of 27,500 shares of the Company were awarded to an employee of the Company at a consideration of HK\$1 per person.

16. SHARE-BASED PAYMENTS (Continued)

Long Term Incentive Scheme (the “Scheme”) (Continued)

Details of the movement with respect to the grant of the Company’s shares during the periods ended 30 June 2013 and 2012 are as follows:

| | Grant date | Vesting period | Outstanding at 1 January 2013 | Vested during the period | Outstanding at 30 June 2013 |
|--------------------------------|------------------|---------------------------------|-------------------------------------|--------------------------------|-----------------------------------|
| Employees | 19 February 2009 | 19 February 2009 – 1 April 2013 | 4,900 | (4,900) | – |
| | 15 July 2011 | 15 July 2011 – 1 September 2013 | 5,000 | – | 5,000 |
| | 15 July 2011 | 15 July 2011 – 1 September 2014 | 7,500 | – | 7,500 |
| | 15 July 2011 | 15 July 2011 – 1 September 2015 | 10,000 | – | 10,000 |
| | | | <u>27,400</u> | <u>(4,900)</u> | <u>22,500</u> |
| | Grant date | Vesting period | Outstanding at 1 January 2012 | Vested during the period | Outstanding at 30 June 2012 |
| Directors | 19 March 2010 | 19 March 2010 – 1 April 2012 | 120,500 | (120,500) | – |
| Two former directors (Note) | 19 March 2010 | 19 March 2010 – 1 April 2012 | 77,500 | (77,500) | – |
| Employees | 19 February 2009 | 19 February 2009 – 1 April 2012 | 4,900 | (4,900) | – |
| | 19 March 2010 | 19 March 2010 – 1 April 2012 | 206,500 | (206,500) | – |
| | 15 July 2011 | 15 July 2011 – 1 September 2012 | 2,500 | – | 2,500 |
| | 19 February 2009 | 19 February 2009 – 1 April 2013 | 4,900 | – | 4,900 |
| | 15 July 2011 | 15 July 2011 – 1 September 2013 | 5,000 | – | 5,000 |
| | 15 July 2011 | 15 July 2011 – 1 September 2014 | 7,500 | – | 7,500 |
| | 15 July 2011 | 15 July 2011 – 1 September 2015 | 10,000 | – | 10,000 |
| | | | <u>439,300</u> | <u>(409,400)</u> | <u>29,900</u> |

Note: One former director has been retained as an employee of the Group while another former director has left the Group in August 2013.

As at 30 June 2013, the Trustee maintained a pool of 1,778,000 shares (31 December 2012: 1,782,900 shares) which are available for the Trustee to satisfy the Scheme upon their respective vesting or future grant.

No shares were awarded to any eligible participants under the Scheme for the period ended 30 June 2013.

During the six months ended 30 June 2013, US\$14,000 (six months ended 30 June 2012: US\$79,000) was recognised as an expense in the condensed consolidated statement of comprehensive income with a corresponding credit to a share award reserve.

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| Financial asset | Fair value as at 30 June 2013 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|----------------------|--|-----------------------------------|---|
| 1) Foreign currency option contracts classified as derivative financial instruments in the statement of financial position | Assets – US\$40,000 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchanges rates (from observable forward exchanges rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties | N/A | N/A |
| 2) Held-for-trading non-derivative financial assets classified as held for trading investments in the statement of financial position | Listed bonds and funds in Hong Kong – US\$12,171,000; and listed bond and funds in elsewhere – US\$40,855,000 | Level 1 | Quoted bid prices in active markets | N/A | N/A |

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

18. ACQUISITION OF A SUBSIDIARY

On 17 February 2012, the Group acquired the entire equity interest in PT Young Tree Industries through the acquisition of the entire equity interest in Yang Fu Limited and Starry Thrive Limited. Yang Fu Limited, Starry Thrive Limited and PT Young Tree Industries (the “PT Young Tree Group”) are principally engaged in the manufacturing of footwear components. PT Young Tree Group was acquired for a cash consideration of US\$4,100,000 and the acquisition was completed on 17 February 2012.

Acquisition-related costs are negligible and have been excluded from the cost of acquisition. They have been recognised directly as an expense in the period and included in the “administrative expenses” line item in the condensed statement of comprehensive income.

Assets and liabilities recognised at the date of acquisition

| | <i>US\$'000</i> |
|---------------------------------------|-----------------|
| Prepaid lease payment | 1,232 |
| Property, plant and equipment | 2,627 |
| Receivables, prepayments and deposits | 323 |
| Other payables | (82) |
| | <u>4,100</u> |

The receivables, prepayments and deposits acquired in the transaction with a fair value of US\$323,000 have gross contractual amounts of US\$323,000. At the acquisition date, all contractual cash flows were expected to be collected.

Net cash outflow arising on acquisition

| | <i>US\$'000</i> |
|----------------------------|-----------------|
| Consideration paid in cash | <u>4,100</u> |

Impact of acquisition on the results of the Group

Included in the profit for the interim period for the six months ended 30 June 2013 is a profit of US\$986,000 incurred by PT Young Tree Group. Revenue for the period includes the revenue of PT Young Tree Group amounted to US\$14,708,000.

Had the acquisition of PT Young Tree Group been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2012 would have been US\$688,010,000, and the amount of the profit for the period would have been US\$66,852,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

19. RELATED PARTY DISCLOSURES

(I) Related party transactions

| Company | Transactions | Six months ended 30 June | |
|---|----------------------------------|---------------------------------|---------------------------------|
| | | 2013 US\$'000 (Unaudited) | 2012 US\$'000 (Unaudited) |
| 辛集市寶得福皮業有限公司/ (Xinji Baodefufu Leather Co. Ltd.) (Note) | Purchase of footwear products | <u>52,283</u> | <u>49,069</u> |

Note: An associate of the Company.

(II) Compensation of key management personnel

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

| | Six months ended 30 June | |
|------------------------------|---------------------------------|---------------------------------|
| | 2013 US\$'000 (Unaudited) | 2012 US\$'000 (Unaudited) |
| Short-term benefits | 423 | 374 |
| Share-based payment expenses | <u>–</u> | <u>48</u> |
| | <u>423</u> | <u>422</u> |

The remuneration of directors and key executives is determined by the board and its remuneration committee having regard to the performance of individuals and market trends.

CHAIRMAN'S STATEMENT

Economic conditions both at home and abroad presented a new set of challenges to Stella in the first half of 2013. Slow economic recovery and unseasonal weather in our primary export markets, i.e. Europe and the United States, resulted in softer demand for many of Stella's footwear products. Closer to home, slowing economic growth in China and lower consumer confidence impacted our retail business.

However, the Group experienced many positives in the first half of the year. We continued to grow revenue and shipment volumes of the period, with our overall business remaining profitable – a reflection of our commitment to quality and our long-term relationships with customers.

We also made substantial progress in ramping-up capacity at our new manufacturing facilities in inland China and Indonesia, leaving us well placed to take full advantage of future demand recovery.

Meanwhile, on the global stage, our flagship brand *Stella Luna* has quickly built an international profile following the opening of our first retail store in Paris last year.

With the footwear sector being a cyclical industry, the current trough in the business cycle presented us with a rationale to make sensible and necessary adjustments to our businesses. Such changes are currently taking place in both our manufacturing and retail businesses.

On the manufacturing side, we are continuing to introduce new measures to improve cost-control and productivity, while seeking to expand our capabilities in new product areas, such as leather goods. On the retail side, we are continuing to invest in human capital and adopt remedies such as consolidating our store network so that it becomes more focused in terms of both store location and product targeting, to better capture China's growing 'affordable luxury' market.

Of course, no such change is needed for our long-standing motto of 'Making the Best Shoes'. It is our commitment to always seek more ways to improve the quality of our products, our research and development capabilities and our willingness to satisfy and support our customers in any way we can.

Looking forward to the rest of year, demand for our products in the United States and Europe may continue to be affected by unseasonal weather and slow economic growth. We will continue to proactively react to these conditions by further improving our manufacturing capabilities in inland China and Indonesia, as well as the quality of our products. We will also work closely with our workforces there to improve their craftsmanship. These steps will position our business strongly for the long-term.

We also have exciting plans for our retail business, in particular the re-launch of our *What For* brand, precluding in the opening of the brand's first showcase store in Paris. We will also continue to optimise our retail business in China in the second half of the year in readiness for a recovery in consumer confidence.

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers and business partners for their unwavering support in the first half of 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

Financial Highlights

Steady Operation amid Unstable Operating Environment

The first half of 2013 saw the Group face strong headwinds on a number of fronts. Global and domestic economic factors continued to play a large role – with weakening consumer confidence in China weighing on our retail business, while sluggish economic recovery in Europe and the United States kept demand from our main export markets below peak. Unseasonable weather in the northern hemisphere also affected consumer behaviour and demand during the period.

Total revenue for the first six months of the year rose by 2.1% to US\$697.6 million, compared to US\$683.1 million in the first half of last year, as both our manufacturing and retail businesses grew at a slower pace.

On the manufacturing side, shipment volumes rose by 3.9% to 23.8 million pairs, up from 22.9 million pairs in the first half of last year, as we continued to ramp-up capacity at our new manufacturing facilities in inland China and Indonesia. The average selling price (the “ASP”) of our footwear products fell by 3.6% to US\$26.9 per pair, compared to US\$27.9 per pair in the first half of last year on the back of lower raw materials costs and the relocation of some manufacturing capacity to our new manufacturing facilities.

Women's fashion footwear remained the largest segment within our manufacturing business, contributing 34.0% to the Group's total revenue. Contributions from the men's and women's casual footwear segments were 19.9% and 27.0% of the Group's overall revenue respectively, while the contribution from the men's fashion footwear segment was 10.6%.

Streamlining of Retail Business for the Long Haul

Our retail business encountered a number of short-term challenges this year, in particular from weakening consumer confidence caused by slowing economic growth in China. These conditions presented a rationale to carry out a restructuring of the retail business, including inventory control and store network optimisation, in order to position the business for long-term success.

Revenue from the retail business grew by 8.1% to US\$60.0 million in the first half of the year, compared to US\$55.5 million in the first half of 2012. Same store sales (for China stores only) fell by 0.6% in the first half of the year to US\$46.0 million. Gross profit for the retail business was US\$40.4 million in the first half of the year, up 4.4% from the same period of last year.

Prudent Financial Management, Positioning for the Future

Gross profit across all business segments for the six months under review fell by 2.8% to US\$164.7 million, compared to US\$169.5 million in the first half of last year. This was primarily attributable to a combination of unseasonable weather, higher labour costs, inefficiencies arising from the relocation of manufacturing capacity and the weak global economy.

Geographically, North America and Europe remain our two largest markets, accounting for 47.1% and 25.9% of the Group's total revenue in the first half of the year respectively. This was followed by the PRC (including Hong Kong) accounting for 19.2%, Asia (other than the PRC) accounting for 5.3% and other geographic regions which accounted for 2.5%.

Business Review

Keeping our Customers at the Centre of our Business for Long-term Reward

Our strong long-term relationships with customers are our biggest asset. These relationships have been earned as customers recognise Stella's commitment to quality, strong research and development capabilities and ability to cater for small-batch and customised production – allowing us to attract more and more high-profile and niche clients each year.

Our long-term success is also underpinned by our readiness to work together with our clients to overcome any challenges they are facing. This remained especially true in the first half of 2013, as many customers struggled to manage inventory and seasonal mismatches caused by one of the coldest springs on record in the United States and Europe. This willingness to share some pain in the short-term will continue to reinforce our valuable long-term relationships with customers.

Continued Initiatives to Diversify and Develop Production Base

We experienced some short-term inefficiencies resulting from the relocation of manufacturing capacity to our new inland China and Indonesia production facilities during the period under review, as we continued to adjust to long-term challenges such as rising labour costs.

However, the continued ramp-up of capacity at our new production facilities also supported a gradual rise of shipment volumes during the first half of the year – leaving us well positioned for an eventual recovery of demand.

Growing Client Base

The challenging operational environment facing the footwear industry saw us attract more niche brands as clients in the first half of 2013, helping us to achieve a better balance through diversification. As of 30 June 2013, the Group's top five customers accounted for 56.1% of the Group's total revenue, compared to 55.0% during the same period of last year.

Priming Retail for the Future

Our retail business felt the effects of weakening consumer sentiment in China during the first half of the year, in the face of the widely reported credit-crunch and the Central Government's downward revision of economic growth targets.

To position the retail business for the long-term, we have been gradually consolidating our store network, closing some stores in sub-optimal locations including selected department stores, in favour of standalone stores at quality locations.

During the period under review, we closed a net 4 *Stella Luna* stores and 18 *What For* stores in China.

The following table shows the geographic distribution of our stores by brands as of 30 June 2013:

| | <i>Stella Luna</i> | <i>What For</i> | <i>JKJY by Stella</i> | <i>Pierre Balmain</i> |
|-----------------------------|--------------------|-----------------|---------------------------|---------------------------|
| Greater China | | | | |
| Eastern China | 47 | 28 | 5 | 2 |
| Southern China | 35 | 30 | 2 | – |
| Northern China | 37 | 38 | 2 | – |
| North-East China | 31 | 26 | 1 | – |
| South-West China | 39 | 30 | – | – |
| Central China | 18 | 14 | – | – |
| Taiwan | 3 | – | – | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Sub-total | 210 | 166 | 10 | 2 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Thailand | | | | |
| Bangkok | 6 | 6 | – | – |
| Nonthaburi | – | 1 | – | – |
| Phuket | 1 | – | – | – |
| Samuth Prakarn | 1 | 1 | – | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Sub-total | 8 | 8 | – | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| France | 1 | – | – | – |
| Philippines | 4 | 1 | 1 | – |
| Lebanon | 9 | 9 | – | – |
| United Arab Emirates | 2 | 1 | – | – |
| Kuwait | 2 | 2 | – | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | <u>236</u> | <u>187</u> | <u>11</u> | <u>2</u> |

Growing Domestic and International Profile of Retail Brands

Our flagship brand, *Stella Luna*, has steadily built an international profile since the opening of our first European store in Paris in late 2012, having featured in a number of international media. Being a pioneer in China's 'affordable luxury' space, *Stella Luna* targets the high-end footwear and leather goods markets, with prices ranging from RMB1,200 to RMB6,000 per pair.

Closer to home, our first male-focused retail brand, *JKJY by Stella*, has continued to steadily grow its profile in China since its introduction in 2012, supported by its eye-catching and memorable flagship stores. *JKJY by Stella* offers a unique crossover of fashion and sports footwear, retailing for between RMB2,000 to RMB4,000 per pair.

What For, which targets the contemporary and lifestyle-focused woman, continued to maintain a good domestic following, retailing for between RMB800 to RMB2,800 per pair.

We continued to invest and grow the Pierre Balmain joint venture during the period under review.

Business Outlook

Continuing Impact of Unseasonal Weather

We expect the order pipeline for our footwear products in the second half of 2013 to be further impacted by unseasonal weather in Europe and the United States, as customers adopt a more cautious approach to inventory. While we expect the effect to be temporary, we continue to closely monitor seasonal conditions in our major export markets.

Potential risks for the rest of the year include a continuation of seasonal mismatches affecting future customer orders, especially amidst signs of a warmer than normal summer in the United States and Europe. Labour costs and availability also remain challenges.

We expect the cost of raw materials will be stable in the second half of 2013. Labour costs will be higher compared to the same period of last year following the inflation of the minimum wage during the first half of 2013. We will continue to evaluate the effects of any new industrial and economic policies introduced by the Chinese government that may provoke RMB inflation or affect the price of input costs.

Strengthening Quality, Productivity and Cost Control

In order to partially mitigate the impact of demand fluctuation, we will continue to implement strict cost-controls and measures to increase productivity in order to maintain margins and profitability.

We will also continue to assess ways to optimise and expand our product mix to include new product types such as leather goods. The Group has recently hired a team of industry experts to guide our newly set-up leather goods division, as well as to further boost our manufacturing capability and the quality of our footwear products.

Introducing What For to the World

With our *Stella Luna* store in Paris generating significant buzz, we plan to open our first *What For* store in Paris before the end of the year to introduce the world to another quality brand under our retail portfolio. The opening of the Paris store will also prelude the re-launch of *What For* in the second half of the year.

Closer to home, we will continue to prudently refine and optimise our store network, as well as inventory mix, throughout the rest of 2013 in order to set a solid foundation for future growth and success.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2013, the Group had cash and cash equivalents of about US\$198.5 million (31 December 2012: US\$303.6 million).

As at 30 June 2013, the Group had current assets of about US\$841.5 million (31 December 2012: US\$857.4 million) and current liabilities of about US\$289.2 million (31 December 2012: US\$242.2 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.9 as at 30 June 2013 which indicated the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US\$30 million as at 30 June 2013 (31 December 2012: nil).

Foreign Exchange Exposure

During the six months ended 30 June 2013, 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 and RMB. Currency exposures were mostly 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 period under review.

Capital Expenditure

During the period under review, the Group's total capital expenditure amounted to approximately US\$32.5 million (for the six months ended 30 June 2012: US\$34.6 million), of which approximately US\$30.1 million was used in the production capacity expansion and approximately US\$2.4 million was used for the optimisation of our retail store network.

Pledge of Assets

As at 30 June 2013, the Group had not pledged any of its assets (31 December 2012: Nil).

Contingent Liabilities

As at 30 June 2013, the Group had no material contingent liabilities (31 December 2012: Nil).

Employees

As at 30 June 2013, the Group had approximately 81,000 employees (31 December 2012: approximately 77,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets to the Group's development and expansion. We actively seek to attract, train and retain individuals who are proactive, positive, committed to and passionate about our 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 caliber employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures.

As of 30 June 2013, our recruitment efforts remain satisfactory, despite the labour shortages in our primary manufacturing locations in China.

Corporate Social Responsibility

We remain committed to maintaining our Triple Bottom Line of 'People, Profit and Planet' – a promise that is becoming more and more significant as we expand our manufacturing operations to less-developed economies in South-East Asia.

When it comes to workplace safety, we believe there is no finishing line. Our manufacturing operations continue to meet international Environment Safety Health (ESH) guidelines and we are constantly introducing new initiatives to improve work safety standards, reduce workplace accidents and improve overall safety consciousness. Our commitment to this issue is unequivocal.

We also continue to work together with our brand partners, as well as internally across our businesses, on programs designed to raise environmental awareness. We have also continued to introduce and promote both existing and new programs to reduce carbon emissions and energy usage at our manufacturing facilities and retail stores.

REVIEW OF ACCOUNTS BY AUDIT COMMITTEE

The audit committee of the Board has reviewed the interim results of the Group for the six months ended 30 June 2013.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2013. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 3 September 2013. It is expected that the interim dividend will be paid on or about 30 September 2013. In order to qualify for the interim dividend for the six months ended 30 June 2013, 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 3 September 2013.

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 Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2013, except for code provisions B.1.5 and E.1.2 of the CG Code, details of which are disclosed below:

For code provision B.1.5 of the CG Code, the Company had not disclosed the details of remuneration payable to members of senior management by band in the annual report of 2012 for observing competitive market practices and respecting individual privacy.

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (the “Chairman”) of the Board, had not attended the annual general meeting of the Company held on 10 May 2013 (the “2013 AGM”). Instead, Mr. Shih Takuen, Daniel, the then deputy chairman (the “Deputy Chairman”) of the Board, took the chair at the 2013 AGM, and the chairman or member of each of the audit, corporate governance, remuneration and nomination committees attended the 2013 AGM to answer Shareholders’ questions. The reason for such arrangement was that the Board had allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, was mainly responsible for managing major customers’ relationship and overseeing strategies of the Group, while the then Deputy Chairman, Mr. Shih Takuen, Daniel, was responsible for providing leadership and management to the Board and handling matters relating to investor relations and communication with the 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.

Subsequent to the balance sheet date, Mr. Shih Takuen, Daniel resigned as an executive Director and ceased to be the Deputy Chairman with effect from 13 August 2013 and Mr. Chao Ming-Cheng, Eric, an executive Director, was appointed as the Deputy Chairman on the same day. Please refer to the announcement of the Company dated 13 August 2013 for further information on the changes in Board and Board committee appointments.

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 “Model Code”)

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 2013, except that Mr. Shih Takuen, Daniel, a former executive Director, had sold 408,000 shares of the Company on 25 June 2013 without first notifying in writing to any of the chairman of the Board or Mr. Chen Li-Ming,

Lawrence (being the Director designated by the Board for the purpose of the Model Code) and obtaining a dated written acknowledgement prior to such dealing in shares of the Company, thereby breaching Rule B.8 of the Model Code.

The Company will reiterate and remind the Directors from time to time the relevant rules and requirements in relation to Directors' dealing in securities to ensure the compliance of the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had 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, 15 August 2013

As at the date of this announcement, the executive Directors are Mr. Chiang Jeh-Chung, Jack, 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.