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 2015

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited ("Stella" or 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 2015, together with the comparative figures for the corresponding period in 2014 as follows:–

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Notes	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**798,052**	722,612
Cost of sales		**(636,134)**	(567,993)
Gross profit		**161,918**	154,619
Other income		**11,060**	8,549
Other gains and losses		**411**	(2,181)
Distribution and selling costs		**(44,186)**	(41,383)
Administrative expenses		**(44,743)**	(38,882)
Research and development costs		**(27,074)**	(24,270)
Share of profit of associates		**63**	32
Interest on bank borrowings wholly repayable within 5 years		**(114)**	(86)
Profit before tax		**57,335**	56,398
Income tax expense	*4*	**(3,898)**	(4,020)

* *For identification purpose only*

	Notes	Six months ended 30 June **2015** ***US$'000*** **(Unaudited)**	2014 *US$'000* (Unaudited)
Profit for the period	*5*	**53,437**	52,378
Other comprehensive expense			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**(246)**	(1,893)
Total comprehensive income for the period		**53,191**	50,485
Profit (loss) for the period attributable to:			
Owners of the Company		**54,018**	52,582
Non-controlling interests		**(581)**	(204)
		53,437	52,378
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**53,744**	50,701
Non-controlling interests		**(553)**	(216)
		53,191	50,485
Earnings per share	*7*		
– Basic and diluted (US$)		**0.0682**	0.0663

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	30 June 2015 US$'000 (Unaudited)	31 December 2014 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**376,114**	356,556
Prepaid lease payments		**19,636**	20,201
Interest in associates		**7,619**	7,556
Deposit paid for acquisition of property, plant and equipment	8	**9,221**	9,325
		412,590	393,638
CURRENT ASSETS			
Inventories		**285,562**	215,688
Trade and other receivables	9	**440,274**	363,378
Bills receivables	9	**4,156**	1,833
Prepaid lease payments		**622**	624
Amounts due from associates	10	**48,867**	36,840
Held for trading investments		**44,111**	42,876
Derivative financial instrument		**18**	–
Cash and cash equivalents		**96,984**	131,601
		920,594	792,840
CURRENT LIABILITIES			
Trade and other payables	11	**189,726**	176,626
Bank borrowings	12	**138,937**	–
Tax liabilities		**54,978**	56,775
Derivative financial instruments		**–**	368
		383,641	233,769
NET CURRENT ASSETS		**536,953**	559,071
		949,543	952,709
CAPITAL AND RESERVES			
Share capital	13	**10,160**	10,160
Share premium and reserves		**939,077**	941,693
Equity attributable to owners of the Company		**949,237**	951,853
Non-controlling interests		**306**	856
		949,543	952,709

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Capital reserve US$'000	Exchange reserve US$'000	Shares held for long term incentive scheme US$'000	Capital redemption reserves US$'000	Share award reserve US$'000	Accumulated profits US$'000	Subtotal US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2014 (audited)	10,160	154,503	45,427	1,146	548	(2,722)	190	1,450	722,093	932,795	755	933,550
Profit (loss) for the period	–	–	–	–	–	–	–	–	52,582	52,582	(204)	52,378
Other comprehensive expense for the period	–	–	–	–	(1,881)	–	–	–	–	(1,881)	(12)	(1,893)
Total comprehensive (expense) income for the period	–	–	–	–	(1,881)	–	–	–	52,582	50,701	(216)	50,485
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	589	589
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(66,609)	(66,609)	–	(66,609)
At 30 June 2014 (unaudited)	10,160	154,503	45,427	1,146	(1,333)	(2,722)	190	1,450	708,066	916,887	1,128	918,015
Profit (loss) for the period	–	–	–	–	–	–	–	–	68,119	68,119	(252)	67,867
Other comprehensive expense for the period	–	–	–	–	(2,458)	–	–	–	–	(2,458)	(28)	(2,486)
Total comprehensive (expense) income for the period	–	–	–	–	(2,458)	–	–	–	68,119	65,661	(280)	65,381
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	8	8
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(30,695)	(30,695)	–	(30,695)
At 31 December 2014 (audited)	10,160	154,503	45,427	1,146	(3,791)	(2,722)	190	1,450	745,490	951,853	856	952,709
Profit (loss) for the period	–	–	–	–	–	–	–	–	54,018	54,018	(581)	53,437
Other comprehensive (expense) income for the period	–	–	–	–	(274)	–	–	–	–	(274)	28	(246)
Total comprehensive (expense) income for the period	–	–	–	–	(274)	–	–	–	54,018	53,744	(553)	53,191
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	3	3
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(56,360)	(56,360)	–	(56,360)
At 30 June 2015 (unaudited)	10,160	154,503	45,427	1,146	(4,065)	(2,722)	190	1,450	743,148	949,237	306	949,543

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES:		
Increase in investments held for trading	**(1,684)**	(12,913)
Increase in trade and other receivables	**(79,219)**	(89,399)
Other operating cash flows	**4,178**	(5,299)
	(76,725)	(107,611)
NET CASH USED IN INVESTING ACTIVITIES:		
Deposit paid for property, plant and equipment	**(110)**	(1,831)
Purchase of property, plant and equipment	**(42,549)**	(46,309)
Other investing cash flows	**2,279**	2,152
	(40,380)	(45,988)
NET CASH FROM FINANCING ACTIVITIES:		
New bank loans raised	**138,937**	108,011
Capital injection from non-controlling interest	**3**	589
Dividend paid	**(56,360)**	(66,609)
	82,580	41,991
Net decrease in cash and cash equivalents	**(34,525)**	(111,608)
Cash and cash equivalents at the beginning of the period	**131,601**	248,705
Effect of foreign exchange rate changes	**(92)**	(320)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**96,984**	136,777

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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 ("HKICPA") 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.

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, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") issued by the HKICPA:

Amendments to HKAS 19	Defined benefits plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported 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 2015

	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
Revenue						
External sales	**266,511**	**487,311**	**44,230**	**798,052**	**–**	**798,052**
Inter-segment sales	**412**	**8,915**	**–**	**9,327**	**(9,327)**	**–**
Total	**266,923**	**496,226**	**44,230**	**807,379**	**(9,327)**	**798,052**
Inter-segment sales are charged at prevailing market rates						
Results						
– Segment results	**43,103**	**73,391**	**(300)**	**116,194**	**–**	**116,194**
Unallocated income						
– Interest income on bank balances						**375**
– Rental income						**664**
– Sale of scrap						**559**
– Others						**6,654**
Unallocated expenses						
– Research and development costs						**(27,074)**
– Central administration costs						**(40,397)**
Other gains and losses						**411**
Interest expense						**(114)**
Share of profit of associates						**63**
Profit before tax						**57,335**

3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2014

	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*
Revenue						
External sales	236,385	433,049	53,178	722,612	–	722,612
Inter-segment sales	309	10,429	–	10,738	(10,738)	–
Total	236,694	443,478	53,178	733,350	(10,738)	722,612
Inter-segment sales are charged at prevailing market rates						
Results						
– Segment profit	32,784	74,242	332	107,358	–	107,358
Unallocated income						
– Interest income on bank balances						971
– Rental income						648
– Sale of scrap						1,303
– Others						5,246
Unallocated expenses						
– Research and development costs						(24,270)
– Central administration costs						(32,623)
Other gains and losses						(2,181)
Interest expense						(86)
Share of profit of associates						32
Profit before tax						56,398

Segment profit represents profit attributable to each segment without allocation of interest income on bank balances, rental income, sale of scrap, research and development costs, central administration costs, other gains and losses, interest expense and share of profit of associates. 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	
	2015	2014
	US$'000	*US$'000*
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")		
Current Tax	**7,377**	3,983
Over provision in prior year	**(3,493)**	–
	3,884	3,983
Other jurisdictions	**14**	37
	3,898	4,020

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, Stella International Trading (Macao Commercial Offshore) Limited (formerly known as Bestsource Technology (Macao Commercial Offshore) Limited), which was acquired in 2011, is exempted from Macao Complementary Tax.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
Write-down of inventories (included in costs of sales)	**3,461**	167
Depreciation of property, plant and equipment	**19,644**	18,731
Release of prepaid lease payments	**311**	304
Net fair value gain on held for trading investments (included in other gains and losses)	**(449)**	(269)
Interest income on bank balances	**(375)**	(971)
Net fair value (gain) loss on derivative financial instruments (included in other gains and losses)	**(368)**	1,265

6. DIVIDENDS

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
Final dividend declared and paid for 2014 – HK55 cents (2013: HK55 cents) per share and special dividend declared and paid for 2013 – HK10 cents (2014: nil)	**56,360**	66,609
Interim dividend declared subsequent to period end – HK30 cents (2014: HK30 cents) per share	**30,748**	30,695
	87,108	97,304

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2015 of HK30 cents (2014: 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 2 October 2015.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2015	2014
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**54,018**	52,582

	Six months ended 30 June	
	2015	2014
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**792,602**	792,602

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 *(see note 15)*.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately US$42,779,000 (2014: US$52,629,000) for business expansion.

In addition, during the current interim period, the Group paid approximately US$110,000 (2014: US$1,831,000) in deposits for acquisition of property, plant and equipment in order to expand its manufacturing capacities in the PRC.

9. TRADE, BILLS 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 and bills receivables by age, presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30 June 2015 *US$'000* **(Unaudited)**	31 December 2014 *US$'000* (Audited)
Trade and bills receivables:		
0 – 30 days	**216,877**	148,038
31 – 60 days	**96,068**	60,150
61 – 90 days	**16,044**	17,673
Over 90 days	**7,668**	24,753
	336,657	250,614
Other receivables	**107,773**	114,597
	444,430	365,211

Other receivables include prepayment to suppliers of US$56,514,000 (2014: US$44,683,000).

Movement in the allowance for doubtful debts

	30 June 2015 *US$'000* **(Unaudited)**	31 December 2014 *US$'000* (Audited)
Balance at beginning of the period/year	**2,636**	–
Recognition of impairment loss on trade receivables	**–**	2,636
Balance at end of the period/year	**2,636**	2,636

10. AMOUNTS DUE FROM ASSOCIATES

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

11. TRADE AND OTHER PAYABLES

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

	30 June 2015	31 December 2014
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Trade payables:		
0 – 30 days	**72,118**	60,865
31 – 60 days	**13,974**	6,561
Over 60 days	**33,116**	24,374
	119,208	91,800
Other payables	**70,518**	84,826
	189,726	176,626

12. BANK BORROWINGS

During the six months ended 30 June 2015, the Group obtained new bank loans denominated in United States dollars amounting to US$138,937,000 (2014: Nil). The loans are repayable within one year and carry interest at fixed rates ranging from 0.95% to 1.45% per annum. The proceeds were mainly used for general working capital purposes.

13. SHARE CAPITAL

	Number of shares	Nominal value
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
As at 1 January 2014, 30 June 2014, 1 January 2015 and 30 June 2015	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2014, 30 June 2014, 1 January 2015 and 30 June 2015	794,379,500	79,438
Shown in financial statements as		US$10,160,000

14. CAPITAL COMMITMENTS

	30 June 2015	31 December 2014
	US$'000	*US$'000*
Capital expenditure authorised but not contracted for in respect of property, plant and equipment	**31,853**	27,596
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**8,961**	885
	40,814	28,481

15. 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 6 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 19 March 2010, another 1,428,000 shares of the Company were awarded to 125 eligible participants including 6 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.

During the 6 months ended 30 June 2015 and the year ended 31 December 2014, no shares of the Company were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding shares of the Company under the Scheme as at both of the end of reporting periods.

16. 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 assets/ financial liabilities		Fair value as at 30 June 2015	Fair value as at 31 December 2014	Fair value Hierarchy	Valuation technique(s) and key input(s)
1)	Held-for-trading non-derivative financial assets classified as held for trading investments in the consolidated statement of financial position	Listed bonds in Hong Kong – US$26,927,000; Listed bonds and funds in elsewhere – US$17,184,000	Listed bonds in Hong Kong – US$22,719,000 Listed bonds and funds in elsewhere – US$20,157,000	Level 1	Quoted bid prices in an active market
2)	Foreign currency option contracts classified as derivative financial instruments in the consolidated statement of financial position	Asset – US$18,000	Liabilities – US$348,000	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
3)	Foreign currency forward contracts classified as derivative financial instruments in the consolidated statement of financial position	Nil	Liabilities – US$20,000	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

Fair value measurements and valuation process

The board of directors of the Company has closely monitored and determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

17. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Transactions	Six months ended 30 June 2015 US$'000	2014 US$'000
辛集市寶得福皮業有限公司 (Xinji Baodefu Leather Co. Ltd.) *(Note)*	Purchase of footwear products	**38,527**	45,254
Couture Accessories Limited *(Note)*	Purchase of footwear products	**599**	594
	Sales of footwear products	**254**	296

Note: Associates 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 2015 US$'000	2014 US$'000
Short-term benefits	**374**	374

The remuneration of directors and key executives is determined with reference to the financial performance of the Group and are first reviewed by the remuneration committee of the Board and then approved by the Board.

CHAIRMAN'S STATEMENT

The first half of 2015 was a busy time for Stella. Sustained economic growth in the United States and stabilising economic conditions in Europe – our two primary export markets – boosted our shipments and revenue, as our customers continued to restock and expand their operations.

However, the recent sharp correction of the Mainland stock markets and the ongoing Greek debt crisis shows that growth can often be fragile. It is our underlying strengths, such as our commitment to quality and craftsmanship, which will ultimately safeguard the future of our business.

It is in this area where we have made much progress in the past six months. Our new manufacturing facilities in inland China and South-East Asia have now reached a stage where they can take on the more complex and value-adding processes that are so favoured by our high-end and luxury customers – features that few other footwear OEM manufacturers in Asia can deliver. This has enabled us to ramp-up capacity across the board and meet demand from more and more footwear brands looking to outsource their production.

We expect this continued demand to translate into more orders and a greater utilisation of capacity in the second half of this year.

We are, however, mindful of continuing macroeconomic risks that are still present, particularly stubbornly low inflation in our main export markets and the impact this may have on consumer sentiment in the short to medium term. This effect could be exacerbated by the 'normalisation' of interest rates promised by the U.S. Federal Reserve towards the end of 2015.

The other lingering concern is China, where consumer sentiment continues to be constrained by slowing economic growth and the volatile domestic stock and property markets. This will continue to impact the performance of our retail business. However, we are starting to see some bright spots as the impact of our ongoing store optimisation strategy starts to be felt.

'Quality' remains the key word for describing our plans for the rest of the year. On the retail side, we are tentatively adding more standalone stores and shop-in-shops in quality locations, such as new shopping malls with high traffic and retail potential. For our manufacturing business, our focus remains on investing in our people and further improving training and our manufacturing processes in order to increase efficiency and capacity utilisation. This will help us maintain and grow our global market share, ensuring that we will continue to "make the best shoes" well into the future.

As we move forward into the second half of the year, I want to give thanks to all those who continue to support our business. Stella would not exist without our valued shareholders, business partners, and most importantly, our customers. To these stakeholders, I express my sincere gratitude. I would also like to thank my colleagues on the Board and the Group's employees for their dedicated service, hard work and contribution.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Model and Strategy

Stella is a leading developer, manufacturer and retailer of quality footwear and leather goods products. Our manufacturing business was founded in 1982 with a simple mission of "making the best shoes". We provide a one-stop-shop for the design, development and manufacturing of premium and luxury footwear and leather goods.

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 customer base from premium to high-end, and from fashion to 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 by Stella* – and a joint-venture brand *Pierre Balmain*. Our network of retail stores is primarily focused in Mainland China, with additional stores in France, the Philippines, Thailand, Taiwan, Kuwait, Lebanon and the United Arab Emirates.

Financial Highlights

Restocking and Expansions by Brand Customers Support Earnings

A number of our U.S.-based customers ramped up orders for our footwear products during the six months ended 30 June 2015 as they expand their brands overseas. At the same time, many of our European customers have been restocking their depleted inventories. Both of these trends contributed to our improved financial performance during the period under review.

Our consolidated revenue for the six months ended 30 June 2015 rose 10.4% to US$798.0 million, compared to US$722.6 million in the first half of 2014. Shipment volumes rose 12.2% to 26.6 million pairs, compared to 23.7 million pairs in the corresponding period of last year. The average selling price ("ASP") of our footwear products rose slightly to US$28.6 per pair, compared to US$28.4 per pair, as falling raw material prices (particularly for leather) restricted unit price growth.

Women's fashion footwear continued to be the biggest contributor to overall revenue, at around 35.1% of total revenue. The contribution from the women's and men's casual footwear segments to the Group's overall revenue was 26.0% and 23.0% respectively, while the men's fashion footwear segment contributed around 10.4% of overall revenue.

Geographically, North America and Europe remained our two largest markets, accounting for 50.1% and 27.5% of the Group's total revenue respectively in the six months under review. This was followed by the PRC (including Hong Kong) accounting for 13.8%, Asia (other than the PRC) accounting for 5.5% and other geographic regions, which accounted for 3.1%.

Stabilising Retail Business

Most parts of our retail business performed better during the six months under review as we continued to implement our retail optimisation strategy. This included moving much of our off-season merchandise sales to online platforms, as well as the selective opening of new standalone stores in high potential shopping mall locations.

Retail revenue declined 14.8% to US$44.2 million, compared to retail revenue of US$51.9 million in the six months ended 30 June 2014. Same-store sales (in China only) fell 15.6% to US$32.9 million during the period under review, compared to US$39.0 million during the corresponding period of last year. However, around 5-6% of the decline in same-store sales was attributable to the shift of off-season merchandise sales from department stores to online platforms. The fall in retail revenue was mostly attributable to the slowing Chinese economy and weak consumer sentiment.

Stable Profitability Ahead of Further Pick-up in Second Half of 2015

Gross profit across all of our business segments rose 4.7% to US$161.9 million in the six months under review compared to US$154.6 million in the corresponding period of last year. Net profit for the period was US$54.0 million, up 2.7% compared to the same period last year.

Business Review

Expanding Global Market Share and New Customers

We continued to grow our share in the high-end and premium footwear markets as rising costs and aging workforces led more footwear brands to outsource production. We also picked up a number of new brand customers during the period, while some other customers expanded the scope of their existing relationship with us.

Over many years we have built an unparalleled reputation for quality, flexibility and research and development capability, which has enabled us to attract a higher ASP than the industry average. We are also one of the world's leading developers and manufacturers of 'sports fashion' footwear, an emerging and increasingly popular category of footwear. Our global competitiveness will be further strengthened by the future ratification of the Trans-Pacific Partnership, which will greatly reduce entry barriers to the U.S. market, particularly for our footwear products made in Vietnam.

Higher Capacity Utilisation Driving Volume Growth

Improving quality and efficiency standards at our manufacturing facilities in inland China and South-East Asia saw us increase the utilisation of our capacity at these locations during the period under review. This is a result of our ongoing strategy to diversify and optimise our manufacturing base away from coastal China in order to better control labour costs and labour supply.

In addition to our traditional manufacturing base in Dongguan, China, we now operate facilities in Hunan, Guangxi and Hebei provinces of China, as well as Vietnam, Indonesia and Bangladesh. We have also recently established footholds in Myanmar and the Philippines, where we plan to add further manufacturing capacity.

We expect that our utilisation rate and overall capacity will continue to grow as our inland China and South-East Asian facilities gain the ability to manage more complex and technical processes and produce more pairs per hour. This will enable us to start working for more brand customers and accept more orders from existing customers without compromising on the quality that Stella is famous for.

Exploring and Adding New Value-adding Products

We have continued to expand our offering of fashion sneakers – a fashionable take on the traditional comfort of sports shoes. We are also continuing to explore the manufacture of quality leather goods and fashion accessories, such as handbags, in order to cater for the increasing number of brands looking to outsource the manufacturing of these products.

This is part of our long-term plan to become a total solution provider to high-end and premium brands.

Our exploration and expansion into both of these areas was underpinned by our continued investment in our research and development centres in Dongguan, China and Venice, Italy. This capability separates us from other OEM manufacturers, allowing us to develop an ever-widening range of quality, value-adding footwear products.

Continued Implementation of New Retail Strategy

Slowing economic growth and weakening consumer sentiment in China continued to hamper our retail business and are likely to remain present in the short to medium term. We have implemented a number of strategies to offset these challenges, including changing parts of our merchandising and operational strategy, ramping up our presence on online platforms and closing some underperforming counters at department stores.

One of the biggest changes we are implementing is shifting the retail of off-season merchandise from department stores to our new official online stores located on Chinese online platforms such as TMall. This will enable us to clear our inventories in a more cost-efficient manner.

At a store-network level, we are continuing to focus on improving the positioning of our standalone stores and shop-in-shops. We are also cautiously opening up new stores at quality locations where conditions are favourable. We are also expanding the number of points of sale for our retail products in Europe in order to increase the value of our brands.

As of 30 June 2015, our *Stella Luna* footwear was priced between RMB1,700 and RMB6,000 per pair in China, while our *What For* and *JKJY by Stella* products retailed between RMB1,100 and RMB2,800 per pair and between RMB1,400 and RMB4,800 per pair respectively.

The following table shows the geographic distribution of our stores, by brand, as of 30 June 2015.

	Stella Luna	*What For*	*JKJY by Stella*	*Pierre Balmain*
Greater China				
Eastern China	45	7	0	0
Southern China	27	12	0	0
Northern China	36	24	2	1
North-East China	22	7	0	0
South-West China	33	12	3	1
Central China	16	7	0	0
Taiwan	3	1	2	0
Subtotal	182	70	7	2
France	7	24	1	0
Philippines	2	1	0	0
Thailand	6	3	1	0
Kuwait	2	2	0	0
Lebanon	9	9	0	0
United Arab Emirates	4	1	0	0
Total	212	110	9	2

Business Outlook

Continued Pick-up in Orders in Second Half of 2015

We expect to see a further pick up in orders in the second half of 2015 as our brand customers continue to restock and expand. This is despite some customers adopting a more cautious approach to orders as they consider the impact of a possible interest rate hike by the U.S. Federal Reserve and persistent low inflation in the developed countries.

In addition to higher demand, orders in the second half of 2015 will also be supported by better efficiency and improved utilisation at our manufacturing facilities in inland China and South-East Asia.

Potential risks for the second half of the year include an over-reaction to an interest rate rise in the U.S., the effect of a possible Greek exit from the Eurozone and a further drop in consumer sentiment in China in response to the recent correction of the Shanghai and Shenzhen stock markets. Labour costs and supply also remain key challenges for the Group.

Focus on Upgrading Manufacturing Processes and Cost Controls

We will continue to ramp-up production at our inland China and South-East Asian manufacturing facilities as the capabilities of our workforce there meet more of our technical and quality standards. We remain on track towards achieving a targeted expansion of manufacturing capacity by the end of the year. We will also continue to explore potential facilities in Myanmar and the Philippines that may allow us to maintain and expand lower-cost capacity in the future.

We will also continue to strictly uphold current cost control and efficiency measures at all of our facilities in order to safeguard margins and meet the short lead times expected by many of our customers. We will continue to focus on improving the quality of our products and developing our competitive strengths in emerging product segments, including sports fashion footwear and leather goods and accessories.

Ongoing Investment in Retail Business

We remain committed to building a competitive retail business that can be profitable in the long-term. We expect to modestly increase our store network on a net basis in the second half of the year as we open new standalone stores and shop-in-shops in high potential locations, while closing underperforming stores.

We will continue to invest in opening more points-of-sales in Europe and in other initiatives to grow the value of our brands in the eyes of China's upwardly mobile consumers.

Returning More Value to Investors

We expect that our capital expenditure will continue to decline in the second half of the year, as our inland China and South-East Asian facilities reach full operation. This will enable us to return more capital to shareholders, with a dividend payout ratio of around 70%.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2015, the Group had cash and cash equivalents of about US$141.1 million (31 December 2014: US$174.5 million).

As at 30 June 2015, the Group had current assets of about US$920.6 million (31 December 2014: US$792.8 million) and current liabilities of about US$383.6 million (31 December 2014: US$233.8 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 2.4 as at 30 June 2015, an indication of the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$139.0 million as at 30 June 2015 (31 December 2014: nil).

Foreign Exchange Exposure

During the six months ended 30 June 2015, 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

Net cash outflows from investing activities was US$42.1 million during the period under review (for the six months ended 30 June 2014: US$58.9 million), down 28.5%. This was mostly attributable to lower capital expenditure, which amounted to approximately US$42.7 million during the period (for the six months ended 30 June 2014: US$48.1 million), of which approximately US$39.9 million was used in production capacity expansion and approximately US$2.8 million was used for the optimisation of our retail store network.

Pledge of Assets

As at 30 June 2015, the Group had not pledged any of its assets (31 December 2014: Nil).

Contingent Liabilities

As at 30 June 2015, the Group had no material contingent liabilities (31 December 2014: Nil).

Employees

As at 30 June 2015, the Group had approximately 83,000 employees (31 December 2014: approximately 83,000). 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 attain, 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 calibre employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures.

As of 30 June 2015, our recruitment efforts remain satisfactory, despite the labour shortages in our primary manufacturing locations in China.

Corporate Social Responsibility

Stella is committed to becoming an industry leader in the areas of product stewardship, regulatory compliance and environmental preservation, in line with our Triple Bottom Line of 'People, Planet and Profit'. We are dedicated to working in the interests of all our stakeholders, including our workforce, customers, business partners, local community and the environment.

All of our processes are governed by our Code of Conduct, which outlines our goals of using resources responsibly, reducing waste and supporting worker rights and welfare. We also bind our suppliers and business partners to these same goals in order to encourage a leaner, greener and equitable supply chain.

We have also made further progress in achieving our Sustainability Strategy 2014-2017, which involves the development of new manufacturing and operational methods that improve production and energy efficiency, as well as the sustainability of our operations. It also infuses higher CSR and compliance standards into Stella's core values and the mind-set of our people.

We have recently adopted firm key performance indicator (KPI) targets for reducing water usage, solid waste and regular waste, as well as for reducing the production of hazardous waste as part of the Sustainability Strategy. We are also continuing to invest in measures to reduce energy use and carbon emissions as part of the Sustainability Strategy.

Improving workplace health and safety standards is another of Stella's key priorities. We are working to create a culture of empowerment among employees in order to create a collaborative, safe and healthy work environment.

In the coming years, our focus will be on further improving waste management, controlling work hours and achieving excellence in the areas of environment, safety and health (ESH). This will ensure that the future success of our business will not come at the expense of employee welfare and the environment.

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 2015.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2015. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 2 October 2015. It is expected that the interim dividend will be paid on or about 16 October 2015. In order to qualify for the interim dividend for the six months ended 30 June 2015, 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 2 October 2015.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance 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 ("Listing Rules") throughout the six months ended 30 June 2015, 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 2014 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 22 May 2015 (the "2015 AGM"). Instead, Mr. Chen Li-Ming, Lawrence, the chief executive officer of the Group, took the chair at the 2015 AGM (on behalf Mr. Chao Ming-Cheng, Eric, the deputy chairman (the "Deputy Chairman") of the Board), and the chairman or member of the audit committee, corporate governance committee, remuneration committee and nomination committee attended the 2015 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 Deputy Chairman, Mr. Chao Ming-Cheng, Eric, was responsible for providing leadership and management to the Board. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Governance Model

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

Model Code for Securities Transactions by Directors (the "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 2015.

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, 28 August 2015

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, BBS and Mr. Yue Chao-Tang, Thomas.