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CHAIRMAN'S STATEMENT

Dear Shareholders,

The first half of 2012 was another challenging period for the global economy. The European sovereign debt crisis, now in its third year, has moved to a more worrying stage, with policymakers bowing to inevitable sovereign and banking bailouts for Greece and Spain while seemingly no closer to a lasting solution. Meanwhile, the United States, the world's other major importer, continues to languish under high unemployment and weak economic growth.

Yet Stella has been able to rise to the challenge. The first half of the year saw the Group pull in a solid profit as we continued to attract demand for our value-adding footwear products and preside over a growing, and increasingly diverse, retail business. This enabled us to overcome a dip in shipment volumes as a result of temporary capacity restraints and a weakening global economy.

The key to our resilience has been our fundamental belief in building strong long-term relationships with our customers – whether as an indispensable manufacturer for some of the world's leading footwear brands, or as a retailer of captivating shoes for China's increasingly sophisticated consumers.

Another main contributor is our commitment to quality. We are one of the very few manufacturers that have harnessed the talent and design capability necessary to work as a committed partner of global brands and produce uniquely customised products. This continues to allow us to attract a higher average selling price for our footwear products than our peers.

Our insistence to offer high quality and design-driven products also allows us to preside over a thriving retail business, despite a slight slowdown in retail sales growth in China. The first half of the year saw a further expansion of our retail network, including the official launch of *JKJY*, Stella's new retail brand catering for the men's affordable luxury footwear market. The launch is part of a broader strategy to diversify our retail portfolio, which will allow us to cover more niche markets and further strengthen our retail business.

We ensured our manufacturing business remained competitive by further rationalising our production capacity throughout the first half of the year to stabilise our workforce and costs. Following the closure of one of our trade-processing factories in Dongguan, we are now in the process of ramping-up production in inland-China and South-East Asia.

We also continue to invest in our research and development capabilities, which are focused on our design studios in Dongguan and Italy, to develop new products that will further build our niche as both a high-end, value-adding footwear manufacturer and retailer.

Looking forward, on the manufacturing side, we expect demand to remain stable, particularly for our more high-end products, while we will continue to work with and support our customers which are adversely affected by the global economic slowdown. We also expect our capacity to become more stable in the second half of the year as we overcome existing capacity constraints.

Meanwhile, we expect that demand for our retail products will continue to grow, albeit at a slower pace than in previous periods in the short-term. As a result, we will work to refine our retail network during the second half of the year. This strategy will leave us well positioned to capture the long-term potential of the Chinese retail market.

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

Chiang Jeh-Chung, Jack
Chairman
Hong Kong, 16 August 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the "Board") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2012.

Financial Highlights

Competitive Advantages Support Resilient Performance

The Group stood firm in the face of a worsening global economy in the first half of 2012, as the deepening European debt crisis roiled financial markets and shook consumer confidence around the world.

In the face of these challenges, Stella was well positioned to resist some of these pressures as the result of the prudent rationalisation of our manufacturing operations, strong relationship with customers and increasing recognition of our value-adding high-quality footwear products.

Total revenue rose 1.6% to US$683.1 million in the first six months of the year, compared to US$672.1 million in the first half of last year, as pressure on our manufacturing business was partially offset by the growth of our retail business. However, a combination of slowing global demand and temporary capacity constraints caused by the rationalisation of our production base and the control of overtime labour hours saw shipment volumes fall 11.9% to 22.9 million pairs, compared to 26.0 million pairs in the same period of last year.

The average selling price ("ASP") of our footwear products rose 12.5% year-on-year to US$27.9 during the period, which was mostly attributable to the inflation of input costs, higher recognition of our quality products, as well as on-going improvements in our product mix.

Women's fashion footwear continued to make up the largest segment of our manufacturing business, contributing 36.4% to the Group's total revenue. Contributions from the men's and women's casual footwear segments were 24.1% and 22.5% of overall revenue respectively, while the contribution from the men's fashion footwear segment was 8.5%.

Retail Business Expands to Touch New Market Segments

Our retail business continued to increase its contribution to overall revenue and further diversified its reach within China's affordable luxury market following the opening of our first three *JKJY* men's fashion footwear stores.

Revenue from the retail business grew 28.2% year-on-year to US$55.5 million in the first half of the year, which also saw the expansion of our network of *Stella Luna* and *What For* stores. Same store sales (for China stores only) grew at a slower pace during the period than in previous years, up 8.7% year-on-year reaching US$33.6 million. This is partially due to a high base and ongoing efforts to integrate *What For* with our Italian design studio. Gross profit for the retail business was US$38.7 million in the first half of the year, up 26.5% from the same period of last year.

Solid Financial Performance in a Difficult Operating Environment

Total gross profit across all business segments for the six months under review was US$169.5 million, a 3.0% increase year on year. This growth was mostly attributable to the strong growth of our retail business and value-adding production process.

Geographically, North America and Europe continued to be our two largest markets, accounting for 49.6% and 22.9% of the Group's total revenue in the first half of the year respectively. This was followed by Greater China which accounted for 19.4%, Asia (ex. Greater China) for 6.0%, and other regions for 2.1%.

Business Review

High Position in the Value Chain Protects Margins and Profitability

Stella is one of the few footwear manufacturers that is positioned at the high end of the value chain due to our commitment to quality, strong research and development capabilities, small-batch and customised production, short lead-times and on time delivery.

Our design-led process and unique positioning in the sector also saw us attract a higher ASP than the industry average and attract continuous demand from luxury and niche clients.

Furthermore, our unique design and research and development capability sustains the strong profitability of our retail business. Our two design studios in Dongguan, China and Venice, Italy, are home to a team of exciting and experienced footwear designers, many of whom have worked with Europe's premier luxury fashion labels, providing Stella with the experience and talent to keep in step with, and contribute to, global fashion trends.

Further Rationalisation and Diversification of Production Base

We experienced temporary constraints on our production capacity in the first half of this year following the closure of a trade-processing factory in Dongguan (upon the expiration of the trade-processing contract with the local government) and stricter controls on overtime hours. This was partially responsible for the fall in shipment volumes over the period.

We also continued to implement our long-term plan of gradually shifting labour-intensive operations away from coastal regions to our new low-cost facilities in inland China and South-East Asia. This will allow us to eliminate long-term capacity constraints, secure a stable labour supply and control costs.

The Group expects to close the temporary capacity shortfall in the second half of the year as we ramp up production at our new Guangxi, Hunan and Indonesian facilities.

Two-tier Demand for Products

The global economic slowdown was another contributor to the fall in shipment volumes in the first-half of the year, particularly for casual products. However, demand for our high-end products remained stable as industry consolidation pushes an increasing number of brands to secure and specialised suppliers such as Stella. This saw our manufacturing running at close to full capacity during the first half of the year.

Growing Client Base Keeps Production Close to Full Capacity

The Group continued to attract new clients in the first half of the year, further reducing our reliance on larger customers. As of 30 June 2012, the Group's top five customers accounted for 55.0% of the Group's total revenue, compared to 57.0% during the same period of last year.

Continuous Expansion of Retail Business

Our *Stella Luna* and *What For* retail brands remained at the forefront of the Chinese affordable luxury footwear market during the first half of the year and further expanded points of sales in China and other markets. We also formally opened our first three *JKJY* stores in Beijing and Shanghai in the first half of the year.

Stella Luna targets the high-end fashion footwear and leather goods markets, with prices ranging from RMB1,200 to RMB6,000 per pair. *What For,* our contemporary and lifestyle brand, retails from RMB800 to RMB2,800 per pair. *JKJY*, which crossovers men's fashion and sport footwear retails from RMB2,000 to RMB4,000 per pair.

In the first half of the year, we added a net 12 *Stella Luna* and 14 *What For* stores in China and across the region. The following table shows the geographic distribution of our *Stella Luna*, *What For* and *JKJY* points of sales as of 30 June 2012.

	Stella Luna	*What For*	*JKJY*
Greater China			
Eastern China	44	28	2
Southern China	35	31	–
Northern China	34	43	1
North-East China	31	27	–
South-West China	39	36	–
Central China	20	21	–
Taiwan	3	–	–
Sub-total	206	186	3
Thailand			
Bangkok	8	10	–
Nonthaburi	1	–	–
Chonburi (Pattaya)	1	–	–
Phuket	2	1	–
Sub-total	12	11	–
Philippines	4	1	–
Lebanon	8	8	–
United Arab Emirates	1	1	–
Kuwait	2	2	–
Total	233	209	3

Retail Diversification Strategy

The opening of our first *JKJY* stores this year is the latest component of our strategy to diversify our retail business in order to tap the growing demand for high-end men's footwear products and diversify our retail portfolio to cover more niche markets.

Other facets of this strategy include our joint-ventures with prestigious Paris-based *PIERRE BALMAIN* to retail *PIERRE BALMAIN* footwear and leather goods in China.

We plan to open our first *PIERRE BALMAIN* store in China in the second half of 2012.

Business Outlook

Steady Order Pipeline for Second Half

We expect demand for our customised footwear products to remain steady, even as some clients delay orders due to global economic uncertainty.

The Group will continue to implement strict cost controls in order to maintain margins and profitability. ASP is expected to decrease in the second half of the year, in line with declining input costs. However, this decline will be partially offset by continuous efforts to upgrade our product mix.

Potential risks for the rest of the year include further downturns in world trade as the result of the deteriorating economic situation in Europe and persistent high unemployment in the US. Risks associated with the fluctuation of input costs and RMB inflation are likely to remain lower than in previous years, although we will continue to closely monitor the effect of any stimulus measures introduced by the Chinese government in the second half of the year.

Restoration and Expansion of Manufacturing Capacity

The Group expects to remove current constraints on our production capacity as we increase output and efficiency at our inland China and South-East Asian manufacturing facilities in the second half of the year. This will move us closer to our medium-term goal of rationalising our manufacturing operations into three main hubs: Dongguan as the Group's headquarters, design centre and high-end manufacturing base; inland China for the production of mid-range footwear; and South-East Asia for European shipments.

With wage and input cost inflation likely to remain a long-term challenge, this strategy will enable us to better optimise our manufacturing operations, control costs and secure a stable labour supply.

Enhancement and Diversification of Retail Business

Despite the slowing retail sector in China in the first half of the year, we remain cautiously optimistic about the strong medium-to-long term growth potential of the Chinese footwear market, particularly for mid to upper-tier products. In order to capture these future opportunities, we will prudently refine our retail network in the second half of the year.

We also plan to open our first *Stella Luna* store in Paris in the fourth quarter of the year in order to position Stella's flagship brand on the global stage. We will also continue to prudently consider any opportunities, including joint-ventures, to introduce more brand names to further complement our home-grown brands and enhance Stella's overall revenue mix.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2012, the Group had cash and cash equivalents of about US$205.2 million (31 December 2011: US$316.1 million).

As at 30 June 2012, the Group had current assets of about US$868.7 million (31 December 2011: US$826.0 million) and current liabilities of about US$253.0 million (31 December 2011: US$212.9 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.4 as at 30 June 2012 which indicated the Group's high liquidity and healthy financial position.

Bank Borrowings

The Group had bank borrowings of US$25.0 million as at 30 June 2012 (31 December 2011: Nil).

Foreign Exchange Exposure

During the six months ended 30 June 2012, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars 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$34.6 million (for the six months ended 30 June 2011: US$19.4 million), of which approximately US$33.3 million was used in production capacity expansion and approximately US$1.3 million was used for the expansion of retail store network.

Pledge of Assets

As at 30 June 2012, the Group had not pledged any of its assets (31 December 2011: Nil).

Contingent Liabilities

As at 30 June 2012, the Group had no material contingent liabilities (31 December 2011: Nil).

Employees

As at 30 June 2012, the Group had approximately 76,000 employees (31 December 2011: approximately 70,000). Stella cultivates a caring, sharing and learning culture among our employees and believes that human resources are significant assets to the Group's development and expansion. We actively attract, train and retain individuals who are energetic, committed to and passionate for our business.

We have continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership Program" that was launched in 2010 to identify potential high caliber employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources related measures.

As of 30 June 2012, our recruitment efforts remain satisfactory, despite the labour shortages.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK30 cents per ordinary share for the six months ended 30 June 2012. The interim dividend will be paid to shareholders listed on the register of members of the Company at the close of business on 4 September 2012. It is expected that the interim dividend will be paid on or about 14 September 2012. In order to qualify for the interim dividend for the six months ended 30 June 2012, 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 4 September 2012.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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TO THE BOARD OF DIRECTORS OF STELLA INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 10 to 21, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 August 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 US$'000 (Unaudited)	2011 US$'000 (Unaudited)
Revenue	3	**683,107**	672,099
Cost of sales		**(513,590)**	(507,481)
Gross profit		**169,517**	164,618
Other income		**8,141**	4,978
Other gains and losses		**13,627**	405
Distribution and selling costs		**(60,617)**	(47,261)
Administrative expenses		**(34,350)**	(30,505)
Research and development costs		**(23,395)**	(20,133)
Share of profit (loss) of associates		**281**	(3,576)
Interest on bank borrowings wholly repayable within 5 years		**(49)**	–
Profit before tax		**73,155**	68,526
Income tax expense	4	**(6,632)**	(3,689)
Profit for the period	6	**66,523**	64,837
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operation		**492**	(1,644)
Total comprehensive income for the period		**67,015**	63,193
Profit for the period attributable to:			
Owners of the Company		**66,557**	64,906
Non-controlling interests		**(34)**	(69)
		66,523	64,837
Total comprehensive income for the period attributable to:			
Owners of the Company		**67,049**	63,260
Non-controlling interests		**(34)**	(67)
		67,015	63,193
Earnings per share	8		
– Basic (US$)		**0.0840**	0.0820
– Dilutive (US$)		**0.0840**	0.0819

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	**30 June 2012 US$'000 (Unaudited)**	31 December 2011 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**203,106**	186,603
Prepaid lease payments		**15,635**	13,230
Interest in associates	*5*	**7,457**	15,744
Deposit paid for acquisition of property, plant and equipment	*9*	**19,268**	33,272
		245,466	248,849
CURRENT ASSETS			
Inventories		**220,110**	182,497
Trade and other receivables	*10*	**354,002**	266,732
Prepaid lease payments		**318**	320
Amounts due from associates	*11*	**81,936**	56,348
Derivative financial instruments		**97**	293
Held for trading investments		**54,900**	51,905
Tax recoverable		**6,996**	3,697
Cash and cash equivalents		**150,311**	264,233
		868,670	826,025
CURRENT LIABILITIES			
Trade and other payables	*12*	**191,503**	145,164
Bills payable	*12*	**5**	35,842
Derivative financial instruments		**11**	–
Bank borrowings	*13*	**25,000**	–
Tax liabilities		**36,502**	31,868
		253,021	212,874
NET CURRENT ASSETS		**615,649**	613,151
		861,115	862,000
CAPITAL AND RESERVES			
Share capital	*14*	**10,160**	10,160
Share premium and reserves		**849,634**	852,117
Equity attributable to owners of the Company		**859,794**	862,277
Non-controlling interests		**1,321**	(277)
		861,115	862,000

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	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 2011 (audited)	10,160	154,503	45,427	1,146	(2,726)	(5,056)	190	1,026	597,621	802,291	(84)	802,207
Profit (loss) for the period	–	–	–	–	–	–	–	–	64,906	64,906	(69)	64,837
Exchange differences on translation of foreign operations	–	–	–	–	(1,646)	–	–	–	–	(1,646)	2	(1,644)
Total comprehensive (expense) income for the period	–	–	–	–	(1,646)	–	–	–	64,906	63,260	(67)	63,193
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	569	–	569	–	569
Shares vested under long term incentive scheme	–	–	–	–	–	1,701	–	(390)	(1,311)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(54,227)	(54,227)	–	(54,227)
At 30 June 2011 (unaudited)	10,160	154,503	45,427	1,146	(4,372)	(3,355)	190	1,205	606,989	811,893	(151)	811,742
Profit (loss) for the period	–	–	–	–	–	–	–	–	78,082	78,082	(135)	77,947
Exchange differences on translation of foreign operations	–	–	–	–	2,698	–	–	–	–	2,698	9	2,707
Total comprehensive income (expense) for the period	–	–	–	–	2,698	–	–	–	78,082	80,780	(126)	80,654
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	203	–	203	–	203
Shares vested under long term incentive scheme	–	–	–	–	–	5	–	12	(17)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(30,599)	(30,599)	–	(30,599)
At 31 December 2011 (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 on translation of foreign operations	–	–	–	–	492	–	–	–	–	492	–	492
Total comprehensive income (expense) 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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
	Note	**US$'000**	US$'000
		(Unaudited)	(Unaudited)
Net cash used in operating activities			
Purchase of tax reserve certificates		**(3,299)**	(3,689)
Increase in investments held for trading		**(1,687)**	(17,850)
Other operating cash flows		**(71,778)**	(74,096)
		(76,764)	(95,635)
Net cash generated from (used in) investing activities:			
Net proceeds from disposal of interest in an associate (net of transaction cost)		**19,974**	–
Purchase of property, plant and equipment		**(8,762)**	(11,573)
Acquisition of a subsidiary	*17*	**(4,100)**	–
Deposit paid for property, plant and equipment		**(3,854)**	(25,441)
Prepaid lease payment of land use right		**(1,512)**	(3,187)
Other investing cash flows		**3,632**	2,259
		5,378	(37,942)
Net cash used in financing activities:			
Dividend paid		**(69,611)**	(54,227)
New bank loans raised		**25,000**	–
Capital injection from non-controlling interests		**1,632**	–
		(42,979)	(54,227)
Net decrease in cash and cash equivalents		**(114,365)**	(187,804)
Cash and cash equivalents at the beginning of the period		**264,233**	360,210
Effect of foreign exchange rate changes		**443**	791
Cash and cash equivalents at the end of the period		**150,311**	173,197
Represented by:			
Bank balances and cash		**126,531**	131,996
Deposits placed in financial institutions		**23,780**	41,201
		150,311	173,197

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

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 for as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred tax: Recovery of Underlying Assets

The application of the above amendments to 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 operating and reportable segments for the periods under review:

Six months ended 30 June 2012

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
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	222,611	420,193	55,544	698,348	(15,241)	683,107
Segment profit	31,271	75,610	623	107,504	–	107,504
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						(49)
Profit before tax						73,155

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2011

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
Revenue						
External sales	225,626	403,164	43,309	672,099	–	672,099
Inter-segment sales	–	22,679	–	22,679	(22,679)	–
Group's revenue	225,626	425,843	43,309	694,778	(22,679)	672,099
Segment profit	31,041	80,587	2,831	114,459	(194)	114,265
Unallocated income						
– Interest income from banks						2,167
– Rental income						1,788
– Sale of scrap						73
– Others						557
Unallocated expenses						
– Research and development costs						(20,133)
– Central administration costs						(27,020)
Share of loss of associates						(3,576)
Other gains and losses						405
Profit before tax						68,526

Segment profit represents profit attributable to each segment without allocation of interest income from banks, rental income, sales 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.

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

	At 30 June 2012 US$'000	At 31 December 2011 US$'000
Men's footwear	**298,919**	240,864
Women's footwear	**498,934**	389,549
Footwear retailing and wholesaling	**75,298**	78,464
Total segment assets	**873,151**	708,877
Other assets	**240,985**	365,997
Consolidated assets	**1,114,136**	1,074,874

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012 US$'000	2011 US$'000
Enterprise Income Tax ("EIT") in the People's Republic of China ("PRC")	**6,632**	3,689

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.

4. INCOME TAX EXPENSE (continued)

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.

Taxation arising in other jurisdictions including Thailand and Malaysia are calculated at the rates prevailing in the respective jurisdictions.

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 2004/05 and 2005/06, that is, for the financial years ended 31 December 2004 and 2005, against certain subsidiaries of the Company. The Group lodged objections with the IRD against these estimated assessments. The IRD agreed to hold over the tax claimed subject to the purchasing of tax reserve certificates ("TRCs"). As at 30 June 2012, the Group purchased TRCs amounted to HK$28,700,000 and HK$25,580,000 (equivalent to approximately US$3,697,000 and US$3,299,000 respectively) for the years of assessment 2004/05 and 2005/06 respectively, which has been recorded in the condensed consolidated statement of financial position as a tax recoverable.

The directors of the Company are of the opinion that the tax audit exercise is still at a fact-finding stage and that no profits tax is payable by the Group as the subsidiaries in question did not carry out any business, nor derive any profits, in Hong Kong. Accordingly, no additional provision for Hong Kong Profits Tax is considered necessary in respect of the tax audit.

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	
	2012	2011
	US$'000	US$'000
Write-down of inventories (included in costs of sales)	**3,168**	689
Depreciation of property, plant and equipment	**14,029**	12,452
Release of prepaid lease payments	**263**	142
Share-based payments (included both in costs of sales and administrative expenses)	**79**	569
Loss on disposal of property, plant and equipment	**–**	358
Net fair value (gain) loss on held for trading investments (included in other gains and losses)	**(1,308)**	243
Interest income on bank balances	**(2,914)**	(2,259)
Net fair value loss (gain) on derivative financial instruments (included in other gains and losses)	**207**	(191)
Impairment loss recognised in respect of interest in associates (included in other gains and losses)	**809**	–

7. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Final dividend declared and paid for 2011 – HK68 cents (2010: HK53 cents) per share	**69,611**	54,227
Interim dividend declared subsequent to period end – HK30 cents (2011: HK30 cents) per share	**30,724**	30,626

The board has determined the payment of an interim dividend in respect of the period ended 30 June 2012 of HK30 cents (2011: 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 4 September 2012.

8. 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 2012 US$'000 (Unaudited)	2011 US$'000 (Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**66,557**	64,906

	Six months ended 30 June 2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**792,389**	791,619
Effect of dilutive potential ordinary shares: Unvested shares awarded	**207**	622
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**792,596**	792,241

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 16).

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US$30,732,000 (2011: US$19,394,000) for business expansion.

In addition, during the period, the Group paid approximately US$3,854,000 (2011: US$25,441,000) in deposits for acquisition of property, plant and equipment in order to expand its manufacturing capabilities in the PRC.

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 at the end of the reporting period:

	30 June 2012 US$'000	31 December 2011 US$'000
Trade receivables:		
0 – 30 days	**171,578**	139,867
31 – 60 days	**66,927**	45,120
61 – 90 days	**7,795**	7,798
Over 90 days	**661**	3,935
	246,961	196,720
Other receivables	**107,041**	70,012
	354,002	266,732

Other receivables include prepayment to suppliers of US$80,094,000 (2011: US$49,314,000).

11. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are trading balances, representing prepayments to associates for purchase of goods, which are aged within 90 days. 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 2012 US$'000	31 December 2011 US$'000
Trade payables:		
0 – 30 days	**49,489**	46,979
31 – 60 days	**13,274**	13,693
Over 60 days	**38,880**	30,269
	101,643	90,941
Other payables	**89,865**	90,065
	191,508	181,006

13. BANK BORROWINGS

During the period, the Group obtained new bank loans denominated in United States dollars amounting to US$25,000,000 (2011: Nil). The loans carry interest at fixed market 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		
Authorised:		
As at 1 January 2012 and 30 June 2012	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2012 and 30 June 2012	794,379,500	79,438
Shown in financial statements as		US$10,160,000

15. CAPITAL COMMITMENTS

	30 June 2012 US$'000	31 December 2011 US$'000
Capital expenditure authorised but not contracted for in respect of property, plant and equipment	**56,200**	47,674
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**8,556**	7,443
	64,756	55,117

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 of 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.

Details of the movement with respect to the grant of the Company's shares during the periods ended 30 June 2012 and 2011 are as follows:

	Grant date	Vesting period	Outstanding at 1 January 2012	Granted during the period	Vested during the period	Cancelled during the period	Outstanding at 30 June 2012
Directors	19 March 2010	19 March 2010 – 1 April 2012	186,000	–	(186,000)	–	–
Former director (Note)	19 March 2010	19 March 2010 – 1 April 2012	12,000	–	(12,000)	–	–
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
			439,300	–	(409,400)	–	29,900

Note: A former director is retained as an employee of the Group.

16. SHARE-BASED PAYMENTS (continued)

	Grant date	Vesting period	Outstanding at 1 January 2011	Granted during the period	Vested during the period	Cancelled during the period	Outstanding at 30 June 2011
Directors	19 February 2009	1 January 2009 – 1 April 2011	306,000	–	(306,000)	–	–
	19 March 2010	19 March 2010 – 12 April 2011	186,000	–	(186,000)	–	–
	19 March 2010	19 March 2010 – 1 April 2012	186,000	–	–	–	186,000
Former director (Note)	19 March 2010	19 March 2010 – 1 April 2011	12,000	–	(12,000)	–	–
	19 March 2010	19 March 2010 – 1 April 2012	12,000	–	–	–	12,000
Employees	19 March 2010	19 March 2010 – 12 April 2010	1,000	–	–	(1,000)	–
	19 February 2009	19 February 2010 – 1 April 2011	419,900	–	(414,900)	(5,000)	–
	19 March 2010	19 March 2010 – 1 April 2011	214,500	–	(213,000)	(1,500)	–
	19 February 2009	19 February 2009 – 1 April 2012	4,900	–	–	–	4,900
	19 March 2010	19 March 2010 – 1 April 2012	215,000	–	–	(5,000)	210,000
	19 February 2009	19 February 2009 – 1 April 2013	4,900	–	–	–	4,900
	19 March 2010	19 March 2010 – 1 April 2013	2,500	–	–	(2,500)	–
			1,564,700	–	(1,131,900)	(15,000)	417,800

Note: A former director is retained as an employee of the Group.

As at 30 June 2012, the Trustee maintained a pool of 1,785,400 shares (31 December 2011: 2,194,800 shares) of which 29,900 Shares were held for the benefit of selected eligible participants under the Scheme and the remaining 1,755,500 shares were 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 2012.

During the period, US$79,000 (six months ended 30 June 2011: US$569,000) was recognised as an expense in the condensed consolidated statement of comprehensive income with a corresponding credit to the share award reserve.

17. 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 and were acquired with the objective of expanding the Group's operation. 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 (determined on a provisional basis)

	US$'000
Prepaid lease payment	1,232
Property, plant and equipment	2,627
Receivables, prepayments and deposits	323
Other payables	(82)
	4,100

17. ACQUISITION OF A SUBSIDIARY (continued)

The receivables acquired (which principally comprised deposits) 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

	US$'000
Consideration paid in cash	4,100

Impact of acquisition on the results of the Group

Included in the profit for the interim period 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.

In determining the 'pro-forma' revenue and profit of the Group had PT Young Tree Group been acquired at the beginning of the interim period, the directors calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

18. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	**Transactions**	**Six months ended 30 June 2012 US$'000**	2011 US$'000
興昂制革(惠州)有限公司[1] (Simona Tannery Co. Ltd.)	Purchase of leather and tannery products	–	17,100
東莞興立精密模具有限公司[1] (Sincerely International Limited)	Purchase of molds	–	1,764
東莞興泰鞋材有限公司[1] (Sanford International Co. Ltd.)	Purchase of sole materials	–	4,921
	Rental income	–	58
東莞興騰鞋材有限公司[1] (Dongguan Xintan Footwear Co. Ltd.)	Purchase of sole materials	–	13,656
惠州興昂鞋業有限公司[1] (Huizhou Stella Footwear Co. Ltd.)	Purchase of footwear products	–	1,062
辛集市寶得福皮業有限公司[2] (Xinji Baodefu Leather Co. Ltd.)	Purchase of footwear products	49,069	42,669
Cosmic Gold Enterprise Limited[2]	Processing fee paid	–	1,488
Mountain Gear Ltd. and its subsidiaries[3]	Sales of footwear products	–	475
Ace Opportunity Ltd. and its subsidiaries[3]	Sales of footwear products	–	368

1 Companies wholly and ultimately owned by a director of the Company until 31 October 2011 on which these companies ceased to be related parties when the director of the Company ceased to be interested in the share capital in these companies on 1 November 2011.

2 Associates of the Company.

3 Companies owned and controlled by a director of the Company until 31 October 2011 on which these companies ceased to be related parties when the director ceased to be interested in the share capital in these companies on 1 November 2011.

(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 2012 US$'000	2011 US$'000
Short-term benefits	**374**	373
Share-based payment expenses	**48**	286
	422	659

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.

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Aggregate long positions in shares and underlying shares of the Company

Director	Capacity/Nature of Interests	Number of Shares Personal Interest	Number of Shares Corporate Interest	Number of Underlying Shares	Total	Approximate Percentage of Shareholding
Bolliger Peter	Beneficial owner	150,000	–	–	150,000	0.02%
Chao Ming-Cheng, Eric	Beneficial owner and interest of controlled corporation	238,500	26,205,289 *(Note 1)*	–	26,443,789	3.33%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	150,000	21,921,870 *(Note 2)*	–	22,071,870	2.78%
Chi Lo-Jen	Beneficial owner	283,500	–	1,500,000 *(Note 4)*	1,783,500	0.22%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	331,500	28,551,674 *(Note 3)*	–	28,883,174	3.64%
Shih Takuen, Daniel	Beneficial owner	408,000	–	–	408,000	0.05%

Notes:

1. These interests were held by a company, the entire issued share capital of which was held by Mr. Chao Ming-Cheng, Eric. Mr. Chao Ming-Cheng, Eric was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

2. These interests were held by a company, the entire issued share capital of which was held by Mr. Chen Li-Ming, Lawrence. Mr. Chen Li-Ming, Lawrence was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

3. These interests were held by a company, the entire issued share capital of which was held by Mr. Chiang Jeh-Chung, Jack. Mr. Chiang Jeh-Chung, Jack was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

4. These interests represented the put option granted by Mr. Chi Lo-Jen, exercisable for the period commencing from 1 May 2011 to 30 April 2016, under which Mr. Chi Lo-Jen may be required to acquire up to an aggregate of 1,500,000 shares of the Company.

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2012, the interests and short positions of the shareholders of the Company (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:–

Long position in the shares of the Company:

Name	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Cordwalner Bonaventure Inc.	Beneficial owner	246,412,214	31.02%
Capital Research and Management Company	Investment manager	47,261,000	5.95%

Save as disclosed above, as at 30 June 2012, no person (other than a Director or chief executive of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above), had an interest or short position in the shares and underlying shares of the Company that were required to be recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to achieving high standards of corporate governance to ensure and enhance a high standard of corporate governance practices through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders"). The Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2012, except the deviation from code provisions A.6.7 and E.1.2 of the CG Code as follows:

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

For code provision E.1.2 of the CG Code, Mr. Chiang Jeh-Chung, Jack, the chairman (the "Chairman") of the Board had not attended the 2012 AGM, but Mr. Shih Takuen, Daniel, the deputy chairman (the "Deputy Chairman") of the Board, took the chair at the 2012 AGM, and the chairman or member of each of the audit, corporate governance, remuneration and nomination committees attended the 2012 AGM to answer Shareholders' questions. The reason for such arrangement is that the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, is mainly responsible for managing major customers' relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is responsible for providing leadership and management to the Board and handling matters relating to investor relations and communication with 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.

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 ("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 2012.

Board Practices

The Board assumes the responsibility for leadership and control of the Company, and is collectively responsible for the success of the Company by directing and supervising the Company's affairs. The respective responsibility of the Board and the management of the Company have been formalised and set out in writing.

There is a clear division of responsibilities between the chairman of the Board and the chief executive officer of the Group, which have been formalised and set out in writing.

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, the policy of selection and nomination of Directors has been established and set out in writing. Directors are selected and nominated based on their experience, competencies, skills, geographical network capabilities and cross-border experiences in pursuit of maintaining a Board of diversified background and competencies, in order to contribute to more effective Board deliberations and business directions of the Group.

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Directors have been provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable them to make an informed decision and to discharge their duties and responsibilities as Directors.

Internal Controls

The effectiveness of the internal control system and the progress of internal audit are reviewed, and their respective weaknesses are identified, at the regular Audit Committee (as defined below) meetings. The findings at such meetings are reported subsequently at Board meetings. This enables the Directors to assess the effectiveness of the internal control system, which helps managing enterprise risks and improving its mitigation framework. The internal control functions are vested in the internal audit team which reports directly to the Audit Committee and the chief operating officer of the Company.

Audit Committee

Pursuant to the requirements of the CG Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising three independent non-executive Directors, namely Mr. Chu Pao-Kuei, Mr. Ng Hak Kim, *SBS, JP (note)* and Mr. Chen Johnny. The chairman of the Audit Committee is Mr. Chu Pao-Kuei. The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations. The Audit Committee has reviewed the Group's interim report for the six months ended 30 June 2012.

Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") pursuant to the requirements of the Listing Rules. The Remuneration Committee has three members comprising two independent non-executive Directors and an executive Director of the Company, namely, Mr. Chu Pao-Kuei, Mr. Ng Hak Kim, *SBS, JP (note)* and Mr. Shih Takuen, Daniel. During the six months ended 30 June 2012, the chairman of the Remuneration Committee was Mr. Ng Hak Kim, *SBS, JP (note)*. The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, the review of the Company's overall human resources strategy, making recommendations on the remuneration packages of individual executive Directors and senior management and administration and oversight of the Company's share option and share award scheme in accordance with the terms of the long term incentive scheme of the Company. In addition, the Remuneration Committee, together with the Group's chief executive officer, lead the corporate leadership programme which includes monitoring the strategy of succession planning and leadership development.

Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") in compliance with the CG Code. The Nomination Committee has four members comprising three independent non-executive Directors and an executive Director of the Company, namely Mr. Chen Johnny, Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *SBS, JP (note)* and Mr. Shih Takuen, Daniel. The chairman of the Nomination Committee is Mr. Chen Johnny. The principal duties of the Nomination Committee include the review of the structure, size and composition of the Board, making recommendations to the Board on the selection and nomination of Directors and the assessment of the independence of independent non-executive Directors.

Corporate Governance Committee

To facilitate more effective implementation of corporate governance practices, the Company has established a corporate governance committee (the "Corporate Governance Committee"). The Corporate Governance Committee has three members comprising an executive Director and two independent non-executive Directors of the Company, namely Mr. Shih Takuen, Daniel, Mr. Chu Pao-Kuei and Mr. Ng Hak Kim, *SBS, JP (note)*. The chairman of the Corporate Governance Committee is Mr. Shih Takuen, Daniel. The principal roles and functions of the Corporate Governance Committee include the review of the corporate governance practices of the Company and monitoring compliance with the relevant requirements under the Listing Rules and any applicable laws and regulations and monitoring each of the Audit Committee, Remuneration Committee and Nomination Committee of the performance of their respective duties and obligation in accordance with their respective terms of reference, the Listing Rules and any applicable laws and regulations. The Corporate Governance Committee advocates upholding the principles of "4Rs" – regulatory compliance, risk management, investor relations and corporate social responsibility, believing that the fulfillment of which will translate into long-term returns to the Shareholders.

(*note:* Mr. Ng Hak Kim, *SBS, JP* ("Mr. Ng") resigned as an independent non-executive Director of the Company (the "Independent Non-executive Director") with effect from 1 July 2012. Accordingly, Mr. Ng also ceased to be the chairman of the Remuneration Committee and a member of each of the Audit Committee, the Corporate Governance Committee and the Nomination Committee upon his resignation as the Independent Non-executive Director. On 16 August 2012, the Company announced the appointment of Mr. Chan Fu Keung, William as an Independent Non-executive Director, the chairman of the Remuneration Committee, and a member of each of the Audit Committee, the Corporate Governance Committee and the Nomination Committee with effect from 1 September 2012.)

OTHER INFORMATION

Update on Directors' Information

The updated biographies of the following Directors are set out as below:

Mr. SHIH Takuen, Daniel, aged 60, is the Deputy Chairman of the Board, an Executive Director of the Company, the chairman of the Corporate Governance Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. Mr. Shih has been with the Group since 2007. He is responsible for the Group's business development strategy, leadership development, and retail business operations. Prior to joining the Group, he was the chairman of PepsiCo (China) Investment Ltd. since 2006 and president of Motorola (China) Electronics Ltd. from 2003 to 2006. He had been appointed as an independent director of China Medicine Corporation, the shares of which are listed on the NASDAQ (OTC Bulletin Board: CHME), since May 2010 until he resigned in August 2012. He had also been appointed as an independent director of VisionChina Media Inc., the shares of which are listed on the NASDAQ (Nasdaq: VISN), since December 2011 until he resigned in August 2012. Mr. Shih holds a Master of Science degree from University of Cincinnati, the United States and an honorary doctorate degree of commerce from West Alabama University, the United States. He is also a director of Couture Accessories Distribution Limited, N.O.I. Trading Company Limited, Stella Fashion (HK) Limited, Stella Fashion Tech (HK) Limited, Stella International Design Services Limited, Stella Luna Sol Limited, Stellaluna (Thailand) Co., Ltd., 興記時尚貿易(上海)有限公司 (Stella Fashion Inc.) and 上海高緯飾品貿易有限公司 (Couture Accessories Distribution (Shanghai) Limited), all of which are subsidiaries of the Company. Mr. Shih is the brother-in-law of the Executive Director, Mr. Chen Li-Ming, Lawrence. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHAO Ming-Cheng, Eric, aged 60, is an Executive Director of the Company. Mr. Chao has been with the Group since 1982 and is one of the founders of the Group. He is responsible for factory management and setting up new manufacturing facilities. Mr. Chao has over 29 years of experience in management in the footwear industry. He holds a Bachelor of Commerce degree from the Tunghai University, Taiwan. He is also a director of Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Big Strength Limited, Bunda Footwear Company Limited, Capella Footwear Company Limited, Mission High Limited, Modern Novel Limited, Sapphire Technology Group Limited, Stella Logistics Limited and 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.), all of which are subsidiaries of the Company. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHEN Li-Ming, Lawrence, aged 51, is an Executive Director of the Company and the Chief Executive Officer of the Group. Mr. Chen has been with the Group since 1985. He has been responsible for the Group's corporate management. He has over 26 years of experience in technology development and management in the footwear industry. He holds a Bachelor of Electrophysics degree from the National Chiao Tung University, Taiwan. He is also a director of Altair Footwear Company Limited, Bestsource Technology Limited, Bestsource Technology (Macao Commercial Offshore) Limited, Big Strength Limited, Bunda Footwear Company Limited, Capella Footwear Company Limited, Mission High Limited, Modern Novel Limited, , N.O.I. Trading Company Limited, Rigel Footwear Company Limited, Sapphire Technology Group Limited, Stella Fashion (HK) Limited, Starry Thrive Limited, Stella Fashion Group Limited, Stella Fashion Tech (HK) Limited, Stella International Marketing Company Limited, Stella Logistics Limited, Stella Luna Sol Limited, Stella Services Limited, Subra Footwear Company Limited, Yang Fu Limited, 東莞興昂鞋業有限公司 (Dongguan Stella Footwear Co. Ltd.), 龍川興萊鞋業有限公司 (Longchuan Simona Footwear Co. Ltd.), 興記時尚貿易(上海)有限公司 (Stella Fashion Inc.) and 上海高緯飾品貿易有限公司 (Couture Accessories Distribution(Shanghai) Limited), all of which are subsidiaries of the Company. Mr. Chen is the brother-in-law of the Executive Director, Mr. Shih Takuen, Daniel. He is a director of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also indirectly interested in the issued share capital of Cordwalner Bonaventure Inc.

Mr. CHI Lo-Jen, aged 40, is an Executive Director of the Company. Mr. Chi joined the Group in 1995 and is the Chief Executive Officer of both of the Women's Footwear Business Division and the Retail Business Division of the Group. He is responsible for the supervision of the daily operations and business development of women's footwear business. Mr. Chi is also responsible for product design and development. He has over 16 years of experience in the footwear industry. He is also a director of Couture Accessories Distribution Limited, Stella Fashion Group Limited, Stella International Design Services Limited and 上海高緯飾品貿易有限公司 (Couture Accessories Distribution(Shanghai) Limited), all of which are subsidiaries of the Company. Mr. Chi is the nephew of the Chairman of the Board, Mr. Chiang Jeh-Chung, Jack. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Long Term Incentive Scheme

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the Shareholders passed on 15 June 2007 and was adopted by a resolution of the Board on 15 June 2007 and as amended by a resolution of the duly authorised committee of the Board on 18 June 2007 and further amended by a resolution of the Shareholders passed on 6 May 2011. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, directors, shareholders of any member of the Group or any holder of any securities issued by any member of the Group, and to reward any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group who are potential contributors to the success, development and/or growth of the Group.

The Board may, at its discretion and on such terms as it may think fit, grant to an employee, a director, any shareholder of any member of the Group or any holder of any securities issued by any member of the Group and any adviser (professional or otherwise) or consultant to any area of business development of any member of the Group an award ("Award"), either in the form of or a combination of (1) an option ("Option(s)") to subscribe for shares of the Company ("Shares"), (2) an award of Shares ("Restricted Share Award(s)") held in the name of or for the benefit of a grantee in accordance with the restricted share award agreement to be entered into by such grantee and the Company or (3) a grant of a conditional right to acquire Shares ("Restricted Unit Award(s)") as the Board may determine in accordance with the terms of the Scheme.

The basis of eligibility of any participant to the grant of any Award shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the success, development and/or growth of the Group.

The Scheme shall be valid and effective for a period of 10 years commencing from 6 July 2007, after which period no further Awards may be offered or granted. The Board shall, subject to the rules of the Scheme and the Listing Rules, have the right to determine, among others, the exercise price of an Option, the minimum period for which the Award must be held before its vesting, performance, operating and financial targets and other criteria to be satisfied before the vesting of an Award and other terms and conditions of an Award, provided that, in respect of an Award of Option, the exercise price of an Option shall be a price determined by the Board at its absolute discretion but shall not be less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer; or (iii) the nominal value of the Shares on the date of offer.

Subject to the Listing Rules, the overall limit on the number of Shares subject to Awards from time to time under the Scheme and any other schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time (i.e. 238,313,850 Shares as at the date of this interim report) (the "Overriding Limit").

The total number of Shares available for issue or transfer in satisfaction of all Awards which may be granted under the Scheme and any other schemes of the Company must not, in aggregate, exceed 10% of the Shares in issue as at the effective date of the Scheme (i.e. 78,000,000 Shares), subject to an annual cap, renewable by Shareholders in general meeting, of no more than 5% of the total issued share capital of the Company as at the beginning of each such financial year that may be issued by the Company to satisfy Restricted Share Awards or Restricted Unit Awards (the "Mandate Limit"). The Mandate Limit is also subject to the Overriding Limit and the refreshing of the Mandate Limit (as described below) and granting of Awards beyond the Mandate Limit (as described below).

Subject to the Overriding Limit and granting of Awards beyond the Mandate Limit (as described below), the Company may refresh the Mandate Limit at any time subject to Shareholders' approval by ordinary resolution at a general meeting, which must not exceed 10% of the Shares in issue as at the date of the aforesaid Shareholders' approval or such other limits imposed by the Stock Exchange.

Subject to the Overriding Limit, the Company may also seek separate Shareholders' approval by ordinary resolution at a general meeting for granting Awards beyond the Mandate Limit provided that the Awards in excess of the Mandate Limit are granted only to participants specifically identified by the Company before such approval is sought.

The total number of Shares issued and to be issued upon exercise of Options or vesting of Awards granted and to be granted to each participant or grantee (including exercised, cancelled and outstanding Options, and vested and outstanding Awards) in any 12-month period shall not exceed 1% of the Shares in issue at the offer date of the Awards. Any further grant of Awards in excess of the above limit must be subject to Shareholders' approval by ordinary resolution at a general meeting with such participant or grantee and his, her or its associates abstaining from voting. The Board will determine the minimum period, if any, for which an Award must be held before it vests and any other conditions in relation to dealing with Shares on vesting. Where any offer proposed to be made to a substantial Shareholder or an independent non-executive Director of the Company or any of his associates would result in the total number of Shares issued or to be issued to satisfy Awards already granted or to be granted to such person in any 12-month period up to and including the date of offer: (i) representing in aggregate over 0.1% of the Shares in issue at the date of offer; and (ii) having an aggregate value, based on the closing price of the Shares at the date of offer, in excess of HK$5 million, then such offer and any acceptance thereof must be subject to approval of the Shareholders in general meeting taken on a poll.

During the period under review, no Options were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding Options under the Scheme as at 30 June 2012.

Pursuant to the terms of the Scheme, the Company has entered into a deed of settlement dated 27 August 2008 with a trustee (the "Trustee") for the administration by the Trustee of the awards of Restricted Unit Awards under the Scheme.

As at 30 June 2012, there were a total of 1,785,400 Shares held in trust by the Trustee, of which 29,900 Shares were held for the benefit of selected eligible participants under the Scheme and the remaining 1,755,500 Shares were maintained and were available for the Trustee to satisfy the granting and vesting of the Restricted Unit Awards.

On 19 February 2009, Restricted Unit Awards for awards of a total of 2,445,500 Shares were granted to 85 eligible participants, six of whom were Directors at the relevant time and the remaining 79 were employees.

On 19 March 2010, Restricted Unit Awards for awards of a total of 1,428,000 Shares were granted to 125 eligible participants, six of whom were Directors at the relevant time and the remaining 119 were employees.

On 15 July 2011, Restricted Unit Awards for awards of a total of 27,500 Shares were granted to 1 eligible employee.

Details are set out as below:–

(A) Directors

Name of Director	Date of Award	Aggregate Number of Restricted Unit Awards Granted	Outstanding as at 1 January 2012	Vesting Date	Vested during the period ended 30 June 2012	Outstanding as at 30 June 2012
Chao Ming-Cheng, Eric	19 March 2010	85,500	–	12 April 2010	–	–
			–	1 April 2011	–	–
			28,500	1 April 2012	(28,500)	–
Chen Li-Ming, Lawrence	19 March 2010	54,000	–	12 April 2010	–	–
			–	1 April 2011	–	–
			18,000	1 April 2012	(18,000)	–
Chi Lo-Jen	19 March 2010	114,000	–	12 April 2010	–	–
			–	1 April 2011	–	–
			38,000	1 April 2012	(38,000)	–
Chiang Jeh-Chung, Jack	19 March 2010	108,000	–	12 April 2010	–	–
			–	1 April 2011	–	–
			36,000	1 April 2012	(36,000)	–
Shih Takuen, Daniel	19 March 2010	196,500	–	12 April 2010	–	–
			–	1 April 2011	–	–
			65,500	1 April 2012	(65,500)	–

(B) Employees

Date of Award	Aggregate Number of Restricted Unit Awards Granted	Outstanding as at 1 January 2012	Vesting Date	Vested during the period ended 30 June 2012	Cancelled during the period ended 30 June 2012	Outstanding as at 30 June 2012
19 February 2009	1,592,000	4,900	1 April 2012	(4,900)	–	–
		4,900	1 April 2013	–	–	4,900
19 March 2010	870,000	218,500	1 April 2012	(218,500)	–	–
15 July 2011	27,500	2,500	1 September 2012	–	–	2,500
		5,000	1 September 2013	–	–	5,000
		7,500	1 September 2014	–	–	7,500
		10,000	1 September 2015	–	–	10,000

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the reporting period.

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

Hong Kong, 16 August 2012

CORPORATE INFORMATION

Board of Directors

Executive Directors

CHIANG Jeh-Chung, Jack, *Chairman*
SHIH Takuen, Daniel, *Deputy Chairman*
CHAO Ming-Cheng, Eric
CHEN Li-Ming, Lawrence, *Chief Executive Officer*
CHI Lo-Jen

Independent Non-executive Directors

CHU Pao-Kuei
CHEN Johnny
BOLLIGER Peter
NG Hak Kim, *SBS, JP*
(resigned with effect from 1 July 2012)

Audit Committee

CHU Pao-Kuei, *Chairman*
CHEN Johnny
NG Hak Kim, *SBS, JP*
(resigned with effect from 1 July 2012)

Corporate Governance Committee

SHIH Takuen, Daniel, *Chairman*
CHU Pao-Kuei
NG Hak Kim, *SBS, JP*
(resigned with effect from 1 July 2012)

Nomination Committee

CHEN Johnny, *Chairman*
CHU Pao-Kuei
SHIH Takuen, Daniel
NG Hak Kim, *SBS, JP*
(resigned with effect from 1 July 2012)

Remuneration Committee

NG Hak Kim, *SBS, JP, Chairman*
(resigned with effect from 1 July 2012)
CHU Pao-Kuei
SHIH Takuen, Daniel

Authorised Representatives

CHEN Li-Ming, Lawrence
KAN Siu Yim, Katie

Chief Financial Officer

LEE Kwok Ming, Don

Company Secretary

KAN Siu Yim, Katie

Legal Adviser

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place, Hong Kong

Auditors

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway, Hong Kong

Principal Bankers

Chinatrust Commercial Bank, Ltd.
The Hongkong and Shanghai Banking Corporation Limited

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 609
Grand Cayman KY1-1107, Cayman Islands

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Registered Office

Cricket Square, Hutchins Drive, P.O. Box 2681,
Grand Cayman KY1-1111, Cayman Islands

Principal Place of Business in Hong Kong

Suites 3003-04, 30/F, Tower 2, The Gateway
25 Canton Road, Tsimshatsui, Kowloon, Hong Kong

Stock Code

1836

Website

www.stella.com.hk

In the event of inconsistency, the English text shall prevail over the Chinese text