

[For immediate release]



## Stella Achieves Strong Performance in 2007 Interim Results

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**Turnover and Net Profit Surged by 18.5% and 21.0% Respectively**

**Focus on Design and Development of Quality Shoes**

**Expand “Stella Luna” and “What For” Retail Networks in the PRC**

Hong Kong, 3 September, 2007 – **Stella International Holdings Limited** (“Stella” or the “Group”; SEHK: 1836), a leading developer and manufacturer of quality footwear products, today announced its first interim results for the six months ended 30 June 2007 (“1H2007”).

### **Financial & Operational Highlights:**

(US\$'000)	For the six months ended		Change (%)
	30 June, 2007	2006	
Turnover	417,325	352,221	+18.5%
Gross profit	96,529	79,790	+21.0%
Profit before taxation	52,213	42,722	+22.2%
Profit attributable to equity holders of the Company	50,193	41,472	+21.0%
Basic earnings per share (US\$)	0.086	0.071	+21.0%
Interim dividend per share (HK cents)	30	nil	n/a
GP margin (%)	23.1%	22.7%	+0.4%pt
Operating margin (%)	12.5%	12.1%	+0.4%pt
NP margin (%)	12.0%	11.8%	+0.2%pt
Average selling price per pair (US\$)	18.40	17.06	+7.9%
Total shipment during the period (mil pairs)	22.2	20.1	+10.7%
No. of retail stores	41	10	+310%

## **Results Summary**

The Group achieved turnover of US\$417.3 million for the six months ended 30 June 2007, representing a strong year-on-year growth of 18.5% compared to the same period in 2006. The main factors attributing to this increase were the robust demand for quality shoes from respected brand owners worldwide, accompanied by their recognition of the high-quality manufacturing capabilities and value-added services.

Gross profit amounted to US\$96.5 million, representing a 21.0% increase over the six months. Gross profit margin was 23.1%, representing an improvement of 0.4 percentage point over the first half of 2006. The improvement was a result of the Group's economies of scale and continued efforts towards stringent cost control with regard to raw material and manufacturing costs.

Profit attributable to shareholders of the Group for the first half of 2007 increased by 21.0% year-on-year, reaching US\$50.2 million. Excluding the one-time expenses of US\$2.2 million associated with the listing, profit attributable to shareholders would have increased 26.6% to US\$52.4 million.

Chairman of the Group Mr. Chen Jiann-Min, Jimmy said, "The first half of year 2007 was one of remarkable growth and transformation for Stella. Our public listing was a historical milestone for our company and strengthened our financial base so as to fund future development and quickly capture growth opportunities. It also raised our profile and standing in both the Hong Kong and international markets, helping us to match the international status of our customers and attract talents to join our enlarged and enthusiastic platform."

## **Manufacturing Business**

Stella continued to witness strong growth and outstanding results in manufacturing business. The Group also put forth timely efforts to further improve its mix of product offerings. This enabled the Group to maximize its profitability by taking full advantage of the casual footwear and fashion footwear segments that exhibited the strongest growth. During the period, the Group's strongest segments were women's casual and men's casual footwear, generating 33.4% and 35.8% respectively of the Group's total revenue. These were followed by men's fashion and women's fashion footwear, which equated to 20.8% and 4.3% respectively of the total revenue. The women's private label business generated 4.3% of the Group's total revenue.

Geographically, North America and Europe remained as the Group's major markets, with 57.8% and 31.2% respectively of the Group's total revenue for the period being derived from sales to customers in these regions.

The Group's core competency in sophisticated product design and development over the period successfully attracted more orders from brand owners, and it is clearly evident that customized designs, prototype development, short lead times and cost efficiency achieved through economies of scale have become increasingly important for many of them. By capitalizing on the competitive strengths in these areas and expertise in high-quality footwear development and manufacturing, the Group focused its efforts on value-added sales and achieved a higher average selling price than the industry average during the period under review.

### **Retail Business**

During the period under review, the Group's retail business amounted to US\$3.8 million and represented 0.9% of the total revenue, an increase of almost twelve times over the same period of the previous year. On average, cash flow breakeven of a new "Stella Luna" store took place within 6 months of the start of operation. This impressive performance is attributable to increasingly robust consumer retail spending in the PRC and our ability to capture a market niche in the affordable luxury fashion segment.

The Group owned and operated a total of 41 retail stores, of which 39 were located in the PRC while the remaining were situated in Thailand. They included the Stella Luna flagship store on Shanghai's Huaihai Road, boutique stores in Raffles City and Grand Gateway, concessionary stores in popular department stores found in 22 major cities in the PRC, and retail stores in Bangkok and Phuket.

On the back of the success of the Stella Luna brand, detailed plans have been put together for the introduction of another brand under the Group. The name of this brand is What For, and it will be positioned by the Group so as to mainly target a different segment of the market.

### **Future Plans & Prospects**

Being the largest category in the global footwear industry, the casual and fashion footwear segment experienced faster growth than any other footwear segment in the last several years. As a leading developer and manufacturer of quality footwear products, the Group is able to consistently seize new orders in this highly fragmented segment and to capitalize on the sustained trend of European footwear manufacturers outsourcing their manufacturing needs to Asian destinations like the PRC to fuel our business growth.

The Group will continue to maintain a prudent approach towards manufacturing capacity expansion. It is confident that construction of its new manufacturing facility in Huizhou will be completed by the end of the year, thus enabling it to commence operation at the beginning of 2008. This new facility is expected to produce 3 million pairs of footwear in 2008, increasing the total capacity of the Group by approximately 6%. In addition, the expansion plans that have been put into motion for the Vietnam-2 Plant will increase annual production capacity by 3.3 million pairs.

On the domestic front, the strong spending power of middle to upper class Mainland consumers presents Stella with an excellent growth opportunity. The Group plans to enhance the recognition of Stella Luna brand as a popular retailer of affordable luxury women's fashion footwear and intends to roll out 29 new Stella Luna retail stores to reach a total of 68 retail points by the end of 2007 and further expand its network coverage in key cities in the PRC.

In July of this year, the Group launched a new contemporary and lifestyle footwear brand "What For" in the PRC, targeting a more extensive customer segment. The successful launch will help to drive our roll-out plan for What For, which involves expanding to 10 stores that will span the first-tier cities in the PRC.

Mr. Chiang Jeh-Chung, Jack, CEO of the Group said, "Looking to the future, we are very optimistic about the opportunities that lie ahead, especially given the robust growth of the local footwear sector in the PRC and the growing global demand for men's and women's fashion footwear. We believe that our ability to offer one-stop design, value-added development and manufacturing solutions will enable us to be more responsive to changes in consumer preferences, develop and manufacture products with more complex designs, and offer value-added services to our customers."

"We believe the retail market momentum and consumer spending will remain strong in coming few years especially in the PRC. We will continue to pursue store expansion strategy to build a strong and extensive retail network in the Greater China region so as to achieve greater profitability and improve customer loyalty. We look forward to continued success for the rest of 2007 and to creating valuable returns for our shareholders." Chairman Mr. Chen Jiann-Min, Jimmy concluded

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## **Condensed Consolidated Income Statement**

*For the six months ended 30 June, 2007*

	Six months ended 30 June	
	2007	2006
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
<b>Revenue</b>	417,325	352,221
Cost of sales	<u>(320,796)</u>	<u>(272,431)</u>
<b>Gross profit</b>	96,529	79,790
Other income	4,317	5,568
Selling and distribution costs	(16,101)	(13,114)
Administrative expenses	(17,637)	(16,072)
Research and development costs	(14,815)	(13,446)
Finance costs	(80)	(4)
<b>Profit before taxation</b>	52,213	42,722
Taxation	<u>(2,058)</u>	<u>(1,250)</u>
<b>Profit for the period</b>	<u>50,155</u>	<u>41,472</u>
Attributable to:		
Equity holders of the Company	50,193	41,472
Minority interests	<u>(38)</u>	<u>---</u>
	<u>50,155</u>	<u>41,472</u>
<b>Dividends</b>	220,000	---
Earnings per share		
- Basic (US\$)	<u>0.086</u>	<u>0.071</u>