

[For immediate release]



Stella Reports Robust 1Q08 Results

Net Profit Surged 17.3% to US\$ 22.1 Million

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High operational efficiency and stringent cost control drove profit growth

Hong Kong, 14 May, 2008 – **Stella International Holdings Limited** (“Stella” or the “Group”; SEHK: 1836), a leading developer and manufacturer of quality footwear products, today announced its first quarter results for the three months ended 31 March 2008.

Financial & Operational Highlights:

(US\$'000 – unaudited)	For the three month period ended 31 March		
	2008	2007	Change (%)
Revenue	213,906	180,122	18.8
Gross profit	49,303	40,422	22.0
Net profit	22,088	18,822	17.4
GP margin (%)	23.1	22.4	+0.7ppt
NP margin (%)	10.3	10.5	-0.2ppt
Average selling price per pair (manufacturing) (US\$)	18.4	16.2	13.5
Total shipment during the period (mil pairs)	11.4	10.9	4.4
Number of retail stores	100	41	143.9

Revenue Analysis:

Revenue (US\$'000)	For the three month period ended 31 March	
	2008	2007
Men's Casual	61,143	61,662
Men's Fashion	6,234	8,346
Men's Others	<u>878</u>	<u>1,056</u>
Subtotal	<u>68,255</u>	<u>71,064</u>
Women's Casual	63,325	50,573
Women's Fashion	69,971	46,605
Women's Private Label	5,776	8,714
Women's Others	<u>1,800</u>	<u>1,654</u>
Subtotal	140,872	107,546
Retail	<u>4,779</u>	<u>1,512</u>
Total	<u>213,906</u>	<u>180,122</u>

Results Summary

The Group achieved a total revenue of approximately US\$213.9 million for the three months ended 31 March 2008, representing a strong year-on-year growth of 18.8% as compared to the same period in 2007. The satisfactory results were mainly attributable to sustainable growth on sales orders from existing brand customers, increased average selling prices as well as strong sales volume.

The Group's shipment totaled 11.4 million pairs, representing an increase of 4.4% from 10.9 million pairs sold in the same period last year. The average selling price ("ASP") per pair was US\$18.4 (Q1 2007: US\$16.2), representing a year-on-year gain of 13.5%.

During the period under review, gross profit and net profit reached approximately US\$49.3 million and US\$22.1 million respectively, representing a 22.0% and 17.4% growth as compared to the corresponding period last year.

Despite increases in raw materials and manufacturing costs, Stella was able to maintain stable margins. Gross profit margin and net profit margin remained at a healthy level of 23.1% and 10.3% respectively (Q1 2007: 22.4% and 10.5%).

Manufacturing Business

During the period under review, Stella continued to achieve steady organic sales growth and ASP growth due to our consistent capability in meeting the quality, cost, volume and delivery schedule requirements of our brand customers, as well as our unique strength in manufacturing high quality footwear in small and customized orders for our fashion footwear customers.

Women's fashion and women's casual footwear were the major revenue contributors of the Group, generating 32.7% and 29.6% respectively of the Group's total revenue. In addition, North America and Europe continued to be the Group's two largest markets, contributing 56.6% and 27.0% respectively to the Group's total revenue for the year under review.

During the three months ended 31 March 2008, the Group's manufacturing facilities in Guangdong, China and Vietnam continued to operate at full capacity.

Retail Business

The performance of the Group's two retail brands, *Stella Luna* and *What For*, continued to perform satisfactorily in the first quarter of 2008. The respective sales reached approximately US\$4.2 million and US\$0.6 million. The sales and same-stores-sales of *Stella Luna* increased 174.5% and 32% respectively as compared with the last corresponding period. The performance of the newly launched *What For* is also very encouraging.

The significant growth was driven by both volume surge and increasing market presence in the PRC. As of 31 March 2008, the Group operated 71 *Stella Luna* stores and 18 *What For* stores in the major cities of the PRC, and 11 *Stella Luna* stores in Thailand.

Mr. Lawrence Chen, Chief Executive Officer of the Group said, "Recent research has shown that in China, ladies' spending power is expected to surge faster than the overall growing market. In this aspect, we see bright prospects and immense potential for the mid to high-end footwear market in the PRC. We will further increase our market penetration and awareness by promoting *Stella Luna* and *What For* stores in the PRC. The Group is optimistic in reaching a total of 200 retail shops by the end of 2008."

Mr. Chen continued, "In manufacturing, the decrease of gross profit margin on a quarter-to-quarter basis as compared to the fourth quarter of 2007 will be remedied by our continuous improvement in operational efficiency."

Future Plans & Prospects

The Group is pleased to announce that it has achieved excellent results in the first month of the second quarter of 2008. In April 2008, the Group's shipment amounted to US\$79.2 million, representing an increase of 36.4% as compared to April 2007. Total shipment in April 2008 was 3.5 million pairs with an average selling price of US\$22.42 per pair representing an increase of 17.8% and 15.8% respectively as compared to April 2007's shipments.

In the second quarter of 2008, the retail expansion has been accelerated: as of 30 April 2008, we have opened a total of 88 *Stella Luna* and 30 *What For* stores. The retail sales in April 2008 amounted to approximately US\$2.1 million, representing a significant increase of 210.7% and a strong 51% same-stores-sales growth as compared with April last year.

Looking ahead, the Group is devoting its resources to enhance its production capacity and product development capability in order to meet its customers' needs and market demand. The construction of the new Huizhou facility, which was planned to commence operation in 2008, is now behind schedule pending official approval. In order to meet with the increasing orders from customers, the Group has secured a capacity of 2,000,000 pairs by partnering with an existing outsourced factory, which is equipped with production facilities in Dongguan and Nanning, Guangdong, the PRC.

In addition, our new cooperative Hebei joint venture has commenced production since January 2008, and is expected to manufacture 1.8 million pairs of shoes in 2008.

Mr. Jack Chiang, Chairman of the Group concluded, "Our philosophy is to grow through our customers' successes and we position ourselves as an integrated partner of our international brand customers at each stage of the manufacturing process. Our manufacturing initiatives have enjoyed a high level of success, which has been reflected in our sales growth and sustained profitability. In addition to building our own brands, we are exploring cooperation opportunities with renowned brands with an aim to establishing Stella as a leading branding company in the footwear industry in Greater China. With the booming demand for quality fashion footwear and the continuous support from our customers, we are very confident that our business performance will sustain growth momentum in the upcoming quarters in 2008,"

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Condensed Consolidated Income Statement

	<u>For the three-month period ended 31 March</u>	
	<u>2008</u>	<u>2007</u>
	<u>US\$'000</u>	<u>US\$'000</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	213,906	180,122
Cost of sales	<u>(164,603)</u>	<u>(139,700)</u>
Gross profit	49,303	40,422
Other income	4,598	1,959
Selling and distribution costs	(12,395)	(7,801)
Administrative expenses	(11,399)	(8,529)
Research and development costs	(6,732)	(6,112)
Finance costs	<u>(37)</u>	<u>—</u>
Profit before tax	23,338	19,939
Taxation	<u>(1,250)</u>	<u>(1,117)</u>
Profit for the period	<u>22,088</u>	<u>18,822</u>
Attributable to:		
Equity holder of the Company	22,076	18,822
Minority interests	<u>12</u>	<u>—</u>
	<u>22,088</u>	<u>18,822</u>