[For immediate release]

# Stella Achieves Satisfactory 2008 Interim Results

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**Turnover and Net Profit Increased by 18.3% and 10.8% Respectively**

Hong Kong, 14 August, 2008 – **Stella International Holdings Limited** (“Stella” or the “Group”; SEHK: 1836), a leading developer and manufacturer of quality footwear products, today announced interim results for the six months ended 30 June 2008 (“1H2008”).

**<u>Financial & Operational Highlights:</u>**

| | For the six months ended 30 June | | Change (%) |
|---|---|---|---|
| ***(US$’000)*** | **2008** | **2007** | |
| Turnover | 493,726 | 417,325 | +18.3 |
| Gross profit | 116,370 | 96,529 | +20.6 |
| Profit before taxation | 58,103 | 52,213 | +11.3 |
| Profit attributable to equity holders of the Company | 55,626 | 50,193 | +10.8 |
| Basic earnings per share (US$) | 0.069 | 0.086 | -19.8 |
| Interim dividend per share (HK cents) | 30 | 30 | -- |
| | | | |
| GP margin (%) | 23.6% | 23.1% | +0.5(pt) |
| EBIT margin (%) | 10.8% | 12.2% | -1.4(pt) |
| NP margin (%) | 11.3% | 12.0% | -0.7(pt) |
| Average selling price per pair (US$) | 20.9 | 18.4 | +13.6 |
| Total shipment during the year (mil pairs) | 23.0 | 22.2 | +3.6 |
| No. of retail stores | 130 | 41 | +89 stores |

**Results Summary**

The Group recorded turnover of US$493.7 million for the six months ended 30 June 2008, representing year-on-year growth of 18.3%, coupled with a 10.8% increase in profit attributable to equity holders which totaled US$55.6 million. The satisfactory performance was attributable to the increasing demand for quality shoes from leading brand owners and customers worldwide, who have recognised our high-quality manufacturing capabilities and value-added services.

The Group's shoe sales increased 3.6% to 23 million pairs for the first half of 2008, while the average selling price per pair ("ASP") increased 13.6% to US$ 20.9.

Despite the challenging operating environment with surging production and overhead costs, the Group maintained a healthy business growth. Gross profit amounted to US$116.4 million, representing a 20.6% increase over the last corresponding period. Gross profit margin was 23.6%, representing an increase of 0.5 percentage points over the first half of 2007. The improvement was a result of the Group's unique value-added services of short lead time and small batch production to meet the needs of its brand customers.

Commenting on the Group's encouraging results, Mr. Chiang Jeh-Chung, Jack, the Chairman of the Group, said, "Stella has achieved satisfactory growth since its listing in July 2007, a testimony to our ability to provide integrated, value-added services to our customers at each stage of the manufacturing process. It does not only solidify our profile and financial standing internationally, but also strengthen our determination in moving up the value chain towards the high-end branded market, and thereby further increase our profitability."

**Manufacturing Business**

The Group continued to distinguish from other footwear manufacturers and achieve sustainable growth by its unique value-added services to customers with top quality and reliable solutions that involve short lead time, small batch production, and innovative design and development capabilities.

Thanks to its enhanced operational efficiencies, the Group was able to sustain healthy profit margins for its manufacturing business during the period under review. Gross profit for the manufacturing stream amounted to US$107.5 million, representing an increase of approximately 14.9% over the same corresponding period in 2007. EBIT and EBITDA also recorded a growth of 4.3% and 5.9% over the first half of 2007, reaching US$53.6 million and US$62.6 million respectively.

The Group's strategy which focuses on women's fashion and casual footwear lifted the two core businesses to 36% and 30% of the Group's total revenue in the first half of 2008 respectively. These were followed by men's casual and fashion footwear, which contributed 26% and 4% respectively to the total revenue. The women's private label and women's other segments generated 2% of the total revenue.

Geographically, North America and Europe continued to be the Group's two largest markets, which contributed 61.4% and 28.1% respectively to the total revenue for the period. They were followed by Asia (4.8%), the PRC and Hong Kong (3.7%), and other geographical regions (2.0%).

**Retail Business**

In order to capture the opportunities arising from the fast-growing consumer market in the PRC, the Group continued to increase its market presence and strengthen its foothold by establishing new stores at a fast pace.

As of 30 June 2008, the Group had a total of 81 *Stella Luna* stores and 37 *What For* stores located in all major cities in the PRC, posting an impressive increment of 79 stores as compared to the corresponding period last year. The Group also operated 12 *Stella Luna* stores in Thailand.

During the period, revenue from retail operation recorded approximately US$11.4 million, a substantial increase of 200% from the same period of previous year. In terms of the operating performance of the Group's retail operation in the PRC, store operating profit margin was 13.4%, representing a satisfactory increment of 8.1 percentage points over the first half of 2007. The same-store sales growth increased by 41.7% as compared to the corresponding period in 2007, of which 37 stores out of 81 were qualified for same-store comparison.

Thanks to the flourishing market dynamics, surging domestic purchasing power as well as the successful marketing strategy, the Group achieved strong performance in retail business, with overwhelming response received for both *Stella Luna* and *What For*. In order to gain brand awareness and reputation in the marketplace, the Group organised fashion shows and events, as well as adopted innovative point-of-sale displays in the retail stores.

**Future Plans & Prospects**

For the second half of 2008, the Group will exercise its every effort to enhance its production capability and production efficiency. The new manufacturing facility in Huizhou has commenced operation in the second half of 2008 to manufacture uppers, while the expansion plan for Vietnam facilities will further increase the Group's production capacity by 10 million pairs by 2010.

In view of the escalating manufacturing costs in the PRC, the Group will actively explore opportunities to migrate its production base to lower costs locations and continue to exercise stringent costs control to maintain its cost competiveness.

Tapping on the robust economic growth and the surging purchasing power in the PRC, the Group will continue to move up the value chain and continue to invest in its branding arm. The retail network of both *Stella Luna* and *What For* will be further expanded in the first- and second-tier cities. The Group plans to increase the number of stores to more than 98 stores for *Stella Luna* and 80 stores for *What For* respectively by the end of 2008. Coupling with the burgeoning of women white collar and middle class, the Group believes that its branded business will benefit from the flourishing Chinese consumer market in China.

On the back of the success of the *Stella Luna* and *What For* brands, the Group has introduced Deckers as a joint venture partner for the opening of retail stores and wholesale distribution of footwear under the UGG Australia® brand in the PRC. With an estimated total investment amount of approximately US$5 million, the joint venture plans to open two stores in the PRC 2008. The joint venture marked the Group's first strategic alliance with an international brand customer since its public listing in July 2007, and will enable the Group to seize even more market opportunities in China.

Mr. Lawrence Chen, Chief Executive Officer of the Group said, "In the context of challenging operating environment such as below trend demand growth and persistent cost pressures, we will continue to increase our operating efficiency by enhancing our design and development capabilities, adopting more stringent cost control, as well as migrating our production base to lower costs locations. We will also continue to move up the value chain by upgrading our engineering and development capabilities and striding towards the high-end branded market. We believe these value-added measures will contribute to higher average selling price hence driving our revenue growth, protecting our profit margins and consolidating our foothold in our developing branding business.

"Capitalising on our strength in design and development, as well as our solid foothold in China retail, we are actively pursuing opportunities in building up strategic partnership with our international brand customers, with an aim to moving up the value chain and to become a leading brand player in the region." Mr. Jack Chiang, Chairman of the Group concluded.

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## Consolidated Income Statement

*For the six months ended 30 June, 2008*

| | Six months ended 30 June | |
|---|---|---|
| | 2008 | 2007 |
| | US$'000 | US$'000 |
| | (Unaudited) | (Unaudited) |
| **Revenue** | 493,726 | 417,325 |
| Cost of sales | (377,356) | (320,796) |
| **Gross profit** | 116,370 | 96,529 |
| Other income | 6,908 | 4,317 |
| Selling and distribution costs | (22,945) | (16,101) |
| Administrative expenses | (26,466) | (17,637) |
| Research and development costs | (15,257) | (14,815) |
| Share of results of an associate | (507) | -- |
| Finance costs | - | (80) |
| **Profit before taxation** | 58,103 | 52,213 |
| Taxation | (2,461) | (2,058) |
| **Profit for the period** | 55,642 | 50,155 |
| Attributable to: | | |
| Equity holders of the Company | 55,626 | 50,193 |
| Minority interests | 16 | (38) |
| | 55,642 | 50,155 |
| **Dividends** | 62,296 | - |
| Earnings per share | | |
| - Basic (US$) | 0.069 | 0.086 |