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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Stella International Holdings Limited (the “**Company**”), you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**Stella International Holdings Limited****九興控股有限公司\****(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 1836)****MAJOR TRANSACTION****JOINT VENTURE AGREEMENTS  
FOR SALES AND DISTRIBUTION OF  
THE “PIERRE BALMAIN” BRAND FOOTWEAR  
GRANT OF PUT AND CALL OPTIONS FOR ACQUISITION OF  
FURTHER INTERESTS IN THE JOINT VENTURES**

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This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

\* For identification purpose only

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## DEFINITIONS

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*In this circular, the following expressions shall, unless the context requires otherwise, have the following meanings:*

“Ace Opportunity”	Ace Opportunity Limited, a company incorporated in the BVI with limited liability which is indirectly owned as to approximately 66.7% by Mr. Chen Li-Ming, Lawrence, an executive Director, and as to approximately 33.3% by Independent Third Parties
“Ace Opportunity Group”	Ace Opportunity and its subsidiaries
“Affiliate”	in relation to a party means a company or legal entity which owns or controls, directly or indirectly, 50% or more of the equity interest, or the management of that party, or a company or legal entity 50% or more of the equity interest of which, or the management of which, is directly or indirectly owned or controlled by that party, or a company or legal entity under such common control or ownership, direct or indirect, as that party. For this purpose, a person controls the management of another person if the board of directors of the second person is accustomed to acting in accordance with the directions or instructions of the first person
“Ancillary Agreements”	the Master Manufacturing Agreement, the Master Purchase Agreement and the Sub-License Agreement
“associates”	has the meaning ascribed to it under the Listing Rules
“Balmain Asia”	Balmain Asia Limited, a company incorporated in Hong Kong with limited liability
“Balmain Group”	Balmain Asia, Pierre Balmain S.A. and Balmain S.A. and their respective Affiliates (excluding for the purpose hereof any member of the JVC Group)

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## DEFINITIONS

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“Balmain Loan Note”	the loan note(s) to be issued by Ex-PRC JVC or PRC Distribution JVC to Balmain Asia in respect of the shareholder’s loan to be advanced by Balmain Asia under the Ex-PRC JV Agreement, or as the case may be, the PRC Distribution JV Agreement, brief particulars of which are set forth under the paragraph “ <b>Summary – The capital structure and funding of the JVC Group – (iii) Loan notes</b> ” in the section headed “ <b>Details of the Joint Venture Agreements</b> ”
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	Stella International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the parties’ respective subscription and other obligations under the Joint Venture Agreements in accordance with their respective terms
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“EBITDA”	means, in respect of Ex-PRC JVC or PRC Distribution JVC and their respective subsidiaries, the consolidated earnings before interest, tax, depreciation and amortization of Ex-PRC JVC or PRC Distribution JVC and their respective subsidiaries based on the latest audited accounts of Ex-PRC JVC or PRC Distribution JVC for the previous financial year prepared in accordance with the terms of the relevant Joint Venture Agreements
“EUR”	Euro, the lawful currency of members of European Union

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## DEFINITIONS

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“Ex-PRC JV Agreement”	the conditional agreement dated 31 May 2011 entered into between the Stella Fashion and Balmain Asia setting out the corporate structure of the JVC Group and the principles governing the ownership and management of Ex-PRC JVC, a summary of which is set forth in the paragraph headed “ <b>Summary</b> ” in the section headed “ <b>Details of the Joint Venture Agreements</b> ”
“Ex-PRC JVC”	Couture Accessories Limited (or such other name as may be agreed by the parties and approved by the Registrar of Companies in Hong Kong), a private company to be incorporated in Hong Kong under the laws of Hong Kong pursuant to the Ex-PRC JV Agreement
“Ex-PRC JVC Call Option”	the call option to be granted by Stella Fashion to Balmain Asia under the Ex-PRC JV Agreement
“Ex-PRC JVC Option Shares”	such number of ordinary shares of US\$1 each in the capital of Ex-PRC JVC to be in issue and registered in the name of Stella Fashion representing 20% of the entire issued share capital of Ex-PRC JVC at such time as specified in the Ex-PRC JV Agreement
“Ex-PRC JVC Put Option”	the put option to be granted by Balmain Asia to Stella Fashion under the Ex-PRC JV Agreement
“Group”	collectively, the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Huizhou Stella”	惠州興昂鞋業有限公司 (Huizhou Stella Footwear Co., Ltd.), a wholly foreign owned enterprise established in the PRC and is wholly-owned by Mr. Chen Li-Ming, Lawrence, an executive Director
“Independent Third Party”	a party who is independent of, and not connected with, the Group or any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates

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## DEFINITIONS

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“Joint Venture”	the joint investment and cooperation of the Group and the Balmain Group in respect of the JVC Group pursuant to the Joint Venture Agreements and the Ancillary Agreements
“Joint Venture Agreements”	the Ex-PRC JV Agreement and the PRC Distribution JV Agreement
“JVC Group”	collectively, Ex-PRC JVC, PRC Distribution JVC, PRC WFOE, and their respective branches and subsidiaries from time to time
“Latest Practicable Date”	24 June 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Licensed Products”	shoes under the “PIERRE BALMAIN” brand name
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Long Term Incentive Scheme”	The long term incentive scheme conditionally approved by a written resolution of the Shareholders passed on 15 June 2007 and adopted by a resolution of the Board on 15 June 2007 and as further amended by a resolution of the duly authorized committee of the Board on 18 June 2007
“Master Manufacturing Agreement”	the agreement to be entered into between the Group as manufacturer and Ex-PRC JVC as customer for the manufacturing of the Licensed Products and sale of the same from the Group to the Ex-PRC JVC, particulars of which are set forth under the paragraph headed “ <b>Summary – Business and operation of the JVC Group</b> ” in the section headed “ <b>Details of the Joint Venture Agreements</b> ”
“Master Purchase Agreement”	the agreement to be entered into between Ex-PRC JVC as supplier, PRC WFOE as customer and PRC Distribution JVC as guarantor for the sale of the Licensed Products by Ex-PRC JVC to PRC WFOE, particulars of which are set forth under the paragraph headed “ <b>Summary – Business and operation of the JVC Group</b> ” in the section headed “ <b>Details of the Joint Venture Agreements</b> ”

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## DEFINITIONS

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“Mountain Gear”	Mountain Gear Ltd., a company incorporated in the BVI with limited liability and which is ultimately owned as to 45% by Mr. Chen Li-Ming, Lawrence, an executive Director and as to 55% by Independent Third Parties
“Mountain Gear Group”	Mountain Gear and its subsidiaries from time to time
“Option”	Ex-PRC JVC Call Option, Ex-PRC JVC Put Option, PRC Distribution JVC Call Option or PRC Distribution JVC Put Option, as the context may require or permit
“Option Consideration”	the price payable by Balmain Asia to Stella Fashion or, as the case may be, by Stella Fashion to Balmain Asia, for the purchase of the Option Shares upon an exercise of the Option pursuant to the terms and conditions of the Joint Venture Agreements
“Option Exercise Period”	the period commencing from 1 April 2016 and ending on 30 May 2016 (both dates inclusive) or such longer period as Stella Fashion and Balmain Asia shall mutually agree in writing
“Option Shares”	Ex-PRC JVC Option Shares or PRC Distribution JVC Option Shares, as the context may require or permit
“PRC”	the People’s Republic of China which, for the purpose of this circular only, excludes Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan
“PRC Distribution JV Agreement”	the conditional agreement dated 31 May 2011 entered into between Stella Fashion and Balmain Asia setting out the corporate structure of the JVC Group and the principles governing the ownership and management of PRC Distribution JVC and PRC WFOE, a summary of which is set forth in the paragraph headed “ <b>Summary</b> ” in the section headed “ <b>Details of the Joint Venture Agreements</b> ”

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## DEFINITIONS

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“PRC Distribution JVC”	Couture Accessories Distribution Limited (or such other name as may be agreed by the parties and approved by the Registrar of Companies in Hong Kong), a private company to be incorporated in Hong Kong under the laws of Hong Kong pursuant to the PRC Distribution JV Agreement
“PRC Distribution JVC Call Option”	the call option to be granted by Balmain Asia to Stella Fashion under the PRC Distribution JV Agreement
“PRC Distribution JVC Option Shares”	such number of ordinary shares of US\$1 each in the capital of PRC Distribution JVC in issue and registered in the name of Balmain Asia representing 20% of the entire issued share capital of PRC Distribution JVC at such time as specified in the PRC Distribution JV Agreement
“PRC Distribution JVC Put Option”	the put option to be granted by Stella Fashion to Balmain Asia under the PRC Distribution JV Agreement
“PRC WFOE”	means Couture Accessories Distribution (Shanghai) Limited (or such other name as may be agreed by the parties and approved by the relevant PRC government authority), a wholly foreign-owned enterprise to be established by the PRC Distribution JVC in Shanghai, the PRC pursuant to the PRC Distribution JV Agreement for the establishment, operation and management of a distribution network for the distribution of the Licensed Products in the PRC
“Relevant Shareholders”	collectively, Cordwalner Bonaventure Inc., A Plus Investment Ltd., Giant Victory Enterprise Co., Ltd., Blue Diamond Investment Corp., Best Trace Limited, Merci Capital Limited, Perfect Epoch Limited, Cassini Inc., Huygens Inc., Enceladus Investment Inc., Xanadu Plus Inc., Atelier One Inc., Atelier Two Inc. and Atelier Three Inc., particulars of each of which are set forth in the section headed “ <b>Information on the Relevant Shareholders</b> ”
“Sabina”	東莞興和塑膠制品有限公司 (Sabina Footwear Co., Ltd.), a limited liability company established in the PRC and is ultimately wholly-owned by Mr. Chen Li-Ming, Lawrence, an executive Director



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## DEFINITIONS

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“Sanford”	東莞興泰鞋材有限公司 (Sanford International Co., Ltd.), a limited liability company established in the PRC and is ultimately wholly-owned by Mr. Chen Li-Ming, Lawrence, an executive Director
“SFO”	Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Simona Tannery”	興昂制革(惠州)有限公司 (Simona Tannery Co., Ltd.), a limited liability company established in the PRC and is ultimately wholly-owned by Mr. Chen Li-Ming, Lawrence, an executive Director
“Sincerely”	東莞興立精密模具有限公司 (Sincerely International Ltd.), a limited liability company established in the PRC and is ultimately wholly-owned by Mr. Chen Li-Ming, Lawrence, an executive Director
“Stella Fashion”	Stella Fashion Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Stella Loan Note”	the loan note(s) to be issued by Ex-PRC JVC or PRC Distribution JVC to Stella Fashion in respect of the shareholder’s loan to be advanced by Stella Fashion under the Ex-PRC JV Agreement or, as the case may be, the PRC Distribution JV Agreement, brief particulars of which are set forth under the paragraph “ <b>Summary – The capital structure and funding of the JVC Group – (iii) Loan notes</b> ” in the section headed “ <b>Details of the Joint Venture Agreements</b> ”
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Sub-license Agreement”	the agreement to be entered into between Balmain Asia and Ex-PRC JVC for, inter alia, the right to use certain trademarks, service marks and/or logos owned by Pierre Balmain S.A. as may be necessary for manufacturing the Licensed Products by the Group, particulars of which are set forth under the paragraph headed “ <b>Summary – Business and operation of the JVC Group</b> ” in the section headed “ <b>Details of the Joint Venture Agreements</b> ”
“US\$”	United States dollars, the lawful currency of the United States of America
“Xintan”	東莞興騰鞋材有限公司 (Dongguan Xintan Footwear Co., Ltd.), a limited liability company established in the PRC and is ultimately wholly-owned by Mr. Chen Li-Ming, Lawrence, an executive Director
“%”	per cent.

*In this circular, for the purpose of illustration only, amounts quoted in US\$ have been converted into HK\$ at the rate of US\$1.00 to HK\$7.80. Such exchange rate has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at these or any other rates or at all.*

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## LETTER FROM THE BOARD

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# Stella International Holdings Limited 九興控股有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1836)**

*Executive Directors:*

Mr. Chiang Jeh-Chung, Jack  
Mr. Shih Takuen, Daniel  
Mr. Chao Ming-Cheng, Eric  
Mr. Chen Li-Ming, Lawrence  
Mr. Chi Lo-Jen

*Registered office*

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

*Independent non-executive Directors:*

Mr. Chu Pao-Kuei  
Mr. Ng Hak Kim, JP  
Mr. Chen Johnny  
Mr. Bolliger Peter

*Head office and principal place of  
business in Hong Kong*

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

30 June 2011

*To the Shareholders*

Dear Sir or Madam,

### MAJOR TRANSACTION

## JOINT VENTURE AGREEMENTS FOR SALES AND DISTRIBUTION OF THE “PIERRE BALMAIN” BRAND FOOTWEAR GRANT OF PUT AND CALL OPTIONS FOR ACQUISITION OF FURTHER INTERESTS IN THE JOINT VENTURES

### INTRODUCTION

On 31 May 2011, the board of Directors announced that on 31 May 2011 (after trading hours), the Group entered into two Joint Venture Agreements with Balmain Asia, a wholly owned subsidiary of Balmain S.A. (Paris), for the joint incorporation of and investment in two Joint Ventures in Hong Kong, namely the Ex-PRC JV and PRC Distribution JVC, for the distribution and sale of the Licensed Products in Hong Kong, the PRC and other countries in the world.

\* For identification purpose only

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## LETTER FROM THE BOARD

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As the Option Consideration payable by Balmain Asia or, as the case may be, Stella Fashion, for the exercise of the above Options will be determined by reference to the EBITDA of Ex-PRC JVC or, as the case may be, PRC Distribution JVC, and their respective subsidiaries, at the time of exercise of the relevant Options, the highest possible monetary value for the exercise of the Options cannot be ascertained as at the Latest Practicable Date. Under Rule 14.76 of the Listing Rules, the grant, acquisition and exercise of the Options under the Joint Venture Agreements constitute a major transaction of the Company and therefore are subject to the announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

So far as the Directors are aware of after making reasonable enquiries, none of the Shareholders would have been required to abstain from voting if the Company were to convene a general meeting for the approval for the Joint Venture Agreements. As such, written Shareholders' approval may be accepted in lieu of holding a general meeting pursuant to Rule 14.44(2) of the Listing Rules. The Relevant Shareholders, a closely allied group of Shareholders holding 504,319,737 Shares in aggregate representing approximately 63.49% of the issued share capital of the Company, have given their written approval on the entering into of the Joint Venture Agreements and the transactions contemplated thereunder, including the grant, acquisition and the exercise of the Options. Accordingly, no extraordinary general meeting of the Company will be convened for the purpose of approving the Joint Venture Agreements and the transactions contemplated thereunder (including the grant, acquisition and the exercise of the Options).

The purpose of this circular is to give you further information regarding the transactions contemplated under the Joint Venture Agreements and financial and other information of the Group.

### **DETAILS OF THE JOINT VENTURE AGREEMENTS**

On 31 May 2011, the Group entered into two Joint Venture Agreements with Balmain Asia, a wholly owned subsidiary of Balmain S.A. (Paris), for the joint incorporation of and investment in two Joint Ventures in Hong Kong, namely the Ex-PRC JV and the PRC Distribution JVC, for the distribution and sale of the Licensed Products in Hong Kong, the PRC and other countries in the world. Details of the Joint Venture Agreements are set forth as follows:

**Date:**

31 May 2011

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## LETTER FROM THE BOARD

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### **Parties:**

- (i) Stella Fashion, a wholly owned subsidiary of the Company; and
- (ii) Balmain Asia, a company incorporated in Hong Kong with limited liability, wholly owned subsidiary of Balmain S.A. (Paris). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Balmain Asia is principally engaged in the business of marketing and licensing the trademark "PIERRE BALMAIN" for luxury ready-to-wear, footwear and accessories products.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Balmain Asia, the Balmain Group and their respective ultimate beneficial owner(s) are Independent Third Parties, and have no equity interest in the Shares.

### **Summary:**

#### ***(a) Establishment and shareholding structures of the JVC Group***

Under the Joint Venture Agreements, Stella Fashion and Balmain Asia will incorporate (1) the Ex-PRC JVC in Hong Kong as a private company with limited liability which will be initially owned as to 40% by Stella Fashion and 60% by Balmain Asia; and (2) PRC Distribution JVC in Hong Kong as a private company with limited liability for the sole purpose of holding equity interests in PRC WFOE and any other subsidiaries of PRC Distribution JVC from time to time. The entire issued share capital of PRC Distribution JVC will be initially owned as to 60% by Stella Fashion and 40% by Balmain Asia.

Subject to Completion and as soon as practicable after the due incorporation of the PRC Distribution JVC, the PRC WFOE will be established by PRC Distribution JVC in Shanghai, the PRC as a wholly foreign owned enterprise with limited liability for the distribution and sale of the Licensed Products in the PRC.

#### ***(b) The capital structure and funding of the JVC Group***

##### ***(i) Ex-PRC JVC***

The total issued share capital of the Ex-PRC JVC will be US\$1 million divided into 1,000,000 shares of US\$1 each, 400,000 and 600,000 subscribers' shares of which will be allotted and issued to each of Stella Fashion and Balmain Asia for cash by cash injection at par at Completion.

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## LETTER FROM THE BOARD

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Under the Ex-PRC JV Agreement, the total investment for the Ex-PRC JVC will be US\$2 million (equivalent to approximately HK\$15.6 million), which will be contributed by Stella Fashion and Balmain Asia as capital by way of the said share subscription, external financing and/or in the form of shareholder's loan.

Under the Ex-PRC JV Agreement, in the event that the board of directors of the Ex-PRC JVC shall resolve that additional financing will be required by way of borrowing externally, the Ex-PRC JVC shall procure credit facilities from banks and financial institutions, or if so resolved that additional financing will be required by way of additional interest bearing shareholders' loan, each of Stella Fashion and Balmain Asia agrees to severally advance, in proportion to their then respective shareholding interests in Ex-PRC JVC, an aggregate sum of up to US\$1 million in cash, on such terms and conditions as set out in the Stella Loan Note and the Balmain Loan Note, respectively.

*(ii) PRC Distribution JVC and PRC WFOE*

The total issued share capital of the PRC Distribution JVC will be US\$4 million (equivalent to approximately HK\$31.2 million) divided into 4,000,000 shares of US\$1 each, 2,400,000 and 1,600,000 subscribers' shares of which will be allotted and issued to each of Stella Fashion and Balmain Asia for cash at par by cash injection at Completion.

Under the PRC Distribution JV Agreement, the total investment for the PRC WFOE will be in the amount of US\$8 million (equivalent to approximately HK\$62.4 million) and the registered capital of PRC WFOE will be US\$4 million (equivalent to approximately HK\$31.2 million), which will be contributed by the PRC Distribution JVC by cash injection. Under the proposed articles of association of the PRC WFOE which will be adopted by the PRC WFOE but subject to the approval thereof by the relevant PRC approving authority, the PRC Distribution JVC shall be required to contribute 15% of the registered capital of the PRC WFOE, i.e. US\$0.6 million (equivalent to approximately HK\$4.68 million), within three months after the due establishment of PRC WFOE, and shall complete the contribution of the entire registered capital of the PRC WFOE within 18 months after the due establishment thereof.

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## LETTER FROM THE BOARD

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In the event that the board of directors of the PRC Distribution JVC shall resolve that additional financing will be required by way of borrowing externally, the PRC Distribution JVC shall procure credit facilities from banks and financial institutions, or if so resolved, by way of additional interest bearing shareholders' loan will be required, Stella Fashion and Balmain Asia agree to severally advance, in proportion to their then respective shareholding interests in the PRC Distribution JVC, an aggregate sum of up to US\$4 million (equivalent to approximately HK\$31.2 million) in cash, on such terms and conditions as set out in the Stella Loan Note and the Balmain Loan Note, respectively.

*(iii) Loan notes*

The Stella Loan Note and the Balmain Loan Note shall be interest-bearing and on such repayment term to be agreed among Stella Fashion and Balmain Asia with Ex-PRC JVC or, as the case may be, PRC Distribution JVC, and shall rank junior and be subordinated to other indebtedness (existing or future, of whatever nature) of Ex-PRC JVC or, as the case may be, PRC Distribution JVC, but shall otherwise rank pari passu with each other.

*(iv) Other capital commitment, guarantee, indemnity or other security*

Save as mentioned above, there are no other capital commitments (whether by way of equity, loan or otherwise, including contractual commitment to subscribe for capital), guarantee, indemnity or security that are required to be provided by the Group in connection with the establishment of the JVC Group under the Joint Venture Agreements and any transaction contemplated thereunder.

**(c) Business and operation of the JVC Group**

The JVC Group will be principally engaged in the operation and management of the worldwide wholesale business of the Licensed Products through (i) sale of the Licensed Products by Ex-PRC JVC to PRC WFOE for distribution in the PRC; and (ii) sale of the Licensed Products by Ex-PRC JVC to other distributors outside the PRC, and to carry on such other business which the parties may from time to time agree. Subject to other agreements entered or to be entered into between the Balmain Group on one part and the JVC Group on another part, bags, apparels and certain other accessories under "BALMAIN" or "PIERRE BALMAIN" brands may be distributed and sold at the shops and other points of sales to be operated by Ex-PRC JVC outside the PRC, and/or at the shops and other points of sales to be operated by PRC WFOE in the PRC.

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## LETTER FROM THE BOARD

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In order to facilitate the future business and operations to be carried out by the JVC Group, the parties have also agreed to enter into, or to procure that Ex-PRC JVC, PRC Distribution JVC and/or PRC WFOE to enter into, the Ancillary Agreements upon Completion or, as the case may be, upon the establishment of PRC WFOE:

(i) *Sub-license Agreement*

The parties have agreed that subject to Completion and within three business days after the due incorporation of Ex-PRC JVC, Balmain Asia and Ex-PRC JVC shall enter into the Sub-license Agreement pursuant to which Balmain Asia agrees to grant to the Ex-PRC JVC (1) the exclusive right to manufacture the Licensed Products at factories in the PRC and Vietnam; (2) the exclusive right to distribute the Licensed Products in mono brand stores, shops and corners bearing “PIERRE BALMAIN” brand name to be opened by Ex-PRC JVC worldwide (other than Taiwan, Malaysia and (for the Licensed Products for men only) 15 countries in the Middle East) (the “**Sales Territories**”), (3) the right to sell manufactured Licensed Products directly to certain distributors outside the Sales Territories as agreed by Balmain Asia, and (4) the right to use under certain terms and conditions the “PIERRE BALMAIN” trademark and the intellectual property rights attached thereto (the “**Trademark**”) for the manufacturing, marketing, sales and distribution of the Licensed Products as mentioned above.

The parties acknowledge and agree that the above exclusivity is subject to:

- (a) the sub-licensees of Balmain Asia for women or men ready-to wear collection may distribute the Licensed Products in the Sales Territories at their own points of sales, subject to (i) the Licensed Products to be distributed by these sub-licensees shall only be ancillary (in terms of volumes, number of items, space allocated, etc.) to the other products sold in each of their own points of sales; and (ii) all Licensed Products to be sold by these sub-licensees shall be exclusively purchased from Ex-PRC JVC;
- (b) PRC WFOE may also distribute bags, apparels and certain other accessories under “BALMAIN” or “PIERRE BALMAIN” brand names, and sell those products at the shops and other points of sales to be operated by it;



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## LETTER FROM THE BOARD

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- (c) Balmain Asia shall have the right to sell, distribute or otherwise deal with any products bearing the Trademark in the PRC through entities in which the Balmain Group ultimately owns at least 50% of the capital/equity, provided that (i) all the Licensed Products to be distributed in the PRC by these entities shall be sourced from Ex-PRC JVC and shall be sold on retail basis on the same pricing policy as prescribed in the Joint Venture Agreements; and
- (d) the rights granted by Balmain Asia to a third party sub-licensee pursuant to two non-exclusive distribution agreements granting that third party, among other things, the distribution rights of the Licensed Products in Hong Kong, Macau and certain other countries for a fee as determined therein, provided that Balmain Asia shall procure that all Licensed Products to be distributed by such third party sub-licensee shall be sourced from Ex-PRC JVC.

Ex-PRC JVC shall have the right to grant sub-licences relating to the manufacture, distribution, marketing and/or sale of the Licensed Products to one or more sub-licensees subject to the prior written approval of the Balmain Group.

Under the Sub-license Agreement, Ex-PRC JVC is required to pay a royalty representing certain percentage of the total wholesale of Ex-PRC JVC, and an one-off architectural fixed fee for each of the free standing stores of a size greater than 120 square meters opened by Ex-PRC JVC or its direct or indirect sub-licensees in the Sales Territories.

The Sub-license Agreement shall have a term until 31 December 2021 unless terminated by either party in accordance with its terms. In particular, Balmain Asia shall have the option (the “**Break Option**”) to terminate the Sub-license Agreement at any time during the period commencing from 1 January 2017 and ending on 31 December 2021 provided that the Break Option shall lapse and cease to be exercisable upon the exercise of the Ex-PRC JV Call Option by Balmain Asia.

*(ii) Master Manufacturing Agreement*

The parties have agreed that subject to Completion and within three business days after the due incorporation of the Ex-PRC JVC, the Group and Ex-PRC JVC shall enter into the Master Manufacturing Agreement for the manufacturing and supply of the Licensed Products by the Group to Ex-PRC JVC in accordance with its terms and conditions.

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## LETTER FROM THE BOARD

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The purchase price for any particular Licensed Products from time to time to be ordered by Ex-PRC JVC shall be calculated on the basis of the cost of manufacture incurred by the Group plus an agreed profit margin as set out in the Master Manufacturing Agreement, provided that such cost of manufacture shall be agreed by Ex-PRC JVC and the Group in writing prior to the placement of any manufacturing order.

The Master Manufacturing Agreement shall have a term until 31 December 2021 unless terminated by either party or otherwise automatically terminated in accordance with its terms. The Master Manufacturing Agreement shall be terminated automatically if the Sub-license Agreement is terminated or ceases to have effect for whatever reason.

*(iii) Master Purchase Agreement*

The parties have agreed that subject to Completion and as soon as possible but in any event within three business days after the due issuance of the business licence of PRC WFOE or such other time limit to be agreed upon by the parties, Ex-PRC JVC, PRC Distribution JVC and PRC WFOE shall enter into the Master Purchase Agreement for the sale of the Licensed Products by Ex-PRC JVC to PRC WFOE in accordance with its terms and conditions. Under the Master Purchase Agreement, Ex-PRC JVC will also grant to PRC WFOE the exclusive right (subject as aforesaid) to distribute the Licensed Products under the Trademark in the PRC.

The purchase price for any particular Licensed Products from time to time to be ordered by PRC WFOE shall be calculated on an “ex-works” basis, plus an agreed profit margin as set out in the Master Purchase Agreement.

The Master Purchase Agreement shall have a term until 31 December 2021 unless terminated by either party or otherwise automatically terminated in accordance with its terms. The Master Purchase Agreement shall be terminated automatically if the Sub-license Agreement is terminated or ceases to have effect for whatever reason.

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## LETTER FROM THE BOARD

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**(d) Management of the JVC Group**

The overall direction, supervision and management of Ex-PRC JVC, PRC Distribution JVC, PRC WFOE and other members of the JVC Group shall be managed by their respective board of directors.

*(i) Ex-PRC JVC*

The boards of directors of Ex-PRC JVC and its subsidiaries from time to time shall each consist of five directors, of whom three shall be nominated by Balmain Asia and two shall be nominated by Stella Fashion. One of the directors nominated by Balmain Asia shall be the chairman of the board of directors of Ex-PRC JVC.

The day to day running and management of the business of Ex-PRC JVC and its subsidiaries from time to time shall be managed and administered by the general manager of Ex-PRC JVC, subject to the supervision of the board of directors of Ex-PRC JVC. All parties may recommend suitably qualified and experienced candidates to be the general manager of Ex-PRC JVC, and the position shall be appointed by the board of directors of Ex-PRC JVC.

*(ii) PRC Distribution JVC and PRC WFOE*

The boards of directors of PRC Distribution JVC, PRC WFOE and their respective branches or subsidiaries from time to time shall each consist of five directors, of whom three shall be nominated by Stella Fashion and two shall be nominated by Balmain Asia. One of the directors nominated by Stella Fashion shall be the chairman of the board of directors of PRC Distribution JVC. The chairman of the board of directors of PRC WFOE and its branches or subsidiaries from time to time shall be nominated by Stella Fashion.

The day to day running and management of the business of PRC Distribution JVC, PRC WFOE and their respective branches or subsidiaries from time to time shall be managed and administered by the general manager of PRC Distribution JVC, subject to the supervision of the board of directors of PRC Distribution JVC. All parties may recommend suitably qualified and experienced candidates to be the general manager of PRC Distribution JVC, and the position shall be appointed by the board of directors of PRC Distribution JVC.

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## LETTER FROM THE BOARD

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**(e) Dividend policy of the JVC Group**

The parties have agreed that, subject to the availability of cash of the member of the JVC Group and further subject to the full settlement by the relevant member of the JVC Group, of the amount payable to any of their respective shareholder(s) pursuant to any shareholder's loan, in principle all the profit after tax, after making up of any previous loss and retaining sufficient working capital for the relevant member of the JVC Group to undertake business activities according to its business plan, is to be paid to the parties with respect to their individual shareholdings in Ex-PRC JVC or, as the case may be, PRC Distribution JVC unless otherwise agreed between the parties, so far as permitted under the relevant applicable laws, provided that the parties may from time to time, by agreement, change the dividend policy of the JVC Group.

**(f) Put and call Options**

**(i) Ex-PRC JV Agreement**

Under the Ex-PRC JV Agreement, subject to and conditional upon Completion, Stella Fashion agrees to grant to Balmain Asia the Ex-PRC JVC Call Option, pursuant to which Balmain Asia may require Stella Fashion to sell to Balmain Asia all (but not some) of the Ex-PRC JVC Option Shares during the Option Exercise Period for the Option Consideration and otherwise on the terms of the Ex-PRC JV Agreement. The Ex-PRC JVC Call Option may only be exercised once by Balmain Asia during the Option Exercise Period by giving Stella Fashion the relevant exercise notice. The Ex-PRC JVC Call Option shall lapse upon (a) expiry of the Option Exercise Period or (b) the exercise of the Ex-PRC JVC Put Option by Stella Fashion in accordance with the Ex-PRC JV Agreement. If Balmain Asia exercises the Ex-PRC JVC Call Option, it shall exercise the PRC Distribution JVC Put Option on the terms set out in the PRC Distribution JV Agreement.

Under the Ex-PRC JV Agreement, subject to and conditional upon Completion, Balmain Asia agrees to grant to Stella Fashion the Ex-PRC JVC Put Option, pursuant to which Stella Fashion may require Balmain Asia to purchase from Stella Fashion all (but not some) of the Ex-PRC JVC Option Shares during the Option Exercise Period for the Option Consideration and otherwise on the terms of the Ex-PRC JV Agreement. The Ex-PRC JVC Put Option may only be exercised once by Stella Fashion during the Option Exercise Period by giving Balmain Asia the relevant exercise notice. The Ex-PRC JVC Put Option shall lapse upon (a) expiry of the Option Exercise Period or (b) the exercise of the Ex-PRC JVC Call Option by Balmain Asia in accordance with the Ex-PRC JV Agreement. If Stella Fashion exercises the Ex-PRC JVC Put Option, it shall exercise the PRC Distribution JVC Call Option on the terms set out in the PRC Distribution JV Agreement.

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## LETTER FROM THE BOARD

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The Option Consideration payable by Balmain Asia to Stella Fashion under the Ex-PRC JVC Put Option or the Ex-PRC JVC Call Option shall be determined by the following formula:

$$OC = \text{EBITDA} \times 20\% \times M$$

where

OC means the Option Consideration in US\$

EBITDA means the EBITDA of Ex-PRC JVC and its then subsidiaries applicable on the date of the relevant exercise notice in US\$

M means a multiple of 5 times.

Completion of the exercise of the Ex-PRC JVC Put Option or, as the case may be, the Ex-PRC JVC Call Option, shall take place at 10:00 a.m. on the date specified in the relevant exercise notice. Immediately upon completion of the exercise of the Ex-PRC JVC Put Option or, as the case may be, the Ex-PRC JVC Call Option, the entire issued share capital of Ex-PRC JVC will be owned as to 80% by Balmain Asia, and 20% by Stella Fashion.

*(ii) PRC Distribution JV Agreement*

Under the PRC Distribution JV Agreement, subject to and conditional upon Completion, Balmain Asia agrees to grant to Stella Fashion the PRC Distribution JVC Call Option, pursuant to which Stella Fashion may require Balmain Asia to sell to Stella Fashion all (but not some) of the PRC Distribution JVC Option Shares during the Option Exercise Period for the Option Consideration and otherwise on the terms of the PRC Distribution JV Agreement. The PRC Distribution JVC Call Option may only be exercised once by Stella Fashion during the Option Exercise Period by giving Balmain Asia the relevant exercise notice. The PRC Distribution JVC Call Option shall lapse upon (a) expiry of the Option Exercise Period or (b) the exercise of the PRC Distribution JVC Put Option by Balmain Asia in accordance with the PRC Distribution JV Agreement. If Stella Fashion exercises the PRC Distribution JVC Call Option, it shall exercise the Ex-PRC JVC Put Option on the terms set out in the Ex-PRC JV Agreement.

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## LETTER FROM THE BOARD

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Under the PRC Distribution JV Agreement, subject to and condition upon Completion, Stella Fashion agrees to grant to Balmain Asia the PRC Distribution JVC Put Option, pursuant to which Balmain Asia may require Stella Fashion to purchase from Balmain Asia all (but not some) of the PRC Distribution JVC Option Shares during the Option Exercise Period for the Option Consideration and otherwise on the terms of the PRC Distribution JV Agreement. The PRC Distribution Put Option may only be exercised once by Balmain Asia during the Option Exercise Period by giving Stella Fashion the relevant exercise notice. The PRC Distribution JVC Put Option shall lapse upon (a) expiry of the Option Exercise Period or (b) the exercise of the PRC Distribution JVC Call Option by Stella Fashion in accordance with the PRC Distribution JV Agreement. If Balmain Asia exercises the PRC Distribution JVC Put Option, it shall exercise the Ex-PRC JVC Call Option on the terms set out in the Ex-PRC JV Agreement.

The Option Consideration payable by Stella Fashion to Balmain Asia under the PRC Distribution JVC Put Option or the PRC Distribution JVC Call Option shall be determined by the following formula:

$$OC = EBITDA \times 20\% \times M$$

where

OC means the Option Consideration in US\$

EBITDA means the EBITDA of PRC Distribution JVC and its then subsidiaries applicable on the date of the relevant exercise notice in US\$

M means a multiple of 5 times.

Completion of the exercise of the PRC Distribution JVC Put Option or, as the case may be, the PRC Distribution JVC Call Option, shall take place at 10:00 a.m. on the date specified in the relevant exercise notice. Immediately upon completion of the exercise of the PRC Distribution JVC Put Option or, as the case may be, the Ex-PRC JVC Call Option, the entire issued share capital of PRC Distribution JVC will be owned as to 80% by Stella Fashion, and 20% by Balmain Asia.

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## LETTER FROM THE BOARD

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***(g) Conditions for Completion of each of the Joint Venture Agreements and Completion***

Completion is conditional on the following conditions being fulfilled:

- (i) the approval by the Shareholders (or, if so required, the independent Shareholders) of the Company of the Ex-PRC JV Agreement, the PRC Distribution JV Agreement and the respective transactions contemplated thereunder (including but not limited to the grant and exercise of the Options) and all other consents and acts required under the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;
- (ii) completion of the Joint Venture Agreements having taken place concurrently upon Completion; and
- (iii) none of the representations and warranties given under the relevant Joint Venture Agreements having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect.

Completion shall take place on the third Business Day after the conditions above have been fulfilled (provided that concurrent completion of the Joint Venture Agreements shall take place upon Completion). If any of the above conditions is not satisfied within two months from the date of the relevant Joint Venture Agreements, or if completion of the Joint Venture Agreements does not take place concurrently upon Completion, then unless the parties agree otherwise, the Joint Venture Agreements shall automatically terminate and neither party thereto shall have any claims against the other (save for any antecedent breaches of the terms hereof).

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## LETTER FROM THE BOARD

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### INFORMATION ON THE GROUP AND THE BALMAIN GROUP

The Group is principally engaged in the manufacture and sale of footwear products.

The Balmain Group is the owner of the trademarks “BALMAIN” and “PIERRE BALMAIN” and is principally engaged in the designing, manufacturing, sales and distribution of luxury ready-to-wear, footwear and accessories products under the trademarks “BALMAIN” and “PIERRE BALMAIN” and the marketing and licensing of these trademarks.

Balmain Asia is licensed by the Balmain Group to manufacture the Licensed Products and to distribute, market and sell the Licensed Products.

### REASONS FOR AND BENEFITS OF ENTERING INTO THE JOINT VENTURE AGREEMENTS

The Directors consider that the PRC and other parts of the world have enormous and growing demand for high-end footwear products. The Directors are of the opinion that the “BALMAIN” and “PIERRE BALMAIN” brands are associated with prestige, reputation and renown in the luxury ready-to-wear, footwear and accessories products industry and high-end retail market. Through the Joint Venture, the Group will be able to cooperate closely with the Balmain Group in the manufacturing, marketing, sales and distribution of high-end footwear products under the trademark “PIERRE BALMAIN” in the PRC and other parts of the world. The Directors believe that this strategic alliance will enable the Group to further expand the Group’s strong retail offering, enhance its strong market position in serving luxury and niche brands and bring into the Group’s portfolio a prestigious brand name. By entering into the Joint Venture, the Group will be able to secure manufacturing orders from the newly formed joint ventures with the Balmain Group, and obtain licence from the Balmain Group to manufacture, sell and distribute the Licensed Products worldwide, and in particular in the PRC, which the Directors consider will enable the Group to further optimise its revenue mix by strengthening the Group’s retail business. The entering into of the Joint Venture will enable both the Group and the Balmain Group to capture the enormous business opportunities arising from the high-end footwear products market in the world, and in particular, the PRC.

The terms and conditions of the Joint Venture Agreements have been agreed on normal commercial terms following arm’s length negotiation. The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the Joint Venture Agreements and the transactions contemplated thereunder are fair and reasonable and are in the interest of the Company and its Shareholders as a whole.



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## LETTER FROM THE BOARD

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Accordingly, the Directors would recommend Shareholders to vote in favour of the relevant resolutions put to vote at a general meeting of the Company if a general meeting were required to be convened to approve the transactions contemplated under the Joint Venture Agreements, including the grant, acquisition and exercise of the Options.

### FINANCIAL EFFECT OF THE JOINT VENTURE AGREEMENTS

It is expected that the Group will finance each of Ex-PRC JVC, PRC Distribution JVC and PRC WFOE pursuant to the Joint Venture Agreements as set out in the paragraph headed “The capital structure and funding of the JVC Group” above. The Directors consider that each of Ex-PRC JVC, PRC Distribution JVC and PRC WFOE would likely contribute to the revenue and earnings of the Group in the future after their respective incorporation/establishment and commencement of their respective businesses under the Joint Venture Agreements and the Ancillary Agreements.

Save as described above, the transactions contemplated under the Joint Venture Agreements are not expected to have any material impact on the earnings and assets and liabilities of the Group.

### LISTING RULES IMPLICATIONS

As the Option Consideration payable by Balmain Asia or, as the case may be, Stella Fashion, for the exercise of the Options will only be determined with reference to the EBITDA of Ex-PRC JVC or, as the case may be, PRC Distribution JVC, and their respective subsidiaries, at the time of exercise of the Options, the highest possible monetary value for the exercise of the Options cannot be ascertained as at the Latest Practicable Date. Under Rule 14.76 of the Listing Rules, the grant, acquisition and exercise of the Options under the Joint Venture Agreements constitute a major transaction of the Company and therefore are subject to the announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

In the event that the actual monetary value for the Option Consideration payable or receivable by the Group upon exercise of the Options results in the disposal of the Ex-PRC JVC Option Shares or, as the case may be, the acquisition of the PRC Distribution JVC Option Shares upon exercise of the Option falling within a higher classification of notifiable transaction under Chapter 14 of the Listing Rules, the Company shall make an announcement as soon as practicable and shall comply with the additional requirements of such higher classification under Chapter 14 of the Listing Rules.

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## LETTER FROM THE BOARD

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So far as the Directors are aware of after making reasonable enquiries, none of the Shareholders would have been required to abstain from voting if the Company were to convene a general meeting for the approval for the Joint Venture Agreements and the transactions contemplated thereunder. As such, written Shareholders' approval may be accepted in lieu of holding a general meeting pursuant to Rule 14.44(2) of the Listing Rules. The Relevant Shareholders, a closely allied group of Shareholders holding 504,319,737 Shares in aggregate representing approximately 63.49% of the issued share capital of the Company, have given their written approval on the entering into of the Joint Venture Agreements and the transactions contemplated thereunder, including the grant, acquisition and the exercise of the Options. Accordingly, no extraordinary general meeting of the Company will be convened for the purpose of approving the Joint Venture Agreements and the transactions contemplated thereunder (including the grant, acquisition and the exercise of the Options).

PRC Distribution JVC will become the Company's subsidiary after Completion. As Balmain Asia will become a substantial shareholder of PRC Distribution JVC after Completion, holding 40% of its entire issued share capital (without taking into account the exercise of the PRC Distribution JVC Call Option or the PRC Distribution JVC Put Option), and Balmain Asia will hold 60% of the entire issued share capital of Ex-PRC JVC (without taking into account the exercise of the Ex-PRC JVC Call Option or the Ex-PRC JVC Put Option) and Ex-PRC JVC is therefore an associate of Balmain Asia, both Balmain Asia and Ex-PRC JVC will become connected persons of the Company after Completion. For so long as they remain as connected persons of the Company, any transactions contemplated under the Master Manufacturing Agreement and the Master Purchase Agreement will constitute continuing connected transactions of the Company after Completion. Nevertheless, as these transactions will constitute continuing connected transactions only because they involve a person who is a connected person of the Company only by virtue of its relationship with PRC Distribution JVC, being the Company's subsidiary, and the value of PRC Distribution JVC's total assets, profits and revenue are expected to represent less than 10% under the relevant percentage ratios as defined under Rule 14.04(9) of the Listing Rules after Completion, the Directors expect that the transactions contemplated under the Master Manufacturing Agreement and the Master Purchase Agreement will be exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.33(4) of the Listing Rules. The Company will re-comply with the applicable requirements under Chapter 14A of the Listing Rules as and when PRC Distribution JVC no longer meets the exemption requirements under Rule 14A.33(4) of the Listing Rules.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE RELEVANT SHAREHOLDERS

Cordwalner Bonaventure Inc., holder of an aggregate of 246,412,214 Shares as at the Latest Practicable Date, is and has been the Company's controlling shareholder since the Company's listing in July 2007. The other Relevant Shareholders, which are investment holding companies beneficially owned or controlled by certain Directors, senior management and/or employees of the Group or their respective family members, are shareholders of Cordwalner Bonaventure Inc. holding about 99.69% of its issued share capital. These Directors, senior management and/or employees of the Group or their respective family members have been the ultimate beneficial owners of Cordwalner Bonaventure Inc. since the Company's listing. The respective interests of the Relevant Shareholders in the Shares and relationship among the Relevant Shareholders are summarised in the table below:

<b>Name of the Relevant Shareholders (place of incorporation)</b>	<b>Number and percentage of Shares</b>	<b>The beneficial owner(s) of the Relevant Shareholders</b>
Cordwalner Bonaventure Inc. (incorporated in the BVI)	246,412,214 (31.02%)	Owned as to 99.69% by the some of the other Relevant Shareholders
A Plus Investment Ltd. (incorporated in Samoa)	23,832,860 (3.00%)	Senior management and employees of the Group
Giant Victory Enterprise Co., Ltd. (incorporated in Samoa)	32,108,821 (4.04%)	Family members of Mr. Chen Li-Ming Lawrence, an executive Director
Blue Diamond Investment Corp. (incorporated in Samoa)	21,921,870 (2.76%)	Wholly-owned by Mr. Chen Li-Ming Lawrence, an executive Director
Best Trace Limited (incorporated in the BVI)	1,506,480 (0.19%)	Family members of Mr. Chen Li-Ming Lawrence, an executive Director
Merci Capital Limited (incorporated in the BVI)	28,551,674 (3.59%)	Wholly-owned by Mr. Chiang Jeh-Chung, Jack, an executive Director
Perfect Epoch Limited (incorporated in the BVI)	26,205,289 (3.30%)	Wholly-owned by Mr. Chao Ming-Cheng, Eric, an executive Director
Cassini Inc. (incorporated in the BVI)	23,610,264 (2.97%)	Directors and senior management of the Group

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## LETTER FROM THE BOARD

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<b>Name of the Relevant Shareholders (place of incorporation)</b>	<b>Number and percentage of Shares</b>	<b>The beneficial owner(s) of the Relevant Shareholders</b>
Huygens Inc. (incorporated in the BVI)	28,472,442 (3.58%)	Senior management and employees of the Group
Enceladus Investment Inc. (incorporated in the BVI)	13,450,685 (1.69%)	Senior management and employees of the Group
Xanadu Plus Inc. (incorporated in the BVI)	8,514,388 (1.07%)	Senior management and employees of the Group
Atelier One Inc. (incorporated in the BVI)	12,482,750 (1.57%)	Senior management and employees of the Group
Atelier Two Inc. (incorporated in the BVI)	25,460,000 (3.21%)	Senior management and employees of the Group
Atelier Three Inc. (incorporated in the BVI)	11,790,000 (1.48%)	Senior management and employees of the Group
	<u>504,319,737</u> <u>(63.49%)</u>	

### ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,  
By order of the board of  
**Stella International Holdings Limited**  
**Chiang Jeh-Chung, Jack**  
*Chairman*

**1. FINANCIAL RESULTS AND AUDITED FINANCIAL INFORMATION OF THE GROUP**

The annual report of the Company for each of the three years ended 31 December 2010, incorporating the audited financial information of the Group together with notes to the financial information for the relevant years, are available on the respective website of the Stock Exchange and the Company as follows:

- (A) in respect of the annual report of the Company for the year ended 31 December 2010:

<http://www.hkexnews.hk/listedco/listconews/sehk/20110329/LTN20110329409.pdf>

<http://www.stella.com.hk/investor/reports/20110329>

- (B) in respect of the annual report of the Company for the year ended 31 December 2009:

<http://www.hkexnews.hk/listedco/listconews/sehk/20100329/LTN20100329313.pdf>

<http://www.stella.com.hk/investor/reports/20100329>

- (C) in respect of the annual report of the Company for the year ended 31 December 2008:

<http://www.hkexnews.hk/listedco/listconews/sehk/20090327/LTN20090327479.pdf>

[http://www.stella.com.hk/investor/reports/ew\\_01836ar-20032009.pdf](http://www.stella.com.hk/investor/reports/ew_01836ar-20032009.pdf)

**2. INDEBTEDNESS, LIQUIDITY AND FINANCIAL RESOURCES**

As at the close of business on 30 April 2011, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement, save for the commitment of the Group to finance the incorporation/establishment of each of Ex-PRC JVC, PRC Distribution JVC and PRC WFOE pursuant to the Joint Venture Agreements, and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans or other borrowings or indebtedness in the nature of borrowing such as bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, or mortgages, charges, guarantees, or other material contingent liabilities.

**3. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that taking into account (i) the Group's cash and cash equivalents; (ii) the Group's present available loan facilities; (iii) the cash flows in connection with the Group's operating activities and (iv) the effect of the transactions contemplated under the Joint Venture Agreements, the Group will have sufficient working capital for at least 12 months from the date of this circular.

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 December 2010 (being the date to which the Group's latest consolidated financial results were made up).

**5. FINANCIAL AND TRADING PROSPECTS**

The Group is principally engaged in the development, manufacturing, sale and retailing of footwear products. The Group's business outlook as well as its business strategies are summarised below:

- *Continued Capacity Expansion through Specialised Manufacturing Hubs* – The Group will continue to implement the capacity expansion strategy by gradually expanding initial production levels at the Group's Guangxi factories and working towards the completion of the planned factories in Hunan. At the same time, the Group also plans to expand the capacity of its Vietnam manufacturing facilities while extending its foothold into Indonesia as well. Over the next few years, the Group envisages the creation of three specialised hubs for its manufacturing business: Dongguan, which will remain the Group's headquarters, research and development centre and high-end manufacturing base; Guangxi/Hunan, for the production of mid-range footwear; and South East Asia, for European shipments and mass market products. This will allow the Group to secure a stable labour supply, further optimise its operations and counter wage inflation. The Group is also prudently exploring several options, including buying out suitable acquisition target in Indonesia, to further extend its manufacturing operations and lower input costs.

- *Strong Order Pipeline in Face of Global Economic Recovery* – The Group expects its manufacturing operations and order book to remain at close to full capacity in 2011 as global economic recovery continues to fuel consumer demand. The average selling price of the Group’s footwear products is also expected to increase slightly reflecting increases in input costs. The Group also expects to generate further demand through tighter partnerships with its global partners. Potential challenges in the coming year include the appreciation of Renminbi, ongoing inflation and a mismatch between seasonality and capacity. To counter this, the Group will continue to implement cost-control measures to preserve its margins and sustain growth.
- *Enhanced Design and Development Capabilities to Maintain Position on Value Chain* – The Group currently expects to further develop ways to reinforce its ability to meet the specialised needs of its customers and maintain the quality and craftsmanship of its products. The Group will continue to invest heavily in its research and development capabilities over the coming year in order to better collaborate with its partners and increase the value of its products. In 2011, the Group plans to establish its own design studio in Italy, which will enable the Group to move closer to global fashion trends and respond more quickly to the needs and specifications of its high end fashion customers.
- *Continued Expansion of Home-Grown Retail Brands* – The Group considers that the ongoing economic expansion and social mobility in China, alongside the rising willingness of customers to recognise and pursue quality, will continue to stimulate demand for the Group’s retail offering in China. Accordingly, the Group currently expects that there is still significant space for further expansion of its home-grown Stella Luna and What For brands in the coming year. The Group will continue to pursue further growth through store expansions, same-store sales and space expansion in order to enhance the Group’s overall revenue mix. China will remain the primary focus of this expansion, although the Group will consider opportunities for strategic growth in other markets as opportunities emerge. With the Group’s home-grown Stella Luna and What For brands continuing to operate at a profit, the Group is also considering a number of opportunities to introduce and add new brand names to its retail business.

The Directors consider that the formation of the Joint Ventures is in line with the Group's strategies. Through the Joint Venture, the Group will be able cooperate closely with the Balmain Group in the manufacturing, marketing, sales and distribution of high-end footwear products under the trademark "PIERRE BALMAIN" in the PRC and other parts of the world. The Directors believe that this strategic alliance will enable the Group to further expand the Group's strong retail offering, enhance its strong market position in serving luxury and niche brands and brings into the Group's portfolio a prestigious brand name. By entering into the Joint Venture, the Group will be able to secure manufacturing orders from the newly formed joint ventures with the Balmain Group, and obtain licence from the Balmain Group to manufacture, sell and distribute the Licensed Products worldwide, and in particular in the PRC, which the Directors consider will enable the Group to further optimise its revenue mix by strengthening the Group's retail business. The entering into of the Joint Venture will enable both the Group and the Balmain Group to capture the enormous business opportunities arising from the high-end footwear products market in the world, and in particular, the PRC.



## 1. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, 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 and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 which he or she was taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

**Long positions in Shares and underlying Shares of the Company:**

Name of Director	Capacity and nature of interest	Number of Shares		Number of Underlying Shares	Total	Approximate percentage of Shareholding (%)
		Personal Interest	Corporate Interest			
Chao Ming-Cheng, Eric	Beneficial owner and interest of controlled corporation	210,000	26,205,289 <i>(Note 2)</i>	28,500 <i>(Note 1)</i>	26,443,789	3.33
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	132,000	21,921,870 <i>(Note 3)</i>	18,000 <i>(Note 1)</i>	22,071,870	2.78
Chi Lo-Jen	Beneficial owner	245,500	–	38,000 <i>(Note 1)</i>	1,783,500	0.22
				1,500,000 <i>(Note 5)</i>		
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	295,500	28,551,674 <i>(Note 4)</i>	36,000 <i>(Note 1)</i>	28,883,174	3.64
Shih Takuen, Daniel	Beneficial owner	342,500	–	65,500 <i>(Note 1)</i>	408,000	0.05
Bolliger Peter	Beneficial owner	150,000	–	–	150,000	0.02

*Notes:*

1. These interests are Restricted Unit Awards (a grant of a conditional right to acquire Shares as the Board may determine in accordance with the terms of the Long Term Incentive Scheme) granted but not yet vested under the Long Term Incentive Scheme.
2. These interests are 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.
3. These interests are 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.
4. These interests are 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.
5. These interests represent 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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

**2. SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WITH INTERESTS IN THE COMPANY WHICH ARE DISCLOSEABLE UNDER SECTION 336 OF PART XV OF THE SFO**

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had or was deemed or taken to have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

**Long positions in Shares of the Company:**

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of ordinary Shares</b>	<b>Approximate percentage of interest (%)</b>
Cordwalner Bonaventure Inc.	Beneficial owner	246,412,214	31.02
Capital Research and Management Company	Investment manager	55,678,500	7.01

**Interests in subsidiaries of the Company:**

<b>Name of the subsidiary</b>	<b>Name of shareholder</b>	<b>Number of shares held</b>	<b>Approximate percentage of interests held</b>
Stellaluna (Thailand) Co., Ltd.	Andrew Berry	29,296 ordinary shares of 100 Baht each	29.9%

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, there was no other person (other than the Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

**3. LITIGATION**

As of the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group that would have a material adverse effect on the Group's results of operations or financial condition.

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which was not determinable by the Company within one year without payment of compensation other than statutory compensation.

**5. COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES**

Mr. Chen Li-Ming, Lawrence, an executive Director and chief executive officer of the Company, is indirectly interested in 45% and approximately 66.7% of the issued share capital of Mountain Gear and Ace Opportunity respectively. Both Mountain Gear and Ace Opportunity are investment holding companies with their respective subsidiaries principally engaged in the sales and distribution of footwear products in North America.

Mr. Chen Li-Ming Lawrence does not participate in the daily operation of each of the Mountain Gear Group and Ace Opportunity Group. Each of the Mountain Gear Group and Ace Opportunity Group has its own management teams and administration which are separate from that of the Group.

Further, as disclosed in the annual report of the Company for the year ended 31 December 2010, the Group has been supplying footwear products to each of the Mountain Gear Group and the Ace Opportunity Group, which constituted continuing connected transactions which would require compliance with the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules. The independent non-executive Directors of the Company, as required under Rule 14A.37 of the Listing Rules, and the auditors of the Company, as required under Rule 14A.38 of the Listing Rules, have conducted annual review on the continuing connected transactions between the Group and each of the Mountain Gear Group and the Ace Opportunity Group and are satisfied that such continuing connected transactions have been entered into by the Group in the ordinary and usual course of its business, on normal commercial terms and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The Group will comply with all relevant requirements of Chapter 14A of the Listing Rules in respect of its connected transactions with the Mountain Gear Group, Ace Opportunity Group and any other connected persons of the Company.

In the context of the above, and coupled with the diligence of the Company's independent non-executive Directors and the members of its Audit Committee, the Group is capable of carrying on its businesses at arm's length and independently of any possible competing businesses with the Mountain Gear Group and the Ace Opportunity Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and his associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

#### **6. DIRECTORS' INTEREST IN ASSETS**

As of the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company.

#### **7. DIRECTORS' INTEREST IN CONTRACTS**

As of the Latest Practicable Date, Mr. Chen Li-Ming, Lawrence, an executive Director, is materially interested in the following arrangements which are significant in relation to the business of the Group:

- (A) a master supply agreement dated 21 August 2009 entered into between the Group with Mountain Gear for the supply of footwear products to the Mountain Gear Group by the Group for a term from 21 August 2009 to 31 December 2011, with an option for the Group to renew for successive term of three years;
- (B) a master supply agreement dated 24 November 2009 entered into between the Group and Ace Opportunity for the supply of footwear products to the Ace Opportunity Group by the Group for a term of three years from 1 January 2010 to 31 December 2012, with an option for the Group to renew for successive terms of three years;
- (C) a processing agreement dated 24 November 2009 entered into between the Group and Huizhou Stella for the processing, manufacture and supply of footwear products from Huizhou Stella for a term of three years from 1 January 2010 to 31 December 2012;
- (D) a framework purchase agreement dated 21 May 2007 entered into between the Group and Sabina for the ongoing purchase of last by the Group from Sabina expiring on 31 December 2009 which was automatically renewed for a three-year term commencing from 1 January 2010 and ending on 31 December 2012;

- (E) a framework purchase agreement dated 21 May 2007 entered into between the Group and Sincerely for the ongoing purchase of molds by the Group from Sincerely expiring on 31 December 2009 which was automatically renewed for a three-year term commencing from 1 January 2010 and ending on 31 December 2012;
- (F) a framework purchase agreement dated 21 May 2007 entered into between the Group and Simona Tannery for the ongoing purchase of tannery by the Group from Simona Tannery expiring on 31 December 2009 which was automatically renewed for a three-year term commencing from 1 January 2010 and ending on 31 December 2012;
- (G) a framework purchase agreement dated 21 May 2007 entered into between the Group and Sanford for the ongoing purchase of sole materials by the Group from Sanford expiring on 31 December 2009 which was automatically renewed for a three-year term commencing from 1 January 2010 and ending on 31 December 2012; and
- (H) a framework purchase agreement dated 21 May 2007 entered into between the Group and Xintan for the ongoing purchase of sole materials by the Group from Xintan expiring on 31 December 2009 which was automatically renewed for a three-year term commencing from 1 January 2010 and ending on 31 December 2012.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangements entered into by the Company subsisting as at the Latest Practicable Date which is significant in the relation to the business of the Company.

## **8. PROFESSIONAL QUALIFICATIONS**

The company secretary of the Company is Ms. Kan Siu Yim, Katie. She is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

## **9. MATERIAL CONTRACTS**

Saved as disclosed below, no other contract (not being contracts in the ordinary course of business) had been entered into by any member of the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date which are or may be material:

- (A) the Joint Venture Agreements.

**10. MISCELLANEOUS**

- (A) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (B) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:30 p.m. (except Saturdays and public holidays) at the principal place of business of the Company in Hong Kong at Suites 3003-04, 30/F, Tower 2, The Gateway, 25 Canton Road, Tsimshatsui, Kowloon, Hong Kong from the date of this circular up to and including 15 July 2011:

- (a) the memorandum of association and articles of association of the Company;
- (b) the material contracts as referred to in the section headed "material contracts" in this appendix;
- (c) the statement of adjustments arriving at the figures in the audited consolidated financial statements of the Company for each of the years ended 31 December 2009 and 31 December 2010, if any; and
- (d) the audited consolidated financial statements of the Company for each of the years ended 31 December 2009 and 31 December 2010.