



Stella International Holdings Limited

九興控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

The board (the “Board”) of directors (the “Directors”) of Stella International Holdings Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2007, together with comparative figures for the same period in 2006.

CONSOLIDATED INCOME STATEMENT

	Notes	The Group For the year ended 31 December	
		2007 US\$'000	2006 US\$'000
Revenue	4	937,164	779,346
Cost of sales		(716,149)	(613,686)
Gross profit		221,015	165,660
Other income		15,911	15,007
Selling and distribution costs		(38,549)	(31,666)
Administrative expenses		(45,750)	(28,876)
Research and development costs		(33,025)	(26,403)
Share of results of an associate		(89)	—
Finance costs		(297)	(91)
Profit before tax		119,216	93,631
Income tax expense	5	(4,593)	(2,257)
Profit for the year	6	114,623	91,374
Attributable to:			
Equity holders of the Company		114,695	91,374
Minority interests		(72)	—
		114,623	91,374
Dividends	7	251,241	21,787
Earnings per share - Basic (US\$)	8	0.165	0.156

* For identification purposes only

CONSOLIDATED BALANCE SHEET

		The Group	
		As at 31 December	
		2007	2006
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		158,165	144,647
Prepaid lease payments - non-current portion		8,527	9,452
Interest in an associate		1,911	—
Deposit paid for acquisition of property, plant and equipment		1,197	584
		169,800	154,683
CURRENT ASSETS			
Inventories		97,888	77,908
Trade and other receivables	9	174,119	127,976
Prepaid lease payments - current portion		239	228
Amounts due from related companies		—	78,653
Amount due from an associate		7,129	—
Investments held for trading		—	49,850
Derivative financial instruments		595	—
Cash and cash equivalents		406,960	73,673
		686,930	408,288
CURRENT LIABILITIES			
Trade and other payables	10	115,553	105,563
Derivative financial instruments		343	—
Amounts due to related companies		—	15,083
Tax payable		7,714	3,004
		123,610	123,650
NET CURRENT ASSETS		563,320	284,638
		733,120	439,321
CAPITAL AND RESERVES			
Share capital		10,350	—
Share premium and reserves		722,647	439,321
Equity attributable to equity holders of the Company		732,997	439,321
Minority interests		123	—
		733,120	439,321

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Merger reserve <i>US\$'000</i>	Capital reserve <i>US\$'000</i>	Exchange reserve <i>US\$'000</i>	Accumulated profits <i>US\$'000</i>	Total <i>US\$'000</i>	Minority interests <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2006	—	45,440	—	—	7,618	322,960	376,018	—	376,018
Exchange differences on translation of foreign operations recognised directly in equity	—	—	—	—	(6,284)	—	(6,284)	—	(6,284)
Profit for the year	—	—	—	—	—	91,374	91,374	—	91,374
Total recognised income and expense for the year	—	—	—	—	(6,284)	91,374	85,090	—	85,090
Dividend recognised as distribution	—	—	—	—	—	(21,787)	(21,787)	—	(21,787)
At 31 December 2006	—	45,440	—	—	1,334	392,547	439,321	—	439,321
Exchange difference on translation of foreign operations recognised directly in equity	—	—	—	—	200	—	200	—	200
Profit for the year	—	—	—	—	—	114,695	114,695	(72)	114,623
Total recognised income and expense for the year	—	—	—	—	200	114,695	114,895	(72)	114,823
Arising from group reorganisation	13	(45,440)	45,427	—	—	—	—	—	—
Issue of shares at premium through initial public offerings	2,494	384,084	—	—	—	—	386,578	—	386,578
Issue of shares at premium through exercise of the over-allotment option	374	57,612	—	—	—	—	57,986	—	57,986
Issue of shares by capitalisation of share premium account	7,469	(7,469)	—	—	—	—	—	—	—
Transaction costs attributable to issue of new shares	—	(15,688)	—	—	—	—	(15,688)	—	(15,688)
Capital contribution from minority shareholders	—	—	—	—	—	—	—	195	195
Recognised of equity-settled share-based payment expenses	—	—	—	1,146	—	—	1,146	—	1,146
Dividend recognised as distribution	—	(251,241)	—	—	—	—	(251,241)	—	(251,241)
At 31 December 2007	<u>10,350</u>	<u>167,298</u>	<u>45,427</u>	<u>1,146</u>	<u>1,534</u>	<u>507,242</u>	<u>732,997</u>	<u>123</u>	<u>733,120</u>

CONSOLIDATED CASH FLOW STATEMENT

	The Group	
	For the year	
	ended 31 December	
	2007	2006
	<i>US\$'000</i>	<i>US\$'000</i>
OPERATING ACTIVITIES		
Profit before tax	119,216	93,631
Adjustments for:		
Depreciation of property, plant and equipment	15,284	13,006
Dividend income	(96)	(197)
Allowance for trade receivables	—	504
Interest expense	297	91
Interest income	(10,089)	(4,450)
Loss on changes in fair value of investments held for trading	—	2,346
Share of results of an associate	89	—
Gain on changes in fair value of derivative financial instruments	(252)	—
Loss on disposal of property, plant and equipment	241	961
Release of prepaid lease payments	301	226
Share-based payment expenses	1,146	—
Allowance for inventories	1,632	291
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Operating cash flows before movements in working capital	127,769	106,409
Increase in prepaid lease payments	—	(360)
Increase in inventories	(21,612)	(12,891)
Increase in investment held for trading	—	(9,580)
Increase in trade and other receivables	(46,143)	(13,389)
Increase in amounts due from related companies	—	(19,696)
Increase in trade and other payables	4,231	11,035
Decrease in amounts due to related companies	(15,130)	(10,337)
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NET CASH FROM OPERATING ACTIVITIES	49,115	51,191
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INVESTING ACTIVITIES		
Interest received	10,089	4,450
Dividend received	96	197
Purchase of property, plant and equipment	(22,575)	(23,891)
Investment in an associate	(2,000)	—
Advance to an associate	(7,129)	—
Deposit paid for acquisition of property, plant and equipment	(1,197)	(584)
Proceeds from disposal of property, plant and equipment	424	1,749
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NET CASH USED IN INVESTING ACTIVITIES	(22,292)	(18,079)
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CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

	The Group	
	For the year	
	ended 31 December	
	2007	2006
	<i>US\$'000</i>	<i>US\$'000</i>
FINANCING ACTIVITIES		
Proceeds from initial public offerings	444,564	—
New bank borrowings raised	120,000	—
Capital contribution from minority shareholders	195	—
Share issue expenses paid	(15,688)	—
Dividend paid	(122,738)	(21,787)
Repayment of bank borrowings	(120,000)	—
Interest paid	(297)	(91)
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NET CASH FROM (USED IN) FINANCING ACTIVITIES	306,036	(21,878)
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NET INCREASE IN CASH AND CASH EQUIVALENTS	332,859	11,234
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	73,673	63,167
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	428	(728)
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CASH AND CASH EQUIVALENTS		
AT END OF THE YEAR, represented by	406,960	73,673
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Bank balances and cash	364,539	51,784
Deposits placed in financial institutions	42,421	21,889
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	406,960	73,673
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Notes:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS’s”)

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are effective for the Group’s financial year beginning 1 January 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective:

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) - INT 12	Service Concession Arrangements ³
HK(IFRIC) - INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC) - INT 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the Group on 13 June 2007. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 22 June 2007 (the “Prospectus”).

The consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement are prepared as if the group structure at Group Reorganisation had been in existence throughout the year ended 31 December 2006 and 2007 or since the respective dates of incorporation/establishment of the relevant entity, where this is a shorter period. The consolidated balance sheet as at 31 December 2006 presents the assets and liabilities of the companies now comprising the Group which had been incorporated/established as at the balance sheet date as if the group structure at Group Reorganisation had been in existence on that date. The Group Reorganisation completed on 13 June 2007 was to intersperse the Company between Cordwalner Bonaventure Inc., the holding company, Stella International Limited (“Stella International”), N.O.I. Holding Company Limited, Stella International Marketing Company Limited and Stella Luna Sol Limited.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

4. REVENUE AND SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions:

Men’s footwear	— manufacturing and sales of men’s footwear
Women’s footwear	— manufacturing and sales of women’s footwear
Footwear retailing	— retailing of footwear

These divisions are the basis on which the Group reports its primary segmental information.

4. REVENUE AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

Segmental information about these businesses is presented below.

For the year ended 31 December 2007

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing <i>US\$'000</i>	Eliminations <i>US\$'000</i>	Consolidated <i>US\$'000</i>
CONSOLIDATED					
INCOME STATEMENT					
REVENUE					
External sales	323,335	602,900	10,929	—	937,164
Inter-segment sales	—	4,239	—	(4,239)	—
Total	<u>323,335</u>	<u>607,139</u>	<u>10,929</u>	<u>(4,239)</u>	<u>937,164</u>
Inter-segment sales are charged at prevailing market rates					
RESULTS					
Segment results	<u>50,016</u>	<u>129,566</u>	<u>(465)</u>	<u>—</u>	179,117
Unallocated corporate income					15,911
Unallocated corporate expenses					(75,515)
Finance costs					<u>(297)</u>
Profit before tax					119,216
Income tax expense					<u>(4,593)</u>
Profit for the year					<u>114,623</u>
As at 31 December 2007					
CONSOLIDATED					
BALANCE SHEET					
ASSETS					
Segment assets	227,750	196,396	15,587	—	439,733
Interest in an associate	1,319	592	—		1,911
Unallocated corporate assets					<u>415,086</u>
Consolidated total assets					<u>856,730</u>
LIABILITIES					
Segment liabilities	55,631	56,508	270	—	112,409
Unallocated corporate liabilities					<u>11,201</u>
Consolidated total liabilities					<u>123,610</u>
OTHER INFORMATION					
Capital additions	10,747	10,262	2,150	—	23,159
Depreciation of property, plant and equipment	8,466	6,524	294	—	15,284
Release of prepaid lease payments	61	240	—	—	301
Loss on disposal of property, plant and equipment	73	168	—	—	241

4. REVENUE AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

For the year ended 31 December 2006

	Men's footwear US\$'000	Women's footwear US\$'000	Footwear retailing US\$'000	Eliminations US\$'000	Consolidated US\$'000
CONSOLIDATED					
INCOME STATEMENT					
REVENUE					
External sales	350,259	426,486	2,601	—	779,346
Inter-segment sales	—	1,567	—	(1,567)	—
Total	<u>350,259</u>	<u>428,053</u>	<u>2,601</u>	<u>(1,567)</u>	<u>779,346</u>
Inter-segment sales are charged at prevailing market rates					
RESULTS					
Segment results	<u>50,713</u>	<u>80,674</u>	<u>(1,327)</u>	<u>—</u>	130,060
Unallocated corporate income					11,017
Unallocated corporate expenses					(47,355)
Finance costs					(91)
Profit before tax					93,631
Income tax expense					(2,257)
Profit for the year					<u>91,374</u>
As at 31 December 2006					
CONSOLIDATED					
BALANCE SHEET					
ASSETS					
Segment assets	189,095	188,883	4,843	—	382,821
Unallocated corporate assets					180,150
Consolidated total assets					<u>562,971</u>
LIABILITIES					
Segment liabilities	48,660	47,666	2,664	—	98,990
Unallocated corporate liabilities					24,660
Consolidated total liabilities					<u>123,650</u>
OTHER INFORMATION					
Capital additions	15,783	9,729	128	—	25,640
Depreciation of property, plant and equipment	7,946	5,044	16	—	13,006
Release of prepaid lease payments	77	149	—	—	226
Loss on disposal of property, plant and equipment	245	716	—	—	961

4. REVENUE AND SEGMENTAL INFORMATION (Continued)

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2007 US\$'000	2006 US\$'000
The United States	566,242	485,520
Europe	266,428	221,153
Asia, other than the PRC	34,346	25,703
The PRC, including Hong Kong	39,794	22,923
Others	30,354	24,047
	<u>937,164</u>	<u>779,346</u>

Over 90% of the identifiable assets of the Group are located in the PRC. Therefore, no analysis on carrying amount of segment assets or additions to property, plant and equipment is presented.

5. INCOME TAX EXPENSE

	2007 US\$'000	2006 US\$'000
Tax charge represents:		
PRC Foreign Enterprise Income Tax ("FEIT")	<u>4,593</u>	<u>2,257</u>

No provision for Hong Kong Profits Tax has been made as the Group's profit neither arised in, nor derived from Hong Kong for the year ended 31 December 2007.

Taxation arising on other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

龍川興萊鞋業有限公司 (Long Chuan Simona Footwear Company Limited) was subject to FEIT at the rate of 12% for both years.

東莞興昂鞋業有限公司 (Dongguan Stella Footwear Company Limited) was exempted from FEIT for the year ended 31 December 2006 but is subject to FEIT at rate of 12% for the year ended 31 December 2007.

興記九興貿易(上海)有限公司 (Stella Luna Fashion Inc.) was subject to FEIT at rate of 33% for the year ended 31 December 2007.

The income of Stella International and Selena Footwear Inc. derived from production, business operations and other sources in the PRC are subject to FEIT at rate of 33%.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law ("Implementation Regulations"). The New Law and Implementation Regulations will gradually reduce the tax rate from 33% to 25% for certain subsidiaries of the Group beginning from 1 January 2008.

6. PROFIT FOR THE YEAR

	2007 US\$'000	2006 US\$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments	3,060	3,329
Other staff costs	118,301	105,218
Share-based payment expenses	1,113	—
Retirement benefit scheme contributions, excluding directors	1,262	733
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Total staff costs	123,736	109,280
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Allowance for inventories	1,632	291
Allowance for trade receivables	—	504
Auditor's remuneration	601	1
Cost of inventories recognised as expenses	714,517	613,395
Depreciation of property, plant and equipment	15,284	13,006
Listing expenses charged to consolidated income statement	2,840	—
Loss on changes in fair value of investments held for trading	—	2,346
Loss on disposal of property, plant and equipment	241	961
Net exchange loss	740	476
Release of prepaid lease payments	301	226
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7. DIVIDENDS

	2007 US\$'000	2006 US\$'000
Dividends recognised as distribution during the year		
Interim - HK30 cents per share (2006: Nil)	31,241	—
Dividend paid by Stella International (<i>Note i</i>)	—	21,787
Special dividend (<i>Note ii</i>)	220,000	—
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	251,241	21,787
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Notes:

- i. The dividend was paid by Stella International for the year ended 31 December 2006 to its then shareholders prior to the Group Reorganisation.
- ii. A special dividend of US\$220 million was paid to the shareholders of the Company prior to the listing of the Company's shares on the Stock Exchange.

The final dividend of HK60 cents per share has been proposed by the Directors and is subject to approval by the shareholders of the Company in the upcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 <i>US\$'000</i>	2006 <i>US\$'000</i>
Profit for the year and earnings for the purposes of basic earnings per share	<u>114,623</u>	<u>91,374</u>
	2007	2006
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>693,906,164</u>	<u>585,000,000</u>

The calculations of basic earnings per share for the year ended 31 December 2006 and 2007 were based on the Company's shares of 585,000,000 shares deemed to be issued throughout the year assuming the Group Reorganisation had been effective and the capitalisation of 584,000,000 shares had existed on 1 January 2006.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during both years.

9. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period of 30 to 90 days to its trade customers.

The aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	2007 <i>US\$'000</i>	2006 <i>US\$'000</i>
Trade receivables:		
0 - 30 days	97,296	75,762
31 - 60 days	34,415	25,918
61 - 90 days	7,830	4,331
Over 90 days	<u>6,572</u>	<u>3,932</u>
	146,113	109,943
Less: allowance for doubtful debts	<u>—</u>	<u>(504)</u>
	<u>146,113</u>	<u>109,439</u>

10. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables at the balance sheet date is as follows:

	2007 US\$'000	2006 US\$'000
Trade payables:		
0 - 30 days	54,255	31,033
31 - 60 days	7,095	26,972
Over 60 days	10,856	9,469
	<u>72,206</u>	<u>67,474</u>

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2007, the Group recorded turnover of US\$937.2 million, representing year-on-year growth of 20.3%, while net profit attributable to shareholders grew 25.5% year-on-year to US\$114.7 million. Excluding the one-time expenses of US\$4.0 million associated with the listing of the Company on the Stock Exchange, net profit attributable to shareholders would have increased by over 30% to US\$118.7 million. Basic earnings per share increased 5.8% year-on-year to US\$0.165.

During the year under review, the Group's shipment totaled 47.7 million pairs, increased by 9.9% from the 43.4 million pairs sold in 2006. The average selling price per pair ("ASP") was US\$19.3 (2006: US\$17.8), representing a year-on-year gain of 8.4%.

The Group maintained rapid business growth during the year under review despite the challenging operation environment. The Group's gross profit for the year was US\$221.0 million. This increase of 33.4% over the previous year was a result of the Group's strategy of enhancing product mix with a focus on women fashion footwear, coupled with our superior economies of scale as well as our continued efforts towards prudent cost control with regard to raw material and manufacturing costs. The gross profit margin was 23.6%, representing an improvement of 2.3 percentage points over 2006. In addition, operating EBIT margin improved to 11.5%, as compared to 10.9% in the previous year. The improvement on profit margins was attributable to improvement in sales mix, higher operational efficiencies and the implementation of cost control measures.

The Group's strategy to focus on women fashion footwear lifted the women's fashion footwear business to 33.5% of the Group's total revenue and became the largest business segment in 2007 and was followed by men's and women's casual footwear, which contributed 30.5% and 27.5% respectively of the total revenue. The men's fashion footwear and women's private label business generated 3.8% and 3.5% of the total revenue respectively. Finally, the Group's retail business represented 1.2% of the total revenue and reached US\$10.9 million in 2007 for an increase of 3.2 times over that in 2006.

Geographically, North America and Europe continued to be the Group's two largest markets, with 60.4% and 28.4% respectively of the Group's total revenue for the year under review, being derived from sales to customers in these regions. They were followed by Asia (3.7%), the PRC and Hong Kong (4.3%), and other geographical regions (3.2%).

The Group continued to perform well in the women's fashion and men's casual footwear segments. It has been the Group's strategy to target the women's fashion footwear market by leveraging our strength in this segment which requires precise manufacturing skill, craftsmanship and expertise in design and development. An analysis of revenue by business segments can be illustrated in the table below:

	Revenue		Growth (%)
	2007 US\$'000	2006 US\$'000	
Men's Casual	285,088	262,914	8.4%
Men's Fashion	34,965	84,584	-58.7%
Men's Others	3,282	2,761	18.9%
Subtotal	323,335	350,259	-7.7%
Women's Casual	255,577	250,838	1.9%
Women's Fashion	308,797	136,475	126.3%
Women's Private Label	31,747	35,502	-10.6%
Women's Others	6,779	3,671	84.7%
Subtotal	602,900	424,486	41.4%
Retail	10,929	2,601	320.2%
Total	937,164	779,346	20.3%

BUSINESS REVIEW

Manufacturing Business

The Group continued to achieve significant growth with our ability to provide integrated, value-added services to our customers at the design and development stages, making us an integral partner for our customers at each stage of the manufacturing process. Our high-quality manufacturing capabilities and value-added services led to an increase in orders from existing customers, as well as the addition of new high-end international brand customers which fueled the volume growth and helped the Group continue to gain market share.

Despite keen competition in the industry and rising raw material costs, our gross profit margin was maintained at a healthy level of 23.6% on the back of improved product mix, production efficiency and economies of scale of our facilities. The Group has also recorded a steady growth in ASP primarily due to value added services in manufacturing high-quality footwear in small and customized orders to meet the needs of our brand customers.

Furthermore, both our own and contracted manufacturing and production facilities, which are located in Guangdong, China, and Vietnam, continued to operate at full capacity.

The Group also made efforts to further improve the mix of product offerings and strengthen our design and development capabilities. To keep abreast of the latest market trends, the Group has actively participated in numerous international trade fairs and exhibitions. The Group strives to build on our competitive strengths in order to better focus our manufacturing efforts on the fast-growing and highly profitable men's and women's fashion and casual segments.

Retail Business

During the year under review, the Group has established a strong foothold in China's retail market in order to further capture the opportunities brought about by the rapidly growing economy and the increasing purchasing power in the PRC.

The Group's retail business continued to perform well. As at 31 December 2007, the Group owned and operated 73 Stella Luna stores, of which 67 were located in 22 major cities in the PRC and the rest being in Bangkok and Phuket in Thailand, and 10 What For retail stores in the PRC.

Retail sales of the Group's two brands, Stella Luna and What For, amounted to approximately US\$10.5 million and US\$0.4 million of the Group's total revenue respectively.

The robust growth of the retail business was mainly attributable to the following factors. The Stella Luna brand continued to be well received by the mid to high-end fashion market and was a tremendous success in every aspect, especially in the primary cities. The Group's other brand, What For, which is aimed at the contemporary and lifestyle market segment, has received overwhelming response from its targeted customers since its launch in Shanghai in July 2007. The fast acceptance of these brands has also greatly facilitated broad coverage and deep penetration of the target market over a short period of time.

PROSPECTS

Manufacturing Business

Despite the challenging business environment, the Group achieved satisfactory growth in the manufacturing business and we are to sustain such growth in 2008. Looking forward, management is prudently optimistic about the business environment in the market given that the market consolidation and outsourcing trend will continue.

The Group plans to maintain a prudent approach towards expanding our manufacturing capacity. The construction of the new manufacturing facility in Huizhou is on schedule and is expected to commence operation in the second half of 2008. This new facility is expected to produce two million pairs of footwear in 2008, increasing the total capacity of the Group by approximately 4.4%. In addition, expansion plans have been put into motion for the Vietnam facilities. It is expected to have an annual production capacity of 12 million pairs in Vietnam by 2010.

In October 2007, the Group also set up a cooperative joint venture in Hebei in the PRC with an independent third party which is engaged in the tannery business. The joint venture, which is owned by the Group as to 40% and by the business partner as to 60%, is engaged in footwear manufacturing and is hosted at the tannery factory. It is expected that production will commence early in 2008 with the capacity to manufacture 1.6 million pairs of shoes in 2008 and 3.8 million pairs in 2009.

The Group is devoting increasing resources to improving product development and broadening our product categories in order to meet our customers' needs and market demand, and is at the same time expanding our customer base. The Group will also continue to introduce products with higher than average selling price and implement effective cost-saving measures to enhance the profitability of the Group.

Retail Business

The Group's retailing business in China has established a strong foundation. Its growth will be further driven by the rapidly growing China economy and the resulting stronger spending power of urban consumers. In view of this, the Group will take the opportunity to expand the retail business network aggressively over the next few years.

Leveraging on the knowledge gained in the local operating environment, the Group targets to speed up its expansion in terms of the number of stores, aiming to reach a total of 200 retail points in prime locations in the PRC by the end of 2008. In addition, the Group also plans to adopt a franchising scheme to accelerate the expansion of its What For brand in second and third tier cities in 2009.

The Group will continue to place strong emphasis on the same store sales growth across the region while also improving its operating efficiency. The Group will also put more efforts and resources into the marketing of its popular Stella Luna and What For brands in China in order to increase their brand awareness.

Strategic Cooperation and Brand Management Initiatives

It is anticipated that the high-end fashion footwear market will grow at a fast pace, and the fashion footwear market will continue to grow steadily in the region. To further capture the business opportunity created by the booming retail industry in Asia, and in the Greater China region, the Group, in particular, plans to bring international high-end footwear brands to the market. The Group is currently under negotiations with strategic partners and renowned brand owners for which the Group will become the exclusive brand distributor in Greater China. By leveraging on our long-term business relationships with world-class branded partners, our local expertise in the consumer sector and our excellent design and development capabilities, Stella is well positioned to seize the opportunity to firmly establish Stella as a leading retailer in the footwear industry in Greater China.

MERGERS AND ACQUISITIONS

The Group has currently earmarked approximately HK\$1,800 million (US\$230 million) of the net proceeds of the recent global offering for potential acquisitions of footwear and related accessories, brands and businesses.

In this endeavor, the Group's current priority is acquiring production plants and facilities which existing capacities not only complement those of its current manufacturing business but also go so far as to create an overall synergy with the business as well. The Group is in discussion with several potential targets. This will aid the Group to further expand its production capacity quickly while enhancing its product offerings and maintaining a high level of production efficiency.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The Company issued 195,000,000 shares at HK\$15.50 per share by way of global offering (as set out in details in the Prospectus) on 6 July 2007 and 29,250,000 shares upon the exercise of the over-allotment option at HK\$15.50 per share on 26 July 2007. The Company intends to apply the net proceeds of approximately HK\$3,357 million in accordance with the proposed allocation as stipulated in the Prospectus.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2007, the Group had cash and cash equivalents of about US\$407.0 million (31 December 2006: US\$73.7 million) with zero bank borrowing (31 December 2006: Nil).

As at 31 December 2007, the Group had current assets of US\$686.9 million (31 December 2006: US\$408.3 million) and current liabilities of about US\$123.6 million (31 December 2006: US\$123.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 5.6 as at 31 December 2007 which indicated the Group's high liquidity and healthy financial position.

BANK BORROWINGS

The Group did not have any bank borrowings as at 31 December 2007 (31 December 2006: Nil).

FOREIGN EXCHANGE EXPOSURE

The majority of the Group's sales, purchase and operating expenses were denominated in RMB, HK dollars and US dollars. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year under review.

CAPITAL EXPENDITURE

During the year under review, the Group's total capital expenditure amounted to approximately US\$23.2 million, of which approximately US\$21.0 million was used in the production capacity expansion and approximately US\$2.2 million was used in the retail network expansion.

PLEDGE OF ASSETS

As at 31 December 2007, the Group had not pledged any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2007, the Group had approximately 25,000 employees (As at 31 December 2006: 24,254). The Group cultivates a caring, sharing and learning culture among the employees and believes that human resources are significant assets to the Group's development and expansion. The Group seeks to attract, train and retain individuals who are energetic, committed with a passion for our business. We will also continue to build a strong management team internally through effective training and promotion programs. The Group adopts a remuneration system based on employees' performance, skill and knowledge, together with reference to the remuneration benchmarks in the industry and prevailing market conditions.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.6 per ordinary share to shareholders listed on the register of members of the Company on 2 May 2008. It is expected that the final dividend will be paid on or about 23 May 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 May 2008 to 7 May 2008 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend for the year ended 31 December 2007 and attending and voting at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm on 2 May 2008.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules since it was listed on the Stock Exchange on 6 July 2007 ("Listing Date") up until 31 December 2007. The Group upholds a high standard of corporate governance and the Directors believe that the Company has exceeded the Code in various aspects as described in more detail in the annual report of the Company to be despatched to shareholders in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code from the Listing Date to 31 December 2007.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with the code. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. CHU Pao-Kuei, Mr. NG Hak Kim, *JP.* and Mr. HUNG John Terence, *SBS, JP.* The chairman of the Audit Committee is Mr. CHU Pao-Kuei. The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, internal control and risk management procedures, and the review of the Company's compliance with any applicable laws and regulations. The Audit Committee has reviewed the consolidated annual results of the Group for the year ended 31 December 2007.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (“Remuneration Committee”) in compliance with the Code. The Remuneration Committee has three members comprising two independent non-executive Directors, Mr. NG Hak-Kim, *JP.*, Mr. CHU Pao-Kuei and a non-executive Director of the Company, Mr. SHIH Takuen, Daniel. The chairman of the Remuneration Committee is Mr. NG Hak-Kim, *JP.* The principal duties of the Remuneration Committee include making recommendations to the Board on the Company’s policy and structure for all remuneration of Directors and senior management, the review of the Company’s overall human resources strategy, determining the specific remuneration packages of all executive Directors and senior management and administering and overseeing the Company’s share option and share award scheme in accordance with the terms of the long term incentive scheme of the Company.

NOMINATION COMMITTEE

The Company has established a nomination committee (“Nomination Committee”) in compliance with the Code. The Nomination Committee has four members comprising three independent non-executive Directors, Mr. HUNG John Terence, *SBS, JP.*, Mr. CHU Pao Kuei and Mr. NG Hak-Kim, *JP.* and a non-executive Director, Mr. SHIH Takuen, Daniel. The chairman of the Nomination Committee is Mr. HUNG John Terence, *SBS, JP.* The principal duties of the Nomination Committee include the review of the structure, size and composition of the Board, making recommendations to the Board on the selection and nomination of Directors and the assessment of the independence of independent non-executive Directors.

CORPORATE GOVERNANCE COMMITTEE

The Company has established a corporate governance committee (“Corporate Governance Committee”) in compliance with the Code. The Corporate Governance Committee has three members comprising a non-executive Director, Mr. SHIH Takuen, Daniel, and two independent non-executive Directors, Mr. CHU Pao-Kuei and Mr. HUNG John Terence, *SBS, JP.* The chairman of the Corporate Governance Committee is Mr. SHIH Takuen, Daniel. The principal duties of the Corporate Governance Committee include the review of the corporate governance practices of the Company and monitoring compliance with the relevant requirements under the Listing Rules and any applicable laws and regulations and monitoring each of the Audit Committee, Remuneration Committee and Nomination Committee of the performance of their respective duties and obligations in accordance with their respective terms of reference, the Listing Rules and any applicable laws and regulations.

INVESTOR RELATIONS COMMITTEE

The Company has established an investor relations committee (“Investor Relations Committee”) in compliance with the Code. The Investor Relations Committee has three members comprising an independent non-executive Director, Mr. HUNG John Terence, *SBS, JP.*, an executive Director, Mr. CHI Lo-Jen, Stephen, and the chief financial officer of the Company, Mr. LEE Kwok Ming, Don. The chairman of the Investor Relations Committee is Mr. HUNG John Terence, *SBS, JP.* The principal duties of the Investor Relations Committee include formulating and amending the corporate disclosure guidelines, providing guidance to the investor relations division in relation to formulating investor relations/public relations policies, reviewing material information that is to be disclosed to the public and approving press release.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the listing of the Company's shares on the main board of Stock Exchange on 6 July 2007 until 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

By Order of the Board
Stella International Holdings Limited
Chiang Jeh-Chung, Jack
Chairman

Hong Kong, 27 March 2008

As at the date of this announcement, the executive Directors are Mr. Chiang Jeh-Chung, Jack, Mr. Chao Ming-Cheng, Eric, Mr. Chen Li-Ming, Lawrence, Mr. Shieh Tung-Pi, Billy and Mr. Chi Lo-Jen, Stephen, the non-executive Director is Mr. Shih Takuen, Daniel and the independent non-executive Directors are Mr. Chu Pao-Kuei, Mr. Ng Hak-Kim, JP and Mr. Hung John Terence, SBS, JP.