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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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011, together with the comparative figures for the previous financial year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	<i>Notes</i>	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Revenue	3	1,494,531	1,293,521
Cost of sales		(1,142,066)	(1,010,553)
Gross profit		352,465	282,968
Other income		14,467	9,223
Other gain and loss		(3,894)	(1,920)
Distribution and selling expenses		(100,675)	(66,664)
Administrative expenses		(61,221)	(56,512)
Research and development costs		(44,753)	(39,621)
Share of results of associates		525	1,986
Profit before tax		156,914	129,460
Income tax expense	4	(14,130)	(8,132)

* *For identification purpose only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(continued)

For the year ended 31 December 2011

	Notes	2011 US\$'000	2010 US\$'000
Profit for the year	5	<u>142,784</u>	<u>121,328</u>
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operation		<u>1,063</u>	<u>(7,864)</u>
Total comprehensive income for the year		<u>143,847</u>	<u>113,464</u>
Profit (loss) for the year attributable to:			
Owners of the Company		<u>142,988</u>	<u>121,408</u>
Non-controlling interests		<u>(204)</u>	<u>(80)</u>
		<u>142,784</u>	<u>121,328</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		<u>144,040</u>	<u>113,551</u>
Non-controlling interests		<u>(193)</u>	<u>(87)</u>
		<u>143,847</u>	<u>113,464</u>
Earnings per share	7		
– basic (US\$)		<u>0.181</u>	<u>0.154</u>
– diluted (US\$)		<u>0.180</u>	<u>0.153</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	<i>Notes</i>	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		186,603	160,903
Prepaid lease payments		13,230	8,314
Goodwill		–	2,423
Interests in associates		15,744	18,019
Deposit paid for acquisition of property, plant and equipment		33,272	7,821
		248,849	197,480
CURRENT ASSETS			
Inventories		182,497	143,118
Trade and other receivables	8	266,732	228,233
Prepaid lease payments		320	254
Amounts due from associates		56,348	35,804
Amounts due from related companies		–	1,514
Derivative financial instruments		293	231
Held for trading investments		51,905	23,281
Tax recoverable		3,697	–
Cash and cash equivalents		264,233	360,210
		826,025	792,645
CURRENT LIABILITIES			
Trade and other payables	9	145,164	144,852
Bills payable	9	35,842	19,189
Derivative financial instruments		–	22
Tax liabilities		31,868	23,855
		212,874	187,918
NET CURRENT ASSETS		613,151	604,727
		862,000	802,207
CAPITAL AND RESERVES			
Share capital		10,160	10,160
Share premium and reserves		852,117	792,131
Equity attributable to owners of the Company		862,277	802,291
Non-controlling interests		(277)	(84)
		862,000	802,207

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2011

Attributable to owners of the Company												
	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000 (Note 1)	Capital reserve US\$'000 (Note 2)	Exchange reserve US\$'000	Shares held for share award scheme US\$'000	Capital redemption reserve US\$'000 (Note 3)	Share award reserve US\$'000	Accumulated profits US\$'000	Sub-total US\$'000	Non-controlling interests US\$'000	Total US\$'000
As at 1 January 2010	10,160	154,503	45,427	1,146	5,131	(7,041)	190	373	558,585	768,474	3	768,477
Exchange difference on translation of foreign operations	-	-	-	-	(7,857)	-	-	-	-	(7,857)	(7)	(7,864)
Profit for the year	-	-	-	-	-	-	-	-	121,408	121,408	(80)	121,328
Total comprehensive (expense) income for the year	-	-	-	-	(7,857)	-	-	-	121,408	113,551	(87)	113,464
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	2,071	-	2,071	-	2,071
Shares vested under long term incentive scheme	-	-	-	-	-	1,985	-	(1,418)	(567)	-	-	-
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(81,805)	(81,805)	-	(81,805)
As at 31 December 2010	10,160	154,503	45,427	1,146	(2,726)	(5,056)	190	1,026	597,621	802,291	(84)	802,207
Exchange difference on translation of foreign operations	-	-	-	-	1,052	-	-	-	-	1,052	11	1,063
Profit for the year	-	-	-	-	-	-	-	-	142,988	142,988	(204)	142,784
Total comprehensive (expense) income for the year	-	-	-	-	1,052	-	-	-	142,988	144,040	(193)	143,847
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	772	-	772	-	772
Shares vested under long term incentive scheme	-	-	-	-	-	1,706	-	(378)	(1,328)	-	-	-
Dividend recognised as distribution	-	-	-	-	-	-	-	-	(84,826)	(84,826)	-	(84,826)
As at 31 December 2011	10,160	154,503	45,427	1,146	(1,674)	(3,350)	190	1,420	654,455	862,277	(277)	862,000

Notes:

- (1) The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of (i) Stella International Limited (“Stella International”), (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company in 2007.
- (2) The capital reserve arises from the following transactions:
 - (i) During the year ended 31 December 2007, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International to an employee of the Group by way of gift as an incentive to attract and retain the employee in the Group prior to the group reorganisation.
 - (ii) During the year ended 31 December 2007, Cordwalner Bonaventure Inc. (“Cordwalner”) issued and allotted 1.17% preferred shares in Cordwalner with subscription price US\$3,150,000 to Eagle Mate Capital Limited, a company owned by an employee, which will hold these shares on behalf of the employees as an incentive to attract and retain the employee in the Group after the listing of the Company’s shares.

These transactions were accounted for as an equity-settled share-based payment transactions in equity, over the vesting period, based on the fair value of the relevant shares at the grant date.

- (3) During the year ended 31 December 2008, the Company repurchased an aggregate of 14,870,500 own ordinary shares on the Stock Exchange (as defined in Note 1 to the consolidated financial statements) and these repurchased shares were cancelled prior to 31 December 2008. The issued share capital of the Company was reduced by the nominal value of these repurchased shares in the amount of HK\$1,487,000 (US\$190,000) and the equivalent amount was transferred from accumulated profits to the capital redemption reserve pursuant to 37(4) of the Companies Law (2007 Revision) of Cayman Islands. The premium paid on the repurchase of these shares in the amount of US\$12,795,000 was charged to share premium. The aggregate consideration to repurchase these shares in the amount of US\$12,985,000 was deducted from shareholders’ equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 US\$'000	2010 US\$'000
OPERATING ACTIVITIES		
Profit before tax	156,914	129,460
Adjustments for:		
Depreciation of property, plant and equipment	25,851	24,842
Written down of inventories	1,687	355
Share of results of associates	(525)	(1,986)
Net gain on changes in fair value of derivative financial instruments	(84)	(185)
Net loss on changes in fair value of held for trading investments	619	601
Release of prepaid lease payments	512	250
Loss on disposal of property, plant and equipment	183	26
Interest income	(4,892)	(2,929)
Share-based payment expenses	772	2,071
Impairment loss of interest in an associate	3,200	–
Impairment loss of goodwill	2,423	–
	<hr/>	<hr/>
Operating cash flows before movements in working capital	186,660	152,505
Increase in inventories	(41,066)	(50,512)
Increase in trade and other receivables	(38,499)	(33,564)
Increase in held for trading investments	(29,243)	(23,882)
Increase in amounts due from associates	(20,544)	(6,851)
Decrease (increase) in amounts due from related companies	1,514	(1,514)
Increase in trade and other payables	10,944	17,008
	<hr/>	<hr/>
Cash generated from operations	69,766	53,190
Income tax paid	(10,297)	(3,372)
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	59,469	49,818
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(41,163)	(29,420)
Deposit paid for acquisition of property, plant and equipment	(33,272)	(7,492)
Prepaid lease payment of land use right	(5,165)	–
Investment in an associate	(400)	(7,000)
Interest received	4,892	2,929
Proceeds from disposal of property, plant and equipment	370	541
Decrease in bank deposits	–	108,117
Dividend received	–	2,674
Acquisition of subsidiaries (net of cash and cash equivalents received)	–	1,279
	<hr/>	<hr/>
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(74,738)	71,628

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*
For the year ended 31 December 2011

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
CASH USED IN FINANCING ACTIVITIES		
Dividend paid	<u>(84,826)</u>	<u>(81,805)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(100,095)	39,641
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	360,210	317,120
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>4,118</u>	<u>3,449</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by	<u>264,233</u>	<u>360,210</u>
Bank balances and cash	219,832	187,553
Deposits placed in financial institutions	<u>44,401</u>	<u>172,657</u>
	<u>264,233</u>	<u>360,210</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

New and revised standards and interpretations applied in the current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfer of Financial Assets ¹
	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets ⁴
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁶
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards that are relevant to the Group are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

2. 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 of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

3. SEGMENT INFORMATION

Information reported to the chief executives of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of footwear manufactured and on footwear retailing and wholesaling.

Specifically, the Group’s reportable segments under HKFRS 8 are as follows:

- 1) Men’s footwear – the manufacturing and sales of men’s footwear
- 2) Women’s footwear – the manufacturing and sales of women’s footwear
- 3) Footwear retailing and wholesaling

3. SEGMENT INFORMATION *(continued)*

(a) Operating segments

Segment revenues and results

For the year ended 31 December 2011

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Segment Total <i>US\$'000</i>	Eliminations <i>US\$'000</i>	Consolidated <i>US\$'000</i>
REVENUE						
External sales	471,197	924,381	98,953	1,494,531	–	1,494,531
Inter-segment sales	–	40,785	–	40,785	(40,785)	–
Total	<u>471,197</u>	<u>956,166</u>	<u>98,953</u>	<u>1,535,316</u>	<u>(40,785)</u>	<u>1,494,531</u>
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	<u>60,672</u>	<u>177,008</u>	<u>6,716</u>	<u>244,396</u>	<u>(460)</u>	243,936
Unallocated income						
– Interest income on bank balances						4,748
– Net gain on changes in fair value of derivative financial instruments						71
– Rental income						4,359
– Sale of scrap						172
– Others						5,314
Unallocated expenses						
– Research and development costs						(44,753)
– Central administrative costs						(51,216)
– Net loss on changes in fair value of held for trading investments						(619)
– Impairment loss on interests in associates						(3,200)
– Impairment loss in goodwill						(2,423)
Share of results of associates						<u>525</u>
Profit before tax						<u>156,914</u>

3. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results (continued)

For the year ended 31 December 2010

	Men's footwear <i>US\$'000</i>	Women's footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Segment Total <i>US\$'000</i>	Eliminations <i>US\$'000</i>	Consolidated <i>US\$'000</i>
REVENUE						
External sales	420,607	806,626	66,288	1,293,521	–	1,293,521
Inter-segment sales	–	21,476	–	21,476	(21,476)	–
	<u>420,607</u>	<u>828,102</u>	<u>66,288</u>	<u>1,314,997</u>	<u>(21,476)</u>	<u>1,293,521</u>
Total	<u>420,607</u>	<u>828,102</u>	<u>66,288</u>	<u>1,314,997</u>	<u>(21,476)</u>	<u>1,293,521</u>
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	<u>50,137</u>	<u>153,945</u>	<u>999</u>	<u>205,081</u>	<u>(458)</u>	204,623
Unallocated income						
– Interest income on bank balances						2,865
– Net gain on changes in fair value of derivative financial instruments						231
– Rental income						3,725
– Sale of scrap						260
– Others						1,865
Unallocated expenses						
– Research and development costs						(39,621)
– Central administrative costs						(45,851)
– Net loss on changes in fair value of derivative financial instruments						(22)
– Net loss on change in fair value of held for trading investments						(601)
Share of results of associates						<u>1,986</u>
Profit before tax						<u><u>129,460</u></u>

3. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents profit attributable to each segment without allocation of corporate income and expenses, interest income on bank balances, net gain on changes in fair value of derivative financial instruments, rental income, sale of scrap, research and development costs, impairment loss on interests in associates, impairment loss in goodwill, share of results of associates, net loss on changes in fair value of held for trading investments and central administration costs. This is the measure reported to the Group's chief executives for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Segment assets		
Men's footwear	240,864	220,841
Women's footwear	389,549	325,636
Footwear retailing and wholesaling	<u>78,464</u>	<u>51,387</u>
Total segment assets	708,877	597,864
Other assets	<u>365,997</u>	<u>392,261</u>
Consolidated assets	<u><u>1,074,874</u></u>	<u><u>990,125</u></u>
	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Segment liabilities		
Men's footwear	80,572	72,774
Women's footwear	83,879	84,966
Footwear retailing and wholesaling	<u>12,931</u>	<u>11,919</u>
Total segment liabilities	177,382	169,659
Other liabilities	<u>35,492</u>	<u>18,259</u>
Consolidated liabilities	<u><u>212,874</u></u>	<u><u>187,918</u></u>

3. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment assets and liabilities (continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than tax recoverable, held for trading investments, derivative financial assets, cash and cash equivalents and unallocated corporate asset; and
- all liabilities are allocated to reportable segments other than tax liabilities, derivative financial liabilities and unallocated corporate liabilities not belonging to any operating segments.

Other segment information

2011

	Men's Footwear US\$'000	Women's Footwear US\$'000	Footwear retailing and wholesaling US\$'000	Total US\$'000
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	29,604	16,007	3,373	48,984
Depreciation	10,362	11,813	3,676	25,851
Loss on disposal of property, plant and equipment	2	181	–	183
(Reversal) write-down of inventories	(793)	570	1,910	1,687
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest in associates	–	10,013	5,331	15,344
Share of (loss) profit of associates	–	(2,202)	2,727	525
Income tax expense	4,390	7,696	2,044	14,130

3. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Other segment information *(continued)*

2010

	Men's Footwear <i>US\$'000</i>	Women's Footwear <i>US\$'000</i>	Footwear retailing and wholesaling <i>US\$'000</i>	Total <i>US\$'000</i>
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	20,492	9,372	3,586	33,450
Depreciation	12,642	9,009	3,176	24,827
Loss on disposal of property, plant and equipment	–	26	–	26
Write-down (reversal) of inventories	288	288	(221)	355
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest in associates	–	15,415	2,604	18,019
Share of profit of associates	–	28	1,958	1,986
Income tax expense	3,461	4,388	283	8,132

(b) Revenue from major products and services

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Men's footwear	471,197	420,607
Women's footwear	1,023,334	872,914
	<u>1,494,531</u>	<u>1,293,521</u>

3. SEGMENT INFORMATION *(continued)*

(c) Geographical information

The Group's revenue from external customers based on location of the customers and information about its non-current assets by geographical locations of the assets are detailed below:

	Revenue from external customers		Non-current assets As at 31 December	
	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
United States of America	720,160	675,539	–	–
United Kingdom	161,060	146,166	–	–
The PRC (country of domicile)	152,955	97,629	248,849	197,480
Netherlands	88,772	58,532	–	–
Thailand	61,454	45,064	–	–
Italy	57,426	59,085	–	–
Canada	36,687	30,678	–	–
Spain	28,028	30,026	–	–
Japan	26,293	17,395	–	–
Belgium	25,113	19,382	–	–
South Korea	13,342	9,984	–	–
Germany	13,248	13,720	–	–
Singapore	12,761	10,206	–	–
Switzerland	11,683	7,853	–	–
Australia	9,489	9,322	–	–
Panama	6,288	5,323	–	–
Portugal	452	395	–	–
Others	69,320	57,222	–	–
	1,494,531	1,293,521	248,849	197,480

3. SEGMENT INFORMATION *(continued)*

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Customer A ¹	272,574	221,637
Customer B ¹	225,193	184,965

¹ Revenue from both the men's and women's footwear operating segments in aggregate

4. INCOME TAX EXPENSE

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Current tax:		
PRC Enterprise Income Tax ("EIT")	14,121	8,132
Hong Kong Profits Tax	9	–
	<u>14,130</u>	<u>8,132</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for 2011. For the year ended 31 December 2010, no provision for taxation has been made as the subsidiaries in Hong Kong have no assessable profit.

Under the law of the PRC on EIT and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% effective from 1 January 2008 onwards.

The income of Dongguan Stella Footwear Company Limited ("Dongguan Stella"), Long Chuan Simona Footwear Company Limited ("Long Chuan Simona"), Stella Fashion Inc., Stella International and Selena Footwear Inc. derived from production, business operations and other sources in the PRC is subject to EIT at a rate of 25% for the years ended 31 December 2011 and 2010.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Bestsource Technology (Macau Commercial Offshore) Limited ("Bestsource"), a subsidiary acquired in year 2010 is exempted from Macao Complementary Tax.

No deferred tax has been provided in the consolidated financial statements in respect of the temporary differences attributable to profits generated by both Dongguan Stella and Long Chuan Simona as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Taxation arising in other jurisdictions including Thailand and Malaysia is calculated at the rate prevailing in the relevant jurisdictions. No provision for taxation has been made as the subsidiaries in these jurisdictions have no assessable profit during both years.

4. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2011 US\$'000	2010 US\$'000
Profit before tax	<u>156,914</u>	<u>129,460</u>
Tax at the applicable PRC EIT rate of 25% (2010: 25%)	39,229	32,365
Tax effect of expenses not deductible for tax purposes (Note i)	7,516	6,436
Tax effect of income not taxable for tax purposes (Note ii)	(32,559)	(30,127)
Tax effect of share of results of associates	(131)	(602)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>75</u>	<u>60</u>
Income tax expense	<u>14,130</u>	<u>8,132</u>

Notes:

- i.* The tax effect of expenses not deductible mainly represents the subcontracting charges and operating expenses in the PRC with payment receipts but no invoices for tax deduction claim under the relevant tax jurisdictions.
- ii.* The tax effect of income not taxable relates to the income of Stella International and Bestsource which are not assessable under their relevant tax jurisdictions. As Stella International has no fixed place to carry out the operation, it subcontracted and engaged other companies as services providers to perform supporting activities and remunerate them with the service fee while Bestsource is exempted from Macao Complementary Tax.

In October 2010, the Inland Revenue Department (“IRD”) initiated a tax audit on the Hong Kong tax affairs of certain subsidiaries of the Company for the years of assessment from 2004/05 onwards.

From March 2011 to March 2012, the IRD issued estimated profits tax assessments relating to the years of assessment 2004/05 and 2005/06, that is, for the financial years ended 31 December, 2004 and 2005, against certain subsidiaries of the Company. The Group lodged objections with the IRD against these estimated assessments. The IRD agreed to hold over the tax claimed subject to the purchasing of tax reserve certificates (“TRCs”). As at 31 December 2011, the Group purchased TRCs amounted to HK\$28,700,000 (equivalent to approximately US\$3,697,000) for the year of assessment 2004/05, which has been recorded in tax recoverable.

The directors of the Company are of the opinion that the tax audit exercise is still at a very preliminary stage and that no profits tax is payable by the Group as the subsidiaries in question did not carry out any business, nor derive any profits, in Hong Kong. Accordingly, no additional provision for Hong Kong Profits Tax is considered necessary in respect of the tax audit.

5. PROFIT FOR THE YEAR

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	3,680	4,563
Other staff costs	244,663	203,593
Share-based payment expenses, excluding directors	395	1,240
Retirement benefit scheme contributions, excluding directors	186	97
	<hr/>	<hr/>
Total staff costs	248,924	209,493
	<hr/>	<hr/>
Auditor's remuneration	439	618
Cost of inventories recognised as an expense (includes written down of inventories of US\$1,687,000 (2010: US\$335,000))	1,142,066	1,010,553
Depreciation of property, plant and equipment	25,851	24,842
Release of prepaid lease payments	512	250
Share of taxation of associates (included in share of results of associates)	22	418
	<hr/> <hr/>	<hr/> <hr/>

6. DIVIDENDS

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
2010 final dividend of HK53 cents per share (2010: 2009 final dividend of HK40 cents per share) paid	54,227	51,158
2011 interim dividend of HK30 cents per share (2010: HK30 cents per share) paid	30,599	30,647
	<hr/>	<hr/>
	84,826	81,805
	<hr/> <hr/>	<hr/> <hr/>

The final dividend of HK68 cents per share for the year ended 31 December 2011 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Earnings		
Profit for the year and earnings attributable to owners of the Company for the purposes of basic earnings per share	<u>142,988</u>	<u>121,408</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	791,903,937	790,708,942
Effect of dilutive potential ordinary shares:		
Unvested shares awarded	<u>369,900</u>	<u>716,948</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>792,273,837</u>	<u>791,425,890</u>

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share have been arrived at after deducting the shares held in trust for the Company by Terroy Limited.

8. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade receivables net of allowance for bad debts presented based on invoice date at the end of the reporting period:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Trade receivables:		
0 – 30 days	139,867	118,056
31 – 60 days	45,120	42,851
61 – 90 days	7,798	8,472
Over 90 days	<u>3,935</u>	<u>13,675</u>
	196,720	183,054
Other receivables	<u>70,012</u>	<u>45,179</u>
Total trade and other receivables	<u>266,732</u>	<u>228,233</u>

8. TRADE AND OTHER RECEIVABLES *(continued)*

Included in the Group's trade and other receivables balance are debtors with aggregate amount of US\$3,530,000, US\$39,000 and US\$889,000 (2010: US\$1,860,000, US\$12,000 and US\$809,000) which are denominated in RMB, HKD and other currencies other than the functional currency of the respective group entities and are exposed to currency risk.

Before accepting a new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. The majority of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US\$11,506,000 (31 December 2010: US\$14,140,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables based on the invoice date which are past due but not impaired:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
31 – 60 days	6,551	6,896
61 – 90 days	818	4,829
Over 90 days	4,137	2,415
	<hr/> 11,506 <hr/>	<hr/> 14,140 <hr/>

9. TRADE, BILLS AND OTHER PAYABLES

The following is an aged analysis of the Group's trade and bills payables presented based on invoice date at the end of the reporting period:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Trade and bills payables:		
0 – 30 days	46,979	70,322
31 – 60 days	13,693	4,073
Over 60 days	30,269	24,484
	<hr/>	<hr/>
	90,941	98,879
Other payables	90,065	65,162
	<hr/>	<hr/>
	181,006	164,041
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchase of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Included in the Group's trade and other payables balance are creditors with aggregate amount of US\$12,715,000, US\$3,000 and US\$1,902,000 (2010: US\$11,417,000, US\$14,000 and US\$861,000) which are denominated in RMB, HKD and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

CHAIRMAN'S STATEMENT

2011 proved an unstable year as divergence in the global economy became more entrenched. Developed economies, including Europe and the US, continued to struggle under the weight of high government debt and unemployment, while developing economies led by China remained a bastion of global growth.

Behind these growth numbers, however, many export-orientated companies are being squeezed by a combination of falling orders, inflation and rising labour costs. Some manufacturers have even been forced to withdraw from the industry due to tightening credit conditions. In places such as China, this is creating a long-term environment where only companies with value-adding capabilities will survive – and I am happy to say that Stella falls into this category.

Since the foundation of our company in 1982, it has been our firm belief that long-term success would depend on our ability to offer best quality to our clients. Over the years, this has enabled us to position Stella at the high-end of the value chain.

In 2011, our hard-won reputation for quality ensured that there was continued demand for our products despite the slowing global economy. We also continued to maintain long-term relationships with some of the world's leading footwear brands, as well as a higher average selling price ('ASP') than the industry average, with our brand partners attaching a high value to our products.

Our quickly growing retail business has been relatively unaffected by the slowing global economy, with China's increasing middle class consumers continuing to provide us with a strong platform to expand our *Stella Luna* and *What For* footwear brands. With both these brands becoming firmly entrenched in the minds of China's trend setters, we have begun to shift our focus towards tapping new segments of the retail market.

Furthermore, in order to tap the global market, we will open our first *Stella Luna* store in Paris in 2012. This strategy will provide more exposure for our brand names to the world's leading fashion marketplace, and will gradually win us international recognition.

In 2011, we announced the upcoming launch of *JKJY*, our new brand targeting China's growing market for affordable luxury footwear for men, as well as plans to retail *PIERRE BALMAIN* footwear in China. The addition of these brands to our retail portfolio is an important step in our long-term plans to grow the reach and depth of our retail operations and increase its contribution to our overall business. In order to retain our leading position in the footwear industry, we opened a design studio in Italy in 2011, allowing us to react more quickly to global fashion trends and leverage the talent of some of the world's leading designers. The roll-out of such initiatives will ensure that Stella is able to continue to develop cutting-edge products and retain its niche as a high-end, value-added footwear manufacturer as well as brand player in the years to come.

In the coming year, we expect demand for our products to remain stable and we will seek to support our brand partners to counter any uncertainties in the US or European economies. On the retail side, we expect our business will continue to thrive as Stella's new and existing brands continue to enthrall China's increasingly sophisticated consumers.

On behalf of the Board, I would like to extend our sincere gratitude to our shareholders, customers and business partners for their unwavering support throughout the year. In addition, I would also like to take this opportunity to thank all my colleagues and staff for their continued contribution and unyielding commitment to Stella.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

Optimisation of Manufacturing Operations Supports Strong Performance

The Group witnessed a steady slowdown in the global economy in 2011, as a combination of the European debt crisis, natural disasters and slow economic recovery in the United States reversed some of the global economic gains of 2010.

Despite this, the Group's proactive move to optimise its manufacturing operations to include lower-cost production centres, supported by its strong relationship with brand name customers, ensured we were well positioned to deliver a satisfactory performance. During the year under review, the Group's consolidated revenue increased by 15.5% year-on-year to US\$1,494.5 million (2010: US\$1,293.5 million), despite a 1.3% fall in total shipments over the year to 52.6 million pairs (2010: 53.3 million pairs) due to the economic uncertainty. The net profit attributable to equity holders of the Company rose by 17.8% to US\$143.0 million (2010: US\$121.4 million).

The ASP of the Group's footwear products rose by 16.8% in 2011, to US\$27.1 per pair (2010: US\$23.2), which was attributable to increasing recognition of the quality of the Group's footwear products, as well as improvement to product mix. Basic earnings per share rose by 17.5% year-on-year to US\$0.181 (2010: US\$0.154), based on the weighted average number of 791,903,937 ordinary shares in 2011 (2010: 790,708,942 shares).

All segments of the Group's manufacturing business continued to perform strongly in 2011, with our women's fashion footwear business contributing to 36.3% of our total revenue (2010: 35.8%), remaining the Group's largest business segment. Contribution from our women's and men's casual footwear business was 24.5% (2010: 25.3%) and 25.6% (2010: 25.5%) of our overall revenue respectively, while the contribution from the men's fashion segment was 5.9% (2010: 6.5%).

Retail Business Moves from Strength to Strength

Our retail business continued to turn a solid full-year profit, open new stores and increase its share of overall revenue in 2011. We also continued to lay the groundwork for expanding Stella's retail portfolio, announcing plans to launch and distribute new affordable luxury brands targeting different market segments in the coming year.

Revenue from the retail business in 2011 grew by 49.3% to US\$99.0 million (2010: US\$66.3 million), as we broadened our appeal to China's growing base of mid-to-upper class consumers. Same-store sales grew by 35.2% to US\$51.9 million, up from US\$38.4 million in the preceding year, while the retail business' contribution to the Group's total revenue rose to 6.6%, up from 5.1% in 2010. Gross profit for the Group's retail business in 2011 was US\$68.6 million (2010: US\$44.8 million), representing an increase of 53.1%.

Solid Profitability in Face of Global Economic Uncertainty

Total gross profit for the year across all business segments was US\$352.5 million, an increase of 24.8% from the previous year (2010: US\$283.0 million). Gross profit margins rose to 23.6% (2010: 21.9%), while our net profit margin rose by 0.2 percentage point to 9.6% (2010: 9.4%). This rise in profit can be attributed to our continuous efforts to optimise product mix and our value-adding production process.

During the year under review, the Group's cash flow remained stable, with cash generated from operations amounting to US\$88.0 million (2010: US\$73.1 million). We invested US\$79.6 million in CAPEX for capacity expansion in 2011 and returned US\$84.8 million to shareholders as dividends.

Geographically, North America and Europe continued to be our two largest markets, accounting for 50.7% and 27.7% of the Group's total revenue in 2011. This was followed by Greater China (including Hong Kong), accounting for 10.9%, Asia (ex. Greater China), accounting for 8.9%, and other geographical regions which accounted for 1.8%.

BUSINESS REVIEW

Sustainable Margins in a Challenging Environment

The Group has long placed great emphasis on developing stable, long-term relationships with many of the world's top footwear brands, based on our strong commitment to provide best quality products. By placing ourselves at a premium position in the value chain, we have been better able to protect our margins and attract a higher ASP than the industry average.

These essential qualities provide the Group with a solid foundation to weather downturns in our principal export markets, compared to other manufacturers.

Strengthening Research and Development Capabilities

We opened a studio in Italy in 2011 to further boost the Group's design capabilities and ability to remain a strong partner of the world's top footwear brands. Based in Venice, the studio allows us to be in sync with emerging global fashion trends and changing consumer tastes. It also allowed Stella to build a strong team of experienced footwear designers, many of whom have previously worked with Europe's luxury fashion houses.

Working closely with our established design studio in Dongguan, our new team in Europe will ensure that the Group continues to develop cutting-edge and value-adding products which meet the specific needs and specifications of our clients. We will also leverage both teams in the development of new home-grown brand lines to support the further development of our retail business.

Increasingly Diverse Client Base

The Group won more clients throughout 2011 due to our reputation for good quality as more and more international footwear brands outsourced production. This is allowing a gradual diversification of our client base, which is slowly reducing the Group's reliance on its largest customers.

During the year under review, the Group's factories in Dongguan and Vietnam ran at close to full capacity, with our top five customers accounting for 58.3% of our total revenue (2010: 55.2%). Our client base currently includes a number of leading luxury footwear brands, as well as six of the world's top ten casual footwear brands.

Increasingly Diversified and Cost-Efficient Production Base

The Group is well advanced in meeting its medium goal of shifting labour-intensive operations away from coastal regions and increasing overall capacity to 70 million pairs, in order to counter the well-publicised labour and inflation challenges currently being faced by all PRC manufacturers.

Our new low-cost manufacturing facilities in the PRC's inland provinces of Guangxi and Hunan, as well as the newly acquired operation in Indonesia, are operating at an initial capacity and are already helping the Group eliminate capacity constraints and secure a stable labour supply. The Group will continue to gradually relocate and increase production to these facilities throughout the coming year to improve the overall efficiency of our manufacturing operations.

Profitable and Well-Recognised Retail Brands

The Group's profitable *Stella Luna* and *What For* retail brands continued to attract a strong following in China and other developing markets in 2011, supporting the Group's ongoing store expansion strategy to open new stores at quality shopping malls and to enlarge store space.

Throughout the year, we opened 49 *Stella Luna* and 39 *What For* stores across China and the surrounding region, increasing our reach within the world's fastest growing luxury markets. *Stella Luna* is the Group's retail brand targeting the high-end fashion footwear and leather goods markets, with prices ranging from RMB1,200 to RMB6,000. The *What For* retail brand targets the contemporary and lifestyle markets, with prices ranging from RMB600 to RMB2,500.

The following table shows the geographic distribution of our *Stella Luna* and *What For* stores as of 31 December 2011.

	<i>Stella Luna</i>	<i>What For</i>
Greater China		
Eastern China	44	30
Southern China	32	26
Northern China	32	41
North-East China	32	31
South-West China	34	34
Central China	20	20
Taiwan	3	0
	<hr/>	<hr/>
Sub-total	197	182
Thailand		
Bangkok	9	9
Phuket	2	0
Pattaya	1	0
	<hr/>	<hr/>
Sub-total	12	9
Philippines	4	1
Lebanon	6	1
United Arab Emirates	1	1
Kuwait	1	1
	<hr/>	<hr/>
Total	<u>221</u>	<u>195</u>

Expanding Retail Portfolio

The Group recently introduced *JKJY*, Stella's new in-house retail label during its 2012 Spring-Summer fashion show, as part of our strategy to expand our retail portfolio by leveraging the strong know-how of our retail team and tapping China's vast demand for different types of footwear products. Targeting China's growing market for affordable luxury footwear for men which crossover fashion and sport, we expect to open our first two *JKJY* stores in Shanghai and Beijing in 2012.

In addition to new home-grown labels, we also announced plans to sell and distribute *PIERRE BALMAIN* branded footwear in China and other countries, after entering into joint-venture agreements with Balmain Asia (a subsidiary of Balmain S.A. (Paris)). The Group plans to open its first *PIERRE BALMAIN* retail store in second half of 2012.

The Balmain joint-venture is the second joint-venture agreement entered into by the Group, following our ongoing joint-venture with Deckers Outdoor Corporation to retail and distribute UGG Australia® footwear in China. As of 31 December 2011, the Deckers joint-venture operated 11 UGG stores in China.

BUSINESS OUTLOOK

Stable Order Pipeline despite Global Uncertainty

We expect demand for our customised footwear products to remain stable throughout the coming year, even as some clients scale back orders in the face of ongoing economic uncertainty in Europe and the US. However, we expect that growing recognition of the quality of our products, our strong productivity-enhancing measures, as well as our strong relationship with our global partners will reduce the impact of further pressures on our overall performance.

Although risks associated with input cost inflation and an appreciation of RMB have diminished somewhat over the past year, the Group will remain vigilant on any impact these challenges may impose on our operations, as well as risks stemming from the Eurozone debt crisis, slow economic recovery in the US and mismatches between seasonality and capacity.

Further Investment in Low-Cost Manufacturing Capacity

The Group will continue to work towards our long-term goal of rationalising our manufacturing operations into three specialised hubs, in order to expand our low-cost manufacturing capacity, secure a stable labour force and cater for future demand: Dongguan as the Group's headquarters, design centre and high-end manufacturing base; inland China for the production of mid-range footwear; and South-East Asia for European shipments.

In the coming year, we will continue upgrading our manufacturing capacity and capabilities in Indonesia, while also shifting and expanding manufacturing capacity to our new Guangxi and Hunan facilities. With wage and input cost inflation likely to remain a long-term challenge, this ongoing strategy will enable the Group to better optimise our manufacturing operations, control costs and secure a stable labour supply.

Further Space to Grow Retail Business in Home Markets

With continued strong economic growth in the coming year, China will remain the primary focus for the expansion of our retail business in 2012. As more and more citizens join the ranks of mid-to-upper class consumers, growing demand for affordable luxury footwear and other retail segments means there is room for growth for both Stella's established and newly launched brands.

We will continue to pursue this growth through store and space expansions, same-store sales and by broadening product base in order to enhance Stella's overall revenue mix. The Group will also continue to prudently capture any opportunities, including through joint-ventures, to introduce more brand names to our retail portfolio.

***Stella Luna* Ready to Go Global**

Despite being created just over five years ago, *Stella Luna* is already attracting a fervent following by fashion lovers in China and other emerging fashion markets around the world. In line with our long-standing motto of "making the best shoes", the Group is preparing to take its retail offering global by opening *Stella Luna* stores in European cities with the first one opening in Paris in 2012.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the Group had cash and cash equivalents of about US\$316.1 million (2010: US\$383.5 million).

As at 31 December 2011, the Group had current assets of US\$826.0 million (2010: US\$792.6 million) and current liabilities of about US\$212.9 million (2010: US\$187.9 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.9 as at 31 December 2011, 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 2011 (2010: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2011, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars or RMB. Currency exposures were mostly denominated in RMB and Hong Kong dollars against the functional currency of the relevant Group companies. 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\$79.6 million, of which approximately US\$76.2 million was used in the production capacity expansion and approximately US\$3.4 million was used for the expansion of the retail store network.

PLEDGE OF ASSETS

As at 31 December 2011, the Group had not pledged any of its assets (31 December 2010: Nil).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2011, the Group had approximately 70,000 employees (2010: approximately 64,000). 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 and are committed to and passionate for our business.

The Group has continued to build a management team internally through effective learning and promotion programs, including its "Leadership Program" which is carried out to identify potential high caliber employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures.

As of 31 December 2011, the Group's recruitment efforts have remained satisfactory, despite continuing labour shortages in our primary manufacturing locations.

DIVIDEND

The Board recommended the payment of a final dividend of HK68 cents per ordinary share to shareholders of the Company (the “Shareholders”) for the year ended 31 December 2011. The proposed final dividend, amounting to approximately US\$69.6 million, will be paid to Shareholders whose names appear on the register of members of the Company on 9 May 2012, if the proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company. It is expected that the final dividend will be paid on or about 18 May 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 2 May 2012 to 4 May 2012 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company, all share transfers accompanied by the relevant share certificates must be lodged with the Company’s 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 4:30 p.m. on 30 April 2012.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2011 except the deviation from code provision E.1.2 of the Code as follows:

For code provision E.1.2 of the Code, Mr. Chiang Jeh-Chung, Jack, the chairman (“Chairman”) of the Board, had not attended the annual general meeting of the Company held on 6 May 2011 (the “2011 AGM”), but Mr. Shih Takuen, Daniel, the deputy chairman (the “Deputy Chairman”) of the Board, took the chair at the 2011 AGM, and the chairman or member of each of the Audit, Corporate Governance, Remuneration and Nomination Committees attended the 2011 AGM to answer Shareholders’ questions. The reason for such arrangement is that the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. The Chairman, Mr. Chiang Jeh-Chung, Jack, is mainly responsible for managing major customers’ relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Shih Takuen, Daniel, is responsible for providing

leadership and management to the Board and handling matters relating to investor relations and communication with the Shareholders. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of the Shareholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances. Save for the said deviation from the Code, the Group upholds a high standard of corporate governance and the Company has adopted practices for corporate governance which, the Directors believe, are of higher standard than that required under the Code in various aspects as more particularly described in the annual report of the Company to be dispatched 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 throughout the year ended 31 December 2011.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Board has reviewed the annual results of the Group for the year ended 31 December 2011.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year.

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

Hong Kong, 21 March 2012

As at the date of this announcement, the executive Directors are Mr. Chiang Jeh-Chung, Jack, Mr. Shih Takuen, Daniel, Mr. Chao Ming-Cheng, Eric, Mr. Chen Li-Ming, Lawrence and Mr. Chi Lo-Jen and the independent non-executive Directors are Mr. Chu Pao-Kuei, Mr. Ng Hak Kim, SBS, JP, Mr. Chen Johnny and Mr. Bolliger Peter.