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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1836)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008, together with the comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Six months ended 30 June	
		2008	2007
	NOTES	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**493,726**	417,325
Cost of sales		**(377,356)**	(320,796)
Gross profit		**116,370**	96,529
Other income		**6,908**	4,317
Selling and distribution costs		**(22,945)**	(16,101)
Administrative expenses		**(26,466)**	(17,637)
Research and development costs		**(15,257)**	(14,815)
Share of results of an associate		**(507)**	–
Finance costs		**–**	(80)
Profit before taxation		**58,103**	52,213
Taxation	*4*	**(2,461)**	(2,058)
Profit for the period	*5*	**55,642**	50,155
Attributable to:			
Equity holders of the Company		**55,626**	50,193
Minority interests		**16**	(38)
		55,642	50,155
Dividends	*6*	**62,296**	–
Earnings per share	*7*		
– Basic *(US$)*		**0.069**	0.086

* *For identification purposes only*

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2008

	NOTES	30 June 2008 US$'000 (Unaudited)	31 December 2007 US$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**162,276**	158,165
Prepaid lease payments – non-current portion		**8,447**	8,527
Interest in an associate		**1,403**	1,911
Deposit paid for acquisition of property, plant and equipment		**638**	1,197
		172,764	169,800
CURRENT ASSETS			
Inventories		**133,909**	97,888
Trade and other receivables	*9*	**197,457**	174,119
Prepaid lease payments – current portion		**248**	239
Amount due from an associate		**23,488**	7,129
Derivative financial instruments		**528**	595
Cash and cash equivalents		**332,819**	406,960
		688,449	686,930
CURRENT LIABILITIES			
Trade and other payables	*10*	**119,178**	115,553
Derivative financial instruments		**410**	343
Tax payable		**10,626**	7,714
		130,214	123,610
NET CURRENT ASSETS		**558,235**	563,320
		730,999	733,120
CAPITAL AND RESERVES			
Share capital	*11*	**10,350**	10,350
Share premium and reserves		**720,524**	722,647
Equity attributable to equity holders of the Company		**730,874**	732,997
Minority interests		**125**	123
		730,999	733,120

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Attributable to equity holder of the Company								
	Share capital	**Share premium**	**Merger reserve**	**Capital reserve**	**Exchange reserve**	**Accumulated profits**	**Subtotal**	**Minority interests**	**Total**
	US$'000	*US$'000*	*US$'000* *(Note i)*	*US$'000* *(Note ii)*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2007 (audited)	–	45,440	–	–	1,334	392,547	439,321	–	439,321
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	(6,149)	–	(6,149)	–	(6,149)
Profit for the period	–	–	–	–	–	50,193	50,193	(38)	50,155
Total recognised expense and income for the period	–	–	–	–	(6,149)	50,193	44,044	(38)	44,006
Arising from group reorganisation	13	(45,440)	45,427	–	–	–	–	–	–
Capital contribution from minority shareholders	–	–	–	–	–	–	–	188	188
Recognition of equity-settled share-based payment expenses	–	–	–	1,003	–	–	1,003	–	1,003
At 30 June 2007 (unaudited)	13	–	45,427	1,003	(4,815)	442,740	484,368	150	484,518
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	6,349	–	6,349	–	6,349
Profit for the period	–	–	–	–	–	64,502	64,502	(34)	64,468
Total recognised income and expense for the period	–	–	–	–	6,349	64,502	70,851	(34)	70,817
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	–	–	–	–	–	–	–	7	7
Recognition of equity-settled share-based payment expenses	–	–	–	143	–	–	143	–	143
Dividend recognised as distribution	–	(251,241)	–	–	–	–	(251,241)	–	(251,241)
At 31 December 2007 (audited)	10,350	167,298	45,427	1,146	1,534	507,242	732,997	123	733,120
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	4,547	–	4,547	(14)	4,533
Profit for the period	–	–	–	–	–	55,626	55,626	16	55,642
Total recognised expense and income for the period	–	–	–	–	4,547	55,626	60,173	2	60,175
Dividend recognised as distribution	–	–	–	–	–	(62,296)	(62,296)	–	(62,296)
At 30 June 2008 (unaudited)	10,350	167,298	45,427	1,146	6,081	500,572	730,874	125	730,999

Notes:

(i) 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 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 Company and its subsidiaries (herein collectively referred to as the "Group") in preparation for the listing of the Company in 2007.

(ii) 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 to the Group prior to the group reorganisation. This transaction has been accounted for as an equity-settled share-based payment transaction directly in equity and the Group measured the services rendered by the employee based on the fair value of the shares at the grant date.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Six months ended 30 June	
	2008	2007
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Net cash generate from (used in) operating activities	**5,986**	(52,382)
Net cash used in investing activities:		
Advance to an associate	**(16,359)**	–
Purchase of property, plant and equipment	**(9,012)**	(8,648)
Other investing cash flows	**7,419**	1,682
	(17,952)	(6,966)
Net cash (used in) from financing activities:		
Dividend paid	**(62,296)**	(90,000)
New bank borrowings raised	**–**	107,550
Capital contribution from minority shareholders	**–**	188
Other financing cash flows	**–**	(80)
	(62,296)	17,658
Net decrease in cash and cash equivalents	**(74,262)**	(41,690)
Cash and cash equivalents at 1 January	**406,960**	73,673
Effect of foreign exchange rate changes	**121**	253
Cash and cash equivalents at 30 June	**332,819**	32,236
Being:		
Bank balances and cash	**119,977**	20,779
Deposits placed in financial institutions	**212,842**	11,457
	332,819	32,236

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 ("HKAS 34"), Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007. In addition, the Group has applied the following accounting policies during the current interim period.

In the current interim period, the Group has applied, for the first time, the following interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2008.

HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

Accounting standards not yet effective

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]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]

[1] *Effective for annual periods beginning on or after 1 January 2009*

[2] *Effective for annual periods beginning on or after 1 July 2009*

[3] *Effective for annual periods beginning on or after 1 July 2008*

The adoption of Hong Kong Financial Reporting Standard 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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.

3. 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 segment information.

Segment information about these businesses is presented below.

For the period ended 30 June 2008

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing *US$'000*	Eliminations *US$'000*	Combined *US$'000*
INCOME STATEMENT					
REVENUE					
External sales	**151,013**	**331,303**	**11,410**	**–**	**493,726**
Inter-segment sales	**–**	**3,903**	**–**	**(3,903)**	**–**
Total	**151,013**	**335,206**	**11,410**	**(3,903)**	**493,726**

Inter-segment sales are charged at prevailing market rates

RESULT					
Segment results	**22,295**	**69,475**	**(939)**	**–**	**90,831**
Unallocated corporate income					**6,877**
Unallocated corporate expenses					**(39,605)**
Profit before taxation					**58,103**
Taxation					**(2,461)**
Profit for the period					**55,642**

For the period ended 30 June 2007

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing *US$'000*	Eliminations *US$'000*	Combined *US$'000*
INCOME STATEMENT					
REVENUE					
External sales	168,429	245,050	3,846	–	417,325
Inter-segment sales	–	1,222	–	(1,222)	–
Total	168,429	246,272	3,846	(1,222)	417,325

Inter-segment sales are charged at prevailing market rates

	Men's footwear *US$'000*	Women's footwear *US$'000*	Footwear retailing *US$'000*	Eliminations *US$'000*	Combined *US$'000*
RESULT					
Segment results	29,461	52,554	(351)	–	81,664
Unallocated corporate income					2,455
Unallocated corporate expenses					(31,826)
Finance costs					(80)
Profit before taxation					52,213
Taxation					(2,058)
Profit for the period					50,155

4. TAXATION

	Six months ended 30 June	
	2008	2007
	US$'000	*US$'000*
The charge comprises:		
Foreign Enterprise Income tax ("FEIT") in the People's Republic of China (the "PRC")	**2,461**	2,058

No provision for Hong Kong Profits Tax has been made as the Group's profits neither arose in, nor derived from Hong Kong during both periods.

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

Dongguan Stella Footwaer Company Limited ("Dongguan Stella") and Long Chuan Simona Footwear Company Limited ("Long Chuan Simona") were subject to FEIT at the rate of 12% for the period ended 30 June 2007.

Stella Luna Fashion Inc. ("Stella Luna") was subject to FEIT at a rate of 33% for the period ended 30 June 2007.

The income of Stella International Limited ("Stella International") and Selena Footwear Inc. ("Selena Footwear") derived from production, business operations and other sources in the PRC are subject to FEIT at a rate of 33% for the period ended 30 June 2007.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. 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 change the tax rate to 25% for certain subsidiaries from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain tax exemption and deduction for the FEIT is still applicable until the end of the five-year transitional period under the New Law.

The tax status of each of the above companies under the New Law and Implementation Regulations will be as follows:

- Dongguan Stella continues to enjoy the preferential tax treatment (12.5% tax rate, i.e. 50% of the applicable tax rate of 25%) for the years from 2008 to 2009. Thereafter, the tax rate will ratchet up to 25.0% from 2010;

- Long Chuan Simona continues to enjoy the preferential tax treatment (12.5% tax rate, i.e. 50% of the applicable tax rate of 25%) for the year of 2008. Thereafter, the tax rate will ratchet up to 25.0% from 2009;

- The tax rate for Stella Luna, Stella International and Selena Footwear effective from 2008 is 25%.

According to the New Law, starting from 1 January 2008, withholding income tax will be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Deferred tax has not been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits 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.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2008	2007
	US$'000	*US$'000*
Allowance for inventories	**171**	–
Depreciation of property, plant and equipment	**9,422**	7,748
Dividend income	**–**	(96)
Interest income on bank balances	**(5,443)**	(1,571)
Interest income on debentures	**–**	(546)
Interest on bank borrowings wholly repayable within five years	**–**	80
Loss on changes in fair value of investments held for trading	**–**	674
Loss on disposal of property, plant and equipment	**69**	24
Net loss on changes in fair value of derivative financial instruments	**134**	–
Release of prepaid lease payments	**160**	124

6. DIVIDENDS

	Six months ended 30 June	
	2008	2007
	US$'000	*US$'000*
Final dividend declared and paid for 2007		
– HK60 cents per share (2006: Nil)	**62,296**	–
Special dividend paid subsequent to period *(Note)*	**–**	220,000
Interim dividend declared subsequent to period end		
– HK30 cents (2007: HK30 cents) per share	**31,124**	31,241
	31,124	251,241

The Board has determined the payment of an interim dividend in respect of the period ended 30 June 2008 of HK30 cents (2007: HK30 cents) per ordinary share to shareholders whose names appeared in the register of members of the Company at the close of business on 5 September 2008.

Note: On 15 June 2007, a special dividend of US$220 million was declared to the sole shareholder of the Company.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the profit attributable to equity holders of the Company of US$55,626,000 (1.1.2007 to 6.30.2007: US$50,193,000) and on the number of ordinary shares of 809,250,000 (1.1.2007 to 6.30.2007: 585,000,000).

The calculations of basic earnings per share for the six months ended 30 June 2007 was based on the Company's 585,000,000 shares deemed to be issued throughout the period assuming the group reorganisation had been effective and the capitalisation of 584,000,000 shares had been existed on 1 January 2007.

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

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US$9,012,000 for business expansion.

9. TRADE AND OTHER RECEIVABLES

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

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

	30 June 2008	31 December 2007
	US$'000	*US$'000*
Trade receivables:		
0 – 30 days	**104,392**	97,296
31 – 60 days	**40,305**	34,415
61 – 90 days	**6,486**	7,830
Over 90 days	**10,758**	6,572
	161,941	146,113
Other receivables	**35,516**	28,006
	197,457	174,119

10. TRADE AND OTHER PAYABLES

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

	30 June 2008	31 December 2007
	US$'000	*US$'000*
Trade payables:		
0 – 30 days	**56,356**	54,255
31 – 60 days	**9,687**	7,095
Over 60 days	**11,528**	10,856
	77,571	72,206
Other payables	**41,607**	43,347
	119,178	115,553

11. SHARE CAPITAL

	Number of share	**Nominal value**
		HK$'000
Ordinary of HK$0.10 each		
Authorised:		
As at 1 January 2008 and 30 June 2008	5,000,000,000	500,000
Issued and fully paid:		
As at 1 January 2008 and 30 June 2008	809,250,000	80,925
Shown in financial statements as		US$10,350

12. CAPITAL COMMITMENTS

	30 June 2008	31 December 2007
	US$'000	*US$'000*
Capital expenditure in respect of the establishment of an associate authorised but not contracted for *(note 14(i))*	**490**	–
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	**3,803**	546
– acquisition of an associate *(note 14(ii))*	**16,800**	–
	20,603	546

13. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	**Transactions**	**Six months ended 30 June 2008**	Six months ended 30 June 2007
		US$'000	*US$'000*
興昂制革(惠州)有限公司[1]	Purchase of materials	**17,552**	10,866
Sincerely International Limited[2]	Purchase of consumables	**1,084**	1,311
東莞興和塑膠制品有限公司[1]	Purchase of materials	**1,303**	944
Sanford International Limited[2]	Purchase of consumables	**3,727**	4,212
	Rental income	**121**	117
	Rental expense	**65**	–
興鵬國際股份有限公司[1]	Purchase of materials	**–**	8,834
	Purchase of machinery	**–**	382
東莞市長安統來刀模加工廠[2]	Purchase of materials	**1,871**	2,487
	Rental income	**51**	45
東莞興騰鞋材有限公司[2]	Purchase of materials	**6,421**	2,634
辛集市寶得福皮業有限公司[3]	Purchase of footwear	**3,516**	–

[1] *Companies under the control of the directors of the Company*

[2] *Companies under the control of other key management personnel of the Group*

[3] *An associate of the Company*

(II) Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the period was as follows:

	Six months ended 30 June	
	2008	2007
	US$'000	*US$'000*
Short-term benefits	**285**	147

The remuneration of directors and key executives were determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

14. POST BALANCE SHEET EVENTS

(i) The Group entered into an agreement dated 9 July 2008 with Deckers Asia Pacific Limited ("Deckers Asia") for the establishment of an associate which is to be engaged in the opening of retail stores and wholesale distribution in the PRC. The initial capital injection amounts to US$1,000,000 in aggregate. The associate will be owned as to 51% by Deckers Asia and 49% by the Group.

(ii) The acquisition of the associate represents an investment of 40% shareholding in Cosmic Gold Enterprise Limited.

As at the reporting date, the above establishment and acquisition of the associates have not been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

Our Company

Established in 1982, Stella is a leading quality footwear products and services provider. We offer integrated services spanning across the design and development stages to the entire manufacturing process. Since 2006, we have established a foothold in the PRC's retail footwear market and successfully operated a total of 130 retail store under *Stella Luna* and *What For* brands. Within two years, we have achieved high brand recognition and acceptance from the emerging and growing middle-class consumers in the region. The ordinary shares of the Company were listed on the Main Board of the Stock Exchange on 6 July 2007.

Achievements in First Half 2008

1. Sustainable revenue growth

2. Margin and average selling price ("ASP") enhancement

3. Encouraging performance on key indicators

4. Stringent controls on operating costs and overheads

Primary Drivers for Revenue Growth

During the period under review, the Group achieved encouraging results and recorded a total revenue of US$493.7 million, representing a robust growth of 18.3% compared to the corresponding period in 2007. The satisfactory performance was attributable to the increasing demand for quality shoes from leading brand owners and customers worldwide, who have now recognised our high-quality manufacturing capabilities and value-added services. As a result, the Group's shoe sales totaled 23.0 million pairs, up 3.6% from the 22.2 million pairs sold in the first half of 2007. The ASP per pair was US$20.9, representing an increase of 13.6% from the corresponding period in 2007.

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

Our production scale allows us to enjoy a stronger bargaining power with our supply chain while our manufacturing flexibility enables us to serve small batch orders in an efficient manner, rendering our gross profit margin and net profit margin to stand at a healthy level of 23.6% and 11.3% respectively. Gross profit and profit attributable to shareholders reached approximately US$116.4 million and US$55.6 million respectively, representing a growth of 20.6% and 10.8% compared to the corresponding period last year.

In spite of the challenging operating environment such as surging manufacturing costs and the appreciation of the renminbi, we have successfully managed our operating costs and overheads and thus delivered sustainable profit margins.

Our Core Products and Markets

We performed well in all aspects of our business segments during the period under review. Women's fashion and women's casual footwear continued to be our core sales, which amounted to 36.0% and 30.0% of the Group's total revenue respectively. These were followed by men's casual and men's fashion footwear, which contributed 26.0% and 4.0% to the total revenue respectively. The women's private label generated 2.0% of the Group's total revenue. Finally, retail business, our sales growth driver, contributed 2.0% to the total revenue, representing a substantial increase of 200.0% over the corresponding period of the previous year.

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

Our Customers

Our core business philosophy is to grow through our customers' success. We are fully committed to serving our customers by providing quality and stylish products. During the period, our top five customers contributed to 63.0% of our total revenue. We have established long-lasting partnerships with our customers who are global premium and renowned brand owners and retailers.

Our customers include top fashion and casual footwear brands such as *Camper, Clarks, Deckers, ECCO, Rockport, The North Face, Timberland, Wolverine* and leading fashion footwear brands such as *Cole Haan, Guess, Kenneth Cole, Nine West and UGG Australia®*.

We also develop and manufacture footwear for a number of high-fashion brands that are popular worldwide, including *Celine, Christian Lacroix, Donna Karan New York, Emilio Pucci, Enzo Angiolini, Givenchy, Kenzo, Lacoste, Loewe, Marc by Marc Jacobs, Marciano, Paul Smith, Sigerson Morrison and Via Spiga*. In addition, we design, develop and manufacture private label footwear for several well-known large chain store retailers, such as *J.C. Penney*.

Business Review

We are not a traditional manufacturer

We always position ourselves as an integral partner of the international brand owners and customers. With our commitment to providing integrated value-added, skill-based services at each stage of the manufacturing process, we are able to achieve robust volume growth and gain a higher ASP than the industry average.

Our persistent efforts in delivering value-added services to our customers with top quality and reliable solutions that involve short lead time, small batch production, innovative design and development capabilities, facilitate our customers to gain sales and market share and enjoy higher flexibility and competitiveness in the marketplace.

Currently, we own a total of five facilities, four of which are in Dongguan and Longchuan, both in Guangdong province, and the other one in Heibei province, China. At the same time, we operate the production of finished footwear at four other facilities in Dongguan and two other facilities in Vietnam, pursuant to processing agreements and contractual arrangements respectively. All of our manufacturing and production facilities, including contracted ones that are located in Guangdong and Vietnam, continued to operate at full capacity.

In addition, we have been continuously improving our product offerings and strengthening our design and development capabilities. We have strived to build on our core competencies in order to better focus our manufacturing efforts on the fast-growing and highly-profitable men's and women's fashion segments, allowing us to grow through our customers' success.

Fashion is our passion

By taking full advantage of the potential of the PRC's consumer market which exhibited the strongest growth in the last decade, we continue to increase our market presence and strengthen our foothold by establishing new stores for our flagship brands *Stella Luna* and *What For* at a fast pace.

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

The following table sets out the distribution of *Stella Luna* and *What For* stores as at 30 June 2008:

Market Position	***Stella Luna*** **Affordable luxury**	***What For*** **Lifestyle Contemporary**
China		
Eastern China	22	6
Southern China	14	7
Northern China	20	13
South-West China	14	5
North-East China	11	6
Subtotal	81	37
Thailand		
Bangkok	10	-
Phutket	2	-
Subtotal	12	-
Total	93	37

Thanks to the robust consumer spending, especially on high-end women fashion footwear, we received overwhelming response from our retail customers and recorded very satisfactory results for our retail business over the first half of 2008. During the period, revenue from retail operation was approximately US$11.4 million, representing a substantial increase of 200.0% from the same period of previous year. In terms of the operating performance of its retail operation in China, store operating profit margin was 13.4%, representing a satisfactory increment of 8.1 percentage points over the first half of 2007. The same-store sales growth increased by 41.7% as compared to the corresponding period in 2007, of which 37 stores out of 81 were qualified for same-store comparison.

The robust growth of the retail business was mainly attributable to the flourishing market dynamics, surging domestic purchasing power as well as our successful marketing strategy. Both *Stella Luna* and *What For* have received overwhelming response from their targeted customers, which are mid-to high-end fashion consumers and contemporary and lifestyle market respectively. To stay abreast of the latest market trends, the Group proactively participated in numerous trade fairs and exhibitions to gain brand awareness and reputation in the marketplace.

Future Plans

Uncertainty brought by the subprime crisis and concerns over the US economic downturn have adversely affected both consumers' confidence and discretionary spending. However, we remain optimistic about our business outlook in the second half of 2008 and beyond as market consolidation and global outsourcing trends further intensify.

For the second half of 2008, we will continue to implement our strategy of upgrading and enhancing production facilities to boost production capability and expand product offerings. The new manufacturing facility in Huizhou has commenced operation in the second half of 2008 to manufacture uppers. Moreover, expansion plans have been put into motion for the Vietnam facilities, which are expected to have an annual production capacity of 10 million pairs by 2010. In view of escalation of manufacturing costs in the PRC, we will actively explore opportunities to migrate our production base to lower costs locations. We shall continue to exercise stringent costs controls and at the same time, strive to increase our production efficiency in order to mitigate the costs pressure.

Robust economic and GDP growth in recent years has made the PRC the world's fourth-largest economy. The rapid urbanisation has driven tremendous development in the country's domestic economy, creating huge demand for the investment and consumption sectors in the PRC. As urbanisation process will continue and become more mature in the next decade, leading to the surge of per capita disposable income and consumption, we expect the total retail sales of consumer goods would further be escalated.

At the same time, the burgeoning of women white collar and middle class presents enormous business opportunities for premium and branded consumer goods in the PRC. Nowadays, Chinese female consumers are more financially independent and therefore are more willing to spend on luxury products, pursuing fashion, lifestyle and quality of life. According to studies from the National Bureau of Statistics of China and McKinsey Global Institute Analysis, the total Chinese urban middle class households as to the total urban population (with annual income of RMB40,001 – 100,000) will soar dramatically from 9.4% in 2005 to an estimation of 59.4% in 2025. With such encouraging consumer trends and spending pattern, we shall continue to move up the value chain and put more resources in our branding arm, and we believe our branded business will benefit from the flourishing Chinese female consumer market in China.

The studies and market analysis stated above further reinforce our management vision of developing retail and branded business in China. We are well-positioned to capitalise on these promising prospects by extending the retail network of both *Stella Luna* and *What For* and penetrating further in first- and second-tier cities. We target to increase the number of stores to more than 98 stores for *Stella Luna* and 80 stores for *What For* respectively by the end of 2008. We will endeavor to tap into new markets as we did during the period under review, where we captured the vast opportunities in the affordable luxury footwear market. Moreover, we will spend our wholehearted efforts on brand development and marketing initiatives in order to make both brands highly recognisable and most preferred by the consumers.

New Initiatives Ahead

On the back of the success of the *Stella Luna* and *What For* brands, we have introduced Deckers as a joint venture partner for the opening of retail stores and wholesale distribution of footwear under the UGG Australia® brand in the PRC. Initial plans call for the opening two stores in 2008, while the estimated total investment amount for the joint venture is approximately US$5 million. It is expected that the joint venture will further fortify our long-term relationship with Deckers and maximise the potential of this extremely compelling opportunity for both companies.

In addition to organic expansion, we are actively looking for merger and acquisition opportunities and are in discussion with several potential acquisition 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 in the year ahead.

Mergers and Acquisitions

On 30 May 2008, Stella International Limited, a wholly-owned subsidiary of the Company, as purchaser, entered into a Sale and Purchase Agreement with Luck Success Enterprise Corp., as vendor and an independent third party, in relation to the acquisition of 40% of the issued share capital of Cosmic Gold Enterprise Ltd. ("Cosmic") at a total consideration of US$16,800,000. The completion of this transaction, which has not been taken place as at the date of this announcement, is subject to, inter alia, the Group's satisfaction of financial, business and legal due diligence of Cosmic. Cosmic is principally engaged in the manufacturing of footwear products. The Group aims to expand its existing capacity to fulfil customers' orders via the acquisition of Cosmic.

In addition, the Group has entered into a joint venture agreement dated 9 July 2008 with Deckers Asia Pacific Limited ("Deckers Asia Pacific"), a wholly-owned subsidiary of Deckers Outdoor Corporation (NASDAQGS: DECK) for the establishment of joint venture in China for the opening of retail shops and wholesale distribution of footwear under the UGG Australia® brand in China. The joint venture will be owned as to 51% by Deckers Asia Pacific and 49% by the Group. Its initial investment is US$1 million which will be contributed by the parties in cash proportional to their respective shareholding in the joint venture. It is expected that the total investment amount for the joint venture will be about US$5 million. The joint venture has the initial plan to open two retail stores in China in 2008. Further details of the cooperation with Deckers Asia Pacific are set out in the Company's announcement dated 11 July 2008.

Both of the above transactions do not constitute notifiable transactions or connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Liquidity, Financial Resources and Capital Structure

As at 30 June 2008, the Group had cash and cash equivalents of about US$332.8 million (31 December 2007: US$407.0 million) and no bank borrowings (31 December 2007: Nil). The gearing ratio calculated by dividing borrowings to total equity was therefore zero, indicating the Group's gearing position is good.

As at 30 June 2008, the Group had current assets of about US$688.4 million (31 December 2007: US$686.9 million) and current liabilities of about US$130.2 million (31 December 2007: US$123.6 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 5.3 as at 30 June 2008 which indicated the Group's high liquidity and healthy financial position.

Foreign Exchange Exposure

The majority of the Group's sales, purchase and operating expenses were denominated in Renminbi, Hong Kong dollars and United States 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 period under review.

Capital Expenditure

During the period under review, the Group's total expenditure amounted to approximately US$9.0 million (1 January 2007 to 30 June 2007: US$8.6 million), of which approximately US$8.0 million was used in the production capacity expansion and approximately US$1.0 million was used in the retail network expansion.

Pledge of Assets

As at 30 June 2008, the Group did not pledge any of its assets (as at 30 June 2007: nil).

Contingent Liabilities

As at 30 June 2008, the Group had no material contingent liabilities (as at 30 June 2007: nil).

Employees

As at 30 June 2008, the Group employed about 25,000 staff (As at 30 June 2007: 25,306). 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 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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.3 per share for the six months ended 30 June 2008 (six months ended 30 June 2007: HK$0.3). The interim dividend will be paid to shareholders listed on the register of members of the Company on 5 September 2008. It is expected that the interim dividend will be paid on or about 19 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 3 September 2008 to 5 September 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2008, 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 September 2008.

CORPORATE GOVERNANCE

The Board and the management of the Group are committed to achieving high standards of corporate governance to ensure and enhance a high standard of corporate governance practices through increasing transparency, accountability, better risk assessment and mitigation. We believe that high standard governance practices will translate into long-term returns to the shareholders of the Company. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2008.

Governance Model

The Company advocates a governance model which combines both corporate governance and business governance in order to build long-term interests for the Group. Corporate governance emphasises on conformance with relevant laws and regulations while business governance focuses on business performance. We believe the combination of both will enhance accountability and assurance to the Shareholders which are the key drivers for value creation for the Group.

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 during the six months ended 30 June 2008.

The persons occupying the following positions are regarded as the relevant employees of the Company subject to the restrictions on dealings in the Company's shares under the Model Code:

Chief Strategy Officer	Treasurer
Chief Executive Officer	Company Secretary
Chief Operating Officer	Division Head of Women's Footwear
Chief Financial Officer	Division Head of Men's Footwear
Group Financial Controller	Division Head of Retail Business

Board Practices

The Board assumes the responsibility for leadership and control of the Company, and is collectively responsible for the success of the Company by directing and supervising the Company's affairs. The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing.

There is a clear division of responsibilities between the chairman of the Board and the chief executive officer of the Group, which have been formalised and set out in writing.

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, the policy of selection and nomination of Directors has been established and set out in writing. Directors are selected and nominated based on their experience, competencies, skills, geographical network capabilities and cross-border experiences in pursuit of maintaining a Board of diversified background and competencies, in order to contribute to more effective Board deliberations and business directions of the Group.

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Directors have been provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

Internal Controls

The effectiveness of the internal control system and the progress of internal audit are reviewed, and their respective weaknesses are identified, at the regular audit committee meetings. The findings at such meetings are reported subsequently at Board meetings. This enables the Directors to assess the effectiveness of the internal control system, which helps managing enterprise risks and improving its mitigation framework. The internal control functions are vested in the internal audit team which reports directly to the audit committee, the chief operating officer and the qualified accountant of the Company.

Audit Committee

Pursuant to the requirements of the Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three independent non-executive Directors, namely 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 unaudited consolidated financial statements of the Group and the interim report of the Company for the six months ended 30 June 2008.

Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") in compliance with the Code. The Remuneration Committee has three members comprising two independent non-executive Directors and an executive Director, namely, Mr. NG Hak-Kim, *JP*., Mr. CHU Pao-Kuei and 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, determination of the specific remuneration packages of all executive directors and senior management and administration and oversight of 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 (the "Nomination Committee") in compliance with the Code. The Nomination Committee has four members comprising three independent non-executive Directors and an executive Director, namely Mr. HUNG John Terence, *SBS, JP*, Mr. CHU Pao-Kuei, Mr. NG Hak-Kim, *JP* and 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.

Investor Relations Committee

The Board endeavours to maintain an on-going dialogue with the shareholders of the Company and in particular, use the means of annual general meetings or other general meetings, financial report and corporate websites to communicate with the shareholders. In addition, the Company's spokesmen meet with research analysts and the press on a regular basis, attend major investors' conferences and participate in international non-deal roadshow in order to maintain a continuing communication with the institutional analysts, investors and financial media.

The Company has established an investor relations committee (the "IR Committee") with the objective of enhancing communication with the shareholders, providing greater transparency and quality of disclosure within the legal and regulatory framework. The IR Committee has three members comprising one independent non-executive Director, Mr. HUNG John Terence, *SBS, JP*, one executive Director, Mr. CHI Lo-Jen, Stephen and the chief financial officer of the Company, Mr. LEE Kwok Ming, Don. The chairman of the IR Committee is Mr. HUNG John Terence, *SBS, JP*.

Corporate Governance Committee

To facilitate more effective implementation of corporate governance practices, the Company has established a corporate governance committee (the "Corporate Governance Committee"). The Corporate Governance Committee has three members comprising two independent non-executive Directors and an executive Director of the Company, namely Mr. CHU Pao-Kuei, Mr. HUNG John Terence, *SBS, JP* and Mr. SHIH Takuen, Daniel. 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, the Remuneration Committee, the Nomination Committee and the IR Committee of the performance of their respective duties and obligation in accordance with their respective terms of reference, the Listing Rules and any applicable laws and regulations.

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 reporting period.

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

Hong Kong, 14 August 2008

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, Mr. Shieh Tung-Pi, Billy and Mr. Chi Lo-Jen, Stephen and the independent non-executive Directors are Mr. Chu Pao-Kuei, Mr. Ng Hak-Kim, JP and Mr. Hung John Terence, SBS, JP.