永 恩 國 際 集 團 有 限 公 司

PRIME SUCCESS INTERNATIONAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 210)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2003

The board of directors (the "Board") of Prime Success International Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together called the "Group") for the year ended 31 December 2003, together with the comparative figures for the previous year, as follows:

	Note	**2003** *HK$'000*	As restated 2002 *HK$'000*
Turnover	*2*	**1,407,007**	1,180,669
Cost of sales		**(988,604)**	(879,855)
Gross profit		**418,403**	300,814
Other revenues		**6,212**	7,492
Selling and distribution expenses		**(205,739)**	(166,477)
General and administrative expenses		**(111,067)**	(103,496)
Surplus on valuation of an unlisted investment		**–**	13,000
Operating profit		**107,809**	51,333
Finance costs		**(5,780)**	(9,009)
Share of results of an associated company		**230**	243
Profit before taxation		**102,259**	42,567
Taxation	*3*	**(15,444)**	(11,044)
Profit after taxation		**86,815**	31,523
Minority interests		**(3,880)**	(5,674)
Profit attributable to shareholders		**82,935**	25,849
Dividends	*4*	**38,222**	29,968
Earnings per share	*5*		
– basic		**HK5.51 cents**	HK1.73 cents
– diluted		**HK5.50 cents**	HK1.73 cents

Notes:

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of investment securities, trading investments, certain land and buildings, and plant and machinery.

In 2003, the Group adopted Statement of Standard Accounting Practice ("SSAP") No. 35 "Accounting for Government Grants and Disclosure of Government Assistance" and SSAP No. 12 (revised) "Income Taxes" which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

The adoption of SSAP 35 did not have significant impact to the accounts. The changes to the Group's accounting policy and the effect of adopting SSAP 12 (revised) are set out below:

Upon the adoption of SSAP 12 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

Opening retained profits at 1 January 2002 and 2003 have been increased by approximately HK$10,359,000 and HK$10,624,000, respectively, which represent the unrecognised net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by approximately HK$10,769,000 and HK$535,000, respectively. The profit and amount charged to equity for the year ended 31 December 2002 have been increased by approximately HK$265,000 and reduced by approximately HK$390,000, respectively.

2. Segment information

(a) Business segments

The Group is organised into two main business segments, namely OEM products and own-brand products. The analysis of the Group's turnover and results by business segments is as follows:

	2003			2002		
	OEM products	**Own-brand products**	**Group**	OEM products	Own-brand products	Group
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	757,856	649,151	1,407,007	685,969	494,700	1,180,669
Segment results	46,811	53,620	100,431	14,737	19,556	34,293
Income derived from an unlisted investment			3,000			3,000
Unrealised gains on forward exchange contracts			4,465			–
Surplus on valuation of an unlisted investment			–			13,000
Negative goodwill recognised			–			1,850
Unallocated revenues			1,116			24
Unallocated costs			(1,203)			(834)
Operating profit			107,809			51,333

(b) *Geographical segments*

The Group's operations are divided into two main geographical areas, the United States of America (the "US") and the People's Republic of China (the "PRC"). In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers.

Turnover

	2003	2002
	HK$'000	*HK$'000*
The US	**731,058**	650,164
The PRC	**649,151**	494,700
Others	**26,798**	35,805
	1,407,007	1,180,669

3. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any assessable profit arising in Hong Kong. Taxation on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Certain subsidiaries of the Company operating in the PRC are eligible for certain tax exemptions and concessions including tax holiday and reduced enterprise income tax rate. Accordingly, PRC enterprise income tax for such subsidiaries has been provided after taking account of these tax exemptions and concessions.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2003 *HK$'000*	As restated 2002 *HK$'000*
Current taxation		
– Taxation outside Hong Kong	**14,594**	10,643
– Under provision in prior years	**3,125**	600
Deferred taxation	**(2,337)**	(265)
	15,382	10,978
Share of taxation attributable to an associated company	**62**	66
	15,444	11,044

4. Dividends

The Board recommends a final dividend of HK1.5 cents per share (2002: HK1.2 cents) for the year ended 31 December 2003. Together with the interim dividend of HK1.0 cent per share (2002: HK0.8 cent) already paid, the total dividends for the year ended 31 December 2003 would amount to HK2.5 cents per share (2002: HK2.0 cents). Subject to shareholders' approval of the final dividend at the Company's forthcoming annual general meeting on 31 May 2004, payment of the dividend will be made on 8 June 2004 to shareholders registered on 25 May 2004.

5. Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of approximately HK$82,935,000 (Restated 2002: HK$25,849,000). The basic earnings per share is based on the weighted average number of 1,504,118,411 (2002: 1,498,392,384) shares in issue during the year.

The diluted earnings per share for the year ended 31 December 2003 is based on 1,507,682,404 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 3,563,993 shares deemed to be issued at no consideration if all outstanding options had been exercised.

As the respective prices of the share options outstanding during the period from 1 January 2002 to 28 March 2002 were greater than the average market prices of the Company's share, there was no dilution effect on the basic earnings per share for the year ended 31 December 2002.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 25 May 2004 to 31 May 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 24 May 2004.

BUSINESS REVIEW

During the year, the Group's turnover increased by 19.1%, to HK$1,407 million (2002: HK$1,181 million), reflecting improved underlying performances. Profit attributable to shareholders recorded HK$83 million (2002: HK$26 million), an increase of 221% compared to the year 2002. Basic earnings per share was HK5.51 cents (2002: HK1.73 cents).

OEM Business

Being one of the two core businesses of the Group, sales from OEM products totalled HK$758 million (2002: HK$686 million), a steady increase year on year by 10.5%, which accounted for 53.9% (2002: 58.1%) of the Group's turnover. The products mix has shifted gradually towards own-brand products because the potential of sales growth in the PRC market will be much faster than in other places of the world.

Profit contribution for this business segment to the Group was HK$47 million (2002: HK$15 million). Better results were mainly due to the stringent control in production cost through various measures and focus of higher margin products. More favourable business environment worldwide was one of the factors that made the recovery of confidence in consumer sentiments, particularly in the US, faster than expected.

"Daphne" – Own-brand Business

Own-brand products reported a record high in turnover to HK$649 million (2002: HK$495 million), a 31.2% increase over last year. Profit contribution from this segment also surged by 1.7 times compared to last year, from HK$20 million to HK$54 million. This was mainly attributable to the fact that the Daphne brand has benefited from its brand name recognition and a well-established sales and distribution network.

During the year under review, over 2,000 Daphne selling points including over 500 specialty shops and over 200 counters were distributed across various regions in China. The operation became more mature and is contributing stable earnings to the Group. Revenue growth in future will be mainly driven by this well-established brand and sales and distribution network throughout China.

The Group will continue to explore further business opportunities by gradually distributing "Daphne" footwear to more outlets, with the objective of building a more extensive sales and distribution network to increase the market share and improve its competitive advantage.

"Adidas" – Exclusive Retail Shop Right Business

Being the exclusive retail shop licensee for "Adidas" "Original Collection" in the PRC, the Group has appointed an agent to operate the specialty shops in the PRC. Currently, more than 15 shops were operated in 3 major cities in the PRC. Agency fee income from the appointed agent was nearly HK$0.8 million for the year ended 31 December 2003. With the ever-increasing demand for prestigious branded athletic and casual footwear and apparel in the PRC, the Group foresees that a higher growth in revenue will be attained. The agent plans to open additional 30 specialty shops in 2004.

FINANCIAL REVIEW

Strong Financial Resources and Liquidity

As at 31 December 2003, cash and cash equivalents of the Group amounted to HK$147 million (2002: HK$130 million). With the decrease in short-term bank borrowings of HK$41 million from HK$151 million as at 31 December 2002 to HK$110 million as at 31 December 2003, the net cash position was HK$37 million compared to the net debt position of HK$21 million last year. The Group will continue to keep a healthy financial position.

All of the bank borrowings as at 31 December 2003 were short-term in nature, repayable within one year and were denominated in New Taiwanese dollar, US dollar, Renminbi and Hong Kong dollar. Interest was charged on these bank borrowings based on fixed rates.

Improved Liquidity and Gearing Ratios

The Group's current ratio, being the proportion of total current assets against total current liabilities, improved from 1.48 as at 31 December 2002 to 1.64 as at 31 December 2003.

As a result of the remarkable profit generated from operation, total debt to equity ratio as at 31 December 2003 was only 0.94 compared to 1.15 in last year, which was calculated by dividing total liabilities of HK$378 million (2002: HK$400 million) by the total shareholders' equity of HK$403 million (2002: HK$348 million).

In line with the continuous improvement in the quality of assets, the gearing ratio of the Group has decreased from 43.3% to 27.4% as at 31 December 2003. Computation was based on the total borrowings of HK$110 million (2002: HK$151 million) divided by shareholders' equity of HK$403 million (2002: HK$348 million).

Foreign Exchange Exposure

The Group's monetary assets, liabilities and transactions are primarily denominated in Hong Kong dollar, Renminbi, US dollar and New Taiwanese dollar. As Hong Kong dollar is pegged to the US dollar, there is no significant fluctuation in the exchange rate. However, since most of the operations were carried out in the PRC, in which transactions were denominated in Renminbi, forward exchange contracts are utilised when suitable opportunities arise, and when considered appropriate, to hedge against major non-US dollar currency exposures.

During the year, the Group entered into forward exchange contracts to hedge its foreign currencies against fluctuations in exchange rates. As at 31 December 2003, the Group had commitments amounting to HK$230 million in respect of forward exchange contracts entered into with banks.

Significant Capital Investments

In order to satisfy the growth and to increase the production capacity of our existing factories, the Group set up a foreign wholly-owned subsidiary in Anhui Province in China with total registered capital of HK$31.2 million. Up to the year under review, HK$5.7 million has been injected. The remaining amount will be invested by the end of 2006. The Board has also authorised to establish two additional production plants located in Fujian and Jiangsu in the beginning of 2004. The registered capital for Fujian plant and Jiangsu plant is estimated to be HK$23.4 million and HK$2.8 million respectively.

By optimising the allocation of resources, the leverage of various resources and enhancing the Group's competitiveness, the Group plans to set up four logistic centres located in Shanghai, Beijing, Fujian and Shenyang. The total investments are estimated to be HK$24.1 million. Commercial operations of these four logistic centres are scheduled to commence from the second quarter of 2004 to December 2005.

As the economic outlook of China remains upbeat and there is keen demand for fashionable footwear, the Group has formed a joint venture company (the "JV Company") to launch a new brand of footwear for all genders and ages. The Group has a 50% shareholding in the JV Company. The JV Company will appoint an agent in the PRC to open up footwear mega stores selling footwear. The total investment in the JV Company is RMB50 million of which the Group has to contribute RMB25 million.

The funding of the above investments will be financed by internal resources and/or bank borrowings.

Charges on Group Assets

As at 31 December 2003, the Group's short-term bank loans of HK$50 million were secured by certain leasehold land and buildings of net book value of HK$10 million and investment securities with nil carrying value.

Material Acquisition and Disposals

There are no material acquisitions or disposals of subsidiaries and associated companies in the year 2003.

Contingent Liabilities

As at 31 December 2003, the Group had no significant contingent liabilities.

Human Resources

The Group had over 13,000 staff in Hong Kong, Taiwan and in the PRC as at 31 December 2003. The Group recognises the importance of human resources for its success. As a result, qualified and experienced personnel are recruited to enhance production capability and to develop new products. Remuneration is maintained at competitive levels with performance-related bonuses, retirement pension schemes and share options.

During the year, 43,500,000 and 16,000,000 share options were granted to directors and employees with exercise price of HK$0.20 and HK$0.16 per share, respectively.

OUTLOOK

Creating Synergies through Well-equipped Production Developments

During the year of 2003, the Group decided to set up four logistic centres which will be located in Shanghai, Beijing, Shenyang and Fujian, being transportation hubs in the PRC, and two production plants located in Fujian and Jiangsu to cope with the increased future orders. We believe our costs in warehousing, transportation and freight will be further reduced effectively and efficiently.

Implementing Enterprise Resources Planning ("ERP") System

The Board has also decided to implement an ERP system and has always advocated its establishment of ERP system since it would further enhance and speed up the financial and management reporting process of the Group.

Heading Towards New Business Opportunities

Capitalising on the well-developed sales and distribution network and the growth opportunities in the footwear industry in the PRC, the Group has to open shoe-marts in some major cities.

Continuous Growth through Further Expansion

As we move into 2004, the Group plans to make further penetration and to expand the sales and distribution network in the PRC. Meanwhile, we will broaden our sources of profits with a solid base for higher growth. The Group will continue to develop and grow its core businesses while seeking new opportunities that could create shareholders' value.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except that the independent non-executive directors of the Company were not appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

AUDIT COMMITTEE

The Audit Committee is composed of two independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2003.

PURCHASE, SALES OR REDEMPTION ON SHARES

During the year, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

DIRECTORS OF THE COMPANY AS AT THE DATE OF THIS ANNOUNCEMENT

Executive Directors:
Chang Wen I
Chen Hsien Min
Chen Ying-Chieh

Independent Non-executive Directors:
Kuo Jung-Cheng
Huang Shun-Tsai

By Order of the Board
Prime Success International Group Limited
CHANG Wen I
Chairman

Hong Kong, 20 April 2004

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at 4/F Ching Room of Sheraton Hong Kong Hotel and Towers at No. 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong, on Monday, 31 May 2004 at 10:30 a.m. for the following purposes:–

1. To receive and consider the audited accounts and the reports of the Directors and auditors for the year ended 31 December 2003;

2. To declare a final dividend for the year ended 31 December 2003;

3. To re-elect Directors and to fix the remuneration of Directors;

4. To re-appoint auditors and to authorise the Directors to fix their remuneration;

5. To consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:–

   A. "THAT:

   (a) subject to paragraph (b) below, the exercise by the board of directors of the Company ("**Directors**") during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the **"Stock Exchange**") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose under the Hong Kong Code of Share Repurchase, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

   (b) the aggregate nominal amount of shares of the Company which the Directors are authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution, and the approval shall be limited accordingly; and

   (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

   (i) the conclusion of the next annual general meeting of the Company;

   (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Articles of Association of the Company to be held; and

   (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company."

B. “THAT:

(a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK$0.10 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares as scrip dividends pursuant to the Articles of Association of the Company from time to time; or (iii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution, and the approval shall be limited accordingly; and

(d) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Articles of Association of the Company to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

C. “THAT subject to the passing of Resolutions No. 5A and No. 5B set out in the notice convening this meeting, the general mandate granted to the Directors to allot, issue and deal with additional shares pursuant to Resolution No. 5B set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 5A set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the Resolution No. 5A.”and;

6. To transact any other business.

By Order of the Board
Prime Success International Group Limited
IP Ching Bun Ben
Company Secretary

Hong Kong, 20 April 2004

“Please also refer to the published version of this announcement in The Standard”.