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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

The board of directors (the "Board") of Prime Success International Group Limited (the "Company") is pleased to present the unaudited interim results and condensed accounts of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2004, together with comparative figures for the corresponding period in 2003.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

		Unaudited Six months ended 30 June	
			(As restated)
		2004	2003
	Note	***HK$'000***	*HK$'000*
Turnover	*2*	**839,572**	673,900
Cost of sales		**(533,827)**	(496,140)
Gross profit		**305,745**	177,760
Other revenues		**3,693**	2,643
Selling and distribution expenses		**(166,158)**	(92,940)
General and administrative expenses		**(61,218)**	(56,796)
Operating profit		**82,062**	30,667
Finance costs		**(1,537)**	(3,133)
Share of result of an associated company		**107**	123
Profit before taxation		**80,632**	27,657
Taxation	*3*	**(12,356)**	(3,685)
Profit after taxation		**68,276**	23,972
Minority interests		**(2,246)**	(3,277)
Profit attributable to shareholders		**66,030**	20,695
Dividends	*4*	**23,368**	14,984
Earnings per share	*5*		
– basic		**HK4.26 cents**	HK1.38 cents
– diluted		**HK4.18 cents**	N/A

Notes:

1. **Basis of preparation and accounting policies**

   These unaudited condensed consolidated interim accounts have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

   These condensed consolidated interim accounts should be read in conjunction with the 2003 annual accounts. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

2. **Segment information**

The Group is principally engaged in the manufacturing and distribution of footwear products.

Business segments

The Group is organised into two business segments, original-equipment manufacturing ("OEM") products and own-brand products. An analysis of the Group's turnover and operating results for the six months ended 30 June 2004 by business segment is as follows:

	2004			2003		
	Own-brand products *HK$'000*	**OEM products** *HK$'000*	**Group** *HK$'000*	Own-brand products *HK$'000*	OEM products *HK$'000*	Group *HK$'000*
Turnover	**465,966**	**373,606**	**839,572**	293,717	380,183	673,900
Segment results	**60,428**	**19,690**	**80,118**	20,193	7,921	28,114
Income derived from an unlisted investment			**1,500**			1,500
Unallocated revenues			**1,410**			1,741
Unallocated expenses			**(966)**			(688)
Operating profit			**82,062**			30,667

Geographical segments

In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers. An analysis of the Group's turnover for the six months ended 30 June 2004 by geographical segment is as follows:

	Six months ended 30 June	
	2004 *HK$'000*	2003 *HK$'000*
PRC	**465,966**	293,717
US	**361,666**	368,497
Others	**11,940**	11,686
	839,572	673,900

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 six months ended 30 June 2004 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 holidays and reduced enterprise income tax rates. 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 condensed consolidated profit and loss account represents:

	Six months ended 30 June	
	2004 *HK$'000*	2003 *HK$'000*
Current taxation		
– Taxation outside Hong Kong	**14,946**	5,450
– Under provision in prior years	**461**	–
Deferred taxation	**(3,080)**	(1,798)
Share of taxation attributable to an associated company	**29**	33
	12,356	3,685

4. **Dividends**

	Six months ended 30 June	
	2004 *HK$'000*	2003 *HK$'000*
Interim, proposed of HK1.5 cents (2003: HK1.0 cent) per ordinary share	**23,368**	14,984

5. **Earnings per share**

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK$66,030,000 (2003: HK$20,695,000). The basic earnings per share is based on the weighted average number of 1,549,447,329 (2003: 1,498,392,384) ordinary shares in issue during the six months ended 30 June 2004.

The diluted earnings per share for the six months ended 30 June 2004 is based on 1,579,324,086 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 29,876,757 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

No diluted earnings per share is presented for the six months ended 30 June 2003 as the Company did not have any potential dilutive ordinary shares as at 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As the people in China become more affluent, Chinese consumers are increasingly prone to trendy products, generating great potential demand for mid-to-high-end casual footwear products. The phenomenon presented the Group with an advantageous business environment for extending its market coverage and developing new footwear products. In the first half of 2004, the Group capitalised on the huge opportunities arising in the PRC market, continued to develop its business proactively, and hence successfully raised its turnover and profit.

OEM Business

OEM business, one of the Group's traditional core businesses, managed to record a steady turnover of HK$373.6 million in the period under review (2003: HK$380.2 million), constituting 44.5% of the Group's total turnover (2003: 56.4%). Leveraging on a series of stringent cost control measures and adopting the strategy of focusing on the production of high margin products, the Group's OEM segmental operating profit increased by 1.49 times to HK$19.7 million (2003: HK$7.9 million). The US continued to be the Group's largest overseas export market.

"Daphne" – Own-brand Ladies' Footwear Business

The Group's own ladies' footwear brand, "Daphne", is a leading footwear brand in the PRC and reported a record high of 59% increase in turnover to HK$466.0 million (2003: HK$293.7 million) during the review period. Its operating profit also surged 1.99 times from HK$20.2 million in the same period last year to HK$60.4 million. As the operation of "Daphne" gets more mature, it has built up a sizable customer base. To further expand the sales and distribution network of "Daphne", in the past six months, the Group had added more than 250 new selling points of "Daphne" in various cities, bringing the total number of "Daphne" selling points to over 2,000, including 600 specialty shops and 262 "Daphne" counters. With more "Daphne" selling points set up, the Group's revenue base was further broadened.

"Shoebox" – New Own-brand Business

In view of the ever-rising demand for footwear products in the PRC market, the Group launched a new brand "Shoebox", targeting both genders and various age groups. This was to further expand its customer portfolio and penetrate into the mass market. An agent was appointed by the Group to open "Shoebox" mega stores in major cities.

Five "Shoebox" mega stores in Zhengzhou, Yangzhou, Suzhou, Shanghai and Wuhan respectively were opened around May to June this year. The floor area of each store is between 400 square metres and 600 square metres. Leveraging its diversified product range plus reasonable pricing, the Group believes that "Shoebox" will gain in popularity in the market, and gradually bring in sales revenue for the Group.

Adidas – Exclusive Retail Shop Right Business

In less than two years through its appointed agent, the Group had opened 29 exclusive specialty shops and counters for "Adidas" "Original Collection" in major cities in the PRC including Shanghai, Bejing and Guangzhou. These specialty stores generated a total agency fee of approximately HK$0.9 million, bringing in satisfactory revenue for the Group.

Development of infrastructure

Furthermore, the Group's production facilities in Fujian and Jiangsu commenced operations in the review period to cope with the increased new orders. In the meantime, the logistic centre in Shanghai with an investment of approximately HK$12.7 million had also commenced operation. Equipped with advanced computer system, this logistic centre can effectively handle the warehousing, transportation and freight of products, helping to further reduce costs and allowing the Group to enjoy economies of scale. The constructions of other logistic centres, located in major cities like Beijing, Shenyang and Fujian are expected to be completed by the end of 2005. In order to achieve an extensive nation-wide sales and distribution network which allows it to serve consumers across the territory, the Group recently decided to construct 2 logistic centres in Guangdong and Chengdu in addition.

Financial Review

Turnover and performance

The Group recorded a highly satisfactory interim results for the six months ended 30 June 2004, with turnover growing by 25% as compared to the same period last year (2003: HK$673.9 million) to reach HK$839.6 million. Profit attributable to shareholders was recorded at HK$66.0 million (2003: HK$20.7 million), approximately 3.2 folds of the same period last year. Gross profit margin increased to 36% from last corresponding period's 26%, while the net profit margin was raised to 8% from 3%. These outstanding results were mainly attributable to the Group's proactive expansion of its sales and distribution business in response to the huge demand for footwear products in the PRC, as well as the implementation of stringent cost control. The Group successfully enhanced its profitability.

During the review period, basic earnings per share of the Group was HK4.26 cents, representing approximately 3.1 folds of that for the same period last year. The board of directors recommended the payment of an interim dividend of HK1.5 cents per share for the year ending 31 December 2004.

Liquidity and financial resources
As at 30 June 2004, the Group had cash and cash equivalents of HK$144 million (31 December 2003: HK$147 million) and unutilised banking facilities of HK$42 million (31 December 2003: HK$53 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, slightly improved from 1.64 as at 31 December 2003 to 1.66 as at 30 June 2004.

All of the bank borrowings as at 30 June 2004 were short-term in nature, repayable within one year and were denominated in New Taiwanese dollars, United States dollars, Renminbi and Hong Kong dollars. Interest charged on all bank borrowings was based on fixed rates.

The gearing ratio of the Group, being the total borrowings divided by shareholders' funds, has decreased from 27.4% as at 31 December 2003 to 23.8% as at 30 June 2004 which indicated the Group has improved its financial efficiency to meet commitments and working capital requirements.

Pledge of assets
As at 30 June 2004, the Group's short-term bank borrowings of HK$61 million (31 December 2003: HK$50 million) were secured by certain leasehold land and buildings of net book value of HK$7 million (31 December 2003: HK$10 million) and investment securities with nil carrying value (31 December 2003: nil).

Exchange rate exposure
The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollars, Renminbi, United States dollars and New Taiwanese dollars. Forward exchange contracts are employed by the Group to hedge against major non-US dollar currency exposures.

As at 30 June 2004, the Group had commitments amounting to HK$652 million (31 December 2003: HK$230 million) in respect of forward exchange contracts entered into with banks.

Contingent liabilities
As at 30 June 2004, the Group had no significant contingent liabilities.

Significant capital investments
In 2003, the Group has set up a wholly-owned foreign subsidiary in Anhui Province with a total registered capital of HK$31.2 million. Up to the period under review, HK$14.7 million has been injected while the remaining amount will be fully invested by the end of 2006. To cope with the increasing sales demand, the Group also set up a manufacturing plant in Fujian and a processing plant in Jiangsu during the first half of 2004 to increase the production capacity with registered capitals of HK$23.4 million and HK$2.8 million respectively. As at 30 June 2004, HK$4.9 million and HK$2.8 million respectively have been injected in respect of these two subsidiaries.

Further to the establishment plan of four logistic centres in the PRC in 2003, the Group has incurred HK$14.8 million out of the total estimated investment of HK$56.5 million up to the period under review. The Group plans to establish two additional logistic centres in Guangdong and Chengdu in 2005 with a total estimated capital expenditure of HK$44.0 million. In addition, the Group plans to renovate certain sales and distribution offices in the PRC at a total estimated expenditure of HK$42.4 million.

During the period under review, the Group commenced the implementation of an Enterprise Resources Planning solution to improve the operational and financial reporting efficiency of the own-brand business. Total cost is estimated to be HK$26.7 million. It is anticipated that the first phase of the project, representing integration of the point-of-sale system of certain selling points and the back office in Shanghai, will go live by the end of 2004 and the whole project is scheduled to be completed by the end of 2005.

The Group expects all the above investments will be financed by internal resources and short-term bank borrowings.

Human Resources
As at 30 June 2004, the Group had over 15,000 employees in Hong Kong, Taiwan and the PRC. The expenditure for staff during the six months ended 30 June 2004 was HK$125 million (Six months ended 30 June 2003: HK$112 million). The Group recognises the importance of human resources for its success and as a result, it ensures that employee remuneration is maintained at competitive levels with performance-based bonuses, retirement pension contribution and share options.

PROSPECTS
Looking forward to the rest of the year, the Group will strive to maintain strong business growth. With the continual growth of the PRC economy and the ever-increasing consumption power of its people, the management is confident in achieving significant growth for its sales and distribution business in the future. The Group currently has over HK$200 million worth of orders on hand.

To facilitate the development of its core sales and distribution business, the Group will endeavour to diversify its products, map out strategies to grow its markets and strive to grow its business in line with consumers' demands and market trend. The Group will continue to open "Daphne" selling points in major cities, the second and third-tier cities in China, so as to effect market diversification and further penetration of the brand in the market. The Group aims to increase the number of "Daphne" specialty stores and "Daphne" counters to 700 and 300 respectively within 2004.

Launched in the first half of 2004, "Shoebox" has been receiving positive market response. The Group will implement a series of strategies in the next six months, including the launch of a new brand "Daphne Young" to further enrich its product portfolio and reinforce its brand promotion effects. "Daphne Young" is another ladies' footwear brand established by the Group, with young ladies as the target customers. "Daphne Young" selling points will be introduced in 2005.

As for "Shoebox", 12 mega stores are under operation at present. New selling points are being planned by the Group with a target of opening a total of 30 stores in Zhejiang, Jiangsu, Sichuan, Guangdong, Guangxi, Shandong and Hunan in 2004. The moves will serve to build up an extensive distribution network for the Group and lift up the popularity of the brand.

Furthermore, benefiting from the positive outlook of the consumption market in the PRC and recent mega sports events such as the earlier 2004 Athens Olympics and the 2008 Beijing Olympics, the demand for prestigious branded athletic and casual footwear and apparel in the PRC has continued to rise. All these present immense potential for future development of the Group's Adidas business. The Group's agent plans to open 16 additional Adidas specialty stores and counters in the second half of the year, bringing the total number to 45 by the end of 2004.

As one of the leading footwear groups with the most popular ladies' footwear brand in the PRC, the Group will strive for better returns for investors and business partners in the future. Looking ahead, the management is optimistic about the long-term development of the Group's sales and distribution business, and expects to maintain promising results in the years to come.

INTERIM DIVIDEND

The Board has resolved on 23 September 2004 to declare an interim dividend of HK1.5 cents (2003: HK$1.0 cent) per ordinary share for the year ending 31 December 2004. The interim dividend will be payable on or before 25 October 2004 to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 11 October 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 October 2004 to 14 October 2004 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates must be lodged with the registrar of the Company 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 11 October 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the six months ended 30 June 2004, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that the independent non-executive directors of the Company were not appointed for a specific term but 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.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Hsiao Hsi-Ming ("Mr. Hsiao") was appointed as independent non-executive director and chairman of audit committee of the Company with effect from 10 September 2004. Mr. Hsiao, aged 64, is a partner at Dinkum & Co., CPAs in Taiwan. He is also a member of Taiwan Provincial CPA Association in Taiwan and has about 40 years of experience in auditing, accounting and management.

AUDIT COMMITTEE

The Audit Committee comprises three 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 unaudited condensed consolidated accounts of the Group for the six months ended 30 June 2004.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

On behalf of the Board
CHANG WEN I
Chairman

Hong Kong, 23 September 2004

As at the date of this announcement, the Board of the Company comprises three executive directors, namely, Mr. Chang Wen I, Mr. Chen Hsien Min and Mr. Chen Ying-Chieh; and three independent non-executive directors, namely, Mr. Kuo Jung-Cheng, Mr. Huang Shun-Tsai and Mr. Hsiao Hsi-Ming.

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