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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

FINANCIAL HIGHLIGHTS

	2005	2004	Change
	HK$'000	*HK$'000*	
		(Restated)	
Turnover	**2,622,677**	1,788,539	+47%
Gross profit	**1,143,943**	684,529	+67%
Profit attributable to shareholders of the Company	**254,593**	176,220	+44%
Basic earnings per share	**HK15.72 cents**	HK11.33 cents	+39%
Dividend per share	**HK5.0 cents**	HK3.5 cents	+43%

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 (collectively referred to as the "Group") for the year ended 31 December 2005 together with the restated comparative figures for the previous year as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Turnover	3	**2,622,677**	1,788,539
Cost of sales		**(1,478,734)**	(1,104,010)
Gross profit		**1,143,943**	684,529
Other revenues	3	**6,260**	8,207
Selling and distribution expenses		**(689,485)**	(325,518)
General and administrative expenses		**(137,314)**	(130,323)
Operating profit	4	**323,404**	236,895
Finance costs		**(4,441)**	(3,085)
Share of profit of an associated company		**253**	187
Profit before taxation		**319,216**	233,997
Taxation	5	**(63,160)**	(53,000)
Profit for the year		**256,056**	180,997
Attributable to:			
Shareholders of the Company		**254,593**	176,220
Minority interests		**1,463**	4,777
		256,056	180,997
Dividends	6	**81,894**	56,126
Earnings per share	7		
– basic		**HK15.72 cents**	HK11.33 cents
– diluted		**N/A**	HK11.07 cents

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	**2005**	2004
		HK$'000	*HK$'000*
			(Restated)
Non-current assets			
Land use rights		**19,197**	14,891
Fixed assets		**302,589**	201,071
Interest in an associated company		**2,346**	2,205
Investment securities		**–**	33,437
Available-for-sale financial assets		**33,437**	–
Other non-current assets		**21,786**	17,335
Deferred tax assets		**17,942**	18,328
		397,297	287,267
Current assets			
Inventories		**632,387**	469,111
Trade receivables	*8*	**122,464**	67,148
Other receivables, deposits and prepayments		**129,722**	123,354
Derivative financial instruments		**268**	–
Pledged bank deposits		**6,000**	3,446
Bank balances and cash		**146,486**	126,893
		1,037,327	789,952
Current liabilities			
Trade payables	*9*	**288,702**	260,537
Other payables and accrued charges		**145,851**	96,070
Taxation payable		**42,910**	39,179
Bank loans and overdrafts		**133,062**	98,527
		610,525	494,313
Net current assets		**426,802**	295,639
Total assets less current liabilities		**824,099**	582,906
Financed by:			
Share capital		**163,789**	156,789
Reserves		**580,418**	376,931
Shareholders' equity		**744,207**	533,720
Minority interests		**79,409**	48,839
Total equity		**823,616**	582,559
Non-current liabilities			
Deferred tax liabilities		**483**	347
Total equity and non-current liabilities		**824,099**	582,906

Notes:

1. **Basis of preparation**

The consolidated accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit and loss, which are carried at fair value.

The consolidated accounts have been prepared in accordance with those standards and interpretations issued and effective as at the time of preparing the accounts. No early adoption of standards or interpretations that have been issued but are not yet effective.

2. **Changes in accounting policies**

In 2005, the Group adopted the new/revised HKFRSs and HKASs below, which are relevant to its operations. The 2004 comparatives have been amended in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36, 37 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of an associated company and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33, 36 and 37 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the classification of payments for the acquisitions of land use rights. In prior years, land use rights were accounted for at cost or valuation less accumulated depreciation and accumulated impairment. Under HKAS 17, the up-front prepayments made for land use rights are expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account. HKAS 17 has been applied retrospectively.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice 24 ("SSAP 24") "Accounting for investments in securities" to investment securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised on 1 January 2005.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the grant of share options to employees did not result in an expense in the profit and loss account unless the options were granted at a discount of the market price, where the discount was expensed in the profit and loss account. Effective 1 January 2005, the Group expenses the fair value of share options granted in the profit and loss account. The Group has taken advantage of the transitional provisions of HKFRS 2 under which the new recognition and measurement policies have not been applied to share options granted on or before 7 November 2002 and all options granted to employees after 7 November 2002 but vested before 1 January 2005. No adjustments were resulted from the adoption of HKFRS 2.

The effect of changes in the above accounting polices on the consolidated profit and loss account is as follows:

	Year ended 31 December						
	2005				2004		
	HKAS 1 *HK$'000*	**HKAS 17** *HK$'000*	**HKAS 39** *HK$'000*	**Total** *HK$'000*	HKAS 1 *HK$'000*	HKAS 17 *HK$'000*	Total *HK$'000*
Increase/(decrease) in profit for the year							
Decrease in share of profit of an associated company	**(94)**	**–**	**–**	**(94)**	(69)	–	(69)
Decrease in taxation charge	**94**	**–**	**–**	**94**	69	–	69
Decrease in depreciation of fixed assets	**–**	**(1,039)**	**–**	**(1,039)**	–	(604)	(604)
Increase in amortisation of land use rights	**–**	**1,039**	**–**	**1,039**	–	604	604
Increase in fair value of derivative financial instruments	**–**	**–**	**268**	**268**	–	–	–
Net increase in profit for the year	**–**	**–**	**268**	**268**	–	–	–

The effect of changes in the above accounting polices on the consolidated balance sheet is as follows:

	As at 31 December			
	2005			2004
	HKAS 17	**HKAS 39**	**Total**	HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Increase/(decrease) in assets				
Land use rights	**19,197**	**–**	**19,197**	14,891
Fixed assets	**(20,381)**	**–**	**(20,381)**	(16,075)
Available-for-sale financial assets	**–**	**33,437**	**33,437**	–
Investment securities	**–**	**(33,437)**	**(33,437)**	–
Derivative financial instruments	**–**	**268**	**268**	–
Net (decrease)/increase in assets	**(1,184)**	**268**	**(916)**	(1,184)
Increase/(decrease) in liabilities and equity				
Deferred tax liabilities	**(390)**	**–**	**(390)**	(390)
Property revaluation reserve	**(794)**	**–**	**(794)**	(794)
Retained profits	**–**	**268**	**268**	–
Net (decrease)/increase in liabilities and equity	**(1,184)**	**268**	**(916)**	(1,184)

The basic earnings per share for the year ended 31 December 2005 was increased by HK0.017 cents while there was no impact on the basic and diluted earnings per share for the year ended 31 December 2004 from the adoption of the new/revised HKFRSs and HKASs.

There was no impact on the retained profits as at 1 January 2005 and 1 January 2004 upon the adoption of the new/revised HKFRSs and HKASs.

3. **Turnover, revenues and segment information**

The Group is principally engaged in the manufacturing and distribution of footwear products. Revenues recognised during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sales of goods, net of discounts	**2,622,677**	1,788,539
Other revenues		
Income derived from an unlisted investment	**–**	3,000
Income derived from an unlisted available-for-sale financial asset	**3,000**	–
Export incentives from government	**–**	2,746
Interest income	**1,885**	1,323
Gross rental income	**286**	288
Dividend income	**88**	62
Others	**1,001**	788
	6,260	8,207
Total revenues	**2,628,937**	1,796,746

An analysis of the Group's turnover and results for the year by business segment is set out as follows:

	2005			2004		
	Brand business *HK$'000*	**OEM business** *HK$'000*	**Group** *HK$'000*	Brand business *HK$'000*	OEM business *HK$'000*	Group *HK$'000*
Turnover	**1,827,341**	**795,336**	**2,622,677**	1,066,815	721,724	1,788,539
Segment results	**209,471**	**112,849**	**322,320**	164,973	66,083	231,056
Income derived from an unlisted investment			**–**			3,000
Income derived from an unlisted available-for-sale financial asset			**3,000**			–
Unrealised gain on foreign exchange forward contracts			**–**			5,823
Fair value adjustment on derivative financial instruments			**268**			–
Unallocated revenues			**374**			259
Unallocated expenses			**(2,558)**			(3,243)
Operating profit			**323,404**			236,895
Segment assets	**1,058,723**	**312,264**	**1,370,987**	741,053	257,217	998,270
Interest in an associated company			**2,346**			2,205
Investment securities			**–**			33,437
Available-for-sale financial assets			**33,437**			–
Derivative financial instruments			**268**			–
Other unallocated assets			**27,586**			43,307
Total assets			**1,434,624**			1,077,219
Segment liabilities	**412,882**	**189,163**	**602,045**	322,684	163,125	485,809
Other unallocated liabilities			**8,963**			8,851
Total liabilities			**611,008**			494,660
Amortisation	**516**	**523**	**1,039**	218	386	604
Depreciation	**40,997**	**7,906**	**48,903**	15,506	7,173	22,679
Provision for bad and doubtful debts	**–**	**46**	**46**	–	1,380	1,380
Provision for slow-moving inventories	**7,682**	**(4,757)**	**2,925**	4,791	497	5,288
Capital expenditure	**127,898**	**29,047**	**156,945**	80,094	22,349	102,443

An analysis of the Group's turnover by geographical segment is set out as follows:

	2005 *HK$'000*	2004 *HK$'000*
China	**1,827,340**	1,066,815
The US	**770,238**	698,891
Others	**25,099**	22,833
	2,622,677	1,788,539

As the Group's assets are mainly located in China, no segment assets and segment capital expenditures are presented.

4. Operating profit

Operating profit is stated after crediting and charging the following:

	2005	2004
	HK$'000	*HK$'000*
Crediting		
Fair value adjustment on derivative financial instruments	**268**	–
Gain on disposal of trading investments	**–**	455
Net exchange gain	**7,872**	–
Unrealised gain on foreign exchange forward contracts	**–**	5,823
Charging		
Amortisation of land use rights	**1,039**	604
Auditors' remuneration	**2,182**	1,461
Cost of inventories sold	**1,214,091**	870,438
Depreciation of fixed assets	**48,903**	22,679
Employee benefits expense	**374,140**	295,832
Loss on disposal of fixed assets	**5,020**	4,532
Net exchange loss	**–**	3,342
Operating lease rentals in respect of land and buildings	**255,250**	181,431
Provision for bad and doubtful debts	**46**	1,380
Provision for slow-moving inventories	**2,925**	5,288

5. 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/places in which the Group operates.

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

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

	2005	2004
	HK$'000	*HK$'000*
Current taxation		
– Taxation outside Hong Kong	**62,479**	58,323
– Under/(over) provision in prior years	**159**	(303)
Deferred taxation	**522**	(5,020)
	63,160	53,000

6. Dividends

	2005	2004
	HK$'000	*HK$'000*
Interim dividend, paid, of HK2.5 cents (2004: HK1.5 cent) per ordinary share	**40,947**	23,368
Final dividend, proposed, of HK2.5 cents (2004: HK2.0 cents) per ordinary share	**40,947**	32,758
	81,894	56,126

At a meeting held on 20 April 2006, the board of directors recommended a final dividend of HK2.5 cents per ordinary share for the year ended 31 December 2005. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2006.

7. **Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$254,593,000 (2004: HK$176,220,000). The basic earnings per share is based on the weighted average number of 1,619,097,863 (2004: 1,555,791,014) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there were no dilutive potential shares in issue during the year. The diluted earnings per share for the year ended 31 December 2004 is based on 1,591,898,622 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 36,107,608 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

8. **Trade receivables**

The Group generally allows an average credit period of 30 to 60 days to its trade customers other than major and long standing customers with whom specific extended terms will be agreed between the Group and the relevant counter parties.

The ageing analysis of trade receivables by invoice date is as follows:

	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**93,188**	54,171
31 – 60 days	**19,668**	6,326
61 – 90 days	**4,439**	1,175
91 – 120 days	**3,578**	2,277
121 – 180 days	**875**	2,024
181 – 360 days	**704**	333
Over 360 days	**12**	842
	122,464	67,148

9. **Trade payables**

The ageing analysis of trade payables (including amounts due to related parties of trading in nature) by invoice date is as follows:

	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**168,464**	144,554
31 – 60 days	**79,853**	62,664
61 – 90 days	**13,166**	26,766
91 – 120 days	**4,729**	9,273
121 – 180 days	**15,451**	6,705
181 – 360 days	**2,784**	6,375
Over 360 days	**4,255**	4,200
	288,702	260,537

BUSINESS REVIEW

Benefiting from the strong demand driven by the booming economy and the expanding purchasing power of the consumers in China, the Group's turnover surged by 47% to HK$2,622,677,000 during the year under review (2004: HK$1,788,539,000).

Profit attributable to shareholders increased by 44% to HK$254,593,000 (2004: HK$176,220,000) as compared with the previous year. The remarkable growth was attributable to the increase of high margin orders, outstanding performance of our brand business and improved economies of scale during the year. Basic earnings per share were HK15.72 cents (2004: HK11.33 cents).

OEM Business

OEM business continued to be one of the Group's core business segments. During the year under review, this segment recorded a 10% growth in turnover to HK$795,336,000 (2004: HK$721,724,000), which accounted for 30% of the Group's total turnover. The continuous improvement of the US market has also driven the OEM business up and brought in a lot of new orders.

During the year, the Group has secured more higher margin orders by changing customer mix and implemented effective cost control measures. As a result, the gross profit margin and the operating margin of our OEM business stood at 24% and 14% (2004: 22% and 9%) respectively. Operating profit of our OEM business also increased by 71% to HK$112,849,000 (2004: HK$66,083,000). We expect raw material costs to continue to increase moderately in the near future, however, since we typically commence production only after confirmation of orders, we will be able to effectively control our production costs and maintain a reasonable profit margin. During the year, we stepped up development of overseas markets, but the US market remained as our major export market accounting for 29% of the Group's total turnover.

Brand Business

The Group's brand business remains as the business segment that yields the higher profit margin. This business segment includes the Group's own brands – "Daphne" and "Shoebox". The Group also has the exclusive retail shop right in China for the "Adidas – Original Collection". Given the strength of these brands, the Group determines to broaden its customer base and coverage of the entire country by continuing to invest in opening more points-of-sale. During the year under review, turnover of the brand business increased by 71% from last year's to HK$1,827,341,000 (2004: HK$1,066,815,000), accounting for 70% of the Group's total turnover. Turnover from "Daphne" increased substantially by 60% to HK$1,574,100,000 (2004: HK$986,878,000), making up 60% of the Group's total turnover. Turnover from "Shoebox" was HK$75,207,000 (2004: HK$12,190,000), accounting for 3% of the Group's total turnover. Turnover from the "Adidas – Original Collection" was HK$178,034,000 (2004: HK$67,747,000), accounting for 7% of the Group's total turnover.

"Daphne" Business

As the China economy continues to grow, the market for high quality consumer goods also prospers. Since the "Daphne" brand was introduced in 1990, the brand has developed itself into a prestigious brand that is very well received by the female customers in China. During the year under review, our extensive sales and distribution network has substantially increased the total turnover for "Daphne". In order to promote the "Daphne" brand image further, the Group has looked at various channels. "Daphne" is one of the first brands to launch new products on the "Promotional Catwalk" by professional models in China. The Group continues to sponsor music video productions of pop artists to promote its products. After 15 years' of consistent brand building and marketing efforts, "Daphne" now enjoys a premium brand reputation. Last year the Group re-launched the young collection with a new approach to the market by calling it "Daphne D18" which was an instance success, capturing the hearts of millions of young female customers in China. The Group sees a huge potential in the young female footwear market because consumers in this segment of the market have strong purchasing power and have strong appetite for stylish shoes. Since the debut of "Daphne D18", the Group has added 275 new "Daphne D18" points-of-sale. The Group has also appointed "S.H.E", a popular girl group of entertainers from Taiwan, as the spokespersons for "Daphne D18". The remaining collections of "Daphne" are now being carried in the "Daphne D28" points-of-sale which continue to target female customers aged between 26 and 50. The Group is confident that, by providing products tailored for female customers of different age groups can further expand the "Daphne" brands and raises the Group's market share of ladies footwear in China.

As at 31 December 2005, "Daphne" owned over 1,443 points-of-sale across the country, including 1,070 stores and 373 counters, a significant increase of 421 points-of-sale more than at the end of 2004 (2004: 725 stores and 297 counters).

"Shoebox" Business

The Group stepped up development of the "Shoebox" brand last year in the attempt to extend its reach to the mass market. Opening new "Shoebox" stores in busy locations and strategically locating outlets inside hypermarket chains, the Group has created an extensive customer base for the "Shoebox" brand. Although the "Shoebox" business has yielded satisfactory results, it recorded a slight loss of HK$2,751,000 during the year as has been forecasted during this investment period. The Group is reasonably pleased with the overall market response to the "Shoebox" brand and that the loss from the year-to-year comparison of the "Shoebox" operation has narrowed. The Group is hopeful of the "Shoebox" operation to start bringing in profit in the next financial year.

During the year under review, "Shoebox" has opened 54 new stores at major cities across China, including Beijing, Shanghai, Wuhan, Yangzhou, Suzhou and Guangzhou.

"Adidas – Original Collection" Business

The Group obtained an exclusive China retail shop right from Adidas on its "Original Collection" in September 2002. During the year, the Group opened 2 new Adidas stores, bringing the total numbers to 10. The number of counters, which are located in major cities including Shanghai, Beijing and Guangzhou, also increased from 30 to 81. In addition to Adidas securing the sponsorship contract for the 2008 Beijing Olympics, the brand can expect to see its image further enhanced in China. The 2008 Beijing Olympics will also boost the demand for athletic and casual footwear and apparels in China, and that indicates considerable business potentials for the Group.

Number of points-of-sale of various brand businesses

	2005		**2004**	
	Store	**Counter**	**Store**	**Counter**
Daphne	1,070	373	725	297
D18	*223*	*52*	*N/A*	*N/A*
D28	*847*	*321*	*N/A*	*N/A*
Shoebox	75	N/A	21	N/A
Adidas – Original Collection	10	81	8	30

Development of Infrastructure

The Group's new processing plants in Fujian and Jiangsu started operations last year. The current utilisation rates in these two plants are only approximately 60%, which have rooms for further expansion to meet the increase in production demand. Two additional production lines at the Anhui production plant had also started operations.

In addition, the Group had decided to build its own distribution network across China to support the increasing demand in the domestic sales operations. Two logistics centres located in Shanghai and Fujian have started operating in the last 24 months which have improved the Group's supply chain services by providing much faster transportation from point to point. Two additional logistics centres located in Beijing and Shenyang are expected to commence operation in the first half of 2006. These two new centres will also employ the state-of-the-art storage systems to maintain the inventory hence making the production planning even more efficient, as well as to track the status of inventory at almost on the real time basis. The Group's new multi-million-dollar ERP system is now in operation mode providing a solid infrastructure foundation to support the Group's goal in building the nationwide sales and distribution network.

FINANCIAL REVIEW

Result Performance

For the year ended 31 December 2005, the Group's turnover increased by 47% over the previous year to reach HK$2,622,677,000 (2004: HK$1,788,539,000). Profit attributable to shareholders amounted to HK$254,593,000 (2004: HK$176,220,000), representing an increase of 44% as compared with the previous year. Gross profit margin surged to 44% from 38% last year, while net profit margin remained at 10%. The increases were mainly attributable to the flourishing domestic sales and the OEM business. The Group will continue to implement cost control initiatives to ensure better returns.

During the year, the basic earnings per share of the Group were HK15.72 cents, which is 39% higher than last year's. The Board recommended the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2005. Together with the interim dividend of HK2.5 cents per share, the total dividends for the year would amount to HK5.0 cents.

Financial Resources and Liquidity

As at 31 December 2005, the Group maintained a healthy cash position with cash and cash equivalents of HK$146,467,000 (2004: HK$126,893,000) and unutilised banking facilities of HK$114,343,000 (2004: HK$69,577,000). The Group's current ratio, being the proportion of total current assets divided by the total current liabilities, improved to 1.70 as at 31 December 2005 from 1.60 as at 31 December 2004.

The gearing ratio of the Group, calculated on the basis of interest bearing bank borrowings of HK$133,062,000 (2004: HK$98,527,000) over shareholders' equity of HK$744,207,000 (2004: HK$533,720,000), maintained at 18% as at both 31 December 2005 and 31 December 2004.

The existing available cash and bank balances are considered adequate to meet the Group's liquidity and operating requirements.

Foreign Exchange Rate Exposure

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollars, Renminbi, US dollars and New Taiwanese dollars. The management believes that the Group's working capital is not exposed to any significant risk from currency exchange rate fluctuation. Foreign exchange risks arising from transactions denominated in foreign currencies are managed by the Group's treasury with the use of foreign exchange forward contracts, whenever necessary, with major and reputable financial institutions.

Pledge of Assets

As at 31 December 2005, the Group's short-term bank loans of HK$71,753,000 (2004: HK$46,827,000) were secured by certain land use rights and leasehold buildings of total net book value of HK$13,613,000 (2004: nil); a bank deposit of HK$6,000,000 (2004: nil) and available-for-sale financial assets with nil (2004: nil) carrying value.

Significant Capital Investments

During the year, the Group invested HK$156,945,000 (2004: HK$102,443,000) in establishing new production plants and facilities and logistics centres, adding new production lines, procuring equipment, new office spaces and etc.

The Group intents to achieve it's goal to have 5,000 points-of-sale by 2010, has chosen to invest strategically in establishing a nationwide sales and distribution network. Two new logistics centres are planned to be constructed in Chengdu and Guangdong, bringing a total of six logistics centres owned and managed by the Group. The new investments including the addition of new office spaces for brand business are estimated to be HK$130,000,000.

Material Acquisitions and Disposals

There were no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2005.

Contingent Liabilities

As at 31 December 2005, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2005, the Group has over 24,000 (2004: 19,000) employees in Hong Kong, Taiwan and China. Staff expenditure for the year under review amounted to HK$374,140,000 (2004: HK$295,832,000). The Group is an equal opportunity employer, with the selection and promotion of individuals based on suitability for the position offered. The remuneration and benefits of the Group's employees are kept at competitive levels and employees and rewarded on a performance related basis with the general framework of the Group's salary and bonus system, which is reviewed annually. A wide range of benefits, including medical coverage, retirement plans and share options are also provided to employees.

PROSPECTS

OEM Business

As the US economy continues to improve, the Group also stepped up its efforts to develop different overseas markets. A steady growth is expected for the OEM segment in the coming years where the US market will remain as the Group's largest export market.

Brand Business

The Group will continue to expand the sales network of "Daphne" to penetrate further into the China market. Encouraged by the positive consumer response to "Daphne D18", the Group is consciously considering launching other new product series such as kid footwear, to attract different types of customers. "Daphne" brand is also being licensed to other manufacturers to develop different categories such as handbags, wallets, and other footcare products. A most recent addition to this category of products is the eyewear products, which not only target to be sold in China but will also be sold throughout other Asian countries. The eyewear product venture will provide a strategic channel to position the "Daphne" brand to other countries outside China, which has been one of the missions of the Group. The success of the eyewear product venture will see other accessories such as watches and other fashionable consumer products to be added to this category in the near future.

The Group will continue to invest strategically in promoting the "Daphne" brand. One of the notable investments in 2006 is the film "I Love Daphne" (the name of the film has yet to be confirmed) starring the famous actor Mr Ritchie Ren (任賢齊) and the famous actress Ms Rene Liu (劉若英). In addition, Ms Rene Liu has also been appointed as the spokeswoman for "Daphne D28" to promote the "Daphne" brand in China. As a popular Taiwanese actress, Ms Rene Liu was also appointed as the spokeswoman for the Taiwan market where the Group begins to develop the market. The first "Daphne" store in Taiwan will be opened in the first half of 2006.

The booming economy in China has created a huge potential for good quality footwear for the lower income households. Taking advantage of the situation the Group diversified into this market to reach the mass majority. As a result the "Shoebox" brand was established in May 2004. In the initial development stage of the brand, the Group focused on expansion of sales network to achieve economies of scale. The Group plans to open at least 70 stores in 2006 and also to extend its coverage to second and third tier cities. As pointed out earlier, the Group is confident that "Shoebox" will turn around to be profitable in 2006.

Capitalising on the 2008 Beijing Olympics Games, the Group intends to expand the "Adidas – Original Collection" points-of-sale from the current 90 to 300 points-of-sale by 2008. This will be the biggest opportunity in the coming two years; the Group has also decided to allocate more resources in the marketing activities to maximise on the return of this extravaganza event to further expand its market share.

Development of Infrastructure

The Group remains very positive with the economies in China, the US and Taiwan. The expansion of the sales and distribution network encompassing the Warehouse Management System will link the inventory status and the points-of-sale from various cities together. This will ensure that the resources are centralised and become more efficient. By the end of 2007 the Group expected to have six logistics centres in operations.

Looking forward, the Group will continue to expand its brand and product portfolios to further enrich its product series. The Group will also consider introducing other new brands and types of consumer products to enhance its business profile. In the coming years, the Group will be actively developing its international markets.

Our success lies on the support of our business partners, staff, management and shareholders. The Group will strive to bring its businesses to the new heights and to generate satisfactory returns to the shareholders.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2006 to 19 May 2006, both dates 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 share registrar in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 15 May 2006.

DIVIDENDS

The board of directors recommends a final dividend of HK2.5 cents (2004: HK2.0 cents) for per share the year ended 31 December 2005. Together with the interim dividend of HK2.5 cents per share already paid, the total dividends for the year ended 31 December 2005 will amount to HK5.0 cents (2004: HK3.5 cents) per share. Subject to shareholders' approval of the final dividend at the Company's forthcoming annual general meeting on 19 May 2006, payment of the dividend will be made on 26 May 2006 to shareholders registered on 19 May 2006.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with all code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2005 except for deviations from Code Provisions A.4.1 and A.4.2.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the year of review, all independent non-executive directors of the Company do not have a specific term of appointment. At every general meeting, one-third of the directors for the time being, or if the number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office. The director holding the office of Chairman and Managing Director shall not be subject to retirement by rotation. A director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

In order to ensure full compliance with Code Provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the annual general meeting of the Company to be held on 19 May 2006, so that every director appointed by the Board during the year shall retire at the next general meeting. Every director shall be subject to retirement at least once every three years.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted stringent procedures governing directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors and chief executives of the Company have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

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 interim accounts and audited annual accounts for the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2005, the Company did not redeem any of its shares and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This announcement will be published on the Company's website (*www.prime-success.com.hk*) and the Stock Exchange's website (*www.hkex.com.hk*). The Company will dispatch to its shareholders in due course the 2005 annual report which contains all the information required by Appendix 16 of the Listing Rules and published it on both the Company's and the Stock Exchange's websites.

DIRECTORS OF THE COMPANY AS AT THE DATE OF THIS ANNOUNCEMENT

Executive Directors:
Chen Ying-Chieh
Chen Hsien Min
Chang Chih-Kai

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

By Order of the Board
Prime Success International Group Limited
CHEN Ying-Chieh
Chairman

Hong Kong, 20 April 2006

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Prime Success International Group Limited (the "Company") will be held at Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 19 May 2006 at 2:30 p.m. for the following purposes:

1. To receive and consider the audited accounts of the Company and the Reports of the Directors and the Auditors for the year ended 31 December 2005;
2. To declare a final dividend for the year ended 31 December 2005;
3. To re-elect the retiring directors and authorise the Board of Directors to fix the directors' remuneration;
4. To re-appoint the auditors and authorise the Board of Directors to fix their remuneration;

Ordinary Resolutions

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 issued shares of the Company of HK$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission 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 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 approval in paragraph (a) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to repurchase its own shares at a price to be determined by the Directors;

   (c) the aggregate nominal amount of shares of the Company to be repurchased the Company 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 passing of this resolution, and the said approval shall be limited accordingly; and

   (d) for the purposes of this resolution:

   "Relevant Period" means the period from the date of 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 any applicable laws or the Articles of Association of the Company to be held; or

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

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 otherwise deal with additional ordinary shares 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 powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above, shall be in addition to any other authorisations given to the Directors and shall authorise the Directors during the Relevant Period 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 powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval granted in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; or (iii) the exercise of any options granted under the share option scheme or similar arrangement for the time being adopted or to be adopted for the grant or issue of shares or rights to acquire shares of the Company approved by the Stock Exchange, 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 said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" shall have the same meaning as ascribed to it under the resolution set out in paragraph 5A(d) of this Notice; and

"Rights Issue" means the allotment, issue or grant of shares open for a period fixed by the Directors to the holders of shares of the Company on the register of members 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 any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

C. “**THAT:**

conditional upon the passing of Resolutions Nos. 5A and 5B, the general mandate granted to the Directors pursuant to Resolution 5B be and hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company as stated in Resolution No. 5A above provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution.”

Special Resolution

6. To consider and, if thought fit, pass with or without amendments the following resolution as a special resolution:

“**THAT** the Articles of Association of the Company be and are hereby amended in the following manner:

(a) Article 69

By inserting the words “required by the rules of the Designated Stock Exchange or” after the words “unless a poll is” in the first sentence;

By deleting the word “or” at the end of the sub-paragraph (iii); and

By deleting the full-stop at the end of sub-paragraph (iv) and replacing therewith a semicolon and the word “or” and inserting the following new sub-paragraph (v):

“(v) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.”

(b) Article 90

By deleting the words “special resolution” in the first line and replacing therewith “ordinary resolution”.

(c) Article 91

By deleting the words “provided that any person so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.” and replacing therewith the following:

“provided that any Director so appointed by the Directors shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board of Directors), and shall then be eligible for re-election at that meeting.”

(d) Article 97(viii)

By replacing the words “a special ordinary resolution” with “an ordinary resolution”.

(e) Article 99

By deleting the first sentence in its entirety and replacing therewith the following:

"At each annual general meeting one-third of the Directors for the time being or, if their number is not 3 or a multiple of 3, the number nearest to but not less than one-third shall retire from office provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years."

(f) Article 101

By deleting the word "or" at the end of sub-paragraph (ii); and

By deleting the full-stop at the end of sub-paragraph (iii) and replacing therewith a semicolon and the word "or" and inserting the following new sub-paragraph (iv):

"(iv) such Director has held office for three years or more since his last election or re-electing and shall accordingly retire by rotation pursuant to Article 99."

By order of the Board
Prime Success International Group Limited
CHAN Oi Chu
Company Secretary

Hong Kong, 20 April 2006

As at the date of this announcement, the Board of Directors comprises Messrs Chen Ying-Chieh, Chen Hsien Min and Chang Chih-Kai as executive Directors, Messrs Hsiao His-Ming, Huang Shun-Tsai and Kuo Jung-Cheng as independent non-executive Directors.

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