



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 2007**

**HIGHLIGHTS OF INTERIM RESULTS**

	2007	2006	Change
Turnover (HK\$'000)	1,750.6	1,441.0	+21%
Profit attributable to equity holders of the Company (HK\$'000)	184.4	147.3	+25%
Basic earnings per share (HK cents)	11.26	9.00	+25%
Interim dividend per share (HK cents)	2.5	2.0	+25%

## INTERIM RESULTS

The board of directors (the “Board”) of Prime Success International Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007, together with the comparative figures for the corresponding period in 2006 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the six months ended 30 June 2007*

		Unaudited	
	Note	2007 HK\$'000	2006 HK\$'000
Turnover	2	1,750,640	1,441,031
Cost of sales		(903,753)	(775,325)
Gross profit		846,887	665,706
Other revenues and net gains		27,931	12,602
Selling and distribution expenses		(516,056)	(397,323)
General and administrative expenses		(111,552)	(104,005)
Operating profit	3	247,210	176,980
Finance costs		(5,514)	(3,417)
Share of profit of an associated company		77	88
Profit before taxation		241,773	173,651
Taxation	4	(54,764)	(26,218)
Profit for the period		187,009	147,433
Attributable to:			
Equity holders of the Company		184,395	147,336
Minority interests		2,614	97
		187,009	147,433
Interim dividend	5	40,947	32,758
Basic earnings per share	6	HK11.26 cents	HK9.00 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

		Unaudited	Audited
		30 June	31 December
		2007	2006
	Note	HK\$'000	HK\$'000
<b>Non-current assets</b>			
Goodwill		25,483	25,483
Land use rights		39,579	29,289
Fixed assets		423,263	378,576
Deposits paid for acquisition of fixed assets		27,959	23,348
Interest in an associated company		2,417	2,418
Available-for-sale financial assets		33,624	33,624
Other non-current assets		62,486	51,163
Deferred tax assets		34,146	36,053
		<u>648,957</u>	<u>579,954</u>
		-----	-----
<b>Current assets</b>			
Inventories		777,309	684,454
Trade receivables	7	159,498	113,270
Other receivables, deposits and prepayments		248,161	186,108
Derivative financial instruments		2,142	353
Pledged bank deposits		-	6,000
Bank balances and cash		171,594	148,699
		<u>1,358,704</u>	<u>1,138,884</u>
		-----	-----
<b>Current liabilities</b>			
Trade payables	8	394,775	296,494
Other payables and accrued charges		156,824	159,449
Taxation payable		78,920	65,559
Bank loans		188,933	183,194
		<u>819,452</u>	<u>704,696</u>
		-----	-----
<b>Net current assets</b>		539,252	434,188
		-----	-----
<b>Total assets less current liabilities</b>		<u><u>1,188,209</u></u>	<u><u>1,014,142</u></u>

	Unaudited	Audited
	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
<b>Equity</b>		
Share capital	163,789	163,789
Reserves	990,506	817,519
	<hr/>	<hr/>
<b>Equity attributable to equity holders of the Company</b>	1,154,295	981,308
Minority interests	32,899	31,904
<b>Total equity</b>	<hr/>	<hr/>
	1,187,194	1,013,212
<b>Non-current liabilities</b>		
Deferred tax liabilities	1,015	930
	<hr/>	<hr/>
	1,188,209	1,014,142
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## 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “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 2006 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 2006 except that certain comparative figures have been reclassified to conform with changes in presentation in the current period.

In 2007, the Group has adopted the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), which also included HKASs and Interpretations, that are effective for accounting periods commencing on or after 1 January 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29
Financial	
	Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of these new/revised HKFRSs had no material effect on the preparation and presentation of the results and financial position of the Group for the current or prior accounting periods.

## 2. Turnover and segment information

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

### *Primary reporting format - business segments*

	Six months ended 30 June					
	2007			2006		
	Brand business HK\$'000	OEM business HK\$'000	Group HK\$'000	Brand business HK\$'000	OEM business HK\$'000	Group HK\$'000
Turnover	1,388,132	362,508	1,750,640	1,089,293	351,738	1,441,031
Segment results	216,234	28,334	244,568	146,917	28,991	175,908
Income derived from an unlisted available-for-sale financial asset			1,500			1,500
Fair value gain on derivative financial instruments			1,819			143
Unallocated revenues			155			72
Unallocated expenses			(832)			(643)
Operating profit			247,210			176,980

### *Secondary reporting format - geographical segments*

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
China	1,374,718	1,087,846
The US	331,315	331,800
Others	44,607	21,385
	1,750,640	1,441,031

### 3. Operating profit

Operating profit is stated after (crediting)/charging the following:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Amortisation of land use rights	807	541
Cost of inventories sold	761,741	641,004
Depreciation of fixed assets	45,265	29,687
Employee benefits expense including share-based payment expense of HK\$7,883,000 (2006: Nil)	213,287	194,590
Fair value gain on derivative financial instruments	(1,789)	(143)
Loss on disposal of fixed assets	3,064	3,430
Provision for slow moving inventories	7,144	12,706

### 4. 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 2007 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 holidays and reduced corporate income tax rates. Accordingly, the China corporate 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	
	2007	2006
	HK\$'000	HK\$'000
Current taxation - outside Hong Kong	52,772	35,141
Deferred taxation	1,992	(8,923)
	<u>54,764</u>	<u>26,218</u>

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will be effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to the domestic companies from 1 January 2008 will be decreased from 33% to 25% or progressively increased from 15% to 25% within 5 years. This unification in the corporate income tax rate will directly reduce or increase in the Group's effective tax rate prospectively from 2008. According to HKAS 12, the deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, an increase in taxation charge of HK\$3,954,000 is recognised during the six months ended 30 June 2007.

## 5. Interim dividend

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interim dividend, proposed, of HK2.5 cents (2006: HK2.0 cents) per ordinary share	40,947	32,758

## 6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$184,395,000 (2006: HK\$147,336,000). The basic earnings per share is based on the weighted average number of 1,637,892,384 (2006: 1,637,892,384) ordinary shares in issue during the six months ended 30 June 2007.

No diluted earnings per share has been presented as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's shares during the six months ended 30 June 2007 while there were no dilutive potential shares in issue during the six months ended 30 June 2006.

## 7. Trade receivables

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

	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
0 - 30 days	90,641	79,214
31 - 60 days	51,577	22,996
61 - 90 days	13,309	8,933
91 - 120 days	2,007	1,058
121 - 180 days	1,436	574
181 - 360 days	404	495
Over 360 days	124	-
	<u>159,498</u>	<u>113,270</u>

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.

## 8. Trade payables

The ageing analysis of trade payables including balances due to related parties by invoice date is as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
0 - 30 days	295,215	171,658
31 - 60 days	65,380	89,746
61 - 90 days	14,133	14,396
91 - 120 days	2,876	5,794
121 - 180 days	2,346	2,912
181 - 360 days	9,636	5,258
Over 360 days	5,189	6,730
	<hr/> <hr/>	<hr/> <hr/>
	394,775	296,494

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the first half of 2007, the Group's brand businesses, comprising "Daphne", "Shoebox" and "adidas", continued to excel on all fronts with strong consumer demand from Mainland China providing impetus for continual growth. With abundant opportunities as a result of the overall positive market sentiment, "Daphne" had a boosted product portfolio and "Shoebox" added new points-of-sale and recorded a profit for the six months ended 30 June 2007. The Group has also been granted the distribution right of "adidas Performance" products in addition to "adidas Originals" in early 2007, enabling its capture of a larger market share. Serving clearly defined markets and supported by creative advertising and promotion campaigns, the Group's brand businesses reported robust growth.

#### *Brand Business*

Compared to the same period last year, the Group's brand business was continuously gaining weight, accounting for 79% (2006: 76%) of the Group's total turnover during the period under review. Meanwhile, 88% (2006: 84%) of the Group's total segment results was contributed from brand business for the first half of 2007.

As at 30 June 2007, the Group had over 2,500 points-of-sale for "Daphne", "Shoebox" and "adidas" businesses, all over 31 provinces and municipalities in Mainland China and Taiwan. Having more points-of-sale to be located in lower tier cities in China will substantially increase the revenue and profitability of the Group as a whole.



*Distribution of outlets of the Group as at 30 June 2007*

	<u>Daphne</u>	<u>Shoebox</u>	<u>adidas</u>	<u>Total</u>
Eastern China	798	99	46	943
Northeastern China	311	39	18	368
Southern China	320	34	11	365
Central China	302	38	11	351
Northern China	181	17	18	216
Southwestern China	119	12	6	137
Northwestern China	89	9	-	98
Taiwan	28	-	-	28
Total	<u>2,148</u>	<u>248</u>	<u>110</u>	<u>2,506</u>

*An analysis of key operational indices for each brand business for the six months ended 30 June 2007 is as follows:*

	<u>Daphne*</u>		<u>Shoebox</u>		<u>adidas</u>	
	2007	2006	2007	2006	2007	2006
Average selling price (RMB)	188	180	123	105	586	611
Same store sales growth rate (%)	6.0	8.0	3.3	-0.9	13.0	12.0
Rental expense ratio (as % of sales)	21.1	20.1	23.9	21.8	21.2	21.4
Employee cost ratio (as % of sales)	5.6	5.7	6.7	9.0	4.4	3.9
Advertising and promotion expense ratio (as % of sales)	2.4	2.4	0.1	0.1	0.7	0.7

\* Excluding “Daphne” outlets in Taiwan

*“Daphne” Business*

Riding on the growing popularity of the well-established brand and heeding the increasing spending of female consumers in China, the Group has increased a net of 182 new points-of-sale in Mainland China for “Daphne” during the period under review, bringing there the total points-of-sale to 1,404 stores, 470 counters and 246 franchised outlets as at 30 June 2007.

Facing the sluggish Taiwan economy together with the lack of brand recognition in the local market, “Daphne” Taiwan still incurred an operating loss in the first half of 2007. The Group has kept a close eye on the business performance and strove to refine its business strategy to ensure the profitability. As at 30 June 2007, there were 27 stores and 1 franchised outlet in Taiwan.

Buttressed by the well-received brand, a series of “Daphne” eyewear launched in early 2007 has generated satisfactory results. Not only does the excellent performance broaden the Group’s revenue stream, but it also indicates its success in the diversification of product portfolio.

To sustain mass appeal of the brand, the Group continued to appoint renowned girl pop group “S.H.E” and Ms Rene Liu as the spokespersons for “Daphne D18” and “Daphne D28” respectively. Furthermore, the Group never ceases attempting to use creative means (e.g. sponsoring concerts and television shows) to attract mass attention to the brand’s new products and promotions launched. The advertising and promotion expenses spent during the period under review amounted to approximately HK\$30.4 million.

### *“Shoebox” Business*

Realising the strong potential in “Shoebox” brand, the Group expanded “Shoebox” business rapidly during the period under review by adding a net of 84 stores, bringing the total to 248 as at 30 June 2007. The segment recorded a profit for the first half of 2007, testifying to the popularity of the brand, economies of scale and effectiveness of the Group’s tactic to reach mass consumers with competitively priced yet high-quality footwear.

### *“adidas” Business*

“adidas” business continued to deliver satisfactory performance though facing keen competition in the market segment during the period under review. The excitement over the advent of grand sports events such as the Beijing 2008 Olympic Games, along with the increasing consumer spending power, has boosted the demand for its products among consumers in China. To meet the rising demand, the Group extended its product portfolio of the brand to “adidas Performance” products so as to capture customers of sports casual collection preference. As at 30 June 2007, the Group operated a total of 105 directly-managed outlets and 5 franchised outlets in Mainland China, representing a net opening of 6 outlets during the period.

### *OEM Business*

OEM business developed steadily during the six months ended 30 June 2007. In light of the fierce worldwide competition, Renminbi appreciation and ever-rising cost pressure, the Group managed to achieve cost effectiveness and economies of scale on its OEM business by executing high-quality-high-margin orders. Some well-known brands manufactured by the Group included Aerosoles, Tommy Hilfiger, Umbro, etc.

### *Development of Infrastructure*

During the six months ended 30 June 2007, the Group continued to dedicate itself to establishing new office buildings, logistics centres, manufacturing plants and management information systems in order to improve its operational efficiency. The office building in Zhengzhou and the main office building in Shanghai are expected to complete in the third and the fourth quarter of 2007 respectively.

## **FINANCIAL REVIEW**

### *Results Performance*

For the first half of 2007, the Group’s turnover and profit attributable to equity holders was HK\$1,750.6 million (2006: HK\$1,441.0 million) and HK\$184.4 million (2006: HK\$147.3 million) respectively, an increase of 21% and 25% respectively from the same period last year. The gross margin and net margin was 48.4% (2006: 46.2%) and 10.5% (2006: 10.2%) respectively. Basic earnings per share was HK11.26 cents (2006: HK9.00 cents).

## Key Financial Indicators

	For the six months ended 30 June	
	2007	2006
Average inventory turnover (days) (Note 1)	146	158
Average debtors turnover (days) (Note 2)	14	16
Average creditors turnover (days) (Note 3)	75	77
Capital expenditure (HK\$ million)	96.2	57.8
Effective tax rate (%)	22.7	15.1

	As at	
	30 June 2007	31 December 2006
Cash and cash equivalents (HK\$ million)	171.6	148.7
Shareholders' equity (HK\$ million)	1,154.3	981.3
Bank loans (HK\$ million)	188.9	183.2
Current ratio (times) (Note 4)	1.66	1.62
Gearing ratio (%) (Note 5)	16.4	18.7

### Notes:

1. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by the cost of sales and multiplied by number of days of the relevant period.
2. The calculation of average debtors turnover (days) is based on the average of opening and closing balances of trade receivables divided by turnover and multiplied by number of days of the relevant period.
3. The calculation of average creditors turnover (days) is based on the average of opening and closing balances of trade payables divided by purchases and multiplied by number of days of the relevant period.
4. The calculation of current ratio (times) is based on the total current assets divided by total current liabilities as at the relevant period end.
5. The calculation of gearing ratio (%) is based on the total bank loans divided by shareholders' equity as at the relevant period end.

### Individual Business Analysis for the six months ended 30 June

HK\$ million	Daphne		Shoebox		adidas		OEM	
	2007	2006	2007	2006	2007	2006	2007	2006
Turnover	1,140.3	916.9	116.5	58.6	131.3	113.8	362.5	351.7
Gross profit	655.0	513.4	62.6	25.9	64.9	57.6	64.3	68.8
Operating profit/(loss)	198.4	139.1	3.9	(4.4)	13.9	7.9	28.3	29.0

### ***Liquidity and Financial Resources***

As at 30 June 2007, the Group maintained a healthy cash position with cash and cash equivalents of HK\$171.6 million (31 December 2006: HK\$148.7 million) and unutilised banking facilities of HK\$236.3 million (31 December 2006: HK\$136.5 million). Its current ratio improved slightly from 1.62 as at 31 December 2006 to 1.66 as at 30 June 2007. With steady cash flow generated from operations coupled with existing cash and banking facilities available, the Group has adequate financial resources to cope with its future expansion.

The gearing ratio, calculated on the basis of bank loans of HK\$188.9 million (31 December 2006: HK\$183.2 million) over equity attributable to shareholders of the Company of HK\$1,154.3 million (31 December 2006: HK\$981.3 million), decreased slightly from 18.7% as at 31 December 2006 to 16.4% as at 30 June 2007. All bank loans were at floating rates during the period under review.

### ***Foreign Exchange Risk Management***

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollar, Renminbi, US dollar, Euro and New Taiwanese dollar. Foreign exchange risks arising from fluctuations of foreign currencies are managed by the Group using foreign exchange forward contracts whenever necessary.

### ***Pledge of Assets***

As at 30 June 2007, the Group's short-term bank loan of HK\$21.3 million (31 December 2006: HK\$25.3 million) was secured by an available-for-sale financial asset with nil (31 December 2006: nil) carrying value. As at 31 December 2006, the Group's short-term bank loans of HK\$27.0 million were secured by certain land use rights and leasehold buildings of a total net book value of HK\$18.3 million and a bank deposit of HK\$6.0 million.

### ***Significant Capital Expenditure***

During the six months ended 30 June 2007, the Group incurred a total capital expenditure of HK\$96.2 million (2006: HK\$57.8 million) mainly for decoration of stores and counters, construction of office buildings and processing plants and acquisition of information system equipment.

### ***Contingent Liabilities***

As at 30 June 2007, the Group had no significant contingent liabilities.

## ***Human Resources***

As at 30 June 2007, the Group had over 24,000 (31 December 2006: 24,000) employees in Hong Kong, Taiwan and Mainland China. Employee expenditure during the six months ended 30 June 2007 was HK\$213.3 million (2006: HK\$194.6 million) including share-based payment expense of HK\$7.9 million (2006: Nil). The Group values its human resources and recognises the importance of attracting and retaining qualified employees to sustain its success. Remuneration packages are generally structured with reference to market terms and individual qualifications. In addition, share options and discretionary bonuses are granted to eligible employees based on individual's performance. The Group also provides employees with provident fund schemes, medical insurance, staff purchase discounts and training programs.

## **OUTLOOK**

Looking ahead, the Group will continue to explore new business opportunities so as to strengthen the Group's business and revenue base through self development of new brands and co-operation with strategic national and international partners. The Group's another consistent emphasis will be to focus resources on expansion of point-of-sale network to maximise economies of scale and to increase market share. For the whole year of 2007, the Group plans to establish points-of-sale by a net total of 380-400 for "Daphne", 120-140 for "Shoebox" and 40-50 for "adidas". The Group is optimistic that the prospects of its business and its ability to generate satisfactory returns for shareholders will sustain in the future.

## **INTERIM DIVIDEND**

The Board has resolved on 12 September 2007 to declare an interim dividend of HK2.5 cents (2006: HK2.0 cents) per ordinary share for the year ending 31 December 2007. The interim dividend will be payable on or before 18 October 2007 to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 10 October 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 8 October 2007 to 10 October 2007 (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, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 5 October 2007.

## **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 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## **CORPORATE GOVERNANCE**

The Company has complied with the Code of 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 “Stock Exchange”) (the “Listing Rules”) throughout the period.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all directors of the Company confirmed that they had complied with the required standards as set out in the Model Code during the six months ended 30 June 2007.

## **AUDIT COMMITTEE**

The Audit Committee, comprises the three independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group’s unaudited condensed consolidated interim accounts have been reviewed and approved by the Audit Committee, who is of the opinion that such accounts comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

## **PUBLICATION OF THE INTERIM RESULTS AND REPORT**

This results announcement is published on the Stock Exchange’s website (<http://www.hkex.com.hk>) and the Company’s website (<http://www.prime-success.com.hk>). The interim report containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

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

Hong Kong, 12 September 2007

*As at the date of this announcement, the Board comprises Mr. Chen Ying-Chieh, Mr. Chen Hsien Min, Mr. Chang Chih-Kai being the executive directors and Mr. Hsiao Hsi-Ming, Mr. Huang Shun-Tsai and Mr. Kuo Jung-Cheng being the independent non-executive directors.*