Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Chen Ying-Chieh *(Chairman)*
Chen Hsien Min *(Managing Director)*
Chang Chih-Kai

Independent Non-Executive Directors

Hsiao Hsi-Ming
Huang Shun-Tsai
Kuo Jung-Cheng

COMPANY SECRETARY

Ip Ching Bun, Ben

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

17/F, Fung House
19-20 Connaught Road Central
Central
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Corporate Information

PRINCIPAL BANKERS

Bank of Overseas Chinese
Citibank, N.A.
Hang Seng Bank Limited
The International Commercial Bank of China
UFJ Bank Limited

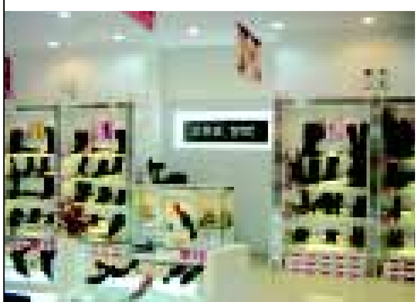
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

210

Chairman's Statement



RESULTS

I am pleased to report to you that riding on the improving global economy and flourishing retail market, Prime Success International Group Limited (the "Company") and its subsidiaries (collectively refer to as the "Group") achieved outstanding performance, particularly in its brand business. Profit attributable to shareholders jumped by 112.5% to HK$176,220,000.

OEM Business Experienced Steady Development

OEM business, one of the Group's core businesses, continued to develop steadily and brought in substantial revenue and profit to the Group during the year. To optimise the profitability of this business segment, the Group focused on securing orders with higher gross profit margin while strengthening its relationships with major and long-established customers.

Actively Expanded Brand Business

With female consumers in China acquiring stronger spending power, the demand for high quality ladies' footwear has been rising. The Group's own ladies' footwear brand, "Daphne", reported a strong surge in turnover and profit during the year. This was mainly attributable to the Group's effort in expanding its sales network and implementing effective marketing strategies. Same store sales thus recorded growth during the year, and the cost effectiveness of this brand business was further enhanced. As for the "Shoebox" mega store business, with its first store opened in May 2004, it is still in the developing stage. However, its diverse product range, reasonable pricing and the comfortable shopping atmosphere appeal to the mass market, thus have enabled the Group to effectively expand its market coverage.

During the year, the Group operated the "Adidas - Original Collection" business on its own. It is well poised to speed up the expansion of this business segment.

Smooth Development of Infrastructure

The Group's new production facilities in Fujian and Jiangsu commenced operations during the year. Two production lines were installed to the Anhui plant. The construction of the logistics centre in Shanghai was completed, while the construction of other logistic centres located in Beijing, Fujian, Shenyang, Guangdong and Chengdu are expected to be completed in 2005 and 2006. When all these facilities are completed, the Group will have an extensive nation-wide sales and distribution network that allows it to serve customers across the country.

Seize Market Opportunities In The Future

Looking forward, the OEM business will continue to grow steadily and the Group will strive to secure new customers and orders with higher profit margin. In addition to striving for growth in its major market, the U.S., the Group will also actively expand other overseas markets such as Europe and Japan.

The Group will continue to enhance the "Daphne" brand. One of its strategies is planning to invest in a film which is related to the brand. The Group also appointed a young pop music band "S.H.E" as "Daphne D18" brand spokespersons. This move will surely strengthen consumer recognition of the brand and the value of "Daphne" brand. As for the "Shoebox", the Group plans to substantially expand its sales network to second and third tier cities, with the aim of enlarging market coverage and increase the market penetration of "Shoebox" across the country.

To meet growing demand and fully capture market opportunities brought by the 2008 Beijing Olympics, the Group plans to add on average 50 "Adidas – Original Collection" specialty stores each year, bringing the total number of stores to not less than 300 by 2008.

This year commemorates the 10th anniversary of the Group's listing in Hong Kong and the 15th anniversary of the launch of the "Daphne" brand. I am pleased to see the achievements we have made and the marking of a new milestone in our business development. Recently the management is actively investigating the opportunity for introducing other high-end brands through cooperation. We will continue to develop our existing businesses while seeking new opportunities that favour the Group's continuous growth, so we may bring fruitful returns to our shareholders.

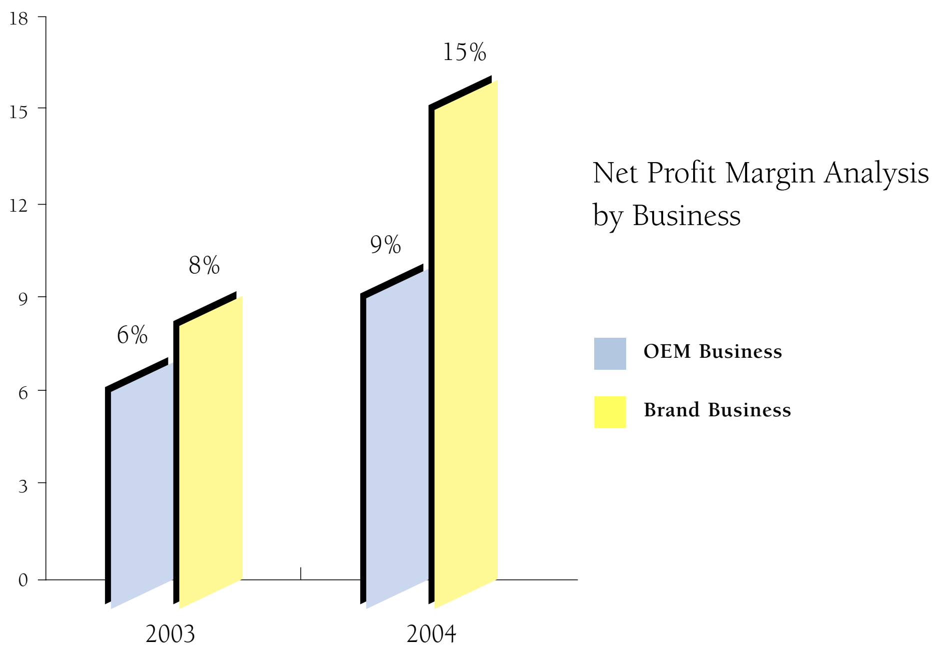
Chen Ying-Chieh
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

Driven by the strong growth in sales in the PRC and steady performance of export sales, the Group's turnover surged by 27.1% to HK$1,788,539,000 during the year (2003: HK$1,407,007,000).

Profit attributable to shareholders increased by 112.5% to HK$176,220,000 (2003: HK$82,935,000). The higher profit margins of the sales in the PRC and enhanced economies of scale were the main reasons behind the Group achieving higher growth in profit than in turnover. Basic earnings per share was HK11.33 cents (2003: HK5.51 cents).



OEM Business

One of the Group's core business segments, OEM business recorded steady performance during the year. Its turnover decreased slightly by 4.8% to HK$721,724,000 (2003: HK$757,856,000), which accounted for 40.4% of the Group's total turnover. The decrease in turnover was mainly due to the Group's decision to direct more resources to boosting its brand business, which enjoyed higher profitability, in a bid to foster the Group's overall business growth. Although raw material prices increased by around 2% during the year, through implementing various cost control measures and striving to secure more orders with higher profit margins, the operating profit of the Group's OEM business increased by 41.2% to HK$66,083,000 (2003: HK$46,811,000). During the year, the Group started receiving orders from Europe, while the U.S. remained as its major overseas export market.

Though raw material prices are expected to continue on a mild upward trend in the short term, the Group which only produces upon receipt of orders is able to respond more effectively to the price fluctuation. This enables the Group to better control production costs while maintaining reasonable profitability.

Daphne PRC Selling Point Distribution

Central China		
Chengdu Regional Offices	45 Specialty Stores	10 Counters
Changsha Regional Offices	40 Specialty Stores	7 Counters
Xinjiang Regional Offices	16 Specialty Stores	3 Counters
Xian Regional Offices	14 Specialty Stores	12 Counters

Northern China		
Beijing Regional Offices	34 Specialty Stores	49 Counters
Zhengzhou Regional Offices	57 Specialty Stores	15 Counters
Jinan Regional Offices	61Specialty Stores	27 Counters

Eastern China		
Nanjing Regional Offices	48 Specialty Stores	38 Counters
Shanghai Regional Offices	79 Specialty Stores	19 Counters
Hangzhou Regional Offices	54 Specialty Stores	19 Counters

Southern China		
Fuzhou Regional Offices	54 Specialty Stores	6 Counters
Guangzhou Regional Offices	67 Specialty Stores	35 Counters
Nanning Regional Offices	29 Specialty Stores	11 Counters

North Eastern China		
Harbin Regional Offices	42 Specialty Stores	13 Counters
Changchun Regional Offices	24 Specialty Stores	6 Counters
Shenyang Regional Offices	61 Specialty Stores	27 Counters

Management Discussion and Analysis

Brand Business

The Group managed three brands including its own-brand – "Daphne" ladies' footwear, the new own-brand – "Shoebox" footwear and the "Adidas – Original Collection" products. Turnover of brand business increased by 64.3% to HK$1,066,815,000 (2003: HK$649,151,000), constituting 59.6% of the Group's total turnover. During the year, sales from "Daphne" increased by 52.0% to HK$986,878,000, making up 55.1% of the Group's total turnover (2003: HK$649,151,000). Sales from "Shoebox" was HK$12,190,000, accounting for 0.7% of the total turnover. Sales from the "Adidas – Original Collection" business reached HK$67,747,000, constituting 3.8% of the total turnover.

"Daphne" – Own-Brand Ladies' Footwear Business

As the Chinese economy continues to grow, market demand for consumer goods follows to increase. That and the growing spending power of female consumers have created a female footwear market laden with growth potential. "Daphne" business recorded a high growth in the year at the Group's effort to expand its sales and distribution network, and increase sales per store to enhance cost effectiveness. At the end of 2004, "Daphne" had more than 1,500 selling points in the PRC (including 725 specialty stores and 297 counters), 283 more compared to 2003 (2003: 500 specialty stores and 239 counters).

The success of "Daphne" was not only attributable to the Group's extensive sales and distribution network, but also rested on the well-established position of the brand and effective brand marketing strategy. Leveraging the recognized brand name of "Daphne" and heeding the strong consumption power of teenagers, the Group started to launch a new separate outlet chain – "Daphne D18" for Daphne's young collection, targeting female customers aged between 15 and 25. With other product lines of Daphne as "Daphne 28" targeting female customers aged between 26 and 50, the addition of the new outlet chain will enrich the brand and enable the Group to expand its customer base and increase its share in the ladies' footwear market in the PRC.

"Shoebox" – New Own-Brand Footwear Business

Seize the mass market of footwear in the PRC, the Group launched a new brand – "Shoebox" in May 2004. Through opening "Shoebox" mega stores, some of which located inside chain hypermarkets like "Carrefour" and "Hymall" etc., the Group has broadened its income base.

By the end of 2004, "Shoebox" had 21 mega stores opened in cities including Beijing, Shanghai, Wuhan, Yangzhou and Suzhou. Though the business is still in its development stage, market response has been better than expected, pointing to huge potential in the high quality low-priced footwear market in the PRC.

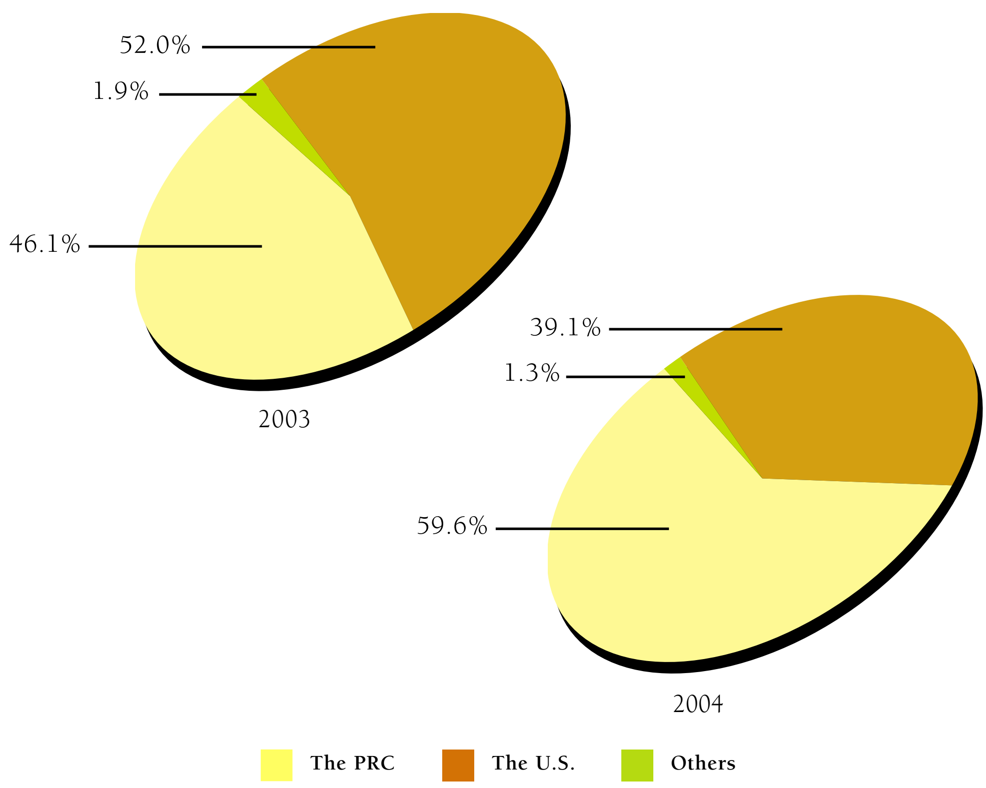
Adidas – Original Collection Business

In the past, the Group has been managing the business by appointing agent to operate the "Adidas – Original Collection" business. In 2004, the business of the "Adidas – Original Collection" entered into a more established stage and the Group stepped up expanding this business on its own to boost revenue.

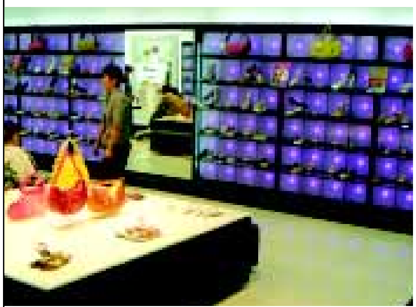
To capture the ever-rising demand for athletic and casual footwear products and apparel of prestigious brands in the PRC, the Group opened 5 more specialty stores during the year, bringing the total number of stores to 8 by the end of 2004. The number of "Adidas – Original Collection" counters also increased from 12 to 30. These selling points are located in major cities including Shanghai, Beijing and Guangzhou.

Turnover Breakdown by Market

For the year ended 31 December



Management Discussion and Analysis



Development of Infrastructure

During the year, the Group set up two production plants in Fujian and Jiangsu. In addition, the Group's production facilities in Anhui commenced extensive manufacturing operations during the year with the current utilisation rate of approximately 60%, indicating they have sufficient capacities to cater to massive new orders. Two new production lines were added to the production facility in Anhui, and two more would be installed in 2005. Moreover, the Group completed the construction of its logistics centre in Shanghai with a total capital investment of approximately HK$12,000,000. To further reduce warehousing, transportation and freight costs, the Group will open more logistics centres in the coming year. The constructions of the logistics centres in Beijing and Fujian are expected to be completed in 2005, and those in Shenyang, Guangdong and Chengdu are estimated to be completed by 2006. The Group's goal is to build a sales and distribution network with nation-wide coverage in the PRC.

FINANCIAL REVIEW

Results Performance

For the year ended 31 December 2004, the Group's turnover increased by 27.1% over the previous year (2003: HK$1,407,007,000) to reach HK$1,788,539,000. Profit attributable to shareholders amounted to HK$176,220,000 (2003: HK$82,935,000), representing an increase of 112.5% as compared with the previous year. Gross profit margin increased to 38.3% from 29.7% last year, while net profit margin surged to 9.9% from 5.9% last year. These outstanding results were mainly attributable to the Group's proactive efforts in expanding its sales and distribution business in the PRC and maintaining a steady export business, while implementing stringent cost control.

During the year, basic earnings per share of the Group was approximately HK11.33 cents, representing approximately 2.1 folds of that of last year. The board of directors recommended the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2004. Together with the interim dividend of HK1.5 cents per share, the total dividends for the year would amount to HK3.5 cents.

Liquidity and Financial Resources

As at 31 December 2004, the Group maintained a healthy cash level with cash and cash equivalents of HK$126,893,000 (2003: HK$146,680,000) and unutilized banking facilities of HK$69,577,000 (2003: HK$54,384,000). The Group's current ratio, being the proportion of total current assets against total current liabilities, maintained at a stable level of 1.63 in 2004 compared to 1.64 in 2003.

As a result of the remarkable profit generated from operation, total debt to equity ratio as at 31 December 2004 was 0.93 compared to 0.94 last year, which was calculated by dividing total liabilities of HK$495,050,000 (2003: HK$378,151,000) by the total shareholders' equity of HK$534,514,000 (2003: HK$402,910,000).

Reflecting continuous improvement in the quality of the Group's assets, the gearing ratio of the Group decreased from 27.4% to 18.4% as at 31 December 2004. Computation of the gearing ratio was based on the total borrowings of HK$98,527,000 (2003: HK$110,313,000) divided by shareholders' equity of HK$534,514,000 (2003: HK$402,910,000).

All of the bank borrowings as at 31 December 2004 were short-term in nature, repayable within one year and were denominated in New Taiwanese dollars, US dollars, Renminbi and Hong Kong dollars. Interest on these bank borrowings was charged based on fixed rates.

Treasury Policies

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management working towards decreasing its gearing position. The Group's monetary assets, liabilities and transactions are primarily denominated in Hong Kong dollars, Renminbi, US dollars and New Taiwanese dollars. During the year, the Group entered into forward foreign exchange contracts to hedge its foreign currencies against fluctuations in exchange rates. As at 31 December 2004, the Group had commitments amounting to HK$475,332,000 (2003: HK$230,100,000) in respect of forward foreign exchange contracts entered into with banks in the PRC and Taiwan.

Management Discussion and Analysis

Contingent Liabilities

As at 31 December 2004, the Group had no significant contingent liabilities.

Significant Capital Investments

During the year, the Group invested approximately HK$21,892,000 in establishing logistics centres in Shanghai, Beijing, Shenyang, Fujian, Guangdong and Chengdu. The construction of the logistics centre in Shanghai was completed in 2004, while the remaining logistics centres are expected to be completed in 2005 and 2006 respectively. The Group also set up a manufacturing plant in Fujian and a processing plant in Jiangsu during the year at registered capitals of HK$23,400,000 and HK$2,820,000 respectively. In addition, during the year, the Group planned to renovate certain regional offices in the PRC at a total estimated expenditure of HK$47,800,000.

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

Human Resources

As at 31 December 2004, the Group had over 19,000 employees in Hong Kong, Taiwan and the PRC. Staff expenditure during the year ended 31 December 2004 was HK$295,832,000 (2003: HK$241,559,000). The Group recognizes the importance of human resources for sustaining its strong growth and as a result, it ensures that employee remuneration is maintained at competitive levels complemented by performance-based bonuses, retirement pension contribution and share options.

During the year, the Group granted 80,000,000 share options to its employees.

PROSPECTS

OEM Business

As the economic outlook in the U.S. remains positive, the Group expects a steady growth in its OEM business in the coming year, with a high single digit or low double-digit sales growth rate as its goal. The U.S. market will remain as the Group's largest export market in the coming year, and the Group will strive to secure new customers and orders with higher profit margins as well as actively expanding other overseas markets such as Europe and Japan.

Brand Business

The Group will continue to expand the sales network of "Daphne" to effect further penetration of the market by the brand and commit more resources to brand promotion. One of the strategies is to consider making a film associated with the "Daphne" brand. The film will help to strengthen consumer recognition of the "Daphne" brand and boost its value. Besides, the Group opened its first "Daphne D18" specialty store in April 2005. It aims to increase the number of "Daphne D18" specialty stores to 20 by the end of 2005. To effectively expand into the young ladies footwear market, the Group appointed a young pop music band "S.H.E" as "Daphne D18" brand spokespersons.

The fact that 70% of the population in the PRC belongs to the low-income group reflects the ever-rising demand for diverse footwear products at reasonable prices. This translates into huge market opportunities for "Shoebox". During the two years' expansion period of this year and the next, the Group will embark on expanding the sales network of "Shoebox", opening more mega stores and extending the brand's market coverage to second and third tier cities. The aim of these moves is to expand the Group's customer base and achieve continuous business growth. In the absence of mega stores of similar nature in the market, "Shoebox" stands out as one of the few brands managed to provide a comfortable shopping environment, reasonably priced products and high quality services in the sector. The management has confidence in the future development of this business segment.

To seize the immense opportunities arising from the 2008 Beijing Olympics, the Group plans to accelerate the expansion of the "Adidas – Original Collection" specialty outlets to open not less than 50 stores every year, bringing the total number to 300 in 2008. With this mega sports event boosting the demand for athletic and casual footwear and apparel of prestigious brands, the Group looks forward to reaping considerable business returns.

Development of Infrastructure

The Group has no other significant capital investment plans apart from the construction of logistics centres. With China sustaining a promising economic outlook, the Group is planning to optimize its well-established sales and distribution network to aid the diversification of its brands and product ranges. It intends to grow its core businesses through introducing new brands and other consumer products.

Management Discussion and Analysis

In 2004, the Group started implementing an Enterprise Resources Planning system (the "ERP") to help it improve and speed up the financial and management reporting process. The more effective use of resources by the Group has resulted in enhanced profitability. As at 31 December 2004, the second phase of the project has been completed, allowing the Group to realise linkage of selling points in certain cities and integration of the Group's Warehouse Management System and Point-of-sale System. The Group will commence the third phase of the project expanding application of the ERP system to the sales network of other distribution points. The full implementation of the system is scheduled to be completed on or before the end of 2005.

The persistent outstanding performance of the Group is the result of the hard work and dedication of all our employees. Adhering to this empowering corporate culture, the management will strive to bring the Group's businesses to new heights and generate satisfactory returns to shareholders.

Biographical Details of Directors and Senior Management

Biographical details of the directors of the Company and the senior management of the Group are set out as follows:

EXECUTIVE DIRECTORS

Mr Chen Ying-Chieh, aged 36, is the chairman of the Group. Mr Chen is responsible for promoting sales and formulating the Group's marketing strategy for the PRC market. Mr Chen obtained a bachelor degree in International Trade Business from the University of Zhengyou. He has been working with the Group since 1992. Mr Chen is a nephew of Mr Chen Hsien Min and a cousin of Mr Chang Chih-Kai.

Mr Chen Hsien Min, aged 54, is the managing director and one of the founders of the Group. Mr Chen is responsible for the overall corporate planning and day-to-day operations of the Group, including production, marketing and sales activities. He has a bachelor degree in Land Economics from the National Cheng Chi University of Taiwan. Mr Chen joined the Group since 1988 and has over 29 years of experience in the footwear industry. Mr Chen is an uncle of Mr Chen Ying-Chieh and Chang Chih-Kai.

Mr Chang Chih-Kai, aged 24, had studied a bachelor degree of Art in Auckland University after graduated from Pakuranga College in New Zealand. He joined the Company since 2003 with focus on shoe development and sales and marketing. Mr Chang is the son of Chang Wen I, the ex-chairman of the Company and a cousin of Mr Chen Ying-Chieh. He is also a nephew of Mr Chen Hsien Min.

NON-EXECUTIVE DIRECTORS

Mr Hsiao Hsi-Ming, aged 65, is a partner of an accounting firm in Taiwan. He is a member of Taiwan Provincial CPA Association and has over 40 years of experience in auditing and accounting.

Mr Huang Shun-Tsai, aged 52, is a director of six technology companies in Taiwan. He has been active in the technology field for over 13 years.

Mr Kuo Jung-Cheng, aged 55, is a former senator of the Legislative House in Taiwan. He has been serving the community in Taiwan as senator or representative for over 11 years. Mr Kuo holds an MBA degree from the University of Hawaii.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr Chang Chun Wang, aged 53, is the vice general manager of the Group. Mr Chang is responsible for the Group's production activities. Mr Chang has over 23 years of experience in the footwear industry. He has been working with the Group since 1994.

Mr Xin Jia Hua, aged 51, is the vice general manager of the Group. Mr Xin is responsible for the sales and marketing and inventory management of the Brand business in the PRC. Mr Xin joined the Group since 1994 and he has over 30 years of experience in the manufacturing and distribution business.

Mr Hsu Szu Che, aged 52, is the senior manager of the general administration and management of the Group's sales office and manufacturing facilities in Fuzhou. Mr Hsu has over 23 years of experience in the administration and management of footwear manufacturing facilities. He has been working with the Group since 1994.

Mr Liao His-Chuan, aged 49, is the manager in charge of a major manufacturing subsidiary of the Group. Mr Liao is responsible for the day-to-day manufacturing operation of both OEM and Brand business. He has over 21 years of experience in the management of footwear production facilities and he has been working with the Group since 1994.

Mr Ip Ching Bun, Ben, aged 33, is the company secretary of the Group. Mr Ip is responsible for company secretarial work and formulation of financial system of the Group. He has 10 years of experience in the field of accounting. Mr Ip holds a bachelor degree from the Hong Kong Baptist University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. Prior to joining the Group in June 2000, he worked in a listed company in Hong Kong.

Ms Chan Oi Chu, aged 28, is the financial controller of the Group. Ms. Chan has over 6 years of experience in auditing, accounting and financial management in Hong Kong. Prior to joining the Group in July 2004, Ms Chan worked in a listed company in Hong Kong and she also has five years of experience in an international accounting firm. She holds a bachelor degree from the Hong Kong University of Science and Technology and is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

Ms Chao Huei Chuan, aged 38, is a senior manager of the treasury unit of the Group. Ms Chao is responsible for planning and overseeing the treasury function of the Brand business in the PRC. She was graduated from the Overseas Chinese Institute of Technology with major in International Trade. Ms Chao joined the Group since 1994 and she has over 15 years of experience in finance and accounting.

Ms Cho Ya Lin, aged 40, is a senior manager of the finance department of the Group. Ms Cho is responsible for the planning and supervision of treasury resources for OEM business of the Group. Ms Cho joined the Group since 1994 and she has over 20 years of experience in corporate management.

Ms Chen Pi Er, aged 42, is a senior manager of the finance department of the Group. Ms Chen is responsible for overseeing the financial reporting and customs duties of manufacturing business of the Group. Ms Chen joined the Group since 1994 and she has over 17 years of experience in manufacturing business.

Ms Chan Lai Mei, aged 43, is the financial officer of the Group. Ms. Chan has over 15 years of experience in investment, financial and management. She is responsible for the accounting of the Group. Ms Chan holds a master degree from the University of Wisconsin. She has been working with the Group since 1996.

Biographical Details of Directors and Senior Management

Ms Chi Shu Tzu, aged 38, is the sales manager of ladies' footwear. She is responsible for sales and marketing of certain overseas customers. Ms Chi has over 21 years of experience in the footwear industry. She has been working with the Group since 1994.

Ms Chen Li Hui, aged 40, is the sales manager of sports footwear. She is responsible for sales and marketing of sports products. Ms Chen has over 20 years of experience in the footwear industry. She has been working with the Group since 1994.

Mr Chou Chang Hsuing, aged 58, is the manager of central administration department in the PRC. Mr Chou is in charge of the planning and supervision of resources allocations among the factories and the implementation of cost control program. Mr Chou has over 30 years of experience in the administration and management in the footwear industry. He has been working with the Group since 1994.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 12 to the accounts.

Details of analysis of the Group's turnover and contribution to operating profit for the year by business and geographical segment is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 26.

The board of directors has declared an interim dividend of HK1.5 cents per ordinary share, totalling HK$23,368,000, which was paid on 25 October 2004.

The board of directors recommended the payment of a final dividend of HK$2.0 cents per ordinary share, totalling HK$32,198,000 in respect of the year ended 31 December 2004.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 21 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2004 amounted to HK$188,574,000 (before the declaration of a final dividend), comprising share premium, contributed surplus and retained profits.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and there are no restrictions against such rights under the laws of the Cayman Islands.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 61.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 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.

DIRECTORS

The directors during the year were:

Executive directors

Chen Ying-Chieh	(Appointed as Chairman on 22 November 2004)
Chen Hsien Min	(Managing Director)
Chang Chih-Kai	(Appointed on 22 November 2004)
Chang Wen I	(Resigned as Chairman and executive director on 22 November 2004)

Independent non-executive directors

Huang Shun-Tsai	
Kuo Jung-Cheng	
Hsiao Hsi-Ming	(Appointed on 10 September 2004)

In accordance with Article 91 of the Company's Articles of Association, Messrs Chang Chih-Kai and Hsiao Hsi-Ming retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 99 of the Company's Articles of Association, Mr Huang Shun-Tsai retires by rotation and, being eligible, offer himself for re-election.

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and it considers the independent non-executive directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 15 to 17.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests of the directors and chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares of HK$0.10 each of the Company

Name of director		Nature of interest	Number of shares held	Percentage
Chen Ying-Chieh	Long position	Personal/Corporate	164,338,920 *(Note)*	10.48
Chen Hsien Min	Long position	Personal	14,500,000	0.92

Note: Mr Chen Ying-Chieh has beneficial interest in 149,838,920 shares in the Company through Pushkin Holding Limited, a company incorporated in the British Virgin Islands, in which Mr. Chen Ying-Chieh holds one-third of the equity interests.

In addition to the above, Mr Chen Hsien Min, the Managing Director of the Company, also holds non-voting deferred shares and nominee shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiaries have more than one member.

Save as disclosed above, as at 31 December 2004, none of the directors or chief executive, nor any of their associates (including their spouses and children under 18 years of age), had any interests in or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations as defined by the SFO.

Save as disclosed under the section headed "Share options", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTIONS

Details of the Share Option Scheme adopted on 23 May 2003 are as follows:

i) Purpose

The purpose of the scheme is to provide incentives to the employees, including any executive or non-executive directors and officers of the Company and its subsidiaries, to contribute to the Group and to enable the Group to recruit high-calibre employees and attract or retain human resources that are valuable to the Group.

SHARE OPTIONS *(Continued)*

ii) Qualifying participants

Any person being an employee, officer, agent or consultant, including executive and non-executive director, of the Group.

iii) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the scheme if this will result in such limit exceeded. As at 31 December 2004, the number of shares available for issue in respect thereof is 10,339,238 shares.

iv) Limit for each participant

The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

v) Option period

The option period within which the shares must be taken up an option shall be determined by the board of directors in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The board of directors has the authority to determine the minimum period for which an option must be held before it can vest. The scheme itself does not specify any minimum holding period.

vi) Acceptance and payment on acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of grant. A consideration of HK$1 shall be paid by a participant upon acceptance of the option.

vii) Subscription price

The exercise price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

SHARE OPTIONS *(Continued)*

viii) Remaining Life of the scheme

The board of directors is entitled at any time within 10 years between 29 May 2003 and 28 May 2013 to offer the grant of an option to any qualifying participants.

Details of the share options outstanding as at 31 December 2004 which were granted under the Share Option Scheme are as follows:

	Number of options						
	At 1 January 2004	Granted during the year	Exercised during the year	At 31 December 2004	Exercise price *HK$*	Grant date	Exercisable period
Directors of the Company							
Chen Ying-Chieh	14,500,000	–	14,500,000 *(Note 1)*	–	0.20	28 July 2003	28 July 2003 to 27 July 2009
Other participants							
Employees	–	80,000,000 *(Note 2)*	10,000,000 *(Note 1)*	70,000,000	0.311	5 January 2004	5 January 2004 to 4 January 2006
Chang Wen I (Resigned as chairman and executive director on 22 November 2004)	14,500,000	–	14,500,000 *(Note 1)*	–	0.20	28 July 2003	28 July 2003 to 27 July 2009

Notes:

1. 39,000,000 options were exercised during the year. At the dates immediately before the options were exercised, the weighted average closing market price per share was calculated as HK$0.68.

2. At the date before the options were granted, the market price per share was HK$0.315.

3. The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of the options granted to participants as referred to in (i) to (v) of Rule 17.07 during the period under review. The directors consider it inappropriate to value the share options as a number of critical factors for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and chief executive's interests in shares, underlying shares and debentures" and "Share options", the following persons had interests in the shares of the Company which fall to be disclosed to the Company pursuant to Section 336 of the SFO:

Name of shareholder		**Interests held**	**Number of shares held**	**Percentage**
Lucky Earn International Limited	Long position	Corporate	449,669,995 *(Note 1)*	28.68
Top Glory Assets Limited	Long position	Corporate	217,692,895 *(Note 2)*	13.88
Pushkin Holding Limited	Long position	Corporate	149,838,920 *(Note 3)*	9.56

Notes:

1. Mr Chang Chih-Kai, an Executive Director of the Company, his brother and his two sisters have beneficial interests of 26%, 26% and 24% each respectively in Lucky Earn International Limited, a company incorporated in the British Virgin Islands.

2. Two children of Mr Chen Hsien Min, Managing Director of the Company, have beneficial interests of 50% each in Top Glory Assets Limited, a company incorporated in the British Virgin Islands.

3. Mr Chen Ying-Chieh, Chairman of the Company, and his two brothers each has one-third of the beneficial interests of Pushkin Holding Limited.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 9% and 30%, respectively, of the total turnover of the Group for the year.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 20% and 33%, respectively, of the total purchases of the Group for the year.

None of the directors, their associates or any shareholder of the Company which to the knowledge of the directors owned more than 5% of the Company's share capital, had any beneficial interest in the Group's five largest customers or suppliers.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, which was in force prior to 1 January 2005 except that the independent non-executive directors of the Company were not appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

AUDIT COMMITTEE

The Audit Committee 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 audited accounts for the year ended 31 December 2004.

AUDITORS

The accounts for the year ended 31 December 2004 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board
Chen Ying-Chieh
Chairman

Hong Kong, 22 April 2005

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
PRIME SUCCESS INTERNATIONAL GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 26 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 April 2005

Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover	2	**1,788,539**	1,407,007
Cost of sales		**(1,104,010)**	(988,604)
Gross profit		**684,529**	418,403
Other revenues	2	**8,207**	6,212
Selling and distribution expenses		**(325,518)**	(205,739)
General and administrative expenses		**(130,323)**	(111,067)
Operating profit	3	**236,895**	107,809
Finance costs	4	**(3,085)**	(5,780)
Share of results of an associated company		**256**	230
Profit before taxation		**234,066**	102,259
Taxation	5	**(53,069)**	(15,444)
Profit after taxation		**180,997**	86,815
Minority interests		**(4,777)**	(3,880)
Profit attributable to shareholders	6	**176,220**	82,935
Dividends	7	**55,566**	38,657
Earnings per share	8		
– basic		**HK11.33 cents**	HK5.51 cents
– diluted		**HK11.07 cents**	HK5.50 cents

Consolidated Balance Sheet

As at 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Fixed assets	11	217,146	143,568
Interest in an associated company	14	2,205	2,163
Investment securities	15	33,437	37,437
Deferred tax assets	22	18,328	13,322
		271,116	196,490
Current assets			
Inventories	16	469,111	305,056
Trade receivables	17	67,148	83,651
Other receivables, deposits and prepayments		140,689	61,618
Trading investments		–	15,890
Pledged bank deposits	25(c)	3,446	7,242
Bank balances and cash		126,893	146,680
		807,287	620,137
Current liabilities			
Trade payables	18	260,537	204,649
Other payables and accrued charges		96,070	55,359
Taxation payable		39,179	7,079
Bank loans and overdrafts	19	98,527	110,313
		494,313	377,400
Net current assets		312,974	242,737
Total assets less current liabilities		584,090	439,227
Financed by:			
Share capital	20	156,789	152,889
Reserves	21	345,527	227,088
Proposed final dividend	21	32,198	22,933
Shareholders' funds		534,514	402,910
Minority interests		48,839	35,566
Deferred tax liabilities	22	737	751
		584,090	439,227

CHEN YING-CHIEH
Chairman

CHEN HSIEN MIN
Managing director

Balance Sheet

As at 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Investments in subsidiaries	12	165,635	165,635
Current assets			
Other receivables		206	204
Amounts due from subsidiaries	13	193,130	183,000
Bank balances		287	183
		193,623	183,387
Current liabilities			
Accrued charges		1,206	1,045
Amount due to a subsidiary	13	9,807	9,807
		11,013	10,852
Net current assets		182,610	172,535
Total assets less current liabilities		348,245	338,170
Financed by:			
Share capital	20	156,789	152,889
Reserves	21	159,258	162,348
Proposed final dividend	21	32,198	22,933
		348,245	338,170

CHEN YING-CHIEH
Chairman

CHEN HSIEN MIN
Managing director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Total equity as at 1 January		**402,910**	347,817
Deficit on revaluation of an unlisted investment	21	**(4,000)**	–
Exchange differences arising on translation of the accounts of foreign subsidiaries and an associated company	21	**(2,789)**	(32)
Net losses not recognised in the consolidated profit and loss account		**(6,789)**	(32)
Profit attributable to shareholders	21	**176,220**	82,935
Dividends	21	**(46,737)**	(33,270)
Issue of shares under share option scheme	20	**8,910**	5,460
		138,393	55,125
Total equity as at 31 December		**534,514**	402,910

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Note	2004 *HK$'000*	2003 *HK$'000*
Operating activities			
Net cash generated from operations	23	**149,253**	140,288
Taxation paid outside Hong Kong		**(25,920)**	(16,672)
Net cash inflow from operating activities		**123,333**	123,616
Investing activities			
Interest received		**1,323**	636
Dividend received from an associated company		**136**	329
Purchase of fixed assets		**(102,443)**	(34,120)
Proceeds from disposal of fixed assets		**537**	221
Net cash used in investing activities		**(100,447)**	(32,934)
Net cash inflow before financing activities		**22,886**	90,682
Financing activities			
Interest paid		**(3,085)**	(5,780)
Dividends paid		**(46,737)**	(33,270)
Dividends paid to minority shareholders		**(3,424)**	(2,718)
Capital injection by minority shareholders		**705**	–
Increase in amounts due to minority shareholders		**11,291**	9,780
Repayments of bank loans		**(81,768)**	(178,308)
New bank loans raised		**70,035**	138,015
Issue of shares		**8,910**	5,460
Decrease/(increase) in pledged bank deposits		**3,796**	(7,242)
Net cash used in financing activities		**(40,277)**	(74,063)
(Decrease)/increase in cash and cash equivalents		**(17,391)**	16,619
Cash and cash equivalents as at 1 January		**146,627**	129,917
Effect of foreign exchange rate changes		**(2,343)**	91
Cash and cash equivalents as at 31 December		**126,893**	146,627
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**126,893**	146,680
Bank overdrafts		**–**	(53)
		126,893	146,627

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The term of HKFRS is inclusive of all Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the HKICPA. The accounts have been prepared under the historical cost convention as modified by the revaluation of certain land and buildings, plant and machinery, investment securities and trading investments.

The HKICPA has issued a number of new and revised HKFRS and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Basis of consolidation

The consolidated accounts include the accounts of Prime Success International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill and accumulated exchange difference taken to reserves and which were not previously charged in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(d) Fixed assets

Fixed assets are stated at cost or valuation in 1995 less subsequent accumulated depreciation and accumulated impairment losses.

Effective from 1 September 1995, no further revaluations of the Group's leasehold land and buildings and plant and machinery have been carried out. The Group places reliance on paragraph 80 of SSAP 17 which provides exemption from the need to make regular revaluations of such assets.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Over the terms of the lease or 50 years, whichever is shorter
Leasehold improvements	Over the terms of the lease or 3 years, whichever is shorter
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

Construction-in-progress represents buildings and plant under construction and equipment pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs. No provision for depreciation is made on construction-in-progress until such time as the assets are completed and ready for use.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets *(Continued)*

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Investment securities

Investments which are held for non-trading purposes are stated at fair value at the balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities/investments which are unlisted and not actively traded, fair value is determined by the Group using a variety of methods and techniques, such as estimated discounted value of future cash flows, with assumptions that are based on market conditions existing at each balance sheet date. Changes in the fair value of individual investment are credited or debited to the investment revaluation reserve until the investments are sold, or are determined to be impaired by the directors.

Where there is evidence that individual investment is impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account. Any subsequent increase in the fair value is credited to the profit and loss account up to the amount previously debited.

Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

(g) Trading investments

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Gains or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

(k) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

(l) Deferred taxation

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and the associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate during the year. Exchange differences arising are dealt with as a movement in reserves. Upon disposal of a foreign entity the related accumulative exchange differences are included in the profit and loss account as part of the gain or loss on disposal.

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Operating lease rental income is recognised on a straight-line basis over the periods of the leases.

Subcontracting income is recognised when the services are rendered.

Agency fee income is recognised on an accrual basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Export incentives from government are recognised on a systematic basis to match the related costs which they are intended to compensate.

(o) Employee benefits

(i) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within the next twelve months and are measured at the amounts expected to be paid when they are settled.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Pension obligations

The Group participated in a defined contribution retirement scheme which is available for all qualified employees in Hong Kong. The assets of the scheme are held separately from those of the Group in independently administered funds. Contributions to the scheme by the Group are expensed as incurred and/or are reduced by those employees who leave the scheme prior to vesting fully in the contributions.

The Group also participated in the defined contribution retirement schemes operated by the municipal governments of various cities in the People's Republic of China (the "PRC") where the Group operates. The relevant municipal governments are responsible for the entire pension obligations payable to retired employees of the respective cities. The only obligation of the Group is to pay the ongoing required contributions under these schemes. The contributions are charged to the profit and loss account as incurred.

(iii) Equity compensation benefits

Share options are granted to directors and employees at the discretion of directors. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, the discount is recognised in the profit and loss account as a compensation cost and recognised in the balance sheet as an increase in equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that the primary segment reporting format is by business segment and the secondary segment reporting format is by geographical segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude interest in an associated company, investment securities, trading investments, deferred tax assets and corporate assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate liabilities. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are based on where the assets are located.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Comparative figures

Where necessary, certain comparative figures have been reclassified to conform with changes in presentation in the current year.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2004 *HK$'000*	2003 *HK$'000*
Turnover		
Sales of goods, net of discounts	**1,788,539**	1,407,007
Other revenues		
Income derived from an unlisted investment *(Note 15(a))*	**3,000**	3,000
Export incentives from government	**2,746**	918
Interest income	**1,323**	636
Gross rental income	**288**	230
Dividend income from investment securities	**62**	118
Others	**788**	1,310
	8,207	6,212
Total revenues	**1,796,746**	1,413,219

2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments

The Group is organised into two main business segments:

Brand business – Manufacturing and distribution of footwear products and accessories under "Daphne" and other brands owned by or licensed to the Group.

OEM business – Manufacturing and distribution of footwear products under original-equipment manufacturing arrangements ("OEM").

There were no material transactions between the business segments.

	2004			2003		
	Brand business	**OEM business**	**Group**	Brand business	OEM business	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**1,066,815**	**721,724**	**1,788,539**	649,151	757,856	1,407,007
Segment results	**164,973**	**66,083**	**231,056**	53,620	46,811	100,431
Income derived from an unlisted investment			**3,000**			3,000
Unrealised gains on forward exchange contracts			**5,823**			4,465
Unallocated revenues			**259**			1,116
Unallocated costs			**(3,243)**			(1,203)
Operating profit			**236,895**			107,809
Segment assets	**741,053**	**257,217**	**998,270**	420,699	304,054	724,753
Interest in an associated company			**2,205**			2,163
Investment securities			**33,437**			37,437
Other unallocated assets			**44,491**			52,274
Total assets			**1,078,403**			816,627
Segment liabilities	**322,684**	**163,125**	**485,809**	155,499	213,765	369,264
Other unallocated liabilities			**9,241**			8,887
Total liabilities			**495,050**			378,151
Capital expenditure	**80,094**	**22,349**	**102,443**	20,144	13,976	34,120
Depreciation	**15,724**	**7,559**	**23,283**	11,583	6,928	18,511

2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

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

	2004	2003
	HK$'000	*HK$'000*
The PRC	1,066,815	649,151
The US	698,891	731,058
Others	22,833	26,798
	1,788,539	1,407,007

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

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004	2003
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of trading investments	455	–
Reversal of provision for bad and doubtful debts	–	988
Unrealised gains on forward exchange contracts	5,823	4,465
Charging		
Auditors' remuneration	1,461	1,224
Cost of inventories sold	870,438	771,040
Depreciation	23,283	18,511
Loss on disposal of fixed assets	4,532	579
Net exchange losses	3,342	871
Operating lease rentals in respect of land and buildings	181,431	105,396
Provision for bad and doubtful debts	1,380	–
Provision for slow-moving inventories	5,288	8,488
Staff cost *(Note 9)*	295,832	241,559

4. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	3,085	5,780

5. TAXATION

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

	2004 *HK$'000*	2003 *HK$'000*
Current taxation		
– Taxation outside Hong Kong	58,323	14,594
– (Over)/under provision in prior years	(303)	3,125
Deferred taxation *(Note 22)*	(5,020)	(2,337)
	53,000	15,382
Share of taxation attributable to an associated company	69	62
	53,069	15,444

Reconciliation between taxation charge and profit before taxation at applicable tax rates is as follows:

	2004 *HK$'000*	2003 *HK$'000*
Profit before taxation	234,066	102,259
Calculated at applicable tax rates of 12% to 33% to profits in the countries concerned	59,192	21,221
Income not subject to taxation	(50,078)	(23,574)
Expenses not deductible for taxation purposes	44,030	13,947
Tax losses not recognised	968	531
(Over)/under provision in prior years	(303)	3,125
Temporary differences not recognised	(740)	194
Taxation charge	53,069	15,444

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

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

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of approximately HK$47,902,000 (2003: HK$33,354,000).

7. DIVIDENDS

	2004 *HK$'000*	2003 *HK$'000*
Interim dividend, paid, of HK1.5 cents (2003: HK1.0 cent) per ordinary share	**23,368**	15,289
Final dividend, proposed, of HK2.0 cents (2003: HK1.5 cents) per ordinary share *(Note)*	**32,198**	23,368
	55,566	38,657

Note: At a meeting held on 22 April 2005, the board of directors recommended a final dividend of HK$2.0 cents per ordinary share for the year ended 31 December 2004. 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 2005.

The amount of final dividend for the year ended 31 December 2003 was based on 1,557,892,384 ordinary shares issued and recorded on the register of members of the Company on 8 June 2004.

8. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK$176,220,000 (2003: HK$82,935,000). The basic earnings per share is based on the weighted average number of 1,555,791,014 (2003: 1,504,118,411) ordinary 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 (2003: 1,507,682,404) 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 (2003: 3,563,993) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

9. STAFF COSTS

Staff costs including directors' emoluments represent:

	2004 *HK$'000*	2003 *HK$'000*
Wages, salaries and bonuses	**288,972**	234,364
Retirement benefit costs *(Note)*	**6,860**	7,195
	295,832	241,559

Benefits in kind arising from the exercise of share options by directors and employees of the Group is not included in the staff costs.

9. STAFF COSTS *(Continued)*

Note: All Hong Kong employees of the Group have joined a Mandatory Provident Fund Scheme (the "MPF Scheme") registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, both the employer and employees are required to contribute 5% of the employee's relevant income or HK$1,000 per month, whichever is lower, as mandatory contributions.

The Group is also required to make contributions to pension schemes operated by the municipal governments of various cities in the PRC at certain percentages of the salaries of its employees in the PRC. The municipal governments are responsible for the entire pension obligations payable to retired employees. The Group does not have other obligations under these pension schemes in the PRC other than the contribution payments.

As at 31 December 2004, no forfeited contribution is available to reduce the contribution payable in the future.

Contributions totalling approximately HK$458,000 (2003: HK$606,000) payable to the funds as at 31 December 2004 are included in other payables and accrued charges.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Fees	**139**	240
Other emoluments:		
Basic salaries and bonuses	**8,241**	8,954
Benefits in kind	**11,310**	1,595
	19,690	10,789

Directors' fees disclosed above were paid to three (2003: two) independent non-executive directors.

During the year, no (2003: 43,500,000) share options were granted to the directors of the Company. Benefits in kind included the difference between the aggregate amount of the market prices at the date of exercise of shares acquired and consideration paid by the directors under the option scheme during the year. Details of share options exercised during the year are set out in note 20 to the accounts.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Emolument bands		
Nil to HK$1,000,000	**4**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$3,000,001 to HK$3,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	1
HK$6,500,001 to HK$7,000,000	**1**	–
HK$11,000,001 to HK$11,500,000	**1**	–

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: one) executive directors whose emoluments are reflected in the analysis presented in note (a) above. The emoluments paid and payable to the remaining three (2003: four) individuals during the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Basic salaries and bonuses	**6,430**	8,302
Performance related incentive payments	**1,072**	1,384
	7,502	9,686

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Emolument bands		
HK$2,000,001 to HK$2,500,000	**2**	3
HK$3,000,001 to HK$3,500,000	**1**	1

(c)

No emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors or the five highest paid individuals waived or agreed to waive any emoluments during the year.

11. FIXED ASSETS

	Group						
	Leasehold land and buildings	Leasehold improvements	Construction-in-progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1 January 2004	128,595	21,127	8,122	97,122	28,137	15,941	299,044
Exchange adjustment	(545)	(90)	(34)	(447)	103	(32)	(1,045)
Additions	5,919	39,808	28,115	8,494	14,144	5,963	102,443
Transfer	21,439	–	(21,683)	244	–	–	–
Disposals	(1,096)	(15,346)	–	(1,630)	(1,825)	(951)	(20,848)
At 31 December 2004	**154,312**	**45,499**	**14,520**	**103,783**	**40,559**	**20,921**	**379,594**
Accumulated depreciation							
At 1 January 2004	35,636	8,419	–	83,516	17,511	10,394	155,476
Exchange adjustment	(122)	(37)	–	(395)	42	(20)	(532)
Charge for the year	4,521	9,879	–	4,565	2,152	2,166	23,283
Disposals	(1,096)	(10,375)	–	(1,630)	(1,727)	(951)	(15,779)
At 31 December 2004	**38,939**	**7,886**	**–**	**86,056**	**17,978**	**11,589**	**162,448**
Net book value							
At 31 December 2004	**115,373**	**37,613**	**14,520**	**17,727**	**22,581**	**9,332**	**217,146**
At 31 December 2003	92,959	12,708	8,122	13,606	10,626	5,547	143,568

11. FIXED ASSETS *(Continued)*

The analysis of the cost or valuation of the above assets is as follows:

	Group						
	Leasehold land and buildings	Leasehold improvements	Construction-in-progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	134,812	45,499	14,520	61,198	40,559	20,921	317,509
At 1995 valuation *(Note (b))*	19,500	–	–	42,585	–	–	62,085
At 31 December 2004	**154,312**	**45,499**	**14,520**	**103,783**	**40,559**	**20,921**	**379,594**
At cost	109,095	21,127	8,122	54,537	28,137	15,941	236,959
At 1995 valuation *(Note (b))*	19,500	–	–	42,585	–	–	62,085
At 31 December 2003	128,595	21,127	8,122	97,122	28,137	15,941	299,044

Notes:

(a) As at 31 December 2004 and 31 December 2003, the Group's interests in all leasehold land and buildings were held outside Hong Kong on leases of between 10 to 50 years.

(b) Such leasehold land and buildings and plant and machinery were revalued at 31 August 1995 by Chesterton Petty Limited, an independent firm of chartered surveyors, on the basis of their open market value. The carrying amount of the leasehold land and buildings and plant and machinery would have been approximately HK$8,727,000 (2003: HK$10,106,000) and HK$Nil (2003: HK$Nil), respectively, had they been stated at cost less accumulated depreciation.

(c) As at 31 December 2004, no leasehold land and buildings was pledged as security for the Group's short-term bank loans. As at 31 December 2003, the net book value of leasehold land and buildings pledged as security for the Group's short-term bank loans was HK$10,038,000.

(d) During the year ended 31 December 2004, certain leasehold land and buildings were leased out under operating leases. The carrying amount of the leasehold land and buildings held for use in operating leases was approximately HK$1,906,000 (2003: HK$1,979,000).

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted investments, at cost	**165,635**	165,635

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries as at 31 December 2004:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held %	Principal activities and place of operation
Dafu Footwear Co., Ltd. Hanjiang Putian City	PRC; equity joint venture	US$3,180,000	90	Manufacture of footwear products in the PRC
Dasheng Footwear Co., Ltd. Putian City	PRC; wholly-owned foreign enterprise	US$4,285,700	100	Manufacture of shoe components in the PRC
Daxin Footwear Co., Ltd. Putian City	PRC; wholly-owned foreign enterprise	US$3,000,000	100	Manufacture of footwear products in the PRC
Daxing Shoe Material Co., Ltd. Hanjiang Putian City	PRC; wholly-owned foreign enterprise	US$1,199,925	100	Manufacture of footwear products in the PRC
Ever Alliance Holdings Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK$1 each	51	Retail sales right holder of footwear and apparel products in the PRC
Gentlefit Trading Limited	Hong Kong; limited liability company	100 ordinary shares of HK$1 each; 13,055,667 non-voting deferred shares of HK$1 each *(Note (b))*	100	Export trading of footwear products, investment and trademarks holding in Hong Kong
Jacaranda International Limited	British Virgin Islands; limited liability company	2 ordinary shares of US$1 each	100	Export trading of footwear products in Hong Kong
Ji Wei Shoe Industrial Co., Ltd.	PRC; wholly-owned foreign enterprise	US$2,509,529	100	Manufacture of footwear products in the PRC

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held %	Principal activities and place of operation
Modern City Development Limited	Hong Kong; limited liability company	100 ordinary shares of HK$1 each; 10,000 non-voting deferred shares of HK$1 each *(Note (b))*	100	Investment holding in Hong Kong
Prime Success (BVI) Limited	British Virgin Islands; limited liability company	5,000,000 ordinary shares of US$0.01 each	100	Investment holding in Hong Kong
Putian Hanjiang Footwear Co., Ltd.	PRC; equity joint venture	US$6,000,000	75	Manufacture of footwear products in the PRC
Shanghai Guang Wei Industry & Commerce Co., Ltd.	PRC; equity joint venture	US$4,600,000	87.8	Manufacture of footwear products in the PRC
Shoebox Holdings Limited	Hong Kong; limited liability company	HK$10,000 ordinary shares of HK$1 each	50	Retail sales right holder of footwear and apparel products in the PRC
Victoria Success Investment Co., Ltd.	PRC; wholly-owned foreign enterprise	US$30,000,000	100	Distribution of footwear products and investment holding in the PRC
Victoria Success (Shanghai) Limited	PRC; wholly-owned foreign enterprise	US$5,000,000	100	Manufacture of footwear products in the PRC
Victoria Success Shoes (Suqian) Co. Ltd.	PRC; wholly-owned foreign enterprise	RMB3,000,000	100	Manufacture of footwear products in the PRC

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held	Principal activities and place of operation
			%	
Winson Union Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK$1 each	100	Investment holding in Hong Kong

Notes:

(a) Other than investment in Prime Success (BVI) Limited which is held directly by the Company, all subsidiaries shown above are held indirectly by the Company.

(b) The non-voting deferred shares practically carry no rights to dividends, nor rights to receive notice, nor rights to attend and vote at any general meeting of the respective companies, nor rights to participate in any distribution on winding up.

(c) None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

13. AMOUNTS DUE FROM/TO SUBSIDIARIES – COMPANY

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

14. INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**2,205**	2,163
Unlisted investment, at cost	**2,340**	2,340

14. INTEREST IN AN ASSOCIATED COMPANY *(Continued)*

Particulars of the associated company as at 31 December 2004 are as follows:

Name	Place of establishment	Particulars of paid-up capital	Interest held indirectly %	Principal activity
Dayong Shoe Material Co., Ltd. Hanjiang Putian City	PRC	RMB5,457,000	30	Manufacture of shoe materials in the PRC

15. INVESTMENT SECURITIES

	Group 2004 HK$'000	Group 2003 HK$'000
Unlisted investments *(Note a)*, at fair value	**33,437**	37,437
Listed securities *(Note b)*, at fair value	**–**	–
	33,437	37,437

Notes:

(a) Unlisted investments mainly comprise an investment in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing") in which the Group holds 30% interest in its registered capital. Jingxing is a sino-foreign equity joint venture established in the PRC for a term of 70 years commencing November 1991. Jingxing is engaged in the manufacturing and distribution of footwear products.

The directors do not regard Jingxing as an associated company of the Group as they are of the opinion that the Group cannot exercise significant influence in the financial and operational decisions of Jingxing.

As at 31 December 2004, the carrying value of the investment in Jingxing was approximately HK$33,000,000 (2003: HK$37,000,000). The fair value of the investment in Jingxing as at 31 December 2004 was valued by the directors of the Company based on discounted cash flow from the investment.

In 2003, the Group entered into an agreement with an affiliate (the "Guarantor") of one of the joint venture partners in Jingxing whereby in return for a minimum annual payment of HK$3,000,000 by the Guarantor for each of the three years ending 31 December 2005, the Group agreed to surrender its right to the share of any profit in Jingxing for the same period. By virtue of this agreement, the amount receivable by the Group from the Guarantor for the year ended 31 December 2004 was approximately HK$3,000,000 (2003: HK$3,000,000) which has been recognised in the profit and loss account.

(b) As at 31 December 2004, the Group held approximately 14.4% (2003: 14.4%) interest in Sun Home Leather Corporation Limited ("Sun Home"), a company engaged in the manufacturing and trading of leather materials.

On 30 November 2001, Sun Home was delisted from the Taiwan Stock Exchange Corporation and authorised to be traded on Over-The-Counter market on the same date. The directors considered that the fair value of the investment in Sun Home was negligible and the carrying amount of the securities was written down to zero during the year ended 31 December 2001 and the loss recorded in the investment revaluation reserve of approximately HK$10,581,000 was taken to the profit and loss account in that year as an impairment loss. Since the transaction of the shares in Sun Home was infrequent and the volume of transactions of the shares was low in 2004, the directors do not consider that there has been any material change in fair value of the investment in Sun Home as at 31 December 2004.

The investment in Sun Home has been pledged to a bank to secure the Group's short-term bank loans (Note 19).

16. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Raw materials	**50,981**	49,842
Work-in-progress	**22,616**	24,514
Finished goods	**395,514**	230,700
	469,111	305,056

As at 31 December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK$45,903,000 (2003: HK$38,439,000).

17. TRADE RECEIVABLES

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

	Group 2004 HK$'000	2003 HK$'000
0 – 30 days	**54,171**	55,213
31 – 60 days	**6,326**	14,715
61 – 90 days	**1,175**	9,689
91 – 120 days	**2,277**	3,511
121 – 180 days	**2,024**	152
181 – 360 days	**333**	343
Over 360 days	**842**	28
	67,148	83,651

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

18. TRADE PAYABLES

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 – 30 days	**144,554**	108,697
31 – 60 days	**62,664**	54,375
61 – 90 days	**26,766**	23,849
91 – 120 days	**9,273**	8,483
121 – 180 days	**6,705**	4,467
181 – 360 days	**6,375**	2,517
Over 360 days	**4,200**	2,261
	260,537	204,649

Included in the Group's trade payables as at 31 December 2004 were amounts due to an associated company and investee companies of approximately HK$89,000 (2003: HK$457,000) and HK$8,166,000 (2003: HK$3,089,000) respectively which were repayable according to trade terms agreed between both parties.

19. BANK LOANS AND OVERDRAFTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Bank loans and overdrafts		
– Secured *(Note (b))*	**46,827**	49,602
– Unsecured	**51,700**	60,711
	98,527	110,313

Notes:

(a) As at 31 December 2004 and 2003, the Group's bank loans were repayable within one year.

(b) As at 31 December 2004, the Group's short-term bank loans of approximately HK$46,827,000 were secured by the listed investment securities of Sun Home with nil carrying value. As at 31 December 2003, the Group's short-term bank loans of approximately HK$49,602,000 were secured by certain of its leasehold land and buildings of net book value of approximately HK$10,038,000 and the listed investment securities in Sun Home with nil carrying value.

20. SHARE CAPITAL

	2004 HK$'000	2003 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000

	2004 No. of ordinary shares of HK$0.10 each	2004 HK$'000	2003 No. of ordinary shares of HK$0.10 each	2003 HK$'000
Issued and fully paid:				
At 1 January	**1,528,892,384**	**152,889**	1,498,392,384	149,839
Shares issued under share option scheme	**39,000,000**	**3,900**	30,500,000	3,050
At 31 December	**1,567,892,384**	**156,789**	1,528,892,384	152,889

In accordance with the Company's share option scheme (the "Scheme") adopted on 29 May 2003 for a period of ten years, the board of directors may grant options to eligible employees, officers, agents or consultants, including executive or non-executive directors, of the Group to subscribe for ordinary shares in the Company in accordance with the terms of the Scheme.

Movements in the number of share options outstanding during the year are as follows:

	Number of options 2004	Number of options 2003
At 1 January	**29,000,000**	–
Granted *(Note (i))*	**80,000,000**	59,500,000
Exercised *(Note (ii))*	**(39,000,000)**	(30,500,000)
At 31 December	**70,000,000**	29,000,000

20. SHARE CAPITAL *(Continued)*

Notes:

(i) Share options were granted on 5 January 2004 at an exercise price of HK$0.311 per share and expire on 4 January 2006. Consideration of HK$6 was received in respect of the share options granted during the year.

(ii) Options exercised on 23 February 2004 and 15 October 2004 resulted in 29,000,000 and 10,000,000 ordinary shares respectively being issued at HK$0.20 and HK$0.311 each respectively, yielding the following proceeds:

	2004	2003
	HK$'000	*HK$'000*
Ordinary share capital – at par	**3,900**	3,050
Share premium	**5,010**	2,410
Proceeds	**8,910**	5,460

The fair values of shares issued at the exercise dates of 23 February 2004 and 15 October 2004 were HK$0.59 and HK$0.92 respectively.

Share options outstanding at the end of the year have the following terms:

Expiry date	**Exercise price**	**2004**	2003	**2004**	2003
		No. of options		**Vested percentages**	
Directors					
27 July 2009	HK$0.20	–	29,000,000	–	100
Employees					
4 January 2006	HK$0.311	**70,000,000**	–	**100**	–
		70,000,000	29,000,000		

No share options were cancelled during the year (2003: Nil).

21. RESERVES

	Group									
	Share premium *HK$'000*	Capital redemption reserve *HK$'000* *(Note a)*	Property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Goodwill *HK$'000*	Merger reserve *HK$'000* *(Note b)*	Other reserves *HK$'000* *(Note c)*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2004	4,725	2,882	794	–	(9,626)	(36,782)	322	10,649	277,057	250,021
Exchange differences	–	–	–	–	(2,798)	–	–	–	–	(2,798)
Deficit on revaluation of an unlisted investment	–	–	–	(4,000)	–	–	–	–	–	(4,000)
Transfer	–	–	–	–	–	–	–	1,331	(1,331)	–
Share of an associated company's reserve	–	–	–	–	9	–	–	4	(4)	9
Profit for the year	–	–	–	–	–	–	–	–	176,220	176,220
Dividends	–	–	–	–	–	–	–	–	(46,737)	(46,737)
Shares issued under share option scheme	5,010	–	–	–	–	–	–	–	–	5,010
At 31 December 2004	**9,735**	**2,882**	**794**	**(4,000)**	**(12,415)**	**(36,782)**	**322**	**11,984**	**405,205**	**377,725**
Representing:										
Reserves	9,735	2,882	794	(4,000)	(12,415)	(36,782)	322	11,984	373,007	345,527
2004 final dividend proposed	–	–	–	–	–	–	–	–	32,198	32,198
At 31 December 2004	**9,735**	**2,882**	**794**	**(4,000)**	**(12,415)**	**(36,782)**	**322**	**11,984**	**405,205**	**377,725**
Company and subsidiaries	9,735	2,882	794	(4,000)	(11,550)	(36,782)	322	11,560	404,932	377,893
An associated company	–	–	–	–	(865)	–	–	424	273	(168)
At 31 December 2004	**9,735**	**2,882**	**794**	**(4,000)**	**(12,415)**	**(36,782)**	**322**	**11,984**	**405,205**	**377,725**

21. RESERVES *(Continued)*

	Group								
	Share premium HK$'000	Capital redemption reserve HK$'000 (Note a)	Property revaluation reserve HK$'000	Exchange reserve HK$'000	Goodwill HK$'000	Merger reserve HK$'000 (Note b)	Other reserves HK$'000 (Note c)	Retained profits HK$'000	Total HK$'000
At 1 January 2003	2,315	2,882	794	(9,594)	(36,782)	322	9,060	228,981	197,978
Exchange differences	–	–	–	(34)	–	–	–	–	(34)
Transfer	–	–	–	–	–	–	1,582	(1,582)	–
Share of an associated company's reserve	–	–	–	2	–	–	7	(7)	2
Profit for the year	–	–	–	–	–	–	–	82,935	82,935
Dividends	–	–	–	–	–	–	–	(33,270)	(33,270)
Shares issued under share option scheme	2,410	–	–	–	–	–	–	–	2,410
At 31 December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021
Representing:									
Reserves	4,725	2,882	794	(9,626)	(36,782)	322	10,649	254,124	227,088
2003 final dividend proposed	–	–	–	–	–	–	–	22,933	22,933
At 31 December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021
Company and subsidiaries	4,725	2,882	794	(8,752)	(36,782)	322	10,229	276,780	250,198
An associated company	–	–	–	(874)	–	–	420	277	(177)
At 31 December 2003	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	250,021

21. RESERVES *(Continued)*

Company

	Share premium *HK$'000*	Capital redemption reserve *HK$'000* *(Note (a))*	Contributed surplus *HK$'000* *(Note (d))*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2003	2,315	2,882	152,891	24,699	182,787
Profit for the year	–	–	–	33,354	33,354
Dividends	–	–	–	(33,270)	(33,270)
Shares issued under share option scheme	2,410	–	–	–	2,410
At 1 January 2004	4,725	2,882	152,891	24,783	185,281
Profit for the year	–	–	–	47,902	47,902
Dividends	–	–	–	(46,737)	(46,737)
Shares issued under share option scheme	5,010	–	–	–	5,010
At 31 December 2004	**9,735**	**2,882**	**152,891**	**25,948**	**191,456**

(a) **Capital redemption reserve**

The capital redemption reserve represents the nominal amount of shares repurchased by the Company in 1999.

(b) **Merger reserve**

The merger reserve represents the difference between the aggregate nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the share capital issued by the Company as consideration for the acquisition pursuant to the corporate reorganisation in 1995.

(c) **Other reserves**

Other reserves comprising general reserve fund of approximately HK$6,438,000 (2003: HK$5,535,000) and enterprise expansion fund of approximately HK$5,546,000 (2003: approximately HK$5,114,000) required to be set up pursuant to the PRC laws for the Company's subsidiaries and an associated company established in the PRC. The general reserve fund can only be used to make up losses incurred, increase registered capital or used for collective welfare of employees. The enterprise expansion fund can only be used to increase registered capital.

21. RESERVES *(Continued)*

(d) Contributed surplus

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the corporate reorganisation in 1995 and the nominal amount of the Company's shares issued for the acquisition.

(e) Distributable reserves

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and retained profits. Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

22. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rates.

The movement on the net deferred tax assets is as follows:

	2004	2003
	HK$'000	*HK$'000*
At 1 January	**12,571**	10,234
Credited to profit and loss account *(Note 5)*	**5,020**	2,337
At 31 December	**17,591**	12,571

Deferred income tax assets are recognised for tax losses available to be carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK$724,000 (2003: HK$5,369,000) to be carried forward against future taxable income.

22. DEFERRED TAXATION *(Continued)*

The movements in deferred tax liabilities and assets (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax liabilities	Accelerated tax depreciation		Others		Total	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**751**	535	**–**	–	**751**	535
(Credited)/charged to profit and loss account	**(33)**	216	**19**	–	**(14)**	216
At 31 December	**718**	751	**19**	–	**737**	751

Deferred tax assets	Provisions		Decelerated tax depreciation		Deferred expenses		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**7,843**	7,085	**4,695**	3,552	**784**	132	**13,322**	10,769
Credited/(charged) to profit and loss account	**3,658**	758	**1,460**	1,143	**(112)**	652	**5,006**	2,553
At 31 December	**11,501**	7,843	**6,155**	4,695	**672**	784	**18,328**	13,322

23. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to net cash generated from operations

	2004	2003
	HK$'000	*HK$'000*
Operating profit	**236,895**	107,809
Interest income	**(1,323)**	(636)
Depreciation	**23,283**	18,511
Loss on disposal of fixed assets	**4,532**	579
Operating profit before working capital changes	**263,387**	126,263
Increase in inventories	**(164,055)**	(26,966)
(Increase)/decrease in trade receivable, other receivables, deposits and prepayments	**(62,568)**	40,974
Increase in trade payables, other payables and accrued charges	**96,599**	15,907
Decrease/(increase) in trading investments	**15,890**	(15,890)
Net cash generated from operations	**149,253**	140,288

24. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2004 and 31 December 2003.

As at 31 December 2004, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to approximately HK$91,600,000 (2003: HK$63,000,000). As at 31 December 2004, the utilised amount of such facilities covered by the Company's guarantees was HK$22,023,000 (2003: HK$8,616,000).

25. COMMITMENTS

(a) Capital commitments for purchase of fixed assets

	Group	
	2004	2003
	HK$'000	*HK$'000*
Authorised but not contracted for	**97,709**	26,762
Contracted but not provided for	**33,085**	7,018
	130,794	33,780

(b) Commitments under operating leases

As at 31 December 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Not later than one year	**167,359**	84,936
Later than one year and not later than five years	**246,536**	106,040
Later than five years	**23,981**	2,710
	437,876	193,686

Payment obligations in respect of operating leases on properties with rentals vary with gross revenues are not included as future minimum lease payments.

25. COMMITMENTS *(Continued)*

(c) Forward exchange contracts

As at 31 December 2004, the Group had outstanding forward contracts as follows:

(i) To purchase Renminbi (RMB) and sell United States (U.S.) dollars amounting to HK$241,020,000 (2003: Nil);

(ii) To purchase New Taiwanese dollars and sell U.S. dollars amounting to HK$33,072,000 (2003: Nil); and

(iii) To purchase U.S. dollars and sell RMB amounting to HK$201,240,000 (2003: HK$230,100,000).

As at 31 December 2004, bank deposits of HK$3,446,000 (2003: HK$7,242,000) were pledged against the above forward contracts.

(d) The Company did not have any material commitments as at 31 December 2004 (2003: Nil).

26. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the accounts, significant related party transactions, which were carried out in the normal course of the Group's business during the year are as follows:

	Note	**2004** **HK$'000**	2003 HK$'000
Purchases from an associated company	*(a)*	**281**	1,847
Purchases from investee companies	*(b)*	**31,490**	10,236

Notes:

(a) Purchases of goods from an associated company, Dayong Shoe Material Co., Ltd. Hanjiang Putian City, were carried out in accordance with the terms as determined and agreed between both parties.

(b) Purchases of shoe materials and footwear products from investee companies, Sun Home, Jingxing and Daen Shoe Material Company Limited, were carried out in accordance with the terms as determined and agreed between both parties. The Company's director and ex-director, Messrs, Chen Hsien Min and Chang Wen I respectively, are directors of Sun Home.

27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22 April 2005.

Five-Year Financial Summary

	For the years ended 31 December				
	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover	**1,788,539**	1,407,007	1,180,669	1,088,527	1,013,816
Profit/(loss) attributable to shareholders	**176,220**	82,935	25,849	(99,779)	(51,151)

	As at 31 December				
	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**1,078,403**	816,627	772,206	713,156	835,059
Total liabilities	**(495,050)**	(378,151)	(399,747)	(370,119)	(398,017)
Minority interests	**(48,839)**	(35,566)	(24,642)	(17,033)	(24,628)
	534,514	402,910	347,817	326,004	412,414

Note: The financial summary for 2002 has been restated to reflect the change in accounting policy for the adoption of SSAP 12 (Revised) "Income taxes" issued by the HKICPA. The financial summary of 2001, 2000 and 1999 has not been restated as it is impracticable to determine the amounts relating to prior periods or to restate the comparative information.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Ballroom, Level 3, JW Marriott Hotel Hong Kong, One Pacific Place, 88 Queensway, Hong Kong, on Wednesday, 25 May 2005 at 2:30 p.m. for the following purposes:–

1. To receive and consider the audited accounts and the reports of the Directors and auditors for the year ended 31 December 2004;

2. To declare a final dividend for the year ended 31 December 2004;

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

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

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

   A. "**THAT**:

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

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

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

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

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

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

B. "**THAT**:

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

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

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

(d) for the purpose of this Resolution,

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

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

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

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

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

Notice of Annual General Meeting

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

6. To transact any other business.

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

Hong Kong, 22 April 2005

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

2. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, 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 not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. The register of members of the Company will be closed from Friday, 20 May 2005 to Wednesday, 25 May 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 19 May 2005.

4. Concerning the Resolution No. 5A above, an explanatory statement relating thereto is set out in Appendix of the circular of the Company containing information regarding, amongst other things, the proposal for general mandates to repurchase and issue shares which will be sent to each member of the Company later.