PRIME SUCCESS INTERNATIONAL GROUP LIMITED

STOCK CODE: 210

06

adidas

NUMBER OF
ADIDAS ORIGINALS
POINTS-OF-SALE INCREASED BY

13

Number of **Shoebox** Points-of-Sale increased by

89

TURNOVER OF DAPHNE INCREASED BY 26%

Number of Daphne Points-of-Sale increased by 495

Content

Corporate INFORMATION

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

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

Audit Committee

Mr Hsiao Hsi-Ming (Chairman)
Mr Huang Shun-Tsai
Mr Kuo Jung-Cheng

Remuneration Committee

Mr Kuo Jung-Cheng (Chairman)
Mr Chen Hsien Min
Mr Hsiao Hsi-Ming
Mr Huang Shun-Tsai

Nomination Committee

Mr Huang Shun-Tsai (Chairman)
Mr Chen Ying-Chieh
Mr Hsiao Hsi-Ming
Mr Kuo Jung-Cheng

Company Secretary

Ms Chan Oi Chu

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

17th Floor, Fung House
19-20 Connaught Road Central
Central, Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

Principal Bankers

Bank of Overseas Chinese
Citibank, N.A.
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Mega International Commercial Bank Co. Ltd.
Standard Chartered (HK) Bank
The Bank of Tokyo-Mitsubishi UFJ, Limited

Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Share Information

Stock code: 210
Board lot: 2,000 shares

Website

http://www.prime-success.com.hk

Key Financial Dates

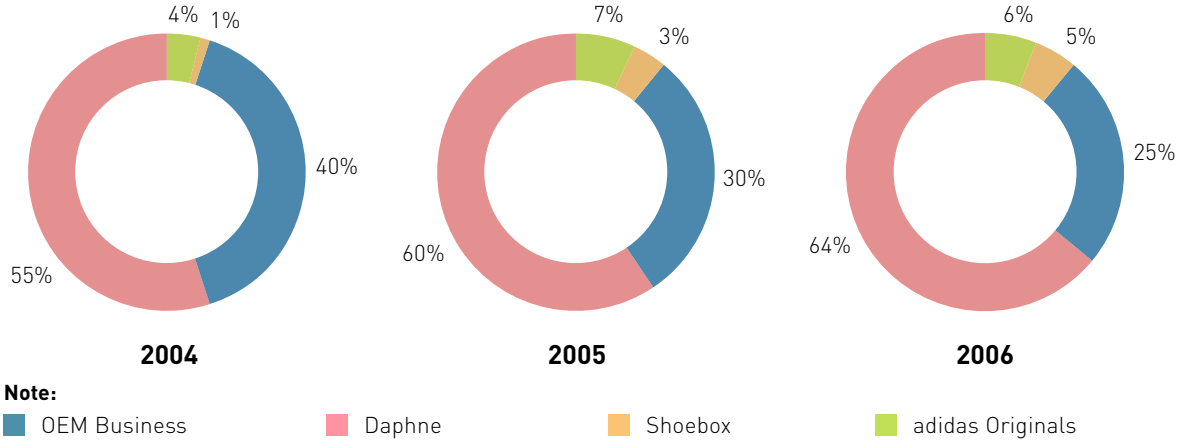
Announcement of 2006 annual results	23 April 2007
Book closed dates for 2006 final dividend	16 May 2007 to 18 May 2007
Payment of 2006 final dividend	28 May 2007

Financial and OPERATIONS HIGHLIGHTS

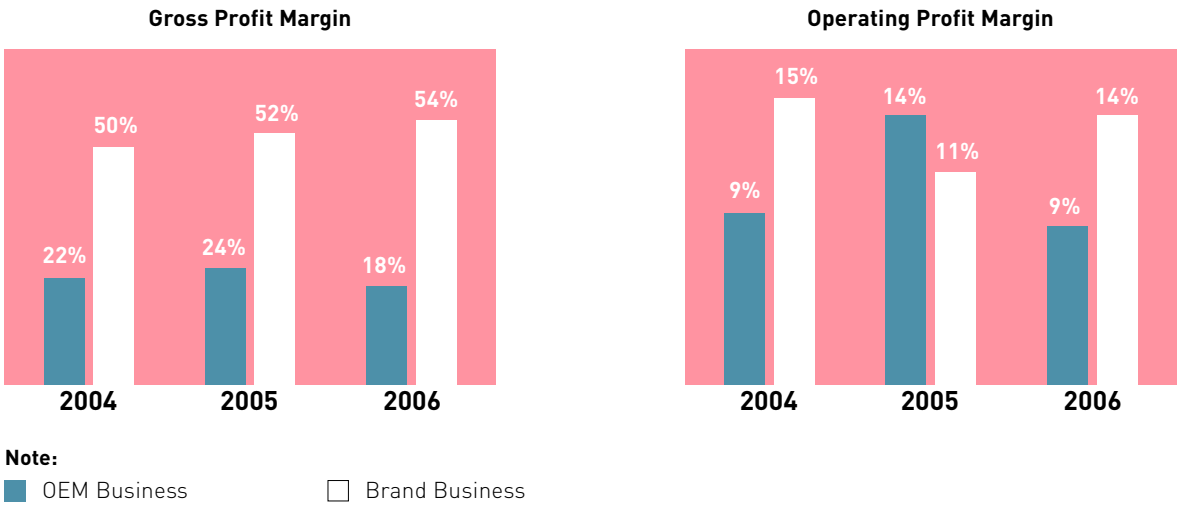
Financial Summary

	2006	2005	2004
Turnover (HK$'000)	**3,093,086**	2,622,677	1,788,539
Gross profit (HK$'000)	**1,395,212**	1,143,943	684,529
Operating profit (HK$'000)	**400,606**	323,404	236,895
Profit attributable to shareholders of the Company (HK$'000)	**291,566**	254,593	176,220
Earnings per share – basic (HK cent)	**17.80**	15.72	11.33
Dividend per share (HK cent)	**4.5**	5.0	3.5
Cash and bank balances (HK$'000)	**154,699**	152,486	130,339
Inventory turnover (day)	**147**	156	155
Debtors turnover (day)	**13**	17	14
Creditors turnover (day)	**64**	71	86

Turnover by Business



Gross Profit Margin and Operating Profit Margin Analyses by Business



Chairman's STATEMENT

I am delighted to report that Prime Success International Group Limited (the "Company") and its subsidiaries (the "Group") continued to deliver strong performance and again achieved satisfactory results in 2006, with turnover rose an impressive 18% to HK$3,093,086,000 (2005: HK$2,622,677,000) and profit attributable to shareholders was up 15% to HK$291,566,000 (2005: 254,593,000).

Results

Riding on the soaring consumption sentiment and strong demand for trendy and quality footwear in China, our brand business performed exceptionally well and gave the Group a strong impetus for growth.

OEM Business Contributed Stable Revenue

With a well-established business foundation and customer base, OEM business remained as a core operation and key revenue contributor of the Group. However, during the year, the segment's profit was under pressure from global phenomena including volatile oil prices and rising production costs. To maintain profitability amid the adverse operating environment, we strategically directed our resources to supporting selected higher margin orders. Meanwhile, by strengthening relationship with key customers, we were able to secure orders with higher margin and in bigger volume.

Strong Growth in Brand Business

Brand business of the Group boasts a higher margin and stronger profitability. Thus, it is the Group's emphasis to ensure ample resources are allocated into developing the segment and boosting the proportion of its contribution in the Group's total revenue.

To better capture market potentials, the Group continued to gradually expand the point-of-sale networks of its different brand businesses. It kept to the plan of adding about 500 points-of-sale including stores and counters a year for "Daphne" in 2006, and more than double of the size of the "Shoebox" network. One of its major achievements during the year was extending the "Daphne" business overseas for the first time, with the first store opened in Taiwan. The Group is now refining the successful business model of "Daphne" in China for implementing in the Taiwan market to ensure the profitability of the new business.

Meanwhile, the Group also extended the product portfolio of "Daphne" from footwear to covering also accessories like handbags and watches. The move has not only widened the Group's revenue base, but has also strengthened the image of "Daphne" as a quality fashion brand in customers' mind.

The fast-growing "Shoebox" brand is another key development focus of the Group. The active expansion plan implemented by the Group after "Shoebox" was launched has seen the number of points-of-sale of the brand grow to over 164 as at 31 December 2006 in all major cities of the country. Seeing that the brand is gaining popularity and enjoying brilliant prospect, the Group increased its stakeholding in "Shoebox" in 2006 to enlarge the share of profit in the business expected to bring in the coming years. The Group also acquired a further 43.75% equity interest in "adidas Originals" during the year to benefit from this business which performs consistently well.

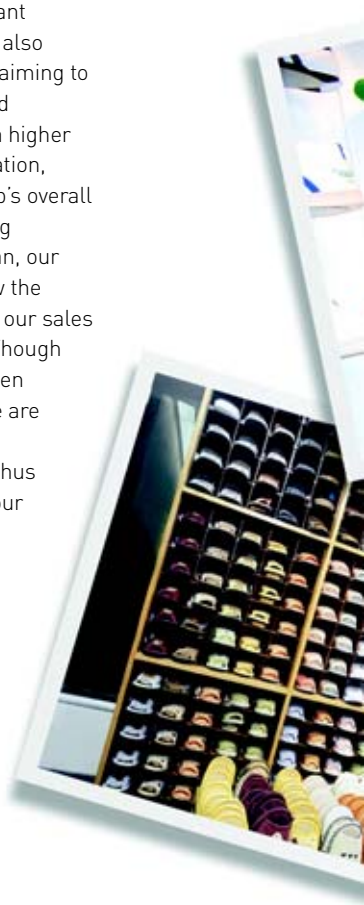
Steady Development of Infrastructure

To increase its processing capacities, the Group in 2006 constructed a new processing plant in Jiangxi, and planned to set up another in Taizhou. When the Jiangxi plant begins operation in 2007, the Group will be able to handle processing work that are currently outsourced. Strategically located, the plants will enjoy lower direct manufacturing and overhead costs, and in turn increase the profit margin.

Meanwhile, the logistics centres located in Beijing and Shenyang have entered into preliminary operation in the last quarter of 2006. Conjugating with the well-established logistics network and state-of-the-art storage systems, the Group was able to more efficiently schedule production and remarkably improved inventory turnover during the year under review. With a streamlined supply chain the Group is well equipped to capture the vast market potentials to grow its business in the future.

Seize Future Market Opportunities

Looking forward, we believe we have built a well-balanced business platform to pursue our business. The Group expects its OEM business to remain stable and continue to bring in significant revenue contribution. It will also strive to develop its brands aiming to increase the weight of brand business which generates a higher margin in the Group's operation, thereby maximize the Group's overall profitability. For the budding "Daphne" business in Taiwan, our immediate goal is to narrow the operating loss by modifying our sales and marketing strategies. Though the Taiwan economy has been sluggish in recent years, we are optimistic of its long-term domestic growth and thus the prospects of our business there.



Tactically, in the year ahead, we will focus on expanding our distribution networks steadily. For "Daphne", our goal is to meet the target of increasing its points-of-sale to 5,000 by 2010. For "Shoebox", we are pleased that with a network doubled in size against 2005, its results for the second half of 2006 was breakeven with the overall annual sales doubled. We will maintain rapid expansion of the business and are confident that it will become profitable in the near future. In 2007, at least 250 new "Shoebox" shops will be added, which will bring the total points-of-sale for the business to more than 400 nationwide.

For "adidas Originals", with the Beijing 2008 Olympic Games to begin in less than 500 days, we expect a sports frenzy to develop among consumers breeding surge demand for athletic footwear. To capture the rising demand, we will speed up opening of more points-of-sale for the brand as to increase the market share.

In early 2007, we launched the "Daphne" eyewear products and enriched the product offerings under the brand. Understanding that forceful marketing and promotion is essential to sustain growth and popularity of a brand, the Group will continue to adopt various innovative and cost effective marketing programs to help consolidating the leadership of "Daphne" in the trendy and quality ready-to-wear market.

Appreciation

I would like to take this opportunity to express my gratitude to all business partners, employees, management and shareholders who have contributed tireless support and dedication towards steering Prime Success on its steady path of long-term growth.

Chen Ying-Chieh
Chairman

Management Discussion AND ANALYSIS

Turnover and Operating Profit/(Loss) by Brand
For the year ended 31 December 2006

HK$'000	Daphne	Shoebox	adidas Originals	Total
Turnover				
– Store	1,314,363	139,175	32,402	1,485,940
– Counter	473,059	–	160,914	633,973
– Others	192,452	3,432	513	196,397
	1,979,874	142,607	193,829	2,316,310
Gross profit	1,105,594	73,070	76,807	1,255,471
Operating profit/(loss)	326,838	(4,590)	7,955	330,203

Sales and Distribution Network of the Group
As at 31 December 2006

North Eastern China

	STORE	COUNTER
Daphne	239	70
Shoebox	30	–
adidas Originals	2	16

Southern China

	STORE	COUNTER
Daphne	393	126
Shoebox	46	–
adidas Originals	–	10

Northern China

	STORE	COUNTER
Daphne	187	124
Shoebox	14	–
adidas Originals	–	21

Eastern China

	STORE	COUNTER
Daphne	470	137
Shoebox	61	–
adidas Originals	6	30

West Central China

	STORE	COUNTER
Daphne	158	34
Shoebox	13	–
adidas Originals	2	17

Taiwan

	STORE	COUNTER
Daphne	34	–

BUSINESS REVIEW

The Group's businesses continued to progress steadily in the year 2006. Building on the encouraging results achieved in 2006 and with demands for quality and branded footwear in Mainland China growing continuously, the Group's brand business enjoyed strong drive during the year while the OEM business remained as one of the Group's major operations.

OEM Business

The segment accounted for 25% (2005: 30%) of the Group's total turnover by contributing a solid revenue of HK$776,776,000 (2005: HK$795,336,000). Its major customers are mainly from the US market.

The year 2006 was a challenging year for traditional manufacturing business. Interest rate hikes, fluctuating oil and petrochemical materials prices worked against manufacturers worldwide. Increasing production costs including labour costs and other overheads on top of vigorous competition also posed pressure on the segment's profit. The business reported a decrease in operating profit of 38% to HK$69,851,000 (2005: HK$112,849,000). Gross profit margin and operating profit margin dropped to 18% and 9% (2005: 24% and 14%) respectively.

In response, the Group continued the strategic approach of pulling out resources from low margin operation to support higher margin orders. It also strived to foster relationship with key customers so as to maximize order volume and the segment's profit margin. The Group also spent on system enhancement and staff training during the year to make sure it was able to meet the increasingly sophisticated requirements of customers.

Brand Business

The Group's brand products were well received during the year by mainland consumers following the increasing household income and purchasing power. The Group offered diversified fashionable ladies' products including footwear, handbags and accessories sold under the "Daphne" brand in "Daphne D18" and "Daphne D28" chains, as well as "Shoebox" chain stores. The Group also owns the "adidas Originals" exclusive retail shop right in China. The Group's wide product portfolio, supported by intensive promotional tactics, had seen its brand business climb to a new level.

For the year ended 31 December 2006, the turnover of brand business increased by 27% to HK$2,316,310,000 (2005: HK$1,827,341,000), making up 75% of the Group's total turnover. Sales from "Daphne" demonstrated a satisfactory growth of 26% to HK$1,979,874,000 (2005: HK$1,574,100,000), accounting for a notable 64% of the Group's total turnover. Sales from "Shoebox" also witnessed a substantial 90% increase to HK$142,607,000 (2005: HK$75,207,000), accounting for 5% of the Group's total turnover. Sales from the "adidas Originals" exclusive retail shop business reached HK$193,829,000 (2005: HK$178,034,000), representing a 9% increment over the previous year and a 6% share of the Group's total turnover.

Notwithstanding surging costs such as material costs, rental costs and labour costs, the Group managed to shift part of the burden to ultimate consumers by adjusting the average selling price of its well-received brand products. Consequently, cost pressure did not affect the Group's ability to achieve an overall increase of 58% in operating profit of the business to HK$330,203,000 (2005: HK$209,471,000). The segment registered a gross profit margin and an operating profit margin of 54% and 14% (2005: 52% and 11%) respectively.

"Daphne" Business

The well-received brand "Daphne" continues to play an essential role in leading the Group's advancement. With an expanded brand portfolio, "Daphne" has gained popularity among different target customer groups. To ride on the popularity of the brand and capture increasing feminine spending in China, the Group added 495 new points-of-sale for "Daphne" during the year in China, bringing the total points-of-sale of the brand to 1,447 stores and 491 counters as of 31 December 2006 (2005: 1,070 stores and 373 counters).

Among them, 242 new points-of-sale are for "Daphne 18", which targets fashion-sensitive young ladies aged 15 to 25, bringing the chain's total number of points-of-sale to 517. For "Daphne 28", which appeals to female customers aged 26 to 50 with diverse product offerings, 253 new points-of-sale were added, taking the total to 1,421.

In 2006, "Daphne" for the first time established a foothold in Taiwan as a prelude to extend its geographical reach outside Mainland China. In less than a year, the Group established a distribution network with over 30 points-of-sale in Taiwan for the brand. However, with Taiwan being a very competitive market for branded and quality footwear compounded by a sluggish economy in recent years, it is believed that there was huge room for improvement of performance. Accumulating experience in Taiwan operations, the Group will be able to build further the image and consumer awareness for "Daphne" brand. It will also fine tune management and implement more effective cost control measures to improve the profitability of its Taiwan business. Though much work is still needed to cultivate the Taiwan market, the Group is confident of the potentials and long-term prospects of the business.

Through consistent dedicated advertising and promotion efforts, the Group has achieved strong recognition for its brand among customers. The Group sees value in the "Daphne" brand in assisting its penetration of different markets and target customer groups. Thus, during the year, the Group continued to appoint the popular girl pop group "S.H.E" as the spokesperson for "Daphne 18" and Ms Rene Liu as the spokesperson for "Daphne 28" to fortify the strong image of the brand. Other creative ways of promotion included sponsorships of concerts of well-known singers, Mr Jeff Zhang and Mr Emil Zhou, to attract mass attention to the brand in China, Taiwan and Hong Kong. The Group has formulated plans for advertising and promotions and the relevant budgets are reviewed on a regular basis.

"Shoebox" Business

The business is a development focus of the Group. In 2006, the Group nearly doubled the number of "Shoebox" stores, and saw the segment turning from loss to breakeven in the second half of 2006. The brand is now well regarded by the market, which is evidence of success of the Group's effort to reach mass consumers by selling low-price yet high quality footwear and related products under its own brand.

During the year under review, the Group opened 89 "Shoebox" stores, making the total to 164 which indicated the Group's confidence in the brand. Today, "Shoebox" has an extensive point-of-sale network that covers most of the major cities, top tier to tier-three. Furthermore, the Group reengineered the store layout to better utilize the store area to cope with market needs, which resulted in improved per square foot sales.

In 2006, the Group increased its stake in "Shoebox" by 36% to 95% and it believed that the acquisition would benefit the Group in the long term.

"adidas Originals" Business

The "adidas Originals", being a stable business, maintained a consistent profitability for the year under review. As at 31 December 2006, there were 10 stores and 94 counters across all major cities in China. The Group also increased its stake in the brand by 43.75% to 94.75% to enlarge its profit share. Very confident that the Beijing 2008 Olympic Games will bring abundant business opportunities, the Group is accelerating the network expansion for the brand.

Development of Infrastructure

While the Group's logistics centre in Chengdu has yet to be completed as at 31 December 2006, its two logistics centres in Beijing and Shenyang were completed in the first half of 2006 and have entered into initial operation at the end 2006. With altogether four logistics centres in operation, the Group managed to improve the physical flow and centralized control over its inventories. During the year under review, the Group reduced inventory turnover days markedly from 156 days in 2005 to 147 days in 2006. The achievement was also owed to effective front-line sales and marketing strategy that worked in complement with improved inventory management.

FINANCIAL REVIEW

Results Performance

During the year ended 31 December 2006, the Group's turnover continued to grow steadily by 18% to HK$3,093,086,000 (2005: HK$2,622,677,000) and profit attributable to shareholders grew correspondingly by 15% to reach HK$291,566,000 (2005: HK$254,593,000). Earnings per share of the Group was HK17.80 cents (2005: HK15.72 cents). The Board recommended payment of a final dividend of HK2.5 cents (2005: HK2.5 cents) per share for the year ended 31 December 2006. Together with the interim dividend of HK2.0 cents (2005: HK2.5 cents) per share already paid, the total dividend for the year was HK4.5 cents (2005: HK5.0 cents) per share.

Liquidity and Financial Resources

As at 31 December 2006, the Group maintained a healthy cash position with cash and cash equivalents of HK$148,699,000 (2005: HK$146,467,000) and unutilized banking facilities of HK$136,496,000 (2005: HK$114,343,000). The Group's current ratio being the proportion of total current assets divided by total current liabilities dropped to 1.62 (2005: 1.70) as at 31 December 2006.

The gearing ratio, calculated on the basis of bank loans of HK$183,194,000 (2005: HK$133,062,000) over shareholders' equity of HK$981,308,000 (2005: HK$744,207,000), was 19% (2005: 18%) as at 31 December 2006. All bank loans were at floating rates during the year under review. Expecting steady cash inflow from operations and extendable banking facilities readily available, the Group has adequate financial resources to cope with future expansion.

Foreign exchange risk management

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

Pledge of Assets

As at 31 December 2006, the Group's short-term bank loans of HK$52,326,000 (2005: HK$71,753,000) were secured by certain land use rights and leasehold buildings of a total net book value of HK$18,264,000 (2005: HK$13,613,000); a bank deposit of HK$6,000,000 (2005: HK$6,000,000) and available-for-sale financial assets with nil (2005: nil) carrying value.

Significant Capital Investments

During the year, the Group had capital expenditure of approximately HK$170 million and it has completed the construction of logistics centres in Beijing and Shenyang and planned to complete the construction of logistics centre in Chengdu by 2007. As at 31 December 2006, the Group had several office buildings under construction in Shanghai and Zhengzhou. The Group has added a new processing plant in Jiangxi in 2006 and has planned to set up another in Taizhou.

Material Acquisitions and Disposals

During the year, the Group acquired 36% additional interest in "Shoebox" brand business and 43.75% additional interest in "adidas Originals" brand business at cash considerations of HK$40,874,000 and HK$34,506,000 respectively. Goodwill arising from the acquisitions of "Shoebox" and "adidas Originals" amounted to HK$15,079,000 and HK$10,404,000 respectively.

Contingent Liabilities

As at 31 December 2006, the Group had no significant contingent liabilities.

Human Resources

As at 31 December 2006, the Group had over 24,000 (2005: 24,000) employees in Hong Kong, Taiwan and China. Employee expenditure for the year under review amounted to HK$408,829,000 (2005: HK$374,140,000). The Group values human resources and recognizes the importance of retaining high caliber employees. Remuneration packages are generally structured by reference to market terms and individual qualifications. In addition, share options and discretionary bonuses are granted to eligible employees based on the Group's and individual performance. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchase discounts and training programs to employees.

PROSPECTS

OEM Business

Challenged by consistently rising production costs, the Group plans to set up more new processing plants for its OEM and brand products. By taking up more processing tasks, the Group hopes to control costs more effectively. The processing plants are strategically located in regions possessing lower production and labour costs and hence safeguard the overall profit margin under challenging operating environment.

At the same time, the Group aims to select higher margin orders to ensure resources are used most effectively and sustains further business growth. The Group seeks to sharpen staff knowledge and skills and strengthen the quality of its manufacturing outputs.

Brand Business

The robust Chinese economy is expected to continue to bolster the Group's brand business. "Daphne" including "Daphne 18" and "Daphne 28" is an established brand, which will continue to gain predominance in the mainland market and eventually take the Group outside China to markets overseas. As for "Shoebox", the Group expects it to perform well in the coming year, catering for mass demand for quality footwear products. The "adidas Originals" brand is to help the Group capturing the quality sports apparel market in China with demand fuelled by the approaching Beijing 2008 Olympic Games.

To grow its brand business, the Group plans to step up marketing and promotion efforts for different brands especially for "Daphne" which is already a stable and major income source of the Group. It will continue to apply creative marketing strategies and ride on celebrity endorsement to promote its products. Meanwhile, the Group actively seeks to expand its brand product series to cover different types of accessories.

Having an excellent business foundation incorporated with comprehensive supply chain establishment, the Group believes that it is perfectly equipped to perform well as well as facing challenges in the future.

Biographical Details of Directors AND SENIOR MANAGEMENT

Executive Directors

Mr Chen Ying-Chieh, aged 38, is the Chairman of the Group. Mr Chen is responsible for the overall corporate planning with focus on Brand business of the Group. 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 56, 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. Mr Chen 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 30 years of experience in the footwear industry. Mr Chen is an uncle of Mr Chen Ying-Chieh and Mr Chang Chih-Kai.

Mr Chang Chih-Kai, aged 26, has 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 a cousin of Mr Chen Ying-Chieh and a nephew of Mr Chen Hsien Min.

Non-executive Directors

Mr Hsiao Hsi-Ming, aged 67, is a partner of an accounting firm in Taiwan. He is a member of Taiwan Provincial CPA Association and has over 42 years of experience in auditing and accounting. Mr Hsiao holds a master degree in the National Changhua University of Education and he is a director of Tera Autotech Corporation Inc. ("TAC") and an independent director of Formosa Optical Technology Co. Ltd. ("FOTCL"). Both TAC and FOTCL are traded over-the-counter in Taiwan. Mr Hsiao was appointed as an independent non-executive director of the Company in 2004.

Mr Huang Shun-Tsai, aged 54, is a director of six technology companies in Taiwan. He has been active in the technology field for over 15 years. Mr Huang was appointed as an independent non-executive director of the Company in 2001.

Mr Kuo Jung-Cheng, aged 57, is a director of a manufacturing and distribution company in China. Mr Kuo is a former senator of the Legislative House in Taiwan. He has served the community in Taiwan as a representative for over 10 years. Mr Kuo holds an MBA degree from the University of Hawaii. Mr Kuo was appointed as an independent non-executive director of the Company in 2001.

Senior management

Mr Xin Jia Hua, aged 53, is the vice general manager of the Group. Mr Xin is responsible for the day-to-day operations of Brand business of the Group. Mr Xin joined the Group since 1994 and he has over 32 years of experience in footwear manufacturing and distribution business.

Ms Chao Huei Chuan, aged 40, is a senior manager of general office of Brand business of the Group. Ms Chao is responsible for planning and overseeing the operation of the Brand business in China. Ms Chao was graduated from the Overseas Chinese Institute of Technology with major in International Trade. She joined the Group since 1994 and she has over 17 years of experience in finance, accounting and management.

Mr Chang Chun Wang, aged 55, is the vice general manager of the Group. Mr Chang is responsible for the Group's production activities. Mr Chang has over 25 years of experience in the footwear industry. He has been working with the Group since 1994.

Mr Liao His-Chuan, aged 51, 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 businesses. He has over 23 years of experience in the management of footwear production facilities and he has been working with the Group since 1994.

Mr Hsu Szu Che, aged 54, 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 25 years of experience in the administration and management of footwear manufacturing facilities. He has been working with the Group since 1994.

Ms Chi Shu Tzu, aged 40, is the sales manager of ladies' footwear. She is responsible for sales and marketing of certain overseas customers. Ms Chi has over 23 years of experience in the footwear industry. She has been working with the Group since 1994.

Ms Chen Li Hui, aged 42, is the sales manager of sports footwear. She is responsible for sales and marketing of sports products. Ms Chen has over 22 years of experience in the footwear industry. She has been working with the Group since 1994.

Ms Chen Pi Er, aged 44, is a senior manager of the finance department of the Group. Ms Chen is responsible for overseeing the financial reporting and customs duties of the manufacturing business of the Group. Ms Chen joined the Group since 1994 and she has over 19 years of experience in manufacturing business.

Ms Chan Oi Chu, aged 30, is the financial controller and company secretary of the Group. Ms Chan has over 8 years of experience in auditing, accounting, financial management and company secretarial 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 over 5 years of experience in an international accounting firm. She holds a bachelor degree in Business Administration (Financial Accounting) from the Hong Kong University of Science and Technology and is an associate member of the Hong Kong Institute of Certified Public Accountants.

Report of the DIRECTORS

The directors submit their report together with the audited accounts of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are manufacturing, distribution and sale of footwear and accessories mainly in China.

An analysis of the Group's turnover and revenues is set out in Note 5 to the accounts.

Segment information

An analysis of the Group's performance by business and geographical segments is set out in Note 6 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 24.

The board of directors has declared an interim dividend of HK2.0 cents per ordinary share, totalling HK$32,758,000, which was paid on 25 October 2006.

The board of directors recommends the payment of a final dividend of HK2.5 cents per ordinary share, totalling HK$73,705,000 in respect of the year ended 31 December 2006.

Reserves

The distributable reserves of the Company, calculated in accordance with the Companies Laws (Revised) Chapter 22 of the Cayman Islands, comprising share premium, contributed surplus and retained profits of the Company as at 31 December 2006 amounted to HK$189,726,000.

The share premium of the Company is available for distribution or paying dividends to the shareholders provided that immediately following the distribution or the payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Movements in the reserves of the Group and of the Company during the year are set out in Note 29 to the accounts.

Fixed assets

Movements in fixed assets of the Group are set out in Note 16 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in Note 28 to the accounts.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 58.

Purchase, sale or redemption of shares

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

Directors

The directors during the year and up to the date of this report were:

Executive directors

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

Independent non-executive directors

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

In accordance with Article 99 of the Company's Articles of Association, Mr Kuo Jung-Cheng and Mr Huang Shun-Tsai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The term of directorship of all the independent non-executive directors is one year and the term will continue for successive periods of one year unless terminated by either party giving not less than one month notice to the other party.

All the independent non-executive directors have confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and based on such confirmation, the Company is of the opinion that the independence status of the independent non-executive directors remains intact as at 31 December 2006.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 12.

Directors' service contracts

None of the directors 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 executives' interests in shares and underlying shares of the Company

As at 31 December 2006, the interests of each director 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 Issuers (the "Model Code") were as follows:

Long positions in ordinary shares of HK$0.10 each of the Company

Name of director	Nature of interest	Number of shares held	Percentage of the issued share capital of the Company
Mr Chen Ying-Chieh	Corporate	147,738,920 (Note)	9.02

Note: Mr Chen Ying-Chieh has beneficial interest in 147,738,920 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.

Directors' and chief executives' interests in shares and underlying shares of the Company (Continued)

Long positions in ordinary shares of HK$0.10 each of the Company (Continued)

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 2006, none of the directors or chief executives, 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 required to be disclosed pursuant to the SFO.

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 executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in shares or underlying shares in, or debentures of, the Company or it associated corporations.

Share options

The Company operates a share option scheme (the "Scheme") which was adopted by shareholders of the Company on 29 May 2003. Pursuant to the Scheme, the directors may, at their discretion, invite eligible participants to take up options to subscribe for the Company's shares subject to the terms and conditions stipulated therein.

Details of the Scheme 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.

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 available for issue under the Scheme

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 2006, 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.

Share options (Continued)

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.

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.

No share options were granted to any qualifying participants of the Scheme during the year and no share options were outstanding as at 31 December 2006 and 31 December 2005.

Substantial shareholders' interests in shares and underlying shares of the Company

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2006, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed under the section headed "Directors' and chief executives' interests in shares and underlying shares of the Company".

Long positions in ordinary shares of HK$0.10 each of the Company

Name	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Lucky Earn International Limited	Beneficial owner	434,669,995 (Note 1)	26.54
Top Glory Assets Limited	Beneficial owner	192,192,895 (Note 2)	11.73
Ms Chen Yi-Chen	Interest of controlled corporations	192,192,895 (Note 2)	11.73
Mr Chen Yi-Hsun	Interest of controlled corporations	192,192,895 (Note 2)	11.73
Pushkin Holding Limited	Beneficial owner	147,738,920 (Note 3)	9.02
Mr Chen Ying-Chieh	Interest of controlled corporations	147,738,920 (Note 3)	9.02
Mr Chen Ying-Tien	Interest of controlled corporations	147,738,920 (Note 3)	9.02
Mr Chen Ying-Che	Interest of controlled corporations	147,738,920 (Note 3)	9.02

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. Ms Chen Yi-Chen ("Ms Chen") and Mr Chen Yi-Hsun ("Mr Chen") have beneficial interests of 50% each in Top Glory Assets Limited, a company incorporated in the British Virgin Islands. By virtue of the SFO, they are deemed to be interested in 192,192,895 shares of the Company held by Top Glory Assets Limited. Ms Chen and Mr Chen are the children of Mr Chen Hsien Min, the Managing Director of the Company.

3. Mr Chen Ying-Chieh, the Chairman of the Company, and his two brothers, Mr Chen Ying-Tien and Mr Chen Ying-Che, each has one-third of the beneficial interests of Pushkin Holding Limited. By virtue of the SFO, they are deemed to be interested in the 147,738,920 shares of the Company held by 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 during the year attributable to the Group's five largest customers were less than 30% of the Group's total turnover.

Major customers and suppliers (Continued)

The aggregate purchases attributable to the Group's largest and five largest suppliers accounted for approximately 18% and 45%, respectively, of the Group's total purchases for the year.

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

Sufficiency of public float

On the basis of information that is publicly available to and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares throughout the year and up to the date of this report.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Chen Ying-Chieh
Chairman

Hong Kong, 23 April 2007

Corporate GOVERNANCE REPORT

The Company is committed to maintaining high standards of corporate governance. To enhance the overall management quality of the Company, the Board has adopted corporate governance practices with special emphasis on an effective Board for leadership and control, sound business ethics and integrity in all business activities, transparency and accountability to shareholders.

Code on Corporate Governance Practices

During the year, the Company has complied with all code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules.

Directors' Securities Transactions

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

The Board of Directors

The Board of Directors (the "Board") currently comprises six members, three executive directors (including Chairman and Managing Director) and three independent non-executive directors. The executive directors draw on a rich and diverse experience from the footwear business while the independent non-executive directors possess appropriate professional qualifications and management expertise. Each independent non-executive director gives the Company an annual confirmation of his independence to the Company, and the Company considers these directors to be independent pursuant to Rule 3.13 of the Listing Rules. The names, brief biographical details of the directors and relationship among them are set out on page 12 under Biographical Details of Directors and Senior Management.

The Board meets regularly throughout the year to formulate overall strategy of the Group, monitor its financial performance and maintain effective oversight over the management. The company secretary assists the Chairman in preparing the meeting agenda. Notice of meetings is given to directors at least 14 days prior to a regular Board meeting, and each director may request inclusion of matters in the agenda for Board meetings. A detailed agenda, minutes of the previous meeting and accompanying board papers are sent to directors at least 3 days before the date of the meeting to facilitate informed discussion and decision-making.

Every board member is entitled to have access to board papers and related materials and has access to the advice and services of the company secretary, and has the liberty to seek external professional advice if necessary. The company secretary is responsible to the Board for ensuring the procedures are followed and that all applicable rules and regulations are complied with.

During the year, six full board meetings were held and the attendance of each director is set out on page 21.

The Board has established three committees, the Nomination Committee, Remuneration Committee and Audit Committee, to assist it in overseeing the Group's affairs. Each committee has defined terms of reference setting out its duties, powers and functions and are posted on the Company's website. The committees report regularly to the Board and make recommendations on matters where appropriate. The Board, in addition to its overall supervisory role, retains specific responsibilities such as approving specific senior appointments, approving financial accounts, recommending dividend payments, approving policies relating to the Board's compliance, etc.

Chairman and Chief Executive

The Chairman and the Managing Director (i.e. Chief Executive) of the Company are Mr Chen Ying-Chieh and Mr Chen Hsien Min respectively. Mr Chen Ying-Chieh is the nephew of Mr Chen Hsien Min. The roles of the Chairman and Managing Director are segregated to assume a balance of authority and power. The Chairman is responsible for the leadership and effective running of the Board, while the Managing Director is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Managing Director have been clearly established and set out in writing.

Appointments, Re-election and Removal of Directors

Every director appointed by the Board during the year, if any, shall retire at the next general meeting. Every director shall be subject to retirement at least once every three years.

Responsibilities of Directors

Every newly appointed director of the Company, on the first occasion of his appointment, shall receive a tailored induction on the responsibilities and on-going obligations to be observed by a director. In addition, the senior management and the company secretary will conduct briefing if necessary to ensure that the directors have a proper understanding of the operations and business of the Group and that they are aware of their responsibilities under the laws and applicable regulations.

The functions of non-executive directors, as per the terms of reference of the Board, have included the functions as specified in Code Provisions A.5.2 (a) to (d) of the Code.

Nomination Committee

The Nomination Committee of the Company, comprising one executive director and three independent non-executive directors, was formed on 22 April 2005.

Major roles and functions of the Nomination Committee are as follows:

- To review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.
- To identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individual nominated for directorships.
- To access the independence of independent non-executive directors.
- To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Managing Director.

The Nomination Committee shall meet at least once a year. During the year, one Nomination Committee meeting was held and the attendance of each member is set out on page 21.

At the meeting held during the year, the independence of independent non-executive directors was considered and the re-appointment of retiring directors which were approved by the shareholders at the annual general meeting was recommended.

Remuneration Committee

The Remuneration Committee of the Company, comprising one executive director and three independent non-executive directors, was formed on 22 April 2005.

Major roles and functions of the Remuneration Committee are as follows:

- To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
- To have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration.

Remuneration Committee (Continued)

- To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time.

- To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

- To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

- To ensure that no director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee shall meet at least once a year. During the year, one Remuneration Committee meeting was held and the attendance of each member is set out on page 21.

At the meetings held during the year, the overall pay levels in Hong Kong, China and Taiwan where the Group has establishments were reviewed and considered. The remuneration of directors is pre-determined and is based on their respective contractual terms of appointment, if any, and as recommended by the Remuneration Committee. Details of the emoluments paid/payable to individual director of the Company are set out in Note 13 to the accounts.

Audit Committee

The Audit Committee comprises all three independent non-executive directors of the Company. Major roles and functions of the Audit Committee are as follows:

- To consider the appointment, reappointment and removal of the external auditors, and to approve the remuneration and the terms of engagement of the external auditors, and to consider any questions of resignation or dismissal of the external auditors of the Group.

- To assess the independence of external auditors and discuss with the external auditors the nature and scope of the audit.

- To review interim and annual accounts before submission to the Board.

- To review the financial controls, internal controls and risk management system of the Group and make recommendations to the Board.

- To review the external auditors' management letter and material queries raised by the auditors to management in respect of accounting records, financial accounts or systems of control and management's response.

At the meetings held during the year, the Audit Committee had performed the following work:

- To review 2005 annual accounts and 2006 interim accounts

- To review external auditors' audit plan, terms of engagement and recommend the fees for the Board's approval.

- To review the management letters and reports issued by the external auditors.

- To review the effectiveness of internal control and financial control systems

- To consider and review material related party transactions and connected transactions if any.

The Audit Committee shall meet at least twice a year. During the year, two Audit Committee meetings were held and attended by external auditors of the Company. The attendance of each member to the meetings is set out on page 21.

Attendance of Board and Board Committees' Meetings

The attendance rates of individual members in Board and Board Committees' meetings held in 2006 are detailed as follows:

	Number of meetings attended/held in 2006			
	Board	Remuneration Committee	Nomination Committee	Audit Committee
Executive directors				
Mr Chen Ying-Chieh *(Chairman)*	8/8		1/1	
Mr Chen Hsien Min *(Managing Director)*	8/8	1/1		
Mr Chang Chih-Kai	6/8			
Independent non-executive directors				
Mr Hsiao Hsi Ming *(Chairman of Audit Committee)*	4/8	1/1	1/1	2/2
Mr Huang Shun Tsai *(Chairman of Nomination Committee)*	4/8	1/1	1/1	1/2
Mr Kuo Jung Cheng *(Chairman of Remuneration Committee)*	4/8	1/1	1/1	2/2
Average attendance rate	71%	100%	100%	83%

Internal Control

The Board is responsible for maintaining sound and effective internal controls to safeguard the Company's assets. The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meetings with the Audit Committee periodically to discuss financial, operational and risk management control. The directors are of the view that the existing system of internal control is effective and adequate to the Group.

Accountability and Audit

The directors are responsible for keeping proper accounting records and preparing accounts for each financial period by the management. Subsequent to each reporting period, annual and interim financial highlights and business review are published on a timely basis to disclose all information that are necessary for shareholders to assess the performance, financial positions and prospects of the Company.

The Board will present a balanced, clear and understandable assessment to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

Management Functions

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of the management.

While the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

Matters reserved to be approved by the Board include:

- Appointment of directors and senior executives
- Business plans and establishment of new markets
- Proposal for selection of external auditors
- Financial accounts and budgets
- Substantial capital investments and commitments
- Formation of policies and codes as required by regulatory bodies
- Formation of board committees

Auditors' Remuneration

During the year, the fees paid/payable to the Company's external auditors, PricewaterhouseCoopers ("PwC"), for the provision of audit services amounted to HK$2,680,000 and there was no significant non-audit service assignment undertaken by PwC.

Investor relations and shareholders' rights

The board recognizes the importance of good communication with all shareholders and potential investors. Communication with shareholders, investors and analysts are maintained through the followings:

- Delivery of interim and annual reports to all shareholders.
- Publication of announcements on the interim and annual results on the Stock Exchange's website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under Listing Rules.
- Holding of annual general meetings to provide a channel for the Chairman of the Board and the Board Committees to answer shareholders' questions. At the annual general meetings, a separate resolution was proposed by the Chairman in respect of each separate issue including the re-election of directors.
- Establishing dedicated divisions and personnel for liaison with investors and analysts by answering their questions.
- Arranging on-site visits to the company's establishments to enhance their timely understanding of the situations and latest development of the Company's business operations.
- Making available information on the Company's website, including description of the Company and its business, Board and corporate governance, results of the Company, financial highlights and promotional materials, etc.
- Actively communicating with various parties, in particular, convening briefing sessions, press conferences and individual meeting with institutional investor upon the announcements of the interim and annual results and making decisions on material investments. The Company also participates in a range of investor activities and communicates on one-on-one basis with it investors regularly.

At the annual general meeting, the Chairman demanded on a poll on all resolutions. The procedures for and the rights of shareholders for demanding a poll by the shareholders were incorporated in the circular dated 24 April 2007. The Company is responsible for ensuring the votes are properly counted and recorded.

Independent Auditor's REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

We have audited the accounts of Prime Success International Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 24 to 57, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 April 2007

Consolidated Profit AND LOSS ACCOUNT

For the year ended 31 December 2006

	Note	**2006 HK$'000**	2005 HK$'000
Turnover	5	**3,093,086**	2,622,677
Cost of sales		**(1,697,874)**	(1,478,734)
Gross profit		**1,395,212**	1,143,943
Other revenues and net gains	5	**30,432**	14,400
Selling and distribution expenses		**(836,711)**	(689,485)
General and administrative expenses		**(188,327)**	(145,454)
Operating profit	7	**400,606**	323,404
Finance costs	8	**(9,199)**	(4,441)
Share of profit of an associated company		**210**	253
Profit before taxation		**391,617**	319,216
Taxation	9	**(96,513)**	(63,160)
Profit for the year		**295,104**	256,056
Attributable to:			
Shareholders of the Company		**291,566**	254,593
Minority interests		**3,538**	1,463
		295,104	256,056
Dividends	11	**73,705**	81,894
Earnings per share – basic and diluted	12	**HK17.80 cents**	HK15.72 cents

Consolidated BALANCE SHEET

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Goodwill	14	**25,483**	–
Land use rights	15	**29,289**	19,197
Fixed assets	16	**378,576**	302,589
Deposits paid for acquisition of fixed assets	17	**23,348**	–
Interest in an associated company	20	**2,418**	2,346
Available-for-sale financial assets	21	**33,624**	33,437
Other non-current assets		**51,163**	21,786
Deferred tax assets	30	**36,053**	17,942
		579,954	397,297
Current assets			
Inventories	22	**684,454**	632,387
Trade receivables	23	**113,270**	122,464
Other receivables, deposits and prepayments		**186,108**	129,722
Derivative financial instruments	24	**353**	268
Pledged bank deposits	27(b)	**6,000**	6,000
Bank balances and cash	25	**148,699**	146,486
		1,138,884	1,037,327
Current liabilities			
Trade payables	26	**296,494**	288,702
Other payables and accrued charges		**159,449**	145,851
Taxation payable		**65,559**	42,910
Bank loans and overdrafts	27	**183,194**	133,062
		704,696	610,525
Net current assets		**434,188**	426,802
Total assets less current liabilities		**1,014,142**	824,099
Financed by:			
Share capital	28	**163,789**	163,789
Reserves	29	**817,519**	580,418
Shareholders' equity		**981,308**	744,207
Minority interests		**31,904**	79,409
Total equity		**1,013,212**	823,616
Non-current liabilities			
Deferred tax liabilities	30	**930**	483
Total equity and non-current liabilities		**1,014,142**	824,099

CHEN YING-CHIEH
Director

CHEN HSIEN MIN
Director

Balance SHEET

As at 31 December 2006

	Note	**2006 HK$'000**	2005 HK$'000
Non-current assets			
Investments in subsidiaries	18	**165,635**	165,635
Current assets			
Other receivables		**232**	232
Amounts due from subsidiaries	19	**192,618**	228,727
Bank balances	25	**266**	228
		193,116	229,187
Current liabilities			
Accrued charges		**2,084**	1,327
Amount due to a subsidiary		**270**	–
		2,354	1,327
Net current assets		**190,762**	227,860
Total assets less current liabilities		**356,397**	393,495
Financed by:			
Share capital	28	**163,789**	163,789
Reserves	29	**192,608**	229,706
Total equity		**356,397**	393,495

CHEN YING-CHIEH
Director

CHEN HSIEN MIN
Director

Consolidated Statement OF CHANGES IN EQUITY

For the year ended 31 December 2006

		Attributable to shareholders of the Company			
	Note	**Share capital** HK$'000	**Reserves** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 1 January 2005		156,789	376,931	48,839	582,559
Currency translation differences	29	–	7,829	384	8,213
Net gain recognized directly in equity		–	7,829	384	8,213
Profit for the year	29	–	254,593	1,463	256,056
Total income recognized for the year		–	262,422	1,847	264,269
Dividends	29	–	(73,705)	(3,204)	(76,909)
Issue of shares under share option scheme	28, 29	7,000	14,770	–	21,770
Capital injection by minority shareholders		–	–	31,927	31,927
		7,000	(58,935)	28,723	(23,212)
At 31 December 2005		163,789	580,418	79,409	823,616
Currency translation differences	29	**–**	**19,240**	**688**	**19,928**
Net gain recognized directly in equity		**–**	**19,240**	**688**	**19,928**
Profit for the year	29	**–**	**291,566**	**3,538**	**295,104**
Total income recognized for the year		**–**	**310,806**	**4,226**	**315,032**
Dividends	29	**–**	**(73,705)**	**(3,265)**	**(76,970)**
Acquisition of minority interests in subsidiaries		**–**	**–**	**(48,466)**	**(48,466)**
		–	**(73,705)**	**(51,731)**	**(125,436)**
At 31 December 2006		**163,789**	**817,519**	**31,904**	**1,013,212**

Consolidated CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Operating activities			
Net cash generated from operations	31	**361,147**	224,748
Tax paid outside Hong Kong		**(91,528)**	(58,907)
Net cash generated from operating activities		**269,619**	165,841
Investing activities			
Acquisition of an available-for-sale financial asset		**(187)**	–
Acquisition of minority interests in subsidiaries		**(75,380)**	(85)
Dividend received from an associated company		**225**	158
Interest received		**3,830**	1,885
Payment for land use rights		**(2,206)**	(4,876)
Purchase of fixed assets		**(143,952)**	(152,069)
Deposits paid for acquisition of fixed assets		**(23,348)**	–
Proceeds from disposal of fixed assets		**221**	577
Proceeds from disposal of an available-for-sale financial asset		**280**	–
Net cash used in investing activities		**(240,517)**	(154,410)
Net cash generated before financing activities		**29,102**	11,431
Financing activities			
Contribution by minority shareholders		**–**	32,012
Dividends paid to shareholders of the Company		**(73,705)**	(73,705)
Dividends paid to minority shareholders		**(3,265)**	(3,204)
Increase in pledged bank deposits		**–**	(2,554)
Interest paid		**(9,199)**	(4,441)
Issue of shares		**–**	21,770
Repayment of bank loans		**(161,234)**	(121,122)
New bank loans raised		**211,385**	155,638
Net cash (used in)/generated from financing activities		**(36,018)**	4,394
(Decrease)/increase in cash and cash equivalents		**(6,916)**	15,825
Cash and cash equivalents as at 1 January		**146,467**	126,893
Effect of foreign exchange rate changes		**9,148**	3,749
Cash and cash equivalents as at 31 December	25	**148,699**	146,467

Notes to the ACCOUNTS

1. General information

Prime Success International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is principally engaged in the manufacturing and distribution of footwear products in China with major export market in the United States of America (the "US").

The Company is a company incorporated in the Cayman Islands with limited liability and it shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Ugland House, South Church Street, P. O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

These consolidated accounts have been approved for issue by the Board of Directors on 23 April 2007.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

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

The preparation of accounts in conformity with HKFRSs and HKASs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

Adoption of new/revised HKFRSs and HKASs

In 2006, the Group adopted the following new/revised HKFRSs and HKASs which are relevant to its operations:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new/revised accounting standards has no material impact on the Group's consolidated accounts.

The Group has not early adopted the following new standards, amendments and interpretations that have been issued by the HKICPA but not yet effective in these accounts:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HKFRS – Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies	1 March 2006
HKFRS – Int 8	Scope of HKFRS 2	1 May 2006
HKFRS – Int 9	Reassessment of Embedded Derivatives	1 June 2006
HKFRS – Int 10	Interim Financial Reporting and Impairment	1 November 2006
HKFRS – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HKFRS – Int 12	Service Concession Arrangements	1 January 2008

2. Principal accounting policies (Continued)

(a) Basis of preparation (Continued)

The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the accounts will be resulted.

(b) Consolidation

The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains or losses for the Group that are recorded in the consolidated profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) Associated company

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associated company's post-acquisition profits or losses is recognized in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in the associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealized gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associated company have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in an associated company are recognized in the consolidated profit and loss account.

2. Principal accounting policies (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is different from the Group's functional currency of Renminbi. The directors consider that presentation of consolidated accounts in Hong Kong dollars will facilitate analysis of financial information of the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the profit and loss account, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the profit and loss account as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value adjustment reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Operating leases

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

2. Principal accounting policies (Continued)

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(f) Land use rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses if any. Cost mainly represents the consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 10 to 50 years from the date the respective right was granted. Amortization of land use rights is calculated on a straight-line basis over the period of the rights.

(g) Fixed assets

Fixed assets, comprise leasehold buildings, leasehold improvements, construction-in-progress, plant and machinery, furniture, fixtures and equipment and motor vehicles, are stated at historical cost less accumulated depreciation and accumulated impairment losses if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold buildings	Over the terms of the lease or 50 years, whichever is shorter
Leasehold improvements	Over the terms of the lease or 2 to 5 years, whichever is shorter
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Construction-in-progress represents fixed assets under construction and pending installation and is stated at cost less accumulated impairment losses if any. Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to fixed assets and depreciated in accordance with the policy stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

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 recognized in the profit and loss account.

2. Principal accounting policies (Continued)

(h) Impairment of assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(i) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade receivables, other receivables, deposits and prepayments in the balance sheet (Note 2(l)).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognized on the trade-date when the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets classified under financial assets at fair value through profit or loss are presented in the profit and loss account as fair value gain or loss of financial assets in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other revenues when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit and loss account; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity.

2. Principal accounting policies (Continued)

(i) Financial assets (Continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss account as gains and losses from available-for-sale financial assets.

Dividends on available-for-sale equity instruments are recognized in the profit and loss account as part of other revenues when the Group's right to receive payments is established.

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment test on trade receivables is described in Note 2(l).

(j) Derivative financial instruments and hedging activities

All derivative financial instruments are accounted for at fair value through profit or loss and the gain or loss on changes in fair value is recognized generally in the profit and loss account unless the derivative financial instrument qualifies for hedge accounting. Where a derivative financial instrument qualified for hedge accounting and is designated as a cash flow hedge, the effective part and the ineffective part of any unrealized gain or loss on the instrument is recognized directly in hedging reserve and in the profit and loss account respectively. The cumulative gain or loss associated with the effective part of the cash flow hedge or periods during which the gain or loss arising from the hedged transaction is recognized in the profit and loss account.

(k) Inventories

Inventories comprise raw materials, work-in-progress and finished goods are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, comprises materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and excludes borrowing costs. Net realizable value is determined on the basis of estimated selling price in the ordinary course of business less applicable variable selling expenses.

(l) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the profit and loss account. When a trade receivable is proven uncollectible, it is written off against the provision for impairment of trade and other receivables. Subsequent recoveries of amounts previously written off are credited to the profit and loss account.

2. Principal accounting policies (Continued)

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, time deposits and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(n) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(o) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) 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 consolidated accounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transactions affects neither accounting nor taxable profit or loss, it is not accounted for. Tax rates (and laws) enacted or substantively enacted by the balance sheet date are used to determine deferred taxation and it is expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

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 by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Employee benefits

(i) Bonus plans

The expected cost of bonus payments are recognized 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.

(ii) Pension obligations

The Group participates in a number of defined contribution retirement schemes in Hong Kong, Taiwan and various cities in China where the Group operates.

A defined contribution plan is a pension plan under which the Group pays fixed contributions to separately administered funds on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extend that a cash refund or a reduction in the future payments is available.

2. Principal accounting policies (Continued)

(q) Employee benefits (Continued)

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(r) 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 recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A contingent liability is not recognized 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 recognized as a provision. Provisions are not recognized for future operating losses.

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of applicable value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue is recognized when it is probable that future economic benefits will flow to the Group and the amount of revenue can be reliably measured.

Revenue from sales of goods manufactured or traded is recognized on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Handling income is recognized when the services are rendered.

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

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

Interest income is recognized on a time-proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

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

2. Principal accounting policies (Continued)

(t) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 expenses represent corporate expenses. Segment assets consist primarily of goodwill, land use rights, fixed assets, deposits paid for acquisition of fixed assets, inventories, receivables and operating cash, and mainly exclude interest in an associated company, available-for-sale financial assets, derivative financial instruments, deferred tax assets and corporate assets. Segment liabilities comprise operating liabilities and exclude items such as corporate taxation and liabilities. Capital expenditure comprises additions to land use rights and 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.

(u) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's accounts in the period in which the dividends are approved by the board of directors and the Company's shareholders. Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognized as a liability at the balance sheet date.

3. Financial risk management

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk.

(a) Foreign exchange risk

The Group operates in various countries and regions and is exposed to foreign exchange risk arising from different currency exposures primarily with respect to Hong Kong dollars, US dollars, Euros and New Taiwanese dollars. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments denominated in foreign currencies. The Group has entered into foreign exchange forward contracts to manage the risk arising from certain recognized assets and liabilities. The directors are of the opinion that the Group's remaining exposure to foreign exchange risk would be minimal.

(b) Credit risk

The Group has no significant concentration of credit risk with respect to the retail business as sales are made in cash or via major credit cards. Regarding the wholesale business, the Group has policies in place to ensure that all sales of products are made to customers with appropriate credit history. The management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(c) Liquidity risk

All the bank financing of the Group is in the form of short-term bank loans. Given the Group has a net current assets of HK$434,188,000 and unutilized banking facilities of HK$136,496,000 as at 31 December 2006, the directors believe that sufficient funds are maintained and additional funds can be raised to meet future business operation and development.

3. Financial risk management (Continued)

(d) Cash flow and fair value interest rate risk

The Group is exposed to both cash flow and fair value interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets mainly comprise bank deposits which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings with primarily floating interest rates. The directors are of the opinion that future interest rates would be relatively stable and the effect on the Group's future financial results will not be significant.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Tangible fixed assets and depreciation

Management determines the estimated useful lives and related depreciation charges for the Group's tangible fixed assets. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Estimated write-downs of inventories to net realizable value

The Group writes down inventories to net realizable value based on an assessment of the realizability of inventories. Provisions are made for inventories where events or changes in circumstances indicate that the balances may not be realized. The identification of obsolescence requires the use of judgements and estimates. Where the exception is different from the original estimate, such difference will impact carrying value of inventories and net realizable value for the periods in which such estimate is changed.

(e) Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including bank balances and cash, pledged deposits, trade receivables, other receivables, deposits and prepayments, trade payables, other payables and accrued charges and bank loans and overdrafts are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

5. Turnover, other revenues and net gains

An analysis of the Group's turnover, other revenues and net gains for the year is as follows:

	2006	2005
	HK$'000	HK$'000
Turnover		
Sales of goods	**3,093,086**	2,622,677
Other revenues		
Tax refund on reinvestment	**8,915**	–
Income derived from an unlisted available-for-sale financial asset (Note 21(a)(i))	**3,000**	3,000
Interest income	**3,830**	1,885
Government incentives	**2,606**	–
Handling income	**2,361**	–
Royalty income	**321**	–
Gross rental income	**267**	286
Dividend income	**57**	88
Others	**2,339**	1,001
	23,696	6,260
Other net gains		
Fair value gain on derivative financial instruments	**85**	268
Gain on disposal of available-for-sale financial assets	**280**	–
Net exchange gain	**6,371**	7,872
	6,736	8,140
Other revenues and net gains	**30,432**	14,400

6. Segment information

(a) Primary reporting format – business segments

The Group is organized into two main business segments:

Brand business – Manufacturing and distribution of footwear products and accessories under "Daphne", "Shoebox" and "adidas Originals" 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.

	2006			2005		
	Brand business HK$'000	**OEM business HK$'000**	**Group HK$'000**	Brand business HK$'000	OEM business HK$'000	Group HK$'000
Turnover	**2,316,310**	**776,776**	**3,093,086**	1,827,341	795,336	2,622,677
Segment results	**330,203**	**69,851**	**400,054**	209,471	112,849	322,320
Income derived from an unlisted available-for-sale financial asset			**3,000**			3,000
Fair value gain on derivative financial instruments			**85**			268
Unallocated revenues			**344**			374
Unallocated expenses			**(2,877)**			(2,558)
Operating profit			**400,606**			323,404
Segment assets	**1,333,896**	**311,702**	**1,645,598**	1,058,723	312,264	1,370,987
Interest in an associated company			**2,418**			2,346
Available-for-sale financial assets			**33,624**			33,437
Derivative financial instruments			**353**			268
Other unallocated assets			**36,845**			27,586
Total assets			**1,718,838**			1,434,624
Segment liabilities	**507,884**	**186,624**	**694,508**	412,882	189,163	602,045
Other unallocated liabilities			**11,118**			8,963
Total liabilities			**705,626**			611,008
Amortization	**644**	**643**	**1,287**	516	523	1,039
Depreciation	**56,002**	**10,098**	**66,100**	40,997	7,906	48,903
Provision for/(write-back of) bad and doubtful debts	**177**	**(2)**	**175**	–	46	46
Provision for/(write-back of) slow-moving inventories	**13,819**	**8,460**	**22,279**	7,682	(4,757)	2,925
Capital expenditure	**146,450**	**23,056**	**169,506**	127,898	29,047	156,945

(b) Secondary reporting format – geographical segments

The Group's two business segments operate in two main geographical areas, China and the US. In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers.

	2006 HK$'000	2005 HK$'000
China	**2,303,778**	1,827,341
The US	**718,585**	770,238
Others	**70,723**	25,098
	3,093,086	2,622,677

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

7. Operating profit

Operating profit is stated after charging the following:

	2006 **HK$'000**	2005 HK$'000
Amortization of land use rights	**1,287**	1,039
Auditors' remuneration	**2,919**	2,182
Cost of inventories sold	**1,407,303**	1,214,091
Depreciation of fixed assets	**66,100**	48,903
Employee benefits expense (Note 13)	**408,829**	374,140
Loss on disposal of fixed assets	**4,595**	5,020
Operating lease rentals in respect of land and buildings	**364,366**	255,250
Provision for bad and doubtful debts, net	**175**	46
Provision for slow-moving inventories, net	**22,279**	2,925

8. Finance costs

	2006 **HK$'000**	2005 HK$'000
Interest on bank loans and overdrafts	**9,199**	4,441

9. Taxation

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

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

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

	2006 **HK$'000**	2005 HK$'000
Current taxation		
– Taxation outside Hong Kong	**114,597**	62,479
– (Over)/under provision in prior years	**(420)**	159
Deferred taxation (Note 30)	**(17,664)**	522
	96,513	63,160

9. Taxation (Continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable domestic tax rates of the consolidated entities as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	**391,617**	319,216
Less: Share of profit of an associated company	**(210)**	(253)
	391,407	318,963
Tax calculated at domestic tax rates of 12% to 33% applicable to profits in the respective countries/places	**111,445**	76,827
Income not subject to taxation	**(48,762)**	(71,108)
Expenses not deductible for taxation purposes	**37,910**	56,019
Deferred tax assets previously not recognized	**(7,077)**	–
Tax losses for which no deferred tax assets recognized	**3,462**	2,230
Utilization of previously unrecognized tax losses	**(62)**	(701)
(Over)/under provision in prior years	**(420)**	159
Temporary differences not recognized	**17**	(266)
Taxation charge	**96,513**	63,160

The weighted average applicable tax rate was 28% (2005: 24%).

10. Profit attributable to shareholders of the Company

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$36,607,000 (2005: HK$97,185,000).

11. Dividends

	2006 HK$'000	2005 HK$'000
Interim dividend, paid, of HK2.0 cents (2005: HK2.5 cents) per ordinary share	**32,758**	40,947
Final dividend, proposed, of HK2.5 cents (2005: HK2.5 cents) per ordinary share	**40,947**	40,947
	73,705	81,894

At a meeting held on 23 April 2007, the board of directors recommended a final dividend of HK2.5 cents per ordinary share for the year ended 31 December 2006. 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 2007.

12. Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of HK$291,566,000 (2005: HK$254,593,000) and the weighted average number of 1,637,892,384 (2005: 1,619,097,863) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2006 and 31 December 2005.

13. Employee benefits expense

Employee benefits expense including directors' emoluments represents:

	2006 HK$'000	2005 HK$'000
Wages, salaries and bonuses	**389,745**	361,779
Defined contribution pension costs (Note (a))	**19,084**	12,361
	408,829	374,140

(a) Defined contribution pension costs

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 China and Taiwan at certain percentages of the salaries of its domestic employees. The governments are responsible for the entire pension obligations payable to retired employees. The Group does not have other obligations under these pension schemes in China and Taiwan other than the contribution payments.

As at both 31 December 2006 and 31 December 2005, no forfeited contribution is available to reduce the contribution payable in the future.

Contributions payable to the funds as at 31 December 2006 of approximately HK$1,375,000 (2005: HK$1,135,000) are included in other payables and accrued charges.

(b) Directors' emoluments

The remuneration of each director of the Company for the year ended 31 December 2006 is set out below:

	Fees HK$'000	Salaries and bonuses HK$'000	Defined contribution pension costs HK$'000	Total HK$'000
Name of director				
Mr Chen Ying-Chieh	**–**	**1,162**	**30**	**1,192**
Mr Chen Hsien Min	**–**	**1,406**	**–**	**1,406**
Mr Chang Chih-Kai	**–**	**637**	**–**	**637**
Mr Hsiao Hsi-Ming	**72**	**–**	**–**	**72**
Mr Huang Shun-Tsai	**72**	**–**	**–**	**72**
Mr Kuo Jung-Cheung	**72**	**–**	**–**	**72**
	216	**3,205**	**30**	**3,451**

13. Employee benefits expense (Continued)

(b) Directors' emoluments (Continued)

The remuneration of each director of the Company for the year ended 31 December 2005 is set out below:

	Fees HK$'000	Salaries and bonuses HK$'000	Defined contribution pension costs HK$'000	Total HK$'000
Name of director				
Mr Chen Ying-Chieh	–	1,182	24	1,206
Mr Chen Hsien Min	–	1,399	–	1,399
Mr Chang Chih-Kai	–	657	–	657
Mr Hsiao Hsi-Ming	60	–	–	60
Mr Huang Shun-Tsai	60	–	–	60
Mr Kuo Jung-Cheung	60	–	–	60
	180	3,238	24	3,442

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2005: nil) directors whose emoluments are presented above. The emoluments payable to the remaining three (2005: five) individuals during the year are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries and bonuses	**2,666**	9,877
Performance related incentive payments	**117**	1,217
Defined contribution pension costs	**5**	–
	2,788	11,094

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK$Nil to HK$1,000,000	**2**	–
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	4

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.

14. Goodwill

During the year, the Group acquired 36% and 43.75% additional equity interests in two subsidiaries engaging in the brand business at cash considerations of HK$40,874,000 and HK$34,506,000 respectively. Goodwill arose from the acquisitions was HK$15,079,000 and HK$10,404,000 respectively.

Impairment testing of goodwill

The Group performed an annual impairment test for goodwill allocated to the Group's various cash-generating units ("CGUs") by comparing their recoverable amount to their carrying amount as at the balance sheet date. The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a three-year period. The after tax discount rate and the estimated weighted average annual sales growth rate applied to the cash flow projections were both approximately 10%. The budgeted gross profit margin and net profit margin were determined by the management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount significantly.

15. Land use rights

	Group	
	2006	2005
	HK$'000	HK$'000
Cost		
At 1 January	**31,476**	26,029
Exchange adjustment	**1,244**	571
Additions	**2,206**	4,876
Transfer from fixed assets	**8,156**	–
At 31 December	**43,082**	31,476
Accumulated amortization		
At 1 January	**12,279**	11,138
Exchange adjustment	**227**	102
Amortization for the year	**1,287**	1,039
At 31 December	**13,793**	12,279
Net book value		
At 31 December	**29,289**	19,197
At 1 January	**19,197**	14,891

Notes:

(a) As at both 31 December 2006 and 31 December 2005, all land use rights were held outside Hong Kong on leases of between 10 to 50 years.

(b) As at 31 December 2006, land use rights of carrying value of HK$1,617,000 (2005: HK$264,000) were pledged as security for the Group's short-term bank loans (Note 27).

16. Fixed assets

	Group						
	Leasehold buildings HK$'000	Leasehold improve-ments HK$'000	Construction-in-progress HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 January 2005	127,099	45,499	14,520	103,783	40,559	20,921	352,381
Exchange adjustment	2,623	933	300	2,316	564	373	7,109
Additions	9,297	53,955	45,547	11,138	25,939	6,193	152,069
Transfer	8,088	–	(8,088)	–	–	–	–
Disposals	(4,987)	(2,248)	–	(7,794)	(4,524)	(2,457)	(22,010)
At 31 December 2005	142,120	98,139	52,279	109,443	62,538	25,030	489,549
Exchange adjustment	**5,348**	**3,681**	**1,967**	**4,436**	**1,990**	**973**	**18,395**
Additions	**1,954**	**75,900**	**38,749**	**8,304**	**15,279**	**3,766**	**143,952**
Transfer	**9,815**	**–**	**(17,971)**	**–**	**–**	**–**	**(8,156)**
Disposals	**–**	**(6,377)**	**–**	**(3,326)**	**(1,794)**	**(1,248)**	**(12,745)**
At 31 December 2006	**159,237**	**171,343**	**75,024**	**118,857**	**78,013**	**28,521**	**630,995**
Accumulated depreciation							
At 1 January 2005	27,801	7,886	–	86,056	17,978	11,589	151,310
Exchange adjustment	574	162	–	1,976	236	212	3,160
Charge for the year	4,894	28,241	–	5,990	6,413	3,365	48,903
Disposals	(1,889)	(662)	–	(7,748)	(3,694)	(2,420)	(16,413)
At 31 December 2005	31,380	35,627	–	86,274	20,933	12,746	186,960
Exchange adjustment	**1,181**	**1,335**	**–**	**3,610**	**670**	**492**	**7,288**
Charge for the year	**4,545**	**39,230**	**–**	**7,973**	**9,995**	**4,357**	**66,100**
Disposals	**–**	**(1,952)**	**–**	**(3,275)**	**(1,514)**	**(1,188)**	**(7,929)**
At 31 December 2006	**37,106**	**74,240**	**–**	**94,582**	**30,084**	**16,407**	**252,419**
Net book value							
At 31 December 2006	**122,131**	**97,103**	**75,024**	**24,275**	**47,929**	**12,114**	**378,576**
At 31 December 2005	110,740	62,512	52,279	23,169	41,605	12,284	302,589

Notes:

(a) As at 31 December 2006, leasehold buildings of carrying value of HK$16,647,000 (2005: HK$13,349,000) were pledged for the Group's short-term bank loans (Note 27).

(b) During the year ended 31 December 2006, motor vehicles of carrying value of HK$160,000 (2005: HK$242,000) were leased out under operating leases.

17. Deposits paid for acquisition of fixed assets

Deposits were made by the Group for the acquisition of leasehold buildings in China. As at 31 December 2006, the acquisition has not been completed and the Group was in the procedure of obtaining the relevant deed of title.

18. Investments in subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**165,635**	165,635

The following is a list of the principal subsidiaries as at 31 December 2006:

Name	Place of incorporation/ operation	Particulars of issued/ paid-up capital	Interest held %	Principal activities
Alldevelop Holdings Limited	British Virgin Islands	1 share of US$1 each	100	Investment holding
Dafu Footwear Co., Ltd. Hanjiang Putian City [a]	China	US$3,180,000	90	Manufacture of footwear
Dasheng Footwear Co., Ltd. Putian City [b]	China	US$4,285,700	100	Manufacture of footwear
Daphne Marketing Co., Ltd.	Taiwan	NTD50,000,000	100	Retail distribution of footwear and accessories
Daxin Footwear Co., Ltd. Putian City [b]	China	US$2,522,372	100	Processing of footwear
Daxing Shoe Material Co., Ltd. Hanjiang Putian City [b]	China	US$1,499,925	100	Manufacture of footwear
Ever Alliance Holdings Limited	Hong Kong	10,000 ordinary shares of HK$1 each	94.75	Retail sales right holder of footwear and apparel
Gentlefit Trading Limited	Hong Kong	100 ordinary shares of HK$1 each; 13,055,667 non-voting deferred shares of HK$1 each [d]	100	Export trading of footwear, investment and trademarks holding
Jacaranda International Limited	British Virgin Islands/Taiwan	2 shares of US$1 each	100	Export trading of footwear
Ji Wei Shoe Industrial Co., Ltd. [b]	China	US$5,000,090	100	Manufacture of footwear

18. Investments in subsidiaries (Contiuned)

Name	Place of incorporation/ operation	Particulars of issued/ paid-up capital	Interest held %	Principal activities
Jiangxi Dachuan Footwear Co., Ltd. [b]	China	US$1,205,904	100	Processing of footwear
Modern City Development Limited	Hong Kong	100 ordinary shares of HK$1 each; 10,000 non-voting deferred shares of HK$1 each [d]	100	Investment holding
Prime Success (BVI) Limited	British Virgin Islands	5,000,000 shares of US$0.01 each	100	Investment holding
Putian Hanjiang Footwear Co., Ltd. [a]	China	US$6,000,000	75	Manufacture of footwear
Shanghai Guang Wei Industry & Commerce Co., Ltd. [a]	China	US$4,600,000	87.8	Manufacture of footwear
Shoebox Holdings Limited	Hong Kong	10,000 ordinary shares of HK$1 each	95	Retail sales right holder of footwear, apparel and accessories
Victoria Success Investment Co., Ltd. [b]	China	US$30,000,000	100	Distribution of footwear and accessories and investment holding
Victoria Success (Shanghai) Limited [b]	China	US$5,000,000	100	Manufacture of footwear
Victoria Success Shoes (Suqian) Co. Ltd. [b]	China	RMB3,000,000	100	Processing of footwear
Winson Union Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100	Investment holding
Yangzhou Quanwei Industry & Commerce Co., Ltd. [b]	China	US$700,570	100	Processing of footwear

18. Investments in subsidiaries (Contiuned)

Notes:

(a) These Companies were established in China in the form of equity joint ventures.

(b) These Companies were established in China in the form of wholly foreign-owned enterprises.

(c) 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.

(d) 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.

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

19. Amounts due from subsidiaries – Company

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

20. Interest in an associated company

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**2,418**	2,346
Unlisted investment, at cost	**2,340**	2,340

Details of the associated company as at 31 December 2006 are as follows:

Name	**Place of incorporation/ operation**	**Particulars of paid-up capital**	**Interest held indirectly** %	**Principal activity**
Dayong Shoe Material Co., Ltd. Hanjiang Putian City ("Dayong")	China	RMB5,457,000	30	Manufacture of shoe materials

A summary of financial information of the associated company is as follows:

	2006	2005
	HK$'000	HK$'000
Assets	**8,403**	8,028
Liabilities	**554**	311
Revenues	**10,180**	9,839
Profit	**701**	844

21. Available-for-sale financial assets

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted investments (Note (a))	**33,624**	33,437
Listed securities (Note (b))	**–**	–
	33,624	33,437

Notes:

(a) Unlisted investments comprise investment in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing") of HK$33,000,000 (2005: HK$33,000,000) and investment in Daen Shoe Material Co. Ltd. ("Daen") of HK$624,000 (2005: HK$437,000). The fair values of unlisted investments are estimated by the directors of the Company.

(i) Investment in Jingxing
The Group holds 30% interest in Jingxing which is a sino-foreign equity joint venture established in China 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.

In 2006, 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 ended 31 December 2008, 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 2006 was HK$3,000,000 (2005: HK$3,000,000) which has been recognized in the profit and loss account.

(ii) Investment in Daen
The Group holds 16% interest in Daen which is an equity joint venture established in China. Daen is engaged in the manufacturing and distribution of footwear products in China.

(b) As at 31 December 2006, the Group holds approximately 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 authorized 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 securities were fully impaired in 2001. Since there were only infrequent and low volume of transactions of shares of Sun Home in 2006, the directors consider that there has no material change in fair value of the investment in Sun Home as at 31 December 2006.

The investment in Sun Home has been pledged to a bank to secure the Group's short-term bank loans (Note 27).

22. Inventories

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**71,433**	82,488
Work-in-progress	**51,352**	44,760
Finished goods	**561,669**	505,139
	684,454	632,387

23. Trade receivables

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

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 30 days	**79,214**	93,188
31 – 60 days	**22,996**	19,668
61 – 90 days	**8,933**	4,439
91 – 120 days	**1,058**	3,578
121 – 180 days	**574**	875
181 – 360 days	**495**	704
Over 360 days	**–**	12
	113,270	122,464

Note:

(a) The carrying value of trade receivables approximated its fair value.

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

(c) As at 31 December 2006, the provision for impairment of trade receivables was HK$177,000 (2005: nil).

24. Derivative financial instruments

Derivative financial instruments represented foreign exchange forward contracts that are not qualified for hedge accounting under the requirements of HKAS 39 and are deemed as held for trading.

25. Cash and cash equivalents

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash				
Cash at banks and in hand	**138,744**	133,109	**266**	228
Deposits with banks within three months of maturity	**9,955**	13,377	**–**	–
	148,699	146,486	**266**	228
Bank overdrafts	**–**	(19)	**–**	–
	148,699	146,467	**266**	228

25. Cash and cash equivalents (Continued)

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**119,990**	109,785	**–**	–
US dollar	**21,738**	23,488	**6**	6
New Taiwanese dollar	**4,139**	4,442	**–**	–
Hong Kong dollar	**2,223**	4,598	**260**	222
Euro	**609**	4,154	**–**	–
	148,699	146,467	**266**	228

Note: The weighted average effective interest rate of deposits with banks within three months of maturity was 3.03% (2005: 3.01%) per annum.

26. Trade payables

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

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 30 days	**171,658**	168,464
31 – 60 days	**89,746**	79,853
61 – 90 days	**14,396**	13,166
91 – 120 days	**5,794**	4,729
121 – 180 days	**2,912**	15,451
181 – 360 days	**5,258**	2,784
Over 360 days	**6,730**	4,255
	296,494	288,702

27. Bank loans and overdrafts

	Group	
	2006	2005
	HK$'000	HK$'000
Bank loans and overdrafts		
– Secured (Note (b))	**52,326**	71,753
– Unsecured	**130,868**	61,309
	183,194	133,062

27. Bank loans and overdrafts (Continued)

The carrying amounts of the bank loans and overdrafts are denominated in the following currencies:

	Group	
	2006	2005
	HK$'000	HK$'000
Hong Kong dollar	**127,126**	30,770
New Taiwanese dollar	**25,358**	42,126
US dollar	**20,755**	25,628
Renminbi	**9,955**	34,538
	183,194	133,062

Notes:

(a) As at both 31 December 2006 and 2005, the Group's bank loans were repayable within one year. The carrying value of bank loans and overdrafts approximated its fair value.

(b) As at 31 December 2006, the Group's secured short-term bank loans were secured by certain land use rights (Note 15(b)) and leasehold buildings (Note 16(a)), listed securities of Sun Home classified under available-for-sale financial assets with nil (2005: nil) carrying value and a bank deposit of HK$6,000,000 (2005: HK$6,000,000).

(c) The weighted average effective interest rate of bank loans and overdrafts as at 31 December 2006 is 5.09% (2005: 4.60%) per annum.

28. Share capital

	2006	2005
	HK$'000	HK$'000
Authorized:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000

	2006		2005	
	Number of ordinary shares	**Share capital HK$'000**	Number of ordinary shares	Share capital HK$'000
Issued and fully paid:				
At 1 January	**1,637,892,384**	**163,789**	1,567,892,384	156,789
Shares issued under share option scheme	**–**	**–**	70,000,000	7,000
At 31 December	**1,637,892,384**	**163,789**	1,637,892,384	163,789

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. No options were granted, exercised or cancelled under the Scheme during the year. There were no options outstanding as at 31 December 2006 and 31 December 2005.

29. Reserves

	Group								
	Share premium HK$'000	Capital redemption reserve HK$'000 (Note (a))	Fair value adjustment reserve HK$'000	Translation reserve HK$'000	Goodwill HK$'000 (Note (b))	Merger reserve HK$'000 (Note (c))	Other reserves HK$'000 (Note (d))	Retained profits HK$'000	Total HK$'000
At 1 January 2005	9,735	2,882	(4,000)	(12,415)	(36,782)	322	11,984	405,205	376,931
Shares issued under share option scheme	14,770	-	-	-	-	-	-	-	14,770
Currency translation differences	-	-	-	7,874	-	-	-	-	7,874
Transfer	-	-	-	-	-	-	2,246	(2,246)	-
Share of an associated company's reserve	-	-	-	(45)	-	-	4	(4)	(45)
Profit for the year	-	-	-	-	-	-	-	254,593	254,593
Dividends	-	-	-	-	-	-	-	(73,705)	(73,705)
At 31 December 2005	24,505	2,882	(4,000)	(4,586)	(36,782)	322	14,234	583,843	580,418
Currency translation differences	-	-	-	19,153	-	-	-	-	19,153
Transfer	-	-	-	-	-	-	1,711	(1,711)	-
Share of an associated company's reserve	-	-	-	87	-	-	5	(5)	87
Profit for the year	-	-	-	-	-	-	-	291,566	291,566
Dividends	-	-	-	-	-	-	-	(73,705)	(73,705)
At 31 December 2006	**24,505**	**2,882**	**(4,000)**	**14,654**	**(36,782)**	**322**	**15,950**	**799,988**	**817,519**

	Company				
	Share premium HK$'000	**Capital redemption reserve** HK$'000 (Note (a))	**Contributed surplus** HK$'000 (Note (e))	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2005	9,735	2,882	152,891	25,948	191,456
Shares issued under share option scheme	14,770	–	–	–	14,770
Profit for the year	–	–	–	97,185	97,185
Dividends	–	–	–	(73,705)	(73,705)
At 31 December 2005	24,505	2,882	152,891	49,428	229,706
Profit for the year	–	–	–	**36,607**	**36,607**
Dividends	–	–	–	**(73,705)**	**(73,705)**
At 31 December 2006	**24,505**	**2,882**	**152,891**	**12,330**	**192,608**

Notes:

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

(b) Goodwill
The amount represents goodwill on acquisitions occurred prior to 1 January 2001 that was taken to reserves as deduction from equity. The goodwill will not recognized in the profit and loss account when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates is impaired.

(c) 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 reorganization in 1995.

29. Reserves (Continued)

Notes: (Continued)

(d) Other reserves

Other reserves comprising general reserve fund of HK$9,060,000 (2005: HK$7,767,000) and enterprise expansion fund of HK$6,890,000 (2005: HK$6,467,000) required to be set up pursuant to the laws of China for the Company's subsidiaries and an associated company established in China. 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.

(e) 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 reorganization in 1995 and the nominal amount of the Company's shares issued for the acquisition.

(f) 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.

30. 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:

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**17,459**	17,981
Charged to profit and loss account (Note 9)	**17,664**	(522)
At 31 December	**35,123**	17,459

Deferred income tax assets are recognized for tax losses available to be carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 31 December 2006, the Group has unrecognized tax losses of HK$24,195,000 (2005: HK$296,000) which will expire within the next five years to be carried forward against future taxable income.

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

	Group									
Deferred tax assets	**Provisions**		**Decelerated tax depreciation**		**Deferred expenses**		**Tax losses**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**11,592**	11,501	**5,218**	6,155	**431**	672	**701**	–	**17,942**	18,328
Credited/(charged) to profit and loss account	**14,113**	91	**2,157**	(937)	**1,225**	(241)	**616**	701	**18,111**	(386)
At 31 December	**25,705**	11,592	**7,375**	5,218	**1,656**	431	**1,317**	701	**36,053**	17,942

30. Deferred taxation (Continued)

Deferred tax liabilities	Group					
	Accelerated tax depreciation		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**483**	328	**–**	19	**483**	347
Charged/(credited) to profit and loss account	**447**	155	**–**	(19)	**447**	136
At 31 December	**930**	483	**–**	–	**930**	483

31. Consolidated cash flow statement

Reconciliation of operating profit to net cash generated from operations

	2006	2005
	HK$'000	HK$'000
Operating profit	**400,606**	323,404
Interest income	**(3,830)**	(1,885)
Amortization	**1,287**	1,039
Depreciation	**66,100**	48,903
Loss on disposal of fixed assets	**4,595**	5,020
Fair value gain on derivative financial instruments	**(85)**	(268)
Gain on disposal of available-for-sale financial assets	**(280)**	–
Operating profit before working capital changes	**468,393**	376,213
Increase in inventories	**(52,067)**	(163,276)
Increase in trade receivable, other receivables, deposits and prepayments and other non-current assets	**(76,569)**	(66,135)
Increase in trade payables, other payables and accrued charges	**21,390**	77,946
Net cash generated from operations	**361,147**	224,748

32. Contingent liabilities

The Group had no material contingent liabilities as at both 31 December 2006 and 31 December 2005.

As at 31 December 2006, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to HK$170,200,000 (2005: HK$123,800,000). As at 31 December 2006, the utilized amount of such facilities covered by the Company's guarantees was HK$117,326,000 (2005: HK$20,970,000). The directors considered that no significant liabilities would arise from the bank guarantees given which arose in the ordinary course of business.

33. Commitments

(a) Capital commitments for purchase of land use rights and fixed assets

	Group	
	2006	2005
	HK$'000	HK$'000
Authorized but not contracted for	**58,632**	114,791
Contracted but not provided for	**33,061**	18,601
	91,693	133,392

33. Commitments (Contiuned)

(b) Commitments under operating leases

As at 31 December 2006, the Group had future aggregate minimum lease payments in respect of various production plants and facilities, warehouses, offices and distribution outlets under non-cancellable operating leases as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Not later than one year	**223,101**	180,094
Later than one year and not later than five years	**521,315**	366,110
Later than five years	**13,973**	13,350
	758,389	559,554

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

(c) The Company did not have any material commitments as at 31 December 2006 (2005: nil).

34. Related party transactions and balances

In addition to the transactions and balances disclosed elsewhere in these accounts, the Group entered into the following related party transactions during the year:

(a) Transactions and balances with related companies

	Transactions		Balances at year end	
	2006	2005	**2006**	2005
	HK$000	HK$000	**HK$000**	HK$000
Purchases from				
– an associated company	**446**	–	**114**	41
– investee companies	**54,429**	23,024	**15,922**	887

Note: Purchases of shoe materials and footwear products from the associated company, Dayong, and investee companies, Sun Home, Jingxing and Daen, were conducted in the normal course of the Group's business. The terms of transactions were determined and agreed between the Group and the counter parties and all balances due were repayable according to trade terms.

(b) Key management personnel compensation

	2006	2005
	HK$'000	HK$'000
Salaries and bonuses	**10,162**	17,108
Defined contribution pension costs	**112**	68
	10,274	17,176

35. Post balance sheet event

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the China Enterprise Income Tax Law (the "New Enterprise Income Tax Law") was approved and will become effective on 1 January 2008. The New Enterprise Income Tax Law introduced changes which include, but not limited to, the unification of the enterprise income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Enterprise Income Tax Law to the Group cannot be reasonably estimated at this stage.

Five-year FINANCIAL SUMMARY

	For the years ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**3,093,086**	2,622,677	1,788,539	1,407,007	1,180,669
Profit attributable to:					
– Shareholders of the Company	**291,566**	254,593	176,220	82,935	25,849
– Minority interests	**3,538**	1,463	4,777	3,880	5,674

	As at 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**1,718,838**	1,434,624	1,077,219	816,627	772,206
Total liabilities	**705,626**	611,008	494,660	378,151	399,747
Total equity of:					
– Shareholders of the Company	**981,308**	744,207	533,720	402,910	347,817
– Minority interests	**31,904**	79,409	48,839	35,566	24,642

Total assets and total liabilities as at 31 December 2004 have been restated as a result of the prior year adjustments in respect of the adoption of HKAS 17 issued by the HKICPA. The financial summary of 2003 and 2002 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 Prime Success International Group Limited (the "Company") will be held at Charter Room II, Level B1, Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Monday, 21 May 2007 at 3:30 p.m. for the following purposes:

1. To receive and consider the audited accounts of the Company and the Reports of the Directors and the Auditors for the year ended 31 December 2006;

2. To declare a final dividend for the year ended 31 December 2006;

3. To re-elect the retiring directors and authorise the Board of Directors to fix the directors' remuneration;

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

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

   A. "**THAT**:

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

      (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to repurchase its own shares at a price to be determined by the Directors;

      (c) the aggregate nominal amount of shares of the Company to be repurchased the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

      (d) for the purposes of this resolution:

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

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

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

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

   B. "**THAT**:

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

      (b) the approval in paragraph (a) above, shall be in addition to any other authorisations given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;

      (c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval granted in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any scrip dividend or similar arrangement providing for the

allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; or (iii) the exercise of any options granted under the share option scheme or similar arrangement for the time being adopted or to be adopted for the grant or issue of shares or rights to acquire shares of the Company approved by the Stock Exchange, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

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

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

C. "**THAT**:

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

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

Hong Kong, 23 April 2007

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, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be lodged with the Company's branch share registrar office in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, 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 16 May 2007 to 18 May 2007, both dates inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the Meeting and to quality for the proposed final dividend, all completed transfers forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong not later than 4:00 p.m. on 15 May 2007.

4. Where there are joint holders of any share, any one of such persons may vote at any meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be present any meeting the vote of the senior who tenders a vote, whether a person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand first in the register of members in respect of the joint holding.

5. Please refer to Appendix II of the circular dated 24 April 2007 (the "Circular") for the details of the retiring Directors subject to re-election at the meeting.

6. Concerning the resolution No. 5A above, an explanatory statement relating thereto is set out in Appendix I of the Circular containing information regarding, amongst other things, the general mandates to repurchase and issue shares which will be sent to shareholders of the Company together with the 2006 Annual Report.

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