



永恩國際集團有限公司  
Prime Success International Group Limited  
Stock Code : 210

Interim Report

06



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## CORPORATE INFORMATION

### **Board of Directors**

#### *Executive Directors*

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

#### *Independent Non-Executive Directors*

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

### **Audit Committee**

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

### **Remuneration Committee**

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

### **Nomination Committee**

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

### **Company Secretary**

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  
Standard Chartered (HK) Bank  
The Bank of Tokyo-Mitsubishi UFJ, Limited  
Mega International Commercial Bank Co. Ltd.

### **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 interim results	13 September 2006
Book closed dates for 2006 interim dividend	9 October 2006 to 11 October 2006
Payment of 2006 interim dividend	25 October 2006

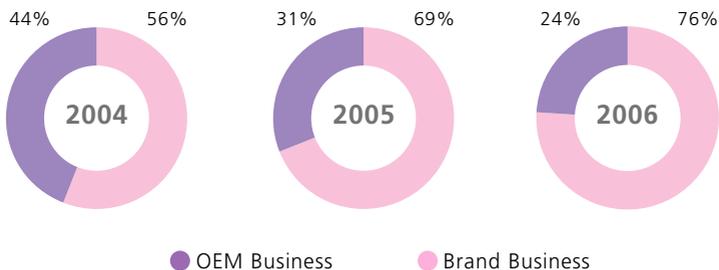
The board of directors (the "Board") of Prime Success International Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in 2005.

## FINANCIAL AND OPERATIONS HIGHLIGHTS

### Financial Summary

	30th June		
	2006	2005	2004
Turnover (HK\$'000)	<b>1,441,031</b>	1,154,576	839,572
Gross profit (HK\$'000)	<b>665,706</b>	498,560	533,827
Operating profit (HK\$'000)	<b>172,638</b>	133,153	82,062
Profit attributable to shareholders of the Company (HK\$'000)	<b>147,433</b>	106,334	66,030
Earnings per share – basic (HK cent)	<b>9.00</b>	6.74	4.26
Interim dividend per share (HK cent)	<b>2.0</b>	2.5	1.5
Net cash and bank balances (HK\$'000)	<b>148,861</b>	187,625	155,562
Inventory turnover (day)	<b>169</b>	144	138
Debtors turnover (day)	<b>17</b>	14	22
Creditors turnover (day)	<b>77</b>	69	77

### Turnover Breakdown by Business



## Sales and Distribution Network of the Group



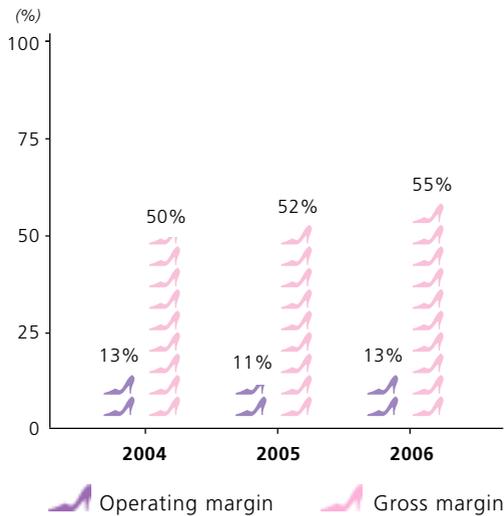
## Turnover and Operating Profit/(Loss) by Brand

For the six months ended 30th June 2006

(HK\$'000)	adidas			Total
	Daphne	Originals	Shoebox	
Turnover				
– Store	575,668	12,428	56,025	644,121
– Counter	223,242	101,345	–	324,587
– Others	118,020	–	2,565	120,585
	<u>916,930</u>	<u>113,773</u>	<u>58,590</u>	<u>1,089,293</u>
Operating profit/(loss)	<u>139,071</u>	<u>7,944</u>	<u>(4,440)</u>	<u>142,575</u>

## Gross Margin and Operating Margin Trend Analyses of Brand Business

For the six months ended 30th June



### ***Interim Dividend***

The Board has resolved on 13 September 2006 to declare an interim dividend of HK2.0 cents (2005: HK2.5 cents) per ordinary share for the year ending 31 December 2006. The interim dividend will be payable on or before 25 October 2006 to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 11 October 2006.

### ***Closure of Register of Members***

The register of members of the Company will be closed from 9 October 2006 to 11 October 2006 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the registrar of the Company in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 6 October 2006.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### ***Business Review***

The first six months in 2006 saw steady growth of the Group's businesses. Its brand business grew specially fast driven by strong demand for trendy and quality footwear of Mainland consumers growingly affluent. The Group's turnover reached HK\$1,441,031,000 during the period under review, up 25% when compared with the corresponding period last year. Profit attributable to shareholders also increased by 39% to HK\$147,336,000.



### *OEM Business*

During the period under review, OEM business remained as one of the Group's core operations and contributed a solid revenue of HK\$351,738,000 (2005: HK\$361,718,000), equivalent to 24% (2005: 31%) of the Group's total turnover.

With production costs increasing during the period under review, the Group strived to maintain profitability by adopting the strategic approach of taking higher margin orders and utilizing production capacity flexibly with its own brand business. However, high production costs including raw material and labour costs as well as other overheads still posed pressure on the Group's profit. As a result, OEM business saw its operating profit decreased by 36% to HK\$28,991,000 (2005: HK\$45,073,000), and gross margin and operating margin dropped to 20% and 8% respectively (2005: 24% and 12%).

In the first half of the year, the Group kept up its efforts in developing overseas markets, with the United States of America (the "US") market continued to be its major export market accounting for 23% of the total turnover.

### *Brand Business*

Driven by strong domestic consumption in China, sales of the Group's brand products grew robustly in the past six months. These products include a comprehensive range of ladies' fashion products including footwear, handbags and accessories sold under the "Daphne" brand in Daphne D28 and Daphne D18 chains and "Shoebox" chain stores. The Group also owns the "adidas Originals" exclusive retail shop right in China. Serving different niche markets, the three brands together boast a comprehensive coverage of different market segments targeted by the Group.



In the first half of 2006, turnover of brand business surged 37% to HK\$1,089,293,000 (2005: HK\$792,858,000), representing 76% of the Group's total turnover. Sales from "Daphne" increased by 32% to HK\$916,930,000 (2005: HK\$695,418,000), accounting for 64% of the Group's total turnover. Sales from "Shoebox" was HK\$58,590,000 (2005: 31,477,000), contributing to 4% of the Group's total turnover. Sales from "adidas Originals" exclusive retail shop business reached HK\$113,773,000 (2005: 65,963,000), representing 8% of the total turnover.

Operating profit of the business also increased by 63% to HK\$142,575,000. Enjoying a steadily growing average selling price for its brand products, the segment reported a gross margin and an operating margin of 55% and 13% respectively.

#### *"Daphne" Business*

Sales of "Daphne" ladies' fashion products especially footwear continued to rise. Enjoying high brand recognition and reputed as a prestigious female fashion products brand in China, it is a major growth driver of the Group. In 2005, the original young collection under the "Daphne" brand was given its own unique identity – "Daphne D18". The now well-recognized "Daphne D18" chain among the Group's four existing collections targets fashion-sensitive young ladies aged 15 to 25. It has been well received by the market and has captured many young female customers in China who are fashion sensitive and have high spending power. To fully exploit market potential, the Group added 97 more new "Daphne D18" points-of-sale during the past six months to further its reach in China.

At the same time, three other collections namely "Ladies", "Cool" and "Soft" goods carrying the "Daphne" brand are sold at "Daphne D28" points-of-sale. Targeting mainly customers aged between 26 to 50, they also recorded increase in sales. As at 30 June 2006, "Daphne" has over 1,698 points-of-sale across the country, including 1,269 stores and 429 counters, an increase of 255 points-of-sale when compared with the end of 2005 (31 December 2005: 1,070 stores and 373 counters).

In the past six months, "Daphne" for the first time extended its reach to overseas markets. Replicating the brand's successful model in China, the first "Daphne" store was opened in Taiwan in April 2006. The encouraging response of the market has prompted the Group to expand its sales and distribution network in Taiwan, the Group plans to open about 30 "Daphne" stores in Taiwan by the end of 2006. It also intends to mount strong promotion after an extensive sales and distribution network is established to help boost awareness and sales of the "Daphne" brand. Nevertheless, entering the Taiwan market is only the first step in the Group's plan to expand its "Daphne" business overseas. It is considering selling its brand products in other overseas markets via wholesaling.

The Group recognizes the value of "Daphne" brand and is dedicated to maintaining its popularity and leadership in China's female fashion products market. The Group has adopted a wide range of innovative and cost effective marketing programs. It was the first fashion products brand in the country to show its products on catwalk and introduce customer guarantee program. To deepen penetration of the China market by "Daphne", in the past six months, the Group continued the production of the film "I Love Daphne" (the name of the film is yet to be confirmed) starring Ms Rene Liu who is the Group's spokeswoman for the "Daphne D28" brand in China and Taiwan markets. The Group also commissioned musical compositions for the popular girl pop group "S.H.E", which is the spokesperson for "Daphne D18", and sponsored various mega events and fashion shows, including the concerts of popular singers Mr Jeff Chang and Mr Emil Zhou. The Group was among the first local consumer brands in China to adopt creative marketing strategies, such as producing songs and films starring its spokespersons, to promote its brands.

#### *"Shoebox" Business*

Launched in mid 2004, another fast emerging brand of the Group, "Shoebox", kept its growth momentum in the past six months. The Group recognized huge potentials in the mass footwear market and is confident of achieving growth by selling its high quality yet low-priced footwear and related products under its own "Shoebox" brand.

As a new brand launched for just two years, "Shoebox" has been very well regarded by the market. Since the business is still in the cultivation stage requiring investment in different aspects, an operating loss was recorded during the period under review. In general the Group is pleased with the progress achieved by the "Shoebox" business.

During the first six months of 2006, the Group opened 24 new "Shoebox" stores in major cities across China, bringing the total number of stores to 99. All of the stores are located in high customer flow areas. The Group intends to continue its efforts in expanding the "Shoebox" point-of-sale network and expects additional initial set up costs to be incurred.

### *“adidas Originals” Business*

The “adidas Originals” business continued to bring in satisfactory contribution. Its turnover and profit margin both increased satisfactorily against the corresponding period last year. The World Cup 2006 held during the period had helped to boost demand for athletic and casual footwear and apparels in China. During the period under review, the Group opened 5 more adidas stores.

Having secured the sponsorship contract for the 2008 Beijing Olympics, adidas has put great emphasis on developing the China market. During the period, adidas introduced to the market product series of higher quality and also step up brand promotion. To grasp market opportunities arising from the impending Beijing Olympics, the Group targets to open a total of not less than 300 “adidas Originals” stores by 2008.

### *Development of Infrastructure*

The construction of the logistics centres in Beijing and Shenyang were completed in the first half of 2006. Including the two logistics centres set up earlier in Shanghai and Fujian, all four logistics centres are equipped with cutting-edge storage systems allowing for effective inventory checking. They will greatly ease production and procurement planning for the Group. By providing much faster transportation from point to point, these logistics centres has improved and will continue to improve the Group’s supply chain services. Besides lowering transportation costs and stock level for the Group in the respective regions, they will also help to enhance the Group’s cash flows. In addition, the Group’s new integrated ERP system, which started operation in 2005, has also helped the Group managing its sales and distribution process more efficiently.

## **Financial Review**

### *Result Performance*

For the six months ended 30 June 2006, turnover of the Group grew satisfactorily by 25% to HK\$1,441,031,000 (2005: HK\$1,154,576,000) when compared with the corresponding period last year. The increase was mainly driven by the strong performance of its brand business, which sales grew 37% and hit HK\$1,089,293,000, riding on the strong domestic consumption in China. Although production costs were on the up trend, by tightening cost control and selecting higher margin orders, the Group achieved a slight increase in both gross profit margin of 46% (2005: 43%) and net profit margin of 10% (2005: 9%), as compared with the corresponding period last year.

During the period under review, basic earnings per share of the Group were HK9.00 cents (2005: HK6.74 cents). The Board resolved to declare an interim dividend of HK2.0 cents (2005: HK2.5 cents) per share for the six months ended 30 June 2006.

### *Liquidity and Financial Resources*

As at 30 June 2006, the Group maintained a healthy cash position with cash and bank balances of HK\$148,861,000 (31 December 2005: HK\$152,486,000) and unutilized banking facilities of HK\$133,071,000 (31 December 2005: HK\$114,343,000). Its current ratio improved from 1.70 as at 31 December 2005 to 1.77 as at 30 June 2006. With steady cash inflow from operations coupled with existing cash and banking facilities available, the Group has adequate financial resources to cope with its future expansion.

The gearing ratio, calculated on the basis of bank loans of HK\$137,361,000 (31 December 2005: HK\$133,062,000) over shareholders' equity of HK\$855,491,000 (31 December 2005: HK\$744,207,000), slightly decreased from 18% as at 31 December 2005 to 16% as at 30 June 2006. All bank loans were at floating rates during the period under review.

### *Foreign exchange risk management*

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

### *Pledge of Assets*

As at 30 June 2006, the Group's short-term bank loans of HK\$60,701,000 (31 December 2005: HK\$71,753,000) were secured by certain land use rights and leasehold buildings of a total net book value of HK\$4,128,000 (31 December 2005: HK\$13,613,000); a bank deposit of HK\$6,000,000 (31 December 2005: HK\$ 6,000,000) and available-for-sale financial assets with nil carry value (31 December 2005: nil).

### *Significant Capital Investments*

During the six months ended 30 June 2006, the Group spent approximately HK\$3.8 million in establishing two logistics centres in Beijing and Shenyang as planned. It also planned to establish two more logistics centres in Chengdu and Guangdong in the near future, with operation expected to commence by 2007.

The logistics centres operating or being built are instrumental to enhancing the Group's comprehensive nationwide sales and distribution network with 5,000 points-of-sale by 2010.

### *Contingent Liabilities*

As at 30 June 2006, the Group had no significant contingent liabilities.

### *Human Resources*

As at 30 June 2006, the Group had over 24,000 (31 December 2005: 24,000) employees in Hong Kong, Taiwan and China. Employee expenditure during the six months ended 30 June 2006 was HK\$194,590,000 (2005: HK\$178,532,000). The Group values its human resources and recognizes the importance of attracting and retaining qualified employees to its continuing success. 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 individuals' performance. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchase discounts and training programs to employees.

### **Prospects**

#### *OEM Business*

While seeking to maintain the satisfactory performance of its OEM business in the US market, the Group will also strive to develop other overseas OEM markets such as Europe and Japan. The Group expects the price level of raw materials to stabilize in the second half of the year. That plus the Group's various cost control measures will see the margin of the Group's OEM business stabilize and grow steadily in the long term.

#### *Brand Business*

In the second half of 2006, the Group expects its brand business to continue to gather growth momentum. The prosperous economy in China will see further surge in consumer spending. Riding on the well-established brand images of "Daphne" and "adidas Originals", and the well-received new brand name "Shoebox" as well as the new "Daphne D18" collection, the business is well on the growth track and is expected to reach a new height in the coming years.

To boost the growth of the business, the Group will continue to expand the sales network of its brand business in China and Taiwan. As at 30 June 2006, there were 10 “Daphne” points-of-sale in Taiwan and the Group targets to increase the number of shops to 30 by the end of 2006. To enhance consumer awareness of the brand in the Taiwan market, the Group will continue to ride on the popularity of its spokespersons – popular Taiwanese actress Ms Rene Liu for “Daphne” in Taiwan and “Daphne D28” in China, and the well-liked girl group in the Greater China region “S.H.E” for “Daphne D18” – to promote its products. It also intends to allocate more resources in promoting the brand in Taiwan in the second half of the year.

Encouraged by the success of “Daphne” in the Taiwan market, the Group continued to pursue expansion of the business to other overseas markets. Riding on the relationship its OEM business has built with overseas buyers, the Group is planning to wholesale “Daphne” products to overseas markets. It considers the wholesaling business model involving small initial investment and low business risk to be suitable for the purpose.

At the same time, to fully capitalize on the high brand recognition of “Daphne” in China, the Group is planning to launch other new product series under the brand. The Group has licensed the “Daphne” brand to manufacturers for launching watches and eyewear products, and “Daphne” watches have been available in stores since August 2006, while “Daphne” eyewear products are expected to be introduced to the market in early 2007. The product ventures will not only help to diversify the product portfolio of “Daphne”, but will also provide a more comprehensive range of “Daphne” products for entering markets outside China. The success of the watch and eyewear product ventures will see the brand expand to cover other accessories or fashionable consumer products in the near future.

Reflecting the Group’s confidence in the prospects of “Shoebox”, the Group has entered into agreements to acquire 36% equity interest in “Shoebox” business on 9 September 2006, boosting its shareholding to 95%. Such strategic move will give the Group full control on developing the business and an increased share of future returns from the growing business.

To accommodate increasing demand for reasonably priced quality footwear among lower income households, the Group targets to open at least 70 new “Shoebox” stores in 2006, and is fully confident that the business will become profitable in the coming financial year.

With less than two years till the 2008 Beijing Olympics, the Group expects to see tremendous demand for athletic footwear and apparels in China. Thus, it intends to accelerate establishment of "adidas Originals" points-of-sale from the current over 95 to 300 by 2008. To complement the efforts of adidas to promote the brand as a key sponsor of the upcoming 2008 Beijing Olympics, the Group will also commit more resources into marketing activities to maximize return from the much-anticipated event.

#### *Development of Infrastructure*

To support its business growth in China, Taiwan and other overseas markets, the Group will continuously refine its infrastructure. To ensure its nationwide sales and distribution network function smoothly, it has adopted an advanced Warehouse Management System ("WMS"), an Enterprise Resources Planning ("ERP") system and a comprehensive network of logistics centres have been set up in various cities in China. The Group has systems supporting for different operational aspects including sales and distribution, stock management as well as information analysis. The ERP system is linked with the WMS and the existing electronic Point-of-Sale ("e-POS") system of the Group. These systems enable quick access and analysis of operational and sales information by the Group. Meanwhile, two new logistics centres located in Chengdu and Guangdong are being planned and are expected to commence operation by the end of 2007. Having centralized control on the entire supply chain and its sales and distribution network, the Group will be able to achieve greater cost effectiveness and operating efficiency in the years to come.

On the market development front, apart from maintaining its strong presence in the China and the US markets, the Group will also actively develop Taiwan, Japan and Europe markets, as well as keep its eye open on other potential international markets.

Looking forward, with the continuous support from its business partners, employees, the management and shareholders, the Group is optimistic about its prospects and its capacity to generate satisfactory returns for shareholders in the future.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
Turnover	2	<b>1,441,031</b>	1,154,576
Cost of sales		<b>(775,325)</b>	(656,016)
Gross profit		<b>665,706</b>	498,560
Other revenues		<b>5,346</b>	2,898
Selling and distribution expenses		<b>(397,323)</b>	(291,392)
General and administrative expenses		<b>(101,091)</b>	(76,913)
Operating profit	3	<b>172,638</b>	133,153
Finance costs		<b>(3,417)</b>	(2,023)
Share of profit of an associated company		<b>88</b>	128
Profit before taxation		<b>169,309</b>	131,258
Taxation	4	<b>(21,876)</b>	(24,528)
Profit for the period		<b>147,433</b>	106,730
Attributable to:			
– shareholders		<b>147,336</b>	106,334
– minority interests		<b>97</b>	396
		<b>147,433</b>	106,730
Interim dividend	5	<b>32,758</b>	40,947
Earnings per share – basic	6	<b>HK9.00 cents</b>	HK6.74 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30 JUNE 2006

	Note	<b>Unaudited 30 June 2006 HK\$'000</b>	Audited 31 December 2005 HK\$'000
<b>Non-current assets</b>			
Land use rights	7	24,945	19,197
Fixed assets	7	324,405	302,589
Interest in an associated company		2,266	2,346
Available-for-sale financial assets		33,624	33,437
Other non-current assets		24,969	21,786
Deferred tax assets		27,067	17,942
		<b>437,276</b>	397,297
<b>Current assets</b>			
Inventories		717,214	632,387
Trade receivables	8	132,990	122,464
Other receivables, deposits and prepayments		143,261	129,722
Derivative financial instruments	9	143	268
Pledged bank deposits		6,000	6,000
Bank balances and cash		142,861	146,486
		<b>1,142,469</b>	1,037,327
<b>Current liabilities</b>			
Trade payables	10	325,024	288,702
Other payables and accrued charges		138,736	145,851
Taxation payable		44,986	42,910
Bank loans and overdrafts	11	137,361	133,062
		<b>646,107</b>	610,525
<b>Net current assets</b>			
		<b>496,362</b>	426,802
<b>Total assets less current liabilities</b>			
		<b>933,638</b>	824,099
<b>Financed by:</b>			
Share capital	12	163,789	163,789
Reserves		691,702	580,418
<b>Shareholders' equity</b>			
Minority interests		855,491	744,207
		77,462	79,409
<b>Total equity</b>			
		<b>932,953</b>	823,616
<b>Non-current liabilities</b>			
Deferred tax liabilities		685	483
		<b>933,638</b>	824,099

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited										Minority interests	Total equity
	Attributable to shareholders											
	Share capital	Share premium	Capital redemption reserve	Fair value adjustment reserve	Translation reserve	Goodwill	Merger reserve	Other reserves	Retained profits	Total		
<b>At 1 January 2006</b>	<b>163,789</b>	<b>24,505</b>	<b>2,882</b>	<b>(4,000)</b>	<b>(4,586)</b>	<b>(36,782)</b>	<b>322</b>	<b>14,234</b>	<b>583,843</b>	<b>744,207</b>	<b>79,409</b>	<b>823,616</b>
Currency translation differences	-	-	-	-	4,895	-	-	-	-	4,895	187	5,082
Transfer	-	-	-	-	-	-	-	866	(866)	-	-	-
Share of an associated company's reserve	-	-	-	-	-	-	-	5	(5)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	147,336	147,336	97	147,433
Dividends	-	-	-	-	-	-	-	-	(40,947)	(40,947)	(2,231)	(43,178)
<b>At 30 June 2006</b>	<b>163,789</b>	<b>24,505</b>	<b>2,882</b>	<b>(4,000)</b>	<b>309</b>	<b>(36,782)</b>	<b>322</b>	<b>15,105</b>	<b>689,361</b>	<b>855,491</b>	<b>77,462</b>	<b>932,953</b>
At 1 January 2005	156,789	9,735	2,882	(4,000)	(12,415)	(36,782)	322	11,984	405,205	533,720	48,839	582,559
Currency translation differences	-	-	-	-	(443)	-	-	-	-	(443)	8	(435)
Shares issued under share option scheme	7,000	14,770	-	-	-	-	-	-	-	21,770	-	21,770
Transfer	-	-	-	-	-	-	-	1,205	(1,205)	-	-	-
Share of an associated company's reserve	-	-	-	-	-	-	-	4	(4)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	106,334	106,334	396	106,730
Dividends	-	-	-	-	-	-	-	-	(32,758)	(32,758)	(3,141)	(35,899)
Disposal of interests by minority interests	-	-	-	-	-	-	-	-	-	-	(86)	(86)
Increase in amounts due to minority interests	-	-	-	-	-	-	-	-	-	-	17,723	17,723
<b>At 30 June 2005</b>	<b>163,789</b>	<b>24,505</b>	<b>2,882</b>	<b>(4,000)</b>	<b>(12,858)</b>	<b>(36,782)</b>	<b>322</b>	<b>13,193</b>	<b>477,572</b>	<b>628,623</b>	<b>63,739</b>	<b>692,362</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Net cash generated from operating activities	<b>93,257</b>	88,942
Net cash used in investing activities	<b>(56,111)</b>	(68,718)
Net cash (used in)/generated from financing activities	<b>(44,178)</b>	33,846
(Decrease)/increase in cash and cash equivalents	<b>(7,032)</b>	54,070
Cash and cash equivalents at 1 January	<b>146,467</b>	126,893
Effect of foreign exchange rate changes	<b>3,426</b>	431
Cash and cash equivalents at 30 June	<b>142,861</b>	181,394
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>142,861</b>	181,625
Bank overdrafts	–	(231)
	<b>142,861</b>	181,394

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS

### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim accounts should be read in conjunction with the 2005 annual accounts. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2005.

In 2006, the Group has adopted the new/revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) which are effective for accounting periods commencing on or after 31 December 2005 or 1 January 2006. The adoption of these new/revised HKASs and HKFRSs has had no material effect on the preparation and presentation of the results and financial position of the Group.

The Group has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective in these condensed consolidated interim 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 – 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

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the Group’s accounting policies and presentation of the accounts.

## 2. Turnover and segment information

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

### *Business segments*

The Group is organized into two business segments, brand business and original-equipment manufacturing ("OEM") business. An analysis of the Group's turnover and operating results for the six months ended 30 June 2006 by business segment is as follows:

	Six months ended 30 June			2005		
	2006 Brand business HK\$'000	2006 OEM business HK\$'000	2006 Group HK\$'000	2005 Brand business HK\$'000	2005 OEM business HK\$'000	2005 Group HK\$'000
Turnover	<u>1,089,293</u>	<u>351,738</u>	<u>1,441,031</u>	792,858	361,718	1,154,576
Segment results	<u>142,575</u>	<u>28,991</u>	<u>171,566</u>	87,690	45,073	132,763
Income derived from an unlisted available-for-sale financial asset			1,500			1,500
Unallocated revenues			215			233
Unallocated expenses			(643)			(1,343)
Operating profit			<u>172,638</u>			<u>133,153</u>

### *Geographical segments*

In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers. An analysis of the Group's turnover for the six months ended 30 June 2006 by geographical segment is as follows:

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
China	<u>1,087,846</u>	792,858
The US	<u>331,800</u>	352,180
Others	<u>21,385</u>	9,538
	<u>1,441,031</u>	<u>1,154,576</u>

### 3. Operating profit

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

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Amortization of land use rights	<b>541</b>	500
Cost of inventories sold	<b>641,004</b>	530,183
Depreciation of fixed assets	<b>29,687</b>	24,624
Employee benefits expense	<b>194,590</b>	178,532
Fair value adjustment on derivative financial instruments	<b>(143)</b>	(2,068)
Gain on disposal of an available-for-sale financial asset	<b>(273)</b>	–
Loss on disposal of fixed assets	<b>3,430</b>	1,112
Provision for slow moving inventories	<b>12,706</b>	9,066

### 4. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any assessable profit arising in Hong Kong. Taxation on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the six months ended 30 June 2006 at the rates of taxation prevailing in the countries or places in which the Group operates.

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

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

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Current taxation - taxation outside Hong Kong	<b>30,799</b>	26,619
Deferred taxation	<b>(8,923)</b>	(2,091)
	<b>21,876</b>	24,528

**5. Interim dividend**

The interim dividend declared by the Board after the balance sheet date is as follows:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interim dividend, proposed of HK2.0 cents (2005: HK2.5 cents) per ordinary share	<b>32,758</b>	40,947

**6. Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$147,336,000 (2005: HK\$106,334,000). The basic earnings per share is based on the weighted average number of 1,637,892,384 (2005: 1,578,250,023) ordinary shares in issue during the six months ended 30 June 2006.

No diluted earnings per share has been presented as there were no dilutive potential shares in issue during the six months ended 30 June 2006 and 30 June 2005 respectively.

**7. Capital expenditures**

	<b>Land use rights</b>	<b>Fixed assets</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book value at 1 January 2006	19,197	302,589
Exchange adjustment	293	3,213
Additions	5,996	51,799
Amortization/depreciation charge	(541)	(29,687)
Disposals	–	(3,509)
<b>Net book value at 30 June 2006</b>	<b>24,945</b>	<b>324,405</b>

**8. Trade receivables**

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

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
0 – 30 days	<b>97,880</b>	93,188
31 – 60 days	<b>24,693</b>	19,668
61 – 90 days	<b>6,330</b>	4,439
91 – 120 days	<b>1,553</b>	3,578
121 – 180 days	<b>1,119</b>	875
181 – 360 days	<b>1,380</b>	704
Over 360 days	<b>35</b>	12
	<hr/> <b>132,990</b> <hr/>	<hr/> 122,464 <hr/>

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.

**9. Derivative financial instruments**

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

**10. Trade payables**

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

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
0 – 30 days	<b>158,358</b>	168,464
31 – 60 days	<b>97,516</b>	79,853
61 – 90 days	<b>45,038</b>	13,166
91 – 120 days	<b>7,940</b>	4,729
121 – 180 days	<b>5,963</b>	15,451
181 – 360 days	<b>2,688</b>	2,784
Over 360 days	<b>7,521</b>	4,255
	<hr/> <b>325,024</b> <hr/>	<hr/> 288,702 <hr/>

**11. Bank loans and overdrafts**

As at 30 June 2006, the Group's short-term bank loans of HK\$60,701,000 (31 December 2005: HK\$71,753,000) were secured by the following assets of the Group:

- (a) certain land use rights and leasehold buildings of a total net book value of HK\$4,128,000 (31 December 2005: HK\$13,613,000);
- (b) a listed available-for-sale financial asset of nil (31 December 2005: nil) carrying value; and
- (c) a bank deposit of HK\$6,000,000 (31 December 2005: HK\$6,000,000).

**12. Share capital**

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
<i>Authorized:</i>		
10,000,000,000 ordinary shares of HK\$0.10 each	<b>1,000,000</b>	1,000,000
<i>Issued and fully paid:</i>		
1,637,892,384 ordinary shares of HK\$0.10 each	<b>163,789</b>	163,789

There were no movements in the share capital of the Company during the period.

**13. Capital commitments for purchase of land use rights and fixed assets**

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Authorized but not contracted for	<b>75,701</b>	114,791
Contracted but not provided for	<b>33,667</b>	18,601
	<b>109,368</b>	133,392

**14. Related party transactions and balances***Purchases of goods*

During the six months ended 30 June 2006, the Group has entered into the following transactions with related parties in the normal course of its business:

	Note	Six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
Purchases from investee companies	(a)	13,024	17,224
Purchases from an associated company	(b)	70	–

*Notes:*

- (a) Purchases of shoe materials and footwear products from investee companies, Sun Home Leather Corporation Limited, Jingxing Shoe Industrial Co., Ltd. Hanjiang Putian City and Daen Shoe Material Company Limited were carried out in accordance with trade terms as determined and agreed between both parties.
- (b) Purchases of goods from an associated company, Dayong Shoe Material Co., Ltd. Hanjiang Putian City, were carried out in accordance with trade terms as determined and agreed between both parties.

*Balances due to related companies*

Included in the Group's trade payables as at 30 June 2006 were amounts due to an associated company and the investee companies as mentioned above of HK\$112,000 (31 December 2005: HK\$41,000) and HK\$1,046,000 (31 December 2005: HK\$887,000), respectively, which were repayable according to trade terms agreed between both parties.

*Key management personnel compensation*

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Salaries and bonuses	6,155	3,106
Defined contribution pension costs	49	18
	<b>6,204</b>	<b>3,124</b>

**15. Post balance sheet event**

On 9 September 2006, the Group entered into agreement with certain minority shareholders of Shoebox Holdings Limited, a subsidiary of the Company, to acquire a total of 36% additional equity interest in the "Shoebox" business at a total cash consideration of HK\$40,874,000 which is determined based on capital injections originally contributed by the minority shareholders plus a premium of approximately 20.4%.

## OTHER INFORMATION

### ***Purchase, sale or redemption of the Company's shares***

The Company has not redeemed any of its shares during the six months ended 30 June 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

### ***Directors' and chief executives' interests in shares and underlying shares of the Company***

As at 30 June 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

### ***Long position in ordinary shares of HK\$0.10 each of the Company***

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Percentage of the issued share capital of the Company</b>
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.

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 30 June 2006, none of the directors or chief executive, nor any of their associates (including their spouses and children under 18 years of age), had any interests in or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the period 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 its associated corporations.

### ***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 30 June 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***

<b>Name</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Percentage of the issued share capital of the Company</b>
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
Chen Yi-Chen	Interest of controlled corporations	192,192,895 (Note 2)	11.73
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
Chen Ying-Chieh	Interest of controlled corporations	147,738,920 (Note 3)	9.02
Chen Ying-Tien	Interest of controlled corporations	147,738,920 (Note 3)	9.02
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% 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 the 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.

## **Corporate governance**

The Company has complied with the Code of Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the period.

## **Securities transactions by directors**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all directors of the Company confirmed that they had complied with the required standards as set out in the Model Code during the six months ended 30 June 2006.

## **Audit committee**

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

## **Remuneration committee**

The Remuneration Committee comprises the three independent non-executive directors of the Company, is responsible for reviewing and evaluating the remuneration policies of executive directors and senior management and making recommendations to the Board from time to time.

## **Nomination committee**

The Nomination Committee comprises the three independent non-executive directors of the Company, is responsible for reviewing the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

On behalf of the Board

**Chen Ying-Chieh**

*Chairman*

Hong Kong, 13 September 2006