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


达芙妮DAPHNE


SHOEBOX


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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.
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The International Commercial Bank of China
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

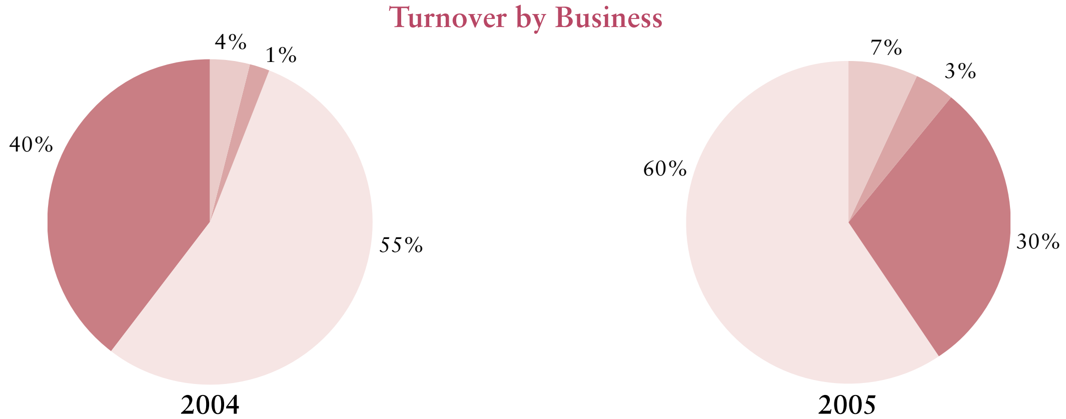
KEY FINANCIAL DATES

Announcement of 2005 annual results:	20 April 2006
Book closed dates for 2005 final dividend:	16 May 2006 to 19 May 2006
2005 final dividend payment:	26 May 2006

Financial Highlights

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

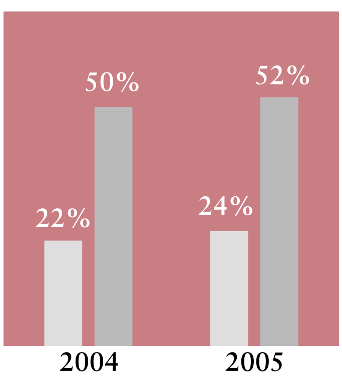
Turnover by Business



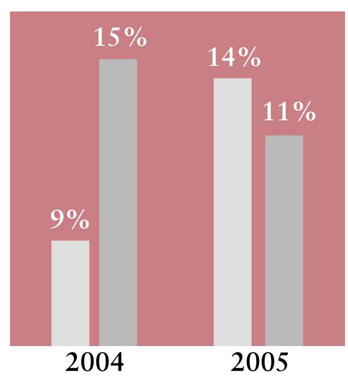
Note: OEM Business Daphne Shoebox Adidas-Original Collection

Gross Profit Margin and Operating Profit Margin Analyses by Business

Gross Profit Margin



Operating Profit Margin



Note: OEM Business Brand Business

Number of Daphne Points-of-Sale increased by 421

Turnover of Daphne increased by 60%

Young Girl Yesterday   Sexy Woman Today

Number of Adidas-Original Collection

Points-of-sale increased by 53

RESULTS

The global economy has been growing steadily in past years, China economy in particular has seen per capita income and the living standard of the Chinese improved significantly; thus the demand for quality consumer goods has also gone up tremendously. I am pleased to report to you that Prime Success International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") achieved outstanding performance in 2005 as a result of the prospering retail market along with the growing consumption sentiment. The Group's profit attributable to shareholders of the Company jumped by 44% to HK$254,593,000.

ORIGINAL EQUIPMENT MANUFACTURING ("OEM") BUSINESS EXPERIENCED STEADY DEVELOPMENT

As the Group's traditional core business, the OEM business continued to develop steadily and brought in satisfactory revenue and profit. During the year under review, the Group focused on optimising the profitability of this business segment by securing higher gross margin orders. The Group also tightened its cost control measures and at the same time continues to strengthen the relationships with the key customers. All these measures contributed to the outstanding performance of the OEM segment.

POSITIVE GROWTH IN BRAND BUSINESS

The improved standard of living for the Chinese has created a very strong demand for higher quality ladies footwear, which has provided a great opportunity for the Group to thrive. During the year under review, the Group's "Daphne" brand registered an excellent growth in both turnover and profit. The brand's outstanding performance has helped the Group to expand in its sales and distribution network throughout China. Given all the exciting activities that have happened the reputation of "Daphne" has reached a point where the management team has decided to take advantage of the momentum by dividing "Daphne" into two distinctive channels to the market by creating "Daphne 28" and "Daphne 18". "Daphne 28" is targeted for female consumers aged between 26 and 50, whereas "Daphne 18" is targeted for the younger generations. The overwhelming response from the market for the two brands has taken the Group to the next level by capturing a bigger share of the ladies footwear market in China.

The "Shoebox" business is still in the investment stage. The Group introduced the "Shoebox" brand in May 2004 with the intention to get into the mass market. During this period the Group focused on the expansion of the sales network to achieve the economies of scale. We expect the "Shoebox" will start to perform well this year. The "Adidas – Original Collection" segment has also been doing well and consistently provided positive contribution to the Group in the last three years.



STEADY DEVELOPMENT OF INFRASTRUCTURE

The Group constructed the new production and processing plants in Anhui, Fujian, and Jiangsu provinces within the last two years. During the year under review, these plants are in full operating mode providing the production and processing capacities to meet the increased orders for the OEM and domestic brand businesses. The logistics centres located in Shanghai and Fujian provinces also commenced operation, which have significantly improved the Group's supply chain services by providing much faster transportation from point to point. Two additional logistics centres located in Beijing and Shenyang are completed and expected to commence operations in the first half of 2006. These two new centres will also employ the state-of-the-art storage systems to maintain the inventory hence making the production planning even more efficient, as well as to track the status of inventory at almost on the real time basis. The Group's new multi-million-dollar ERP system is now in full operation mode providing a solid infrastructure foundation to support the Group's goal in building the nationwide sales and distribution network.

Number of points-of-sale for various brands

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

SEIZE FUTURE MARKET OPPORTUNITIES

Looking forward we expect our OEM business to continue its momentum with the US remains as the major export market. The Group will strive to secure high margin orders and new customers so as to increase the profitability of this business segment.

The Group will allocate more resources to promote customer awareness of the "Daphne" brand. We have appointed "S.H.E", a popular group of entertainers from Taiwan as the spokeswomen for "Daphne 18" and Ms Rene Liu (劉若英), also a famous actress from Taiwan as the spokeswoman for "Daphne 28". In addition, the Group has invested in a film associated with the "Daphne" brand and is expected to hit the cinema screen by the end of 2006. This film is intended to strengthen the consumers' recognition of the "Daphne" brand in China, Hong Kong, and Taiwan. The next step is to extend the brand further to the overseas markets, to convert "Daphne" into an international brand.

The Group will continue to expand the sales network of "Shoebox", particularly to the second and third tier cities in China. By the end of 2006 the Group expected to open at least 70 new stores bringing the total stores to more than 140 stores nationwide.

The Group intends to expand its "Adidas – Original Collection" points-of-sale from the current 91 to 300 points-of-sale by 2008, to take advantage of the up and coming 2008 Beijing Olympics, which the Group believes is biggest and most important event that will benefit the Group in the next two years.

The management will continue to pay close attention to new opportunities that can benefit the Group's continuous growth. We continue to have great confidence in the Group's prospects in China market and we hope to share fruitful returns with our shareholders in the years to come.

Chen Ying-Chieh
Chairman

Hong Kong, 20 April 2006

Number of Shoebox Points-of-Sale increased by 54

OX 鞋柜
SHOEBOX 鞋柜
我们卖的不只是鞋

Turnover by channel

HK$'000	For the year ended 31 December 2005 Daphne	Adidas-Original Collection	Shoebox	Total
Stores	1,131,503	30,497	75,207	1,237,207
Counters	241,742	147,537	–	389,279
Others	200,855	–	–	200,855

BUSINESS REVIEW

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

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

OEM Business

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

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

Brand Business

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

"Daphne" Business

As the China economy continues to grow, the market for high quality consumer goods also prospers. Since the "Daphne" brand was introduced in 1990, the brand has developed itself into a prestigious brand that is very well received by the female customers in China. During the year under review, our extensive sales and distribution network has substantially increased the total turnover for "Daphne". In order to promote the "Daphne" brand image further, the Group has looked at various channels. "Daphne" is one of the first brands to launch new products on the "Promotional Catwalk" by professional models in China. The Group continues to sponsor music video productions of pop artists to promote its products. After 15 years' of consistent brand building and marketing efforts, "Daphne" now enjoys a premium brand reputation. Last year, the Group re-launched the young collection with a new approach to the market by calling it "Daphne D18" which was an instance success, capturing the hearts of millions of young female customers in China. The Group sees a huge potential in the young female footwear market because consumers in this segment of the market have strong purchasing power and have strong appetite for stylish shoes. Since the debut of "Daphne D18", the Group has added 275 new "Daphne D18" points-of-sale. The Group has also

appointed "S.H.E", a popular girl group of entertainers from Taiwan, as the spokeswomen for "Daphne D18". The remaining collections of "Daphne" are now being carried in the "Daphne D28" points-of-sale which continue to target female customers aged between 26 and 50. The Group is confident that, by providing products tailored for female customers of different age groups can further expand the "Daphne" brands and raises the Group's market share of ladies footwear in China.

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

"Shoebox" Business

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

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

"Adidas – Original Collection" Business

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

Turnover and operating profits/(loss) by brand

HK$'000	For the year ended 31 December 2005			
	Daphne	Adidas-Original Collection	Shoebox	Total
Turnover	1,574,100	178,034	75,207	1,827,341
Operating Profit/(Loss)	204,858	7,364	(2,751)	209,471

Development of Infrastructure

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

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

FINANCIAL REVIEW

Result Performance

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

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

Financial Resources and Liquidity

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

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

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

Foreign Exchange Rate Exposure

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

Pledge of Assets

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

Significant Capital Investments

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

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

Material Acquisitions and Disposals

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

Contingent Liabilities

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

Human Resources

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

PROSPECTS

OEM Business

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

Brand Business

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

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

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

Capitalising on the 2008 Beijing Olympics Games, the Group intends to expand the "Adidas – Original Collection" points-of-sale from the current 91 to 300 points-of-sale by 2008. This will be the biggest opportunity in the coming two years; the Group has also decided to allocate more resources in the marketing activities to maximise on the return of this extravaganza event to further expand its market share.

Turnover per square foot by brand

	For the year ended 31 December 2005 *HK$*
Daphne	144.04
Adidas – Original Collection	195.11
Shoebox	36.38

Development of Infrastructure

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

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

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

DAPHNE SALES AND DISTRIBUTION NETWORK IN CHINA

Central China				
Chengdu Regional Office	59	Stores	10	Counters
Changsha Regional Office	57	Stores	11	Counters
Xinjiang Regional Office	33	Stores	5	Counters
Xian Regional Office	31	Stores	12	Counters

Northern China				
Beijing Regional Office	34	Stores	27	Counters
Zhengzhou Regional Office	81	Stores	23	Counters
Jinan Regional Office	72	Stores	35	Counters
Tianjin Regional Office	32	Stores	26	Counters

Eastern China				
Nanjing Regional Office	66	Stores	37	Counters
Shanghai Regional Office	105	Stores	21	Counters
Hangzhou Regional Office	66	Stores	19	Counters

Southern China				
Fuzhou Regional Office	46	Stores	7	Counters
Guangzhou Regional Office	103	Stores	50	Counters
Nanning Regional Office	39	Stores	15	Counters
Nanchang Regional Office	34	Stores	5	Counters

North Eastern China				
Harbin Regional Office	69	Stores	15	Counters
Changchun Regional Office	35	Stores	11	Counters
Shenyang Regional Office	108	Stores	44	Counters

SHOEBOX SALES AND DISTRIBUTION NETWORK IN CHINA

Central China	Northern China	Eastern China
6 Stores	12 Stores	29 Stores

Southern China	North Eastern China
14 Stores	14 Stores

ADIDAS – ORIGINAL COLLECTION SALES AND DISTRIBUTION NETWORK IN CHINA

Central China
2 Stores 15 Counters

Northern China
17 Counters

Eastern China
6 Stores 26 Counters

Southern China
1 Stores 9 Counters

North Eastern China
1 Stores 14 Counters

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Chen Ying-Chieh, aged 37, 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 55, 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 Chang Chih-Kai.

Mr Chang Chih-Kai, aged 25, 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 66, is a partner of an accounting firm in Taiwan. He is a member of Taiwan Provincial CPA Association and has over 41 years of experience in auditing and accounting.

Mr Huang Shun-Tsai, aged 53, is a director of six technology companies in Taiwan. He has been active in the technology field for over 14 years.

Mr Kuo Jung-Cheng, aged 56, is a former senator of the Legislative House in Taiwan. He has been serving the community in Taiwan as senator or representative for over 12 years. Mr Kuo holds an MBA degree from the University of Hawaii.

SENIOR MANAGEMENT

Mr Xin Jia Hua, aged 52, 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 31 years of experience in the manufacturing and distribution business.

Ms Chao Huei Chuan, aged 39, is a senior manager of general office for the 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 16 years of experience in finance, accounting and management.

Mr Chou Chang Hsuing, aged 59, is the manager of central administration department in China. Mr Chou is in charge of the planning and supervision of resources allocations among the factories and the implementation of cost control program. Mr Chou has over 31 years of experience in the administration and management in the footwear industry. He has been working with the Group since 1994.

Mr Chang Chun Wang, aged 54, is the vice general manager of the Group. Mr Chang is responsible for the Group's production activities. Mr Chang has over 24 years of experience in the footwear industry. He has been working with the Group since 1994.

Mr Liao His-Chuan, aged 50, 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 22 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 53, 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 24 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 39, is the sales manager of ladies' footwear. She is responsible for sales and marketing of certain overseas customers. Ms Chi has over 22 years of experience in the footwear industry. She has been working with the Group since 1994.

Ms Chen Li Hui, aged 41, is the sales manager of sports footwear. She is responsible for sales and marketing of sports products. Ms Chen has over 21 years of experience in the footwear industry. She has been working with the Group since 1994.

Ms Chen Pi Er, aged 43, 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 18 years of experience in manufacturing business.

Ms Chan Oi Chu, aged 29, is the financial controller and company secretary of the Group. Ms Chan has over 7 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.

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 2005.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in Note 15 to the accounts.

Details of analysis of the Group's turnover and contribution to operating profit for the year by business and geographical segments is set out in Note 5 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 43.

The board of directors has declared an interim dividend of HK2.5 cents per ordinary share, totalling HK$40,947,000, which was paid on 21 October 2005.

The board of directors recommends the payment of a final dividend of HK2.5 cents per ordinary share, totalling HK$40,947,000 in respect of the year ended 31 December 2005.

RESERVES

The distributable reserves of the Company, calculated in accordance with the Companies Laws of the Cayman Islands, comprising share premium, contributed surplus and retained profits of the Company as at 31 December 2005 amounted to HK$226,824,000 (before the declaration of 2005 final dividend).

Movements in the reserves of the Group and of the Company during the year are set out in Note 25 to the accounts.

FIXED ASSETS

Movements in fixed assets of the Group are set out in Note 14 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 24 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 92.

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 Chen Ying-Chieh and Mr Chen Hsien Min 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 commencing from 1 January 2005. 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 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 25 to 26.

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 2005, 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 Companies (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
Chen Ying-Chieh	Personal/Corporate	157,738,920 *(Note)*	9.63
Chen Hsien Min	Personal	14,500,000	0.89

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

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

Save as disclosed above, as at 31 December 2005, 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.

Save as disclosed under the section headed "Share options", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief 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 23 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**

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 2005, the number of shares available for issue in respect thereof is 10,339,238 shares.

iv) **Limit for each participant**

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

v) **Option period**

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

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

vi) **Acceptance and payment on acceptance**

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

vii) **Subscription price**

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

SHARE OPTIONS *(Continued)*

viii) Remaining life of the Scheme

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

Details of the share options outstanding as at 31 December 2005 which were granted under the Scheme are as follows:

	Number of options						
	At 1 January 2005	Granted during the year	Exercised during the year *(Note)*	At 31 December 2005	Exercise price *HK$*	Grant date	Exercisable period
Employees	70,000,000	–	70,000,000	–	0.311	5 January 2004	5 January 2004 to 4 January 2006

Note: The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$1.718.

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 2005, 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 sections headed "Directors' and chief executives' interests in shares and underlying shares of the Company" and "Share options".

Long positions in the shares of the Company

Name	Capacity	Number of shares held	Percentage
Lucky Earn International Limited	Beneficial owner	449,669,995 *(Note 1)*	27.45
Top Glory Assets Limited	Beneficial owner	217,692,895 *(Note 2)*	13.29
Chen Yi-Chen	Interest of controlled corporation	217,692,895 *(Note 2)*	13.29
Chen Yi-Hsun	Interest of controlled corporation	217,692,895 *(Note 2)*	13.29
Pushkin Holding Limited	Beneficial owner	149,838,920 *(Note 3)*	9.15
Chen Ying-Tien	Interest of controlled corporation	149,838,920 *(Note 3)*	9.15
Chen Ying Che	Interest of controlled corporation	149,838,920 *(Note 3)*	9.15

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long positions in the shares of the Company *(Continued)*

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 217,692,895 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 in Pushkin Holding Limited. By virtue of the SFO, they are deemed to be interested in the 149,838,920 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 attributable to the largest customer and the five largest customers of the Group accounted for approximately 7% and 22%, respectively, of the Group's total turnover for the year.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 23% and 41%, 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 owned more than 5% of the Company's share capital, had any beneficial interest in the Group's five largest customers or suppliers.

SUFFICIENCY OF PUBLIC FLOAT

On the basis of information that is publicly available to the Company 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.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with all code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005 except for deviations from Code Provisions A.4.1 and A.4.2 which are explained under the section headed "Appointments, re-election and removal of directors" of the Corporate Governance Report on page 35.

The Company has adopted codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. Details are included in the section headed "Directors' securities transactions" of the Corporate Governance Report on page 34.

The consolidated accounts of the Company and it subsidiaries for the year ended 31 December 2005 have been reviewed by the Company's Audit Committee.

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, 20 April 2006

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 adopted and complied with code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules which came into effect on 1 January 2005 except for the deviations from Code Provisions A.4.1 and A.4.2 which are explained under the section headed "Appointments, re-election and removal of directors" on page 35.

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 25 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 39.

THE BOARD OF DIRECTORS *(Continued)*

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

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

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

Under the year of review, all independent non-executive directors of the Company do not have a specific term of appointment. At every general meeting, one-third of the directors for the time being, or if the number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office.

In addition, the director holding the office of Chairman and Managing Director shall not be subject to retirement by rotation. A director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

In order to ensure full compliance with Code Provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the Annual General Meeting to be held on 19 May 2006, so that 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, two Nomination Committee meetings were held and the attendance of each member is set out on page 39.

At the meetings held during the year, the relevant provisions relating to appointment, re-election and removal of directors under the Code were reviewed and adopted except for the deviations from Code Provisions A.4.1 and A.4.2 as mentioned under the section headed “Appointments, re-election and removal of directors” on page 35.

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.

- 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, two Remuneration Committee meetings were held and the attendance of each member is set out on page 39.

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 12 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 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 2004 annual accounts and 2005 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 39.

ATTENDANCE OF BOARD AND BOARD COMMITTEES' MEETINGS

The attendance rates of individual members in Board and Board Committees' meetings held in 2005 are detailed as follows:

	Number of meetings attended/held in 2005			
	Board	Nomination Committee	Remuneration Committee	Audit Committee
Executive directors				
Chen Ying-Chieh (Chairman)	6/6	2/2		
Chen Hsien Min (Managing Director)	6/6		2/2	
Chang Chih-Kai	5/6			
Independent non-executive directors				
Hsiao Hsi-Ming (Chairman of Audit Committee)	5/6	2/2	2/2	2/2
Huang Shun-Tsai (Chairman of Nomination Committee)	5/6	2/2	2/2	2/2
Kuo Jung-Cheng (Chairman of Remuneration Committee)	5/6	2/2	2/2	2/2
Average attendance rate	89%	100%	100%	100%

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, for the provision of audit and non-audit services amounted to HK$1,680,000 and HK$330,000 respectively.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The board recognises 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.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS *(Continued)*

- Making available information on the Company's website, including description of the Company, Board and corporate governance, results of the Company, financial highlights, promotional materials, press releases of the Company and 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 2006. The Company is responsible for ensuring the votes are properly counted and recorded.

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

We have audited the accounts on pages 43 to 91 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 April 2006

Consolidated Profit and Loss Account

For the year ended 31 December 2005

	Note	2005 *HK$'000*	2004 *HK$'000* *(Restated)*
Turnover	5	2,622,677	1,788,539
Cost of sales		(1,478,734)	(1,104,010)
Gross profit		1,143,943	684,529
Other revenues	5	6,260	8,207
Selling and distribution expenses		(689,485)	(325,518)
General and administrative expenses		(137,314)	(130,323)
Operating profit	6	323,404	236,895
Finance costs	7	(4,441)	(3,085)
Share of profit of an associated company		253	187
Profit before taxation		319,216	233,997
Taxation	8	(63,160)	(53,000)
Profit for the year		256,056	180,997
Attributable to:			
Shareholders of the Company	9	254,593	176,220
Minority interests		1,463	4,777
		256,056	180,997
Dividends	10	81,894	56,126
Earnings per share	11		
– basic		HK15.72 cents	HK11.33 cents
– diluted		N/A	HK11.07 cents

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Land use rights	13	19,197	14,891
Fixed assets	14	302,589	201,071
Interest in an associated company	17	2,346	2,205
Investment securities	18	–	33,437
Available-for-sale financial assets	18	33,437	–
Other non-current assets		21,786	17,335
Deferred tax assets	26	17,942	18,328
		397,297	287,267
Current assets			
Inventories	19	632,387	469,111
Trade receivables	20	122,464	67,148
Other receivables, deposits and prepayments		129,722	123,354
Derivative financial instruments	21	268	–
Pledged bank deposits	23(b)	6,000	3,446
Bank balances and cash		146,486	126,893
		1,037,327	789,952
Current liabilities			
Trade payables	22	288,702	260,537
Other payables and accrued charges		145,851	96,070
Taxation payable		42,910	39,179
Bank loans and overdrafts	23	133,062	98,527
		610,525	494,313
Net current assets		426,802	295,639
Total assets less current liabilities		824,099	582,906
Financed by:			
Share capital	24	163,789	156,789
Reserves	25	580,418	376,931
Shareholders' equity		744,207	533,720
Minority interests		79,409	48,839
Total equity		823,616	582,559
Non-current liabilities			
Deferred tax liabilities	26	483	347
Total equity and non-current liabilities		824,099	582,906

CHEN YING-CHIEH
Chairman

CHEN HSIEN MIN
Managing director

Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Investments in subsidiaries	15	165,635	165,635
Current assets			
Other receivables		232	206
Amounts due from subsidiaries	16	228,727	193,130
Bank balances		228	287
		229,187	193,623
Current liabilities			
Accrued charges		1,327	1,206
Amount due to a subsidiary		–	9,807
		1,327	11,013
Net current assets		227,860	182,610
Total assets less current liabilities		393,495	348,245
Financed by:			
Share capital	24	163,789	156,789
Reserves	25	229,706	191,456
Total equity		393,495	348,245

CHEN YING-CHIEH
Chairman

CHEN HSIEN MIN
Managing director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

		Attributable to shareholders			
	Note	Share capital *HK$'000*	Reserves *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2004, as previously reported as equity		152,889	250,021	–	402,910
At 1 January 2004, as previously reported separately as minority interests		–	–	35,566	35,566
Effect of adopting HKAS 17		–	(794)	–	(794)
At 1 January 2004, as restated		152,889	249,227	35,566	437,682
Deficit on revaluation of an unlisted investment	*25*	–	(4,000)	–	(4,000)
Currency translation differences	*25*	–	(2,789)	(76)	(2,865)
Net losses recognised directly in equity		–	(6,789)	(76)	(6,865)
Profit for the year	*25*	–	176,220	4,777	180,997
Total income recognised for the year		–	169,431	4,701	174,132
Dividends	*25*	–	(46,737)	(3,424)	(50,161)
Issue of shares under share option scheme	*24,25*	3,900	5,010	–	8,910
Net capital injection by minority shareholders		–	–	11,996	11,996
		3,900	(41,727)	8,572	(29,255)
At 31 December 2004		**156,789**	**376,931**	**48,839**	**582,559**
Currency translation differences	*25*	**–**	**7,829**	**384**	**8,213**
Net gains recognised directly in equity		**–**	**7,829**	**384**	**8,213**
Profit for the year	*25*	**–**	**254,593**	**1,463**	**256,056**
Total income recognised for the year		**–**	**262,422**	**1,847**	**264,269**
Dividends	*25*	**–**	**(73,705)**	**(3,204)**	**(76,909)**
Issue of shares under share option scheme	*24,25*	**7,000**	**14,770**	**–**	**21,770**
Net 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**

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Operating activities			
Net cash generated from operations	27	224,748	149,253
Taxation paid outside Hong Kong		(58,907)	(25,920)
Net cash generated from operating activities		165,841	123,333
Investing activities			
Interest received		1,885	1,323
Dividend received from an associated company		158	136
Payment for land use rights		(4,876)	(5,591)
Purchase of fixed assets		(152,069)	(96,852)
Proceeds from disposal of fixed assets		577	537
Net cash used in investing activities		(154,325)	(100,447)
Net cash generated before financing activities		11,516	22,886
Financing activities			
Interest paid		(4,441)	(3,085)
Dividends paid		(73,705)	(46,737)
Dividends paid to minority shareholders		(3,204)	(3,424)
Contribution by minority shareholders		32,012	11,996
Acquisition of additional interests of subsidiaries from minority shareholders		(85)	–
Repayment of bank loans		(121,122)	(81,768)
New bank loans raised		155,638	70,035
Issue of shares		21,770	8,910
(Increase)/decrease in pledged bank deposits		(2,554)	3,796
Net cash generated from/(used in) financing activities		4,309	(40,277)
Increase/(decrease) in cash and cash equivalents		15,825	(17,391)
Cash and cash equivalents as at 1 January		126,893	146,627
Effect of foreign exchange rate changes		3,749	(2,343)
Cash and cash equivalents as at 31 December		146,467	126,893
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		146,486	126,893
Bank overdrafts		(19)	–
		146,467	126,893

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 limited liability company incorporated in the Cayman Islands. 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. The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated accounts have been approved for issue by the Board of Directors on 20 April 2006.

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 and financial assets and liabilities (including derivative instruments) at fair value through profit and loss, which are carried at fair value.

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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs and HKASs

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

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

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

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

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

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

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The HKICPA has issued the following amendments, new standards and interpretations which are not yet effective in these accounts:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosure	1 January 2007
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans And Disclosures	1 January 2006
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates, Net Investment in a Foreign Operation	1 January 2006
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 January 2006
HKAS 39 (Amendment)	The Fair Value Option	1 January 2006
HKAS 39 and HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts	1 January 2006
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards	1 January 2006
HKFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2006
HKFRS 7	Financial Instruments: Disclosures	1 January 2006
HKFRS – Int 4	Determining whether an Arrangement contains a Lease	1 January 2006
HKFRS – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
HKFRS – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electrical Equipment	1 December 2005
HKFRS – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006

The Group has not early adopted the above amendments, standards and interpretations in the accounts for the year ended 31 December 2005. 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 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

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 recognised directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised 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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the Company's shareholders therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of the respective entities' changes in equity since the date of the combination. The interests of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(ii) 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 by the equity method of accounting and are initially recognised at cost.

The Group's share of its associated company's post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised 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 recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(ii) Associated company (Continued)

Unrealised gains on transactions between the Group and its associated company is eliminated to the extent of the Group's interest in the associated company. Unrealised 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.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each Group's entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts adopted Hong Kong dollars as the Group's presentation currency.

(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 recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities classified as available-for-sale financial assets, 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 recognised as a separate component of equity.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation *(Continued)*

(iii) Group companies (Continued)

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 sold, such exchange differences that were recorded in equity are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

(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 leases periods.

(e) Land use rights

Land use rights are stated at cost less accumulated amortisation 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 50 years from the date the respective right was granted. Amortisation of land use rights is calculated on a straight-line basis over the period of the rights.

(f) 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 recognised 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. 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Fixed assets *(Continued)*

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(g)).

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(h) Financial assets

Prior to 1 January 2005:

The Group classified its investments in securities, other than subsidiaries and an associated company, as investment securities and trading investments.

(i) Investment securities

Investment securities which were held for non-trading purposes were stated at fair value at the balance sheet date. Changes in the fair value of individual investment were credited or debited to the investment revaluation reserve until the investment was sold, or was determined to be impaired by the directors. Where there is evidence that individual investment is impaired the cumulated loss incurred recorded in the revaluation reserve is taken to the profit and loss account. Any subsequent increase in fair value is credited to the profit and loss account up to the amount previously debited.

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

Where there was objective evidence that individual investment was impaired the cumulated loss recorded in the revaluation reserve was taken to the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Financial assets *(Continued)*

(ii) Trading investments

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

From 1 January 2005 onwards:

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 and re-evaluates the designation at every balance sheet date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(k)).

(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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Financial assets *(Continued)*

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised 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 amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non-monetary financial assets classified as available-for-sale are recognised in equity. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains or losses from financial assets. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit and loss account. Dividends on available-for-sale financial assets are recognised in the profit and loss account when the Group's right to receive payment 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 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 recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Derivative financial instruments and hedging activities

Prior to 1 January 2005, derivative financial instruments of the Group were not recorded in the accounts. Following the adoption of HKAS 32 and HKAS 39, all derivative financial instruments are stated at fair value. The gain or loss on changes in fair value is recognised generally in the profit and loss account unless the derivative financial instrument qualifies for hedge accounting. Where a derivative financial instrument qualifies for hedge accounting and is designated as a cash flow hedge, the effective part and the ineffective part of any unrealised gain or loss on the instrument is recognised 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 recorded in hedging reserve will be recognised in the profit and loss account in the same period or periods during which the gain or loss arising from the hedged transaction is recognised in the profit and loss account.

(j) Inventories

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

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised 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 of financial reorganisation, 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 effective interest rate. The amount of the provision is recognised in the profit and loss account.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, 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.

(m) Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) 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 realised or the deferred tax liability is settled.

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

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

(o) Employee benefits

(i) Bonus plans

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

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

(ii) Pension obligations

The Group participates in a number of defined contribution retirement schemes in Hong Kong 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 construction 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 recognised 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 recognised as an asset to the extend that a cash refund or a reduction in the future payments is available.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) 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 recognised 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 become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises 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.

(p) Contingent liabilities

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

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 recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision. Provisions are not recognised for future operating losses.

(q) Revenue recognition

Revenue from the sale of goods, net of value-added tax and discounts and after eliminating sales within the Group, is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

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

Subcontracting income is recognised when the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Segment reporting

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products 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 land use rights, fixed assets, inventories, receivables and operating cash, and mainly exclude interest in an associated company, available-for-sales 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 (Note 13) and fixed assets (Note 14).

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.

(s) Dividend distribution

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

(t) Comparatives

Due to the adoption of the new/revised HKFRSs and HKASs during the current year, the accounting treatment and presentation of certain items in the accounts have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current year's presentation.

3 FINANCIAL RISK MANAGEMENT

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

(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 Renminbi, US dollars and New Taiwanese dollars. Foreign exchange risk arises from future commercial transactions, 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 recognised 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

Most of 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$426,802,000 and unutilised banking facilities of HK$114,343,000 as at 31 December 2005, the directors believe that sufficient funds are maintained or additional funds can be raised to meet future business operation and development.

(d) Cash flow and fair value interest rate risks

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 financing liabilities are primarily short term bank borrowings with primarily floating interest rates. The directors are of the opinion that future interest rates are at the point of an upward trend but believed that the adverse effect on the Group's future financial results will not be significant.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the consolidated accounts 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) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment 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 recognises 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.

(b) 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.

(c) Estimated write-downs of inventories to net realisable value

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

(d) 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, REVENUES AND SEGMENT INFORMATION

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

	2005 *HK$'000*	2004 *HK$'000*
Turnover		
Sales of goods, net of discounts	**2,622,677**	1,788,539
Other revenues		
Income derived from an unlisted investment *(Note 18(a)(i))*	**–**	3,000
Income derived from an unlisted available-for-sale financial asset *(Note 18(a)(i))*	**3,000**	–
Export incentives from government	**–**	2,746
Interest income	**1,885**	1,323
Gross rental income	**286**	288
Dividend income	**88**	62
Others	**1,001**	788
	6,260	8,207
Total revenues	**2,628,937**	1,796,746

Primary reporting format – business segments

The Group is organised into two main business segments:

Brand business – Manufacturing and distribution of footwear products and accessories under "Daphne", "Shoebox" and "Adidas-Original Collection" 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.

5 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

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

5 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

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.

	2005	2004
	HK$'000	*HK$'000*
China	1,827,341	1,066,815
The US	770,238	698,891
Others	25,098	22,833
	2,622,677	1,788,539

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

6 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005	2004
	HK$'000	*HK$'000*
Crediting		
Fair value adjustment on derivative financial instruments	268	–
Gain on disposal of trading investments	–	455
Net exchange gain	7,872	–
Unrealised gain on foreign exchange forward contracts	–	5,823
Charging		
Amortisation of land use rights	1,039	604
Auditors' remuneration	2,182	1,461
Cost of inventories sold	1,214,091	870,438
Depreciation of fixed assets	48,903	22,679
Employee benefits expense *(Note 12)*	374,140	295,832
Loss on disposal of fixed assets	5,020	4,532
Net exchange loss	–	3,342
Operating lease rentals in respect of land and buildings	255,250	181,431
Provision for bad and doubtful debts	46	1,380
Provision for slow-moving inventories	2,925	5,288

7 FINANCE COSTS

	2005 *HK$'000*	2004 *HK$'000*
Interest on bank loans and overdrafts	**4,441**	3,085

8 TAXATION

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

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

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

	2005 *HK$'000*	2004 *HK$'000*
Current taxation		
– Taxation outside Hong Kong	**62,479**	58,323
– Under/(over) provision in prior years	**159**	(303)
Deferred taxation *(Note 26)*	**522**	(5,020)
	63,160	53,000

8 TAXATION *(Continued)*

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

	2005 *HK$'000*	2004 *HK$'000*
Profit before taxation	319,216	233,997
Less: Share of profit of an associated company	(253)	(187)
	318,963	233,810
Calculated at domestic tax rates of 12% to 33% applicable to profits in the respective countries/places	76,827	59,123
Income not subject to taxation	(71,108)	(50,042)
Expenses not deductible for taxation purposes	56,019	43,994
Tax losses not recognised	2,230	968
Utilisation of previously unrecognised tax losses	(701)	–
Under/(over) provision in prior years	159	(303)
Temporary differences not recognised	(266)	(740)
Taxation charge	63,160	53,000

The weighted average applicable tax rate was 24% (2004: 25%).

9 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$97,185,000 (2004: HK$47,902,000).

10 DIVIDENDS

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

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

11 EARNINGS PER SHARE

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

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

12 EMPLOYEE BENEFITS EXPENSE

Employee benefits expense including directors' emoluments represents:

	2005 *HK$'000*	2004 *HK$'000*
Wages, salaries and bonuses	361,779	288,972
Defined contribution pension costs *(Note (a))*	12,361	6,860
	374,140	295,832

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

As at both 31 December 2005 and 31 December 2004, no forfeited contributions were available to reduce the contribution payable in the future.

Contributions payable to the funds as at 31 December 2005 of approximately HK$1,135,000 (2004: HK$458,000) are included in other payables and accrued charges.

12 EMPLOYEE BENEFITS EXPENSE *(Continued)*

(b) Share option benefits to employees

Benefits in kind arising from exercise of share options by employees of the Group are not included in the employee benefits expense.

(c) Directors' emoluments

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

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

The remuneration of each director of the Company for the year ended 31 December 2004 is set out below:

	Fees	Salaries and bonuses	Defined contribution pension costs	Benefits in kind	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director					
Chang Wen I (resigned on 22 November 2004)	–	5,510	–	5,655	11,165
Chen Ying-Chieh	–	1,189	4	5,655	6,848
Chen Hsien Min	–	1,494	–	–	1,494
Chang Chih-Kai (appointed on 22 November 2004)	-	44	–	–	44
Hsiao Hsi-Ming (appointed on 10 September 2004)	60	–	–	–	60
Huang Shun-Tsai	60	–	–	–	60
Kuo Jung-Cheng	19	–	–	–	19
	139	8,237	4	11,310	19,690

Benefits in kind in 2004 represented share option benefits derived from the difference between the aggregate amount of the market prices at the date of exercise of shares acquired and consideration paid by the directors under the Share Option Scheme of the Company.

12 EMPLOYEE BENEFITS EXPENSE *(Continued)*

(d) Five highest paid individuals

None of the directors (2004: two) directors whose emoluments are reflected in the analysis presented in Note (c) above were the five highest paid individuals in the Group for the year. The emoluments paid and payable to the five highest paid (2004: remaining three) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries and bonuses	**9,877**	6,430
Performance related incentive payments	**1,217**	1,072
	11,094	7,502

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**4**	2
HK$3,000,001 to HK$3,500,000	**–**	1

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.

13 LAND USE RIGHTS

	Group 2005 HK$'000	2004 HK$'000
Cost		
At 1 January, as previously classified as fixed assets	27,213	21,714
Effect of adopting HKAS 17	(1,184)	(1,184)
At 1 January, as restated	26,029	20,530
Exchange adjustment	571	(92)
Additions	4,876	5,591
At 31 December	31,476	26,029
Accumulated amortisation		
At 1 January, as previously classified as accumulated depreciation of fixed assets	11,138	10,531
Exchange adjustment	102	3
Amortisation for the year	1,039	604
At 31 December	12,279	11,138
Net book value		
At 31 December	19,197	14,891
At 1 January	14,891	9,999

Notes:

(a) As at both 31 December 2005 and 31 December 2004, all land use rights were held outside Hong Kong on leases of between 10 to 50 years.

(b) As at 31 December 2005, land use rights of carrying value of HK$264,000 (2004: nil) were pledged as security for the Group's short-term bank loans (Note 23).

(c) During the year ended 31 December 2005, no land use right was leased out while during the year ended 31 December 2004, land use rights of carrying value of HK$350,000 were leased out under operating leases.

14. FIXED ASSETS

	Group						
	Leasehold buildings *HK$'000*	Leasehold improvements *HK$'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, as previously reported	154,312	45,499	14,520	103,783	40,559	20,921	379,594
Effect of adopting HKAS 17	(27,213)	–	–	–	–	–	(27,213)
At 1 January 2005, as restated	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**
Accumulated depreciation							
At 1 January 2005, as previously reported	38,939	7,886	–	86,056	17,978	11,589	162,448
Effect of adopting HKAS 17	(11,138)	–	–	–	–	–	(11,138)
At 1 January 2005, as restated	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**
Net book value							
At 31 December 2005	**110,740**	**62,512**	**52,279**	**23,169**	**41,605**	**12,284**	**302,589**
At 1 January 2005	99,298	37,613	14,520	17,727	22,581	9,332	201,071

14. FIXED ASSETS *(Continued)*

	Group						
	Leasehold buildings *HK$'000*	Leasehold improvements *HK$'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 2004, as previously reported	128,595	21,127	8,122	97,122	28,137	15,941	299,044
Effect of adopting HKAS 17	(21,714)	–	–	–	–	–	(21,714)
At 1 January 2004, as restated	106,881	21,127	8,122	97,122	28,137	15,941	277,330
Exchange adjustment	(453)	(90)	(34)	(447)	103	(32)	(953)
Additions	328	39,808	28,115	8,494	14,144	5,963	96,852
Transfer	21,439	–	(21,683)	244	–	–	–
Disposals	(1,096)	(15,346)	–	(1,630)	(1,825)	(951)	(20,848)
At 31 December 2004	127,099	45,499	14,520	103,783	40,559	20,921	352,381
Accumulated depreciation							
At 1 January 2004, as previously reported	35,636	8,419	–	83,516	17,511	10,394	155,476
Effect of adopting HKAS 17	(10,531)	–	–	–	–	–	(10,531)
At 1 January 2004, as restated	25,105	8,419	–	83,516	17,511	10,394	144,945
Exchange adjustment	(125)	(37)	–	(395)	42	(20)	(535)
Charge for the year	3,917	9,879	–	4,565	2,152	2,166	22,679
Disposals	(1,096)	(10,375)	–	(1,630)	(1,727)	(951)	(15,779)
At 31 December 2004	27,801	7,886	–	86,056	17,978	11,589	151,310
Net book value							
At 31 December 2004	99,298	37,613	14,520	17,727	22,581	9,332	201,071
At 1 January 2004	81,776	12,708	8,122	13,606	10,626	5,547	132,385

14. FIXED ASSETS *(Continued)*

Notes:

(a) As at 31 December 2005, leasehold buildings of carrying value of HK$13,349,000 (2004: nil) were pledged as for the Group's short-term bank loans *(Note 23)*.

(b) During the year ended 31 December 2005, motor vehicles of carrying value of HK$242,000 were leased out under operating leases. During the year ended 31 December 2004, leasehold buildings of carrying value of HK$1,556,000 were leased out under operating leases.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	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 2005:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held %	Principal activities and place of operation
Dafu Footwear Co., Ltd. Hanjiang Putian City	China; equity joint venture	US$3,180,000	90	Manufacture of footwear products in China
Dasheng Footwear Co., Ltd. Putian City	China; wholly-owned foreign enterprise	US$4,285,700	100	Manufacture of shoe components in China
Daxin Footwear Co., Ltd. Putian City	China; wholly-owned foreign enterprise	US$1,262,000	100	Manufacture of footwear products in China
Daxing Shoe Material Co., Ltd. Hanjiang Putian City	China; wholly-owned foreign enterprise	US$1,499,925	100	Manufacture of footwear products in China
Ever Alliance Holdings Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK$1 each	51	Retail sales right holder of footwear and apparel products in China

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held %	Principal activities and place of operation
Gentlefit Trading Limited	Hong Kong; limited liability company	100 ordinary shares of HK$1 each; 13,055,667 non-voting deferred shares of HK$1 each *(Note (b))*	100	Export trading of footwear products, investment and trademarks holding in Hong Kong
Jacaranda International Limited	British Virgin Islands; limited liability company	2 ordinary shares of US$1 each	100	Export trading of footwear products in Hong Kong
Ji Wei Shoe Industrial Co., Ltd.	China; wholly-owned foreign enterprise	US$4,000,000	100	Manufacture of footwear products in China
Modern City Development Limited	Hong Kong; limited liability company	100 ordinary shares of HK$1 each; 10,000 non-voting deferred shares of HK$1 each *(Note (b))*	100	Investment holding in Hong Kong
Prime Success (BVI) Limited	British Virgin Islands; limited liability company	5,000,000 ordinary shares of US$0.01 each	100	Investment holding in Hong Kong
Putian Hanjiang Footwear Co., Ltd.	China; equity joint venture	US$6,000,000	75	Manufacture of footwear products in China
Shanghai Guang Wei Industry & Commerce Co., Ltd.	China; equity joint venture	US$4,600,000	87.8	Manufacture of footwear products in China
Shoebox Holdings Limited	Hong Kong; limited liability company	HK$10,000 ordinary shares of HK$1 each	59	Retail sales right holder of footwear and apparel products in China
Victoria Success Investment Co., Ltd.	China; wholly-owned foreign enterprise	US$30,000,000	100	Distribution of footwear and related products and investment holding in China

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ paid-up capital	Interest held %	Principal activities and place of operation
Victoria Success (Shanghai) Limited	China; wholly-owned foreign enterprise	US$5,000,000	100	Manufacture of footwear products in China
Victoria Success Shoes (Suqian) Co. Ltd.	China; wholly-owned foreign enterprise	RMB3,000,000	100	Manufacture of footwear products in China
Winson Union Limited	Hong Kong; limited liability company	10,000 ordinary shares of HK$1 each	100	Investment holding in Hong Kong

Notes:

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

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

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

16. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

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

17. INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**2,346**	2,205
Unlisted investment, at cost	**2,340**	2,340

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

Details of the associated company as at 31 December 2005 are as follows:

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

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

	2005 *HK$'000*	2004 *HK$'000*
Assets	8,028	8,749
Liabilities	311	1,405
Revenues	9,839	7,847
Profit	844	624

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2005 *HK$'000*	2004 *HK$'000*
Unlisted investments *(Note (a))*	33,437	33,437
Listed securities *(Note (b))*	–	–
	33,437	33,437

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Notes:

(a) Unlisted investments comprise investment in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing") of HK$33,000,000 (2004: HK$33,000,000) and investment in Daen Shoe Material Co. Ltd. ("Daen") of HK$437,000 (2004: 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 2003, the Group entered into an agreement with an affiliate (the "Guarantor") of one of the joint venture partners in Jingxing whereby in return for a minimum annual payment of HK$3,000,000 by the Guarantor for each of the three years ended 31 December 2005, the Group agreed to surrender its right to the share of any profit in Jingxing for the same period. By virtue of this agreement, the amount receivable by the Group from the Guarantor for the year ended 31 December 2005 was HK$3,000,000 (2004: HK$3,000,000) which has been recognised 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 2005, 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 authorised to be traded on Over-The-Counter market on the same date. The directors considered that the fair value of the investment in Sun Home was negligible and the carrying amount of the securities was written down to zero during the year ended 31 December 2001 and the loss recorded in the investment revaluation reserve of approximately HK$10,581,000 was taken to the profit and loss account in that year as an impairment loss. Since there were only infrequent and low volume of trading transactions of the shares of Sun Home in 2005, the directors consider that there has no material change in the fair value of the investment in Sun Home as at 31 December 2005.

The investment in Sun Home has been pledged to a bank to secure the Group's short-term bank loans *(note 23)*.

(c) Pursuant to the transitional provision of HKAS 39, the Group has redesignated the investment securities as "available-for-sale financial assets" with effect from 1 January 2005.

19. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**82,488**	50,981
Work-in-progress	**44,760**	22,616
Finished goods	**505,139**	395,514
	632,387	469,111

20. TRADE RECEIVABLES

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

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

(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.

21. DERIVATIVE FINANCIAL INSTRUMENTS

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

As at 31 December 2005, no bank deposit was pledged against committed forward contracts while bank deposits of HK$3,446,000 were pledged against committed forward contracts as at 31 December 2004.

22. TRADE PAYABLES

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

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

23. BANK LOANS AND OVERDRAFTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Bank loans and overdrafts		
– Secured *(Note (b))*	**71,753**	46,827
– Unsecured	**61,309**	51,700
	133,062	98,527

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
New Taiwanese dollar	**42,126**	46,827
US dollar	**25,628**	36,817
Hong Kong dollar	**30,770**	13,003
Renminbi	**34,538**	1,880
	133,062	98,527

Notes:

(a) As at both 31 December 2005 and 2004, the Group's bank loans were repayable within one year.

(b) As at 31 December 2005, the Group's secured short-term bank loans were secured by certain land use rights *(Note 13(b))* and leasehold buildings *(Note 14(b))*, listed securities of Sun Home classified under available-for-sale financial assets with nil carrying value and a bank deposit of HK$6,000,000. As at 31 December 2004, the Group's secured short-term bank loans were secured by listed securities of Sun Home with nil carrying value.

(c) The weighted average effective interest rate of bank loans and overdrafts as at 31 December 2005 is 4.60% (2004: 2.84%) per annum.

24. SHARE CAPITAL

	2005 *HK$'000*	2004 *HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000

	2005		2004	
	Number of ordinary shares	**Share capital** ***HK$'000***	Number of ordinary shares	Share capital *HK$'000*
Issued and fully paid:				
At 1 January	**1,567,892,384**	**156,789**	1,528,892,384	152,889
Shares issued under share option scheme	**70,000,000**	**7,000**	39,000,000	3,900
At 31 December	**1,637,892,384**	**163,789**	1,567,892,384	156,789

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.

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

	Number of options **2005**	2004
At 1 January	**70,000,000**	29,000,000
Granted	**–**	80,000,000
Exercised *(Note)*	**(70,000,000)**	(39,000,000)
At 31 December	**–**	70,000,000

Note: Share options exercised during the year resulted in 70,000,000 (2004: 39,000,000) ordinary shares being issued at HK$0.311 each (2004: 29,000,000 share options at HK$0.20 each and 10,000,000 share options at HK$0.311 each). The weighted average closing price immediately before the exercise of options was HK$1.718 (2004: HK$0.680) per share.

No share options were cancelled during the year (2004: nil).

25. RESERVES

	Group										
	Share premium HK$'000	Capital redemption reserve HK$'000 (Note (a))	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	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, as previously reported	9,735	2,882	794	(4,000)	–	(12,415)	(36,782)	322	11,984	405,205	377,725
Effect of adopting HKAS 17	–	–	(794)	–	–	–	–	–	–	–	(794)
Effect of adopting HKAS 39	–	–	–	4,000	(4,000)	–	–	–	–	–	–
At 1 January 2005, as restated	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

25. RESERVES *(Continued)*

	Group									
	Share premium	Capital redemption reserve	Property revaluation reserve	Investment revaluation reserve	Translation reserve	Goodwill	Merger reserve	Other reserves	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note (a))				*(Note (b))*	*(Note (c))*	*(Note (d))*		
At 1 January 2004, as previously reported	4,725	2,882	794	–	(9,626)	(36,782)	322	10,649	277,057	250,021
Effect of adopting HKAS 17	–	–	(794)	–	–	–	–	–	–	(794)
At 1 January 2004, as restated	4,725	2,882	–	–	(9,626)	(36,782)	322	10,649	277,057	249,227
Shares issued under share option scheme	5,010	–	–	–	–	–	–	–	–	5,010
Currency translation differences	–	–	–	–	(2,798)	–	–	–	–	(2,798)
Deficit on revaluation of an unlisted investment	–	–	–	(4,000)	–	–	–	–	–	(4,000)
Transfer	–	–	–	–	–	–	–	1,331	(1,331)	–
Share of an associated company's reserve	–	–	–	–	9	–	–	4	(4)	9
Profit for the year	–	–	–	–	–	–	–	–	176,220	176,220
Dividends	–	–	–	–	–	–	–	–	(46,737)	(46,737)
At 31 December 2004	9,735	2,882	–	(4,000)	(12,415)	(36,782)	322	11,984	405,205	376,931

25. RESERVES *(Continued)*

	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 2004	4,725	2,882	152,891	24,783	185,281
Shares issued under share option scheme	5,010	–	–	–	5,010
Profit for the year	–	–	–	47,902	47,902
Dividends	–	–	–	(46,737)	(46,737)
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

(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 a deduction from equity. The goodwill will not be recognised 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 reorganisation in 1995.

(d) Other reserves

Other reserves comprising general reserve fund of HK$6,467,000 (2004: HK$6,438,000) and enterprise expansion fund of HK$7,767,000 (2004: HK$5,546,000) 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.

25. RESERVES *(Continued)*

(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 reorganisation 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.

26. DEFERRED TAXATION

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

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
At 1 January, as previously reported	**17,591**	12,571
Effect of adopting HKAS 17	**390**	390
At 1 January, as restated	**17,981**	12,961
(Charged)/credited to profit and loss account *(Note 8)*	**(522)**	5,020
At 31 December	**17,459**	17,981

Deferred income tax assets are recognised for tax losses available to be carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2005, the Group has unrecognised tax losses of HK$296,000 (2004: HK$724,000) which will expire in 2010 (2004: 2009) to be carried forward against future taxable income.

26. DEFERRED TAXATION *(Continued)*

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

	Group					
Deferred tax liabilities	Accelerated tax depreciation		Others		Total	
	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January, as previously reported	718	751	19	–	737	751
Effect of adopting HKAS 17	(390)	(390)	–	–	(390)	(390)
At 1 January, as restated	328	361	19	–	347	361
Charged/(credited) to profit and loss account	155	(33)	(19)	19	136	(14)
At 31 December	483	328	–	19	483	347

	Group									
Deferred tax assets	Provisions		Decelerated tax depreciation		Deferred expenses		Tax losses		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	11,501	7,843	6,155	4,695	672	784	–	–	18,328	13,322
Credited/(charged) to profit and loss account	91	3,658	(937)	1,460	(241)	(112)	701	–	(386)	5,006
At 31 December	11,592	11,501	5,218	6,155	431	672	701	–	17,942	18,328

27. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to net cash generated from operations

	2005 *HK$'000*	2004 *HK$'000*
Operating profit	323,404	236,895
Interest income	(1,885)	(1,323)
Amortisation	1,039	604
Depreciation	48,903	22,679
Loss on disposal of fixed assets	5,020	4,532
Fair value gain on derivative financial instruments	(268)	–
Operating profit before working capital changes	376,213	263,387
Increase in inventories	(163,276)	(164,055)
Increase in trade receivables, other receivables, deposits and prepayments	(66,135)	(62,568)
Increase in trade payables, other payables and accrued charges	77,946	96,599
Decrease in trading investments	–	15,890
Net cash generated from operations	224,748	149,253

28. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at both 31 December 2005 and 31 December 2004.

As at 31 December 2005, the Company has given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to HK$123,800,000 (2004: HK$91,600,000). As at 31 December 2005, the utilised amount of such facilities covered by the Company's guarantees was HK$20,970,000 (2004: HK$22,023,000).

29. COMMITMENTS

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

	Group	
	2005 *HK$'000*	2004 *HK$'000*
Authorised but not contracted for	114,791	97,709
Contracted but not provided for	18,601	33,085
	133,392	130,794

29. COMMITMENTS *(Continued)*

(b) **Commitments under operating leases**

As at 31 December 2005, 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	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**180,094**	167,359
Later than one year and not later than five years	**366,110**	246,536
Later than five years	**13,350**	23,981
	559,554	437,876

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 2005 (2004: nil).

30. RELATED PARTY TRANSACTIONS AND BALANCES

During the year ended 31 December 2005, the Group has entered into the following transactions with related parties:

(a) **Purchases of goods**

Purchases of shoe materials and footwear products from investee companies, Sun Home, Jingxing and Daen amounting in total to HK$23,024,000 (2004: HK$31,490,000) are 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.

(b) **Amounts due from/to related parties**

Included in the Group's trade receivables as at 31 December 2005 was an amount due from Jingxing of HK$1,918,000 (2004: nil) which was repayable within one year.

Included in the Group's trade payables as at 31 December 2005 were amounts due to an associated company and the investee companies as mentioned in (a) above of HK$41,000 (2004: HK$89,000) and HK$887,000 (2004: HK$8,166,000), respectively, which were repayable according to trade terms agreed between both parties.

(c) **Key management personnel compensation**

	2005	2004
	HK$'000	*HK$'000*
Salaries and bonuses	**17,108**	12,126
Defined contribution pension costs	**68**	40
	17,176	12,166

Five-Year Financial Summary

	For the years ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
Results					
Turnover	**2,622,677**	1,788,539	1,407,007	1,180,669	1,088,527
Profit/(loss) attributable to:					
– Shareholders of the Company	**254,593**	176,220	82,935	25,849	(99,779)
– Minority interests	**1,463**	4,777	3,880	5,674	2,143

	As at 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
Assets and liabilities					
Total assets	**1,434,624**	1,077,219	816,627	772,206	713,156
Total liabilities	**(611,008)**	(494,660)	(378,151)	(399,747)	(370,119)
Total equity of:					
– Shareholders of the Company	**744,207**	533,720	402,910	347,817	326,004
– Minority interests	**79,409**	48,839	35,566	24,642	17,033

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, 2002 and 2001 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 Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 19 May 2006 at 2:30 p.m. for the following purposes:

1. To receive and consider the audited accounts of the Company and the Reports of the Directors and the Auditors for the year ended 31 December 2005;

2. To declare a final dividend for the year ended 31 December 2005;

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

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

Ordinary Resolutions

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

   A. "**THAT:**

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

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

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

      (d) for the purposes of this resolution:

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

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

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

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

B. **"THAT:**

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

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

(c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval granted in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; or (iii) the exercise of any options granted under the share option scheme or similar arrangement for the time being adopted or to be adopted for the grant or issue of shares or rights to acquire shares of the Company approved by the Stock Exchange, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

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

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

C. **"THAT:**

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

Special Resolution

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

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

(a) Article 69

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

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

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

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

(b) Article 90

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

(c) Article 91

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

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

(d) Article 97(viii)

By replacing the words "a special ordinary resolution" with "an ordinary resolution".

(e) Article 99

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

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

(f) Article 101

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

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

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

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

Hong Kong, 20 April 2006

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 Tuesday, 16 May 2006 to Friday, 19 May 2006 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for attending the above meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Secretaries Limited for registration not later than 4:00 p.m. on Monday, 15 May 2006.

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 2006 (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 2005 Annual Report.