

# Chairman's Statement

*To Shareholders of the Company:–*

On behalf of the board, I am pleased to present the annual results of Prime Success International Group Limited (the "Company") and its subsidiaries (together called the "Group") for the fiscal year ended 31st December 2001.

## **DIVIDENDS**

The board of Directors has resolved not to declare a final dividend for the year.

## **CLOSURE OF REGISTER**

The register of members of the Company will be closed from Tuesday, 21st May, 2002 to Thursday, 23rd May, 2002, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending the forthcoming Annual General Meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong no later than 4:00 p.m. on Friday, 17th May, 2002.

## **OVERVIEW**

The overall impact of the world economy has significantly affected the Group's segment results for the year ended 31st December, 2001. The "911" incidence in New York last September has further impacted the already weaken U.S. economy which was also another major factor that affected the overall results.

Throughout the year 2001, the Directors have decided to apply the strategy of lower pricing in lieu of higher turnover, which successfully maintained the factories, production lines, and workforce utilised. Also, the Group has invested heavily in a series of sales and distribution network expansion in the PRC, which has directly impacted to the results of the year. Although in 2001, total turnover of the Group has a slight increase of 7.4%, the total segment results have reduced significantly resulted in a loss for the year.

### *U.S. Market*

Turnover in the U.S. market has a slight decrease of approximately 4.2% when comparing the turnover of HK\$661.8 million and HK\$634.1 million for the years of 2000 and 2001, respectively. The segment result from the U.S. market was dramatically affected by the Group's pricing strategy, which was directly caused by the price-cutting war among the competitors in the market. The segment result in the U.S. market has decreased significantly resulted in a loss of HK\$54.2 million in 2001 comparing to a gain of HK\$4.1 million in 2000.

### *The PRC Market*

On the other hand, the Group experienced a remarkable growth in the PRC market as the turnover increased by approximately 30.3% when comparing the turnover of HK\$316.1 million and HK\$411.8 million for the years 2000 and 2001, respectively. The segment result of the PRC market was affected temporarily by the Group's decision to expand sales and distribution network in 2001; the numbers of the specialty shops has increased from 96 in 1999 to over 200 at the end of 2001. The segment result in the PRC market has a relative minor loss of HK\$7.6 million that was expected for year 2001 comparing to a gain of HK\$3.2 million for year 2000.

## *Other Overseas OEM Market*

Turnover for the rest of the other overseas OEM market has an increase of approximately 18.7% when comparing the turnover of HK\$35.9 million and HK\$42.6 million for the years 2000 and 2001, respectively. The favorable segment result for the rest of the other overseas OEM market was contributed by the Group's increased business in the branded goods category. The segment result for the rest of the other overseas OEM market has an increase of approximately 76.3% when comparing the segment result of HK\$4.6 million and HK\$8.1 million for the years 2000 and 2001, respectively.

## **PROSPECTS**

The Group will face tough challenges, as the world economy remains latent with uncertainties that continue to affect the U.S. market. In response to such market conditions, the Group took measures to reduce the costs of sales and distribution. Such initiative caused a slight increase in the general and administrative costs temporarily, but will benefit the Group in year 2002 onwards. Together with the policy of lower margin/higher volume for the OEM business in the U.S., the Group continues to cut prices and to stimulate turnover at the expense of lower profit margin. In order to further broaden the revenue base, the Group continues to expand its OEM client base by developing new potential customers. During the year 2001, the Group has successfully engaged some brand customers with worldwide name recognition.

In the PRC, the Group will continue to leverage on its brand recognition and sales and distribution network to improve its market share. The "Daphne" sales and distribution network, currently consisting over 200 specialty shops and over 1,000 selling points, is definitely one of the most successful shoes retail network in the PRC. The current success can be further improved by enlarging the Group's sales and distribution network vertically and horizontally. The Group has planned to open new branch offices in Guangxi and Hunan. The target number of specialty shops and selling points are expected to increase to 500 and 1,500 across the PRC, respectively. In addition, the Group plans to increase its existing capacity by adding two production lines in Shanghai.

The PRC is anticipated to be the focus of investors worldwide after its admission to the World Trade Organisation; however, the Group is ready to face the challenges with the possession of a strong production capacity and a large sales and distribution network. The Group is definitely in a more favorable position comparing with its competitors in the PRC.

## **THE FINANCIAL REVIEW**

### *Debtor Aging Analysis*

As at 31st December 2001, the Group's consolidated trade debtors balance was approximately HK\$166.7 million, represented approximately 15.3% of the total turnover from this year. The debtor to turnover ratio decreased remarkably by 16.8% comparing to year 2000. Because of the Group's tight credit control policy, the Group enjoyed better cash inflow not only for daily operations, but also for the expansion plan in the PRC.

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## *Liquidity and capital structure*

As at 31st December 2001, the Group's consolidated borrowings amounted to approximately HK\$173.4 million, all were short-term in nature. These borrowings were structured mainly for funding of the Group's daily operations. The currencies of the borrowings were made up of approximately 33.5% New Taiwan dollars, 29.0% U.S. dollars, 27.3% Renminbi and 10.2% Hong Kong dollars. Most of the borrowings are structured at fixed interest rates.

As at 31st December, 2001, the Group's bank balances and cash amounted to approximately HK\$149.3 million.

## *Charge on Group Assets*

Certain leasehold land and buildings of the Group having a carrying amount of approximately HK\$91.4 million, bank deposit of approximately HK\$7.8 million and certain of the Group's investments in securities were pledged to banks to secure the general banking facilities granted to the Group.

## *Gearing ratio*

The Group continued to maintain a safe and healthy gearing ratio of approximately 53.2% at the end of 2001. Computation was based on the total borrowings divided by shareholders' funds as at 31st December 2001.

## *Future Capital Investments*

In order to maintain a stable growth in the PRC, the Directors intended to increase the number of specialty shops and increase two production lines in Shanghai. This was made possible last September when the Group reserved an adjacent site of over 2,000 sq.ft. to its existing factory in Shanghai.

In 2002, the Directors intend to increase the number of specialty shops by 100 across the PRC. The average setup cost of a specialty shop will be around RMB450,000 in the PRC. With healthy and steady cash inflow from operations, the Directors believe such expansions will be financed mostly by internal resources and cash generated from operations.

## *Significant Investments*

The Group acquired a 14.4% interest in Sun Home Leather Corporation ("Sun Home") since 1998. Sun Home is principally engaged in PVC/PU manufacturing and is one of the suppliers of the Group. Due to the shares of Sun Home was delisted from the Taiwan Stock Exchange Corporation, the Directors decided to further recognise an impairment loss amounted to approximately HK\$10.6 million for this investment in 2001.

Also, the Group acquired a 30% equity interest in a sino-foreign joint venture, Jingxing Shoe Industrial Co., Ltd. ("Jingxing"), as long term investment since 1998. Jingxing is principally engaged in high-valued footwear manufacturing. To reflect the current fair value, the Directors decided to further recognise an impairment loss amounted to approximately HK\$3.3 million on the investment in 2001. The Directors believe that the return on the investment will be better when the economic condition in the U.S. improved.

## *Material Acquisitions and Disposals*

There are no material acquisitions and disposals of subsidiaries and associated companies in the year 2001.

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## *Exchange Rate Exposure*

Whilst the sales of the Group is mainly denominated in U.S. dollars and Renminbi, the purchase of raw materials were mainly in Hong Kong dollars, U.S. dollars and New Taiwan dollars. Bank borrowings are also denominated in Hong Kong dollars, U.S. dollars, New Taiwan dollars and Renminbi; and interest rates are mainly charged on a fixed rate basis. As the exchange rates of the above currencies against Hong Kong dollars are relatively stable and the further devaluation of New Taiwan dollars in 2002 seems not likely, the Directors believe the Group's exposure to exchange fluctuations is relatively low in 2002.

## *Contingent Liabilities*

As at 31st December, 2001, the Group has no significant contingent liabilities.

## **EMPLOYEES**

Currently, the Group has over 10,000 employees. In addition to basic salaries, employees are rewarded with performance-related bonuses while share options are also made available to certain employees within the Group. All staff in the PRC are provided with lodging. The Group believes that human resources is very important, thus always provides internal training and encourages promotion from within.

## **AUDIT COMMITTEE**

The Group has an audit committee comprising two independent non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group.

## **APPRECIATION**

On behalf of the Board of Directors, I would like to express our sincere gratitude to our shareholders, business associates, suppliers and customers as well as the Group's workforce for their continuous support. I also wish to give due appreciation to our management and staff for their commitment and dedication to the Group. The Group will make every endeavour to make another aspiring achievement.

## **CHANG WEN I**

*Chairman*

Hong Kong, 23rd April, 2002