

# 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 2002.

## **DIVIDENDS**

The board of directors has proposed a final dividend of HK1.2 cents per ordinary share of HK\$0.10 each in the Company (the "Share(s)") (2001: Nil) for the year ended 31st December 2002. Together with the interim dividend of HK0.8 cents per Share already paid, the total dividends for the year ended 31st December 2002 would amount to HK2.0 cents per Share (2001: Nil). Subject to shareholders' approval for the payment of the final dividend at the Company's forthcoming annual general meeting, the final dividend will be payable to the shareholders on or before 10th June 2003 whose names appear on the register of members of the Company at 4:00 p.m. on Monday, 26th May 2003.

## **CLOSURE OF REGISTER**

The register of members of the Company will be closed from Tuesday, 27th May 2003 to Thursday, 29th May 2003, 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 registrar of the Company in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on Monday, 26th May 2003.

## **BUSINESS OVERVIEW**

The year of 2002 has been another difficult year for the global economy. The Group made the right decision in applying the strategy of lower pricing in return for a higher turnover throughout the year of 2002. The overall sales have increased; the overall expenses have decreased and the Group's overall resources have been more effectively utilized. As a result, the Group has achieved encouraging results in 2002. Net profit of approximately HK\$25.6 million was recorded for the year ended 31st December 2002 (2001: loss of approximately HK\$99.8 million).

For the overseas market, the Group continued to build on the strong relationships with existing major overseas OEM customers while developing new customers to be included into our portfolio. For the PRC market, the Group continued to expand its retail and distribution operations throughout the major cities in the PRC by opening an additional of about 150 retail outlets. With the steady growth in the number of new overseas OEM customers and a rapid growth in the number of retail outlets in the PRC in 2002, the Group's turnover has increased by 8.5% to approximately HK\$1,180.7 million for the year ended 31st December 2002 (2001: approximately HK\$1,088.5 million).

### *The US market*

The US market remains the major sales market of the Group, with a steady growth of 2.5% in turnover from approximately HK\$634.1 million for the year 2001 to approximately HK\$650.2 million for the year of 2002. The segment results for the year of 2002 amounted to approximately HK\$21.4 million compared to a loss of approximately HK\$54.2 million last year. The profitability was boosted up mainly by focusing on the strategy of higher margin products.

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## *The PRC market*

With the momentum of economic growth in the PRC, the turnover in the PRC market has increased by 20.1%, from approximately HK\$411.8 million for the year of 2001 to approximately HK\$494.7 million for the year of 2002. The PRC market has also contributed a profit of approximately HK\$9.3 million to the Group for the year ended 31st December 2002, which marked a great improvement compared to 2001. The success, in addition to implementing tight cost controls, was mainly attributable to the Group's well-developed retail and distribution networks in the PRC, both in terms of quantity and quality. The total number of retail outlets for our own brand name "**Daphne**" has increased from over 350 to over 500 by the end of 2002. The Group currently has more than 1,500 "**Daphne**" selling points all over the PRC.

## **PROSPECTS**

In view of the sluggish global market environment, the Group will cautiously formulate its future operating strategies. Our aggressive marketing team will continue to explore new business opportunities, while keeping close relationship with our existing customers. Meanwhile, the management will continue to remain highly alert to any changes to the Group's business environment, and will face the changes with prudence.

With the PRC's accession to the World Trade Organisation and the hosting of the 2008 Olympic Games in Beijing, the PRC market has become increasingly important to the Group. In August 2002, the Group formed a joint venture with several popular entertainers and obtained the exclusive retail shop rights for **Adidas** "*Original*" collection in the PRC. The joint venture has granted to an agent in the PRC the rights to operate the **Adidas** "*Original*" collection retail shops. The agent so far has set up three **Adidas** "*Original*" collection retail shops in Shanghai and expects to add another 20 **Adidas** "*Original*" collection retail shops in the major cities of the PRC. The Group will continue to look for other business opportunities in the PRC.

At the end of 2002, the Group had over 500 "**Daphne**" retail outlets and over 1,500 "**Daphne**" selling points all over the PRC. In 2003, the Group intends to establish a total of 80 additional new "**Daphne**" retail outlets so as to further strengthen our market share in the PRC. With the competitive advantage in its sales and distribution networks in the PRC, the Group has every confidence in achieving better performance for the years to come.

## **FINANCIAL REVIEW**

### *Liquidity and Capital Structure*

As at 31st December 2002, the total shareholders' equity of the Group was approximately HK\$337.6 million (2001: HK\$326.0 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.48 as at 31st December 2002 (2001: 1.53).

Inventories and trade receivables were approximately HK\$278.1 million (2001: HK\$183.5 million) and HK\$132.1 million (2001: HK\$166.7 million) respectively at the end of 2002.

At the year end of 2002, the Group's total borrowings from banks amounted to approximately HK\$150.6 million representing a decrease of approximately HK\$22.8 million compared with approximately HK\$173.4 million in 2001. Interests were based on fixed rates. Due to the decline of bank borrowings by the Group and trimming of interest rates during the year, the Group's interest expense decreased by about 45.5% as compared with the previous year.



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As at 31st December 2002, cash and cash equivalents of the Group amounted to approximately HK\$129.9 million, decreased by 8.2% from approximately HK\$141.5 million last year.

## *Charges on Group Assets*

As at 31st December 2002, certain leasehold land and buildings of the Group having a carrying amount of approximately HK\$40.8 million, certain of the Group's investment securities with nil carrying value and PRC value added tax recoverable of approximately HK\$4.4 million were pledged to banks to secure general banking facilities granted to the Group.

## *Gearing Ratio*

The gearing ratio of the Group has improved from 53.2% to 44.6% as at 31st December 2002. Computation was based on the total borrowings divided by shareholders' funds.

## *Significant Investments*

The Group holds a 30% equity interest in Jingxing Shoe Industrial Co., Ltd. Putian City ("Jingxing"). As at 31st December 2002, the carrying value of the investment in Jingxing was HK\$37 million (2001: HK\$24.0 million). The fair value of the investment in Jingxing as at 31st December 2002 was valued by an independent professional valuer. The valuation surplus of HK\$13 million has been included in the operating profit for the year to offset the amount previously debited.

## *Future Plan of Capital Investments*

In order to enhance our retail and distribution networks as well as market share in the PRC, the Group plans to set up approximately 80 retail outlets all over the PRC in 2003. The average setup cost is about RMB200,000 per shop. The funding of these capital investments will be financed by internal resources.

## *Material Acquisitions and Disposals*

There are no material acquisitions and disposals of subsidiaries and associated companies in the year 2002.

## *Foreign Currency Exposure*

Whilst the sales of the Group were mainly denominated in US dollars and Renminbi, the purchases of raw materials were mainly in the US dollars, New Taiwanese dollars, Renminbi and Hong Kong dollars. Bank borrowings were also denominated in the US dollars, New Taiwanese dollars, Renminbi and Hong Kong dollars. As the currencies denominated on our receipts relatively balanced with our payments and any material devaluation of the above currencies against Hong Kong dollars in 2003 seems not likely, the directors believe that the Group's exposure to currency exchange fluctuations is minimal.

## *Contingent Liabilities*

As at 31st December 2002, the Group has no significant contingent liabilities.

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## **EMPLOYEES**

On 31st December 2002, the Group employed over 13,000 staff. The Group remunerates its employees according to the prevailing industry practice in the respective regions in which it operates. The total remuneration for the year ended 31st December 2002 was approximately HK\$231.1 million (2001: HK\$242.9 million), including retirement benefit costs of approximately HK\$4.8 million (2001: HK\$3.5 million). In addition to basic salaries and retirement pension schemes, employees are rewarded with performance-related bonuses. All staff in the PRC are provided with lodging. The Group believes that human resources are very important, thus always provides and encourages internal trainings and promotions.

## **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, 16th April 2003

