

Chairman's STATEMENT

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





Results

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

OEM Business Contributed Stable Revenue

With a well-established business foundation and customer base, OEM business remained as a core operation and key revenue contributor of the Group. However, during the year, the segment's profit was under pressure from global phenomena including volatile oil prices and rising production costs. To

maintain profitability amid the adverse operating environment, we strategically directed our resources to supporting selected higher margin orders. Meanwhile, by strengthening relationship with key customers, we were able to secure orders with higher margin and in bigger volume.

Strong Growth in Brand Business

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

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

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

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

Steady Development of Infrastructure

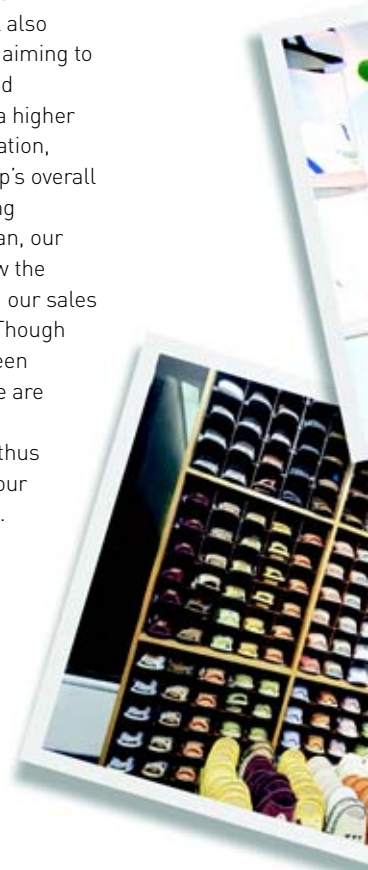
To increase its processing capacities, the Group in 2006 constructed a new processing plant in Jiangxi, and planned to set up another in Taizhou. When the Jiangxi plant begins operation in 2007, the Group will be able to handle processing work that are currently outsourced. Strategically located, the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

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



Seize Future Market Opportunities

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





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

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

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

Appreciation

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

Chen Ying-Chieh
Chairman