

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 2000.

FINANCIAL HIGHLIGHTS

For the year ended 31st December, 2000, turnover of the Group reached approximately HK\$1,013.8 million, slightly decreased by 0.34% over prior year. Although turnover maintained about the same level, the Group suffered a net loss of approximately HK\$51.2 million for the year under review. The loss was mainly attributed to the diminution in value of the Group's investments portfolio. Like many corporations in all business sectors, the Group has been inevitably affected by the global financial crisis. As a result of this provision on investments, loss per share of HK\$0.10 each in the capital of the Company (the "Share(s)") reaches HK3.4 cents.

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 Wednesday, 23rd May, 2001 to Friday, 25th May, 2001, 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 Tuesday, 22nd May, 2001.

OVERVIEW

Despite the decrease of the aggregate turnover, the core business of the Group showed a healthy growth in 2000. Both sales of footwear products and shoe components were slightly increased over last year, as a result, the turnover of continuing operations showed a steady improvement.

The contribution to profit of sales to the United States dropped 78.9% when comparing with last year. Since sales to the United States comprised 65.3% of our turnover in 2000, the decrease in contribution lowered the profit from operations, excluding the impairment loss amounted to approximately HK\$50.3 million, to approximately HK\$23.2 million in 2000 (1999: HK\$61.7 million). During the year, our OEM customers in the United States faced potential recession and unfavorable business climate, we were impacted by their problems and hence received a great pressure on our product pricing. To cope with the difficulties, we implemented a series of cost control measures on factories as well as our administrative offices. As a result, the staff costs dropped from approximately HK\$177.6 million in 1999 to approximately HK\$173.2 million in 2000. Despite our tight controls over certain costs, the low profit margin still eroded the attributable profit to shareholders. However, we have established positive relationships with many famous footwear participants to widen our client base, from the OEM customers in the United States to those in Europe and Japan. The steady growth of sales to Japan has shown some success on our marketing strategy.

The Group experienced remarkable growth in the PRC market as the domestic turnover had gone up 30.1% to approximately HK\$316.1 million from last year of approximately HK\$242.9 million. Furthermore, the contribution

Chairman's Statement (continued)

to profit of domestic turnover improved significantly from a negative impact of HK\$8.3 million to positive contribution of HK\$5.2 million. These figures have proven that the consumer market in the PRC has recovered from the Asian Financial Crisis, and the Group started to benefit from our continuing investment in various sales channels. We have achieved this success in the PRC by two factors: Firstly, establishment of the brand loyalty has made "Daphne" the best selling ladies' footwear brand in the PRC in 2000 with sales volume exceeded 220 million pairs of shoes. Secondly, extensive marketing and distribution network enabled the Group to penetrate into the PRC market effectively. With a current network of 218 specialty shops "Daphne" has captured a major share of the PRC ladies' footwear market.

PROSPECTS

Today the world's attention is on the PRC due to its great economic potential and its excellent chance of becoming a member of the "World Trade Organization". The strong economic growth and the stable social reforms in recent years continue to develop the PRC into an economic powerhouse.

Over the last decade, the Group has established an excellent marketing distribution network across the PRC. The Directors of the Company intend to increase its "Daphne" specialty shops from its current number of 218 specialty shops to a goal of 250 specialty shops by the end of 2001. To accomplish this goal, the Group has implemented a number of expansion programs that included various shop renovations and expansion; a new "Daphne" logo to go along with the corporate modernization image; a new product mix along with consignment sales of other brand names in our specialty shops; and finally a series of planned promotional activities. We expected the expansion programs will hit our bottom line at the early stage of the modification process. However, a better return to the shareholders is expected in the future and the Group's position as the industry leader in the PRC will continue in many years to come.

THE FINANCIAL REVIEW

Debtor Aging Analysis

As at 31st December, 2000, the Group's consolidated trade debtors balance was approximately HK\$186.8 million, representing approximately 18.4% of total turnover in 2000. This was an improvement over 1999's figure of 23.1%. It is the result of the Group's progressive approach to credit control, and this ensured sufficient cash inflow to meet the needs of our daily operations.

Liquidity and capital structure

During year 2000, the Group recorded no movement on share capital. The Group financed its operations mainly with internal resources and general banking facilities.

As at 31st December, 2000, the Group's consolidated borrowings amounted to approximately HK\$210.8 million, in which approximately 19.8%, 26.1%, 34.3% and 19.8% were in Hong Kong dollars, US dollars, New Taiwanese dollars and Renminbi respectively, all were short-term in nature. These borrowings were structured mainly for funding the Group's day to day operation. Although the borrowings increased by 90%, the Group's bank balances and cash amounted to approximately HK\$228.5 million (1999: HK\$120.5 million) and was able to cover the borrowings with a surplus of HK\$17.7 million. The currencies of the bank balances and cash were made up of approximately 0.06% Hong Kong dollars, 17.45% US dollars, 67.96% New Taiwanese dollars and 14.53% Renminbi. Most of the borrowings were structured at fixed interest rates.

Chairman's Statement (continued)

Charge on Group Assets

Certain leasehold land and buildings of the Group having a carrying amount of approximately HK\$91.8 million were pledged to banks in the PRC to secure the general banking facilities granted to the Group. The investment in listed securities of the Group having a carrying value of approximately HK\$8.5 million as at 31st December 2000 were pledged to a bank in Taiwan to secure the general banking facilities granted to the Group.

Gearing ratio

Though the gearing ratio increased from 24.6% to 51.1%, it was considered satisfactory as the Group was in an expansion period. Moreover, the debts were completely covered by the bank balances and cash with surplus as mentioned above. Computation was based on the total borrowings divided by shareholders' funds as at 31st December, 2000.

Future Capital Investments

To maintain the leadership status in the PRC market, the Group currently has no future plans for material investments or capital assets in the coming years, except for the setup of the specialty shops. The average setup cost of a specialty shop is around RMB450,000, varies from the locations in the PRC. With healthy and steady cash inflow from the operations mentioned above, the Group plans to finance these establishments partly by internal resources and partly by general banking facilities.

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. To reflect the current fluctuation in stock market, the Directors decided to make a provision amounted to approximately HK\$21.2 million for this investment. This strategic investment enabled the Group to achieve a higher degree of vertical integration in the long run.

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. As the return on the investment in Jingxing diminished in 2000, the Directors decided to make a provision amounted to approximately HK\$29.1 million on the investment to reflect the current fair value. The Directors believe that the return on the investment will be better when the economic condition in the United States improved.

Material Acquisitions and Disposals

There were no material acquisitions and disposals of subsidiaries and associated companies in the course of the year 2000.

Chairman's Statement (continued)

Exchange Rate Exposure

Whilst the sales of the Group is mainly denominated in US dollars and Renminbi, the purchases of raw materials are mainly in Hong Kong dollars, US dollars and New Taiwanese dollars. Bank borrowings are also denominated in Hong Kong dollars, US dollars and Renminbi with interests being charged on a fixed rate basis. As the exchange rates of US dollars against New Taiwanese dollars and Renminbi were relatively favourable during the year, the Group's exposure to fluctuations in exchange rates is minimal.

Contingent Liabilities

As at 31st December, 2000, the Group has no significant contingent liabilities.

EMPLOYEES

As at 31st December 2000, the Group had over 10,000 staff. In addition to basic salaries, employees are rewarded with performance-related bonuses while share options are also made available to certain staff within the Group. All staff in the PRC are provided with free meals and lodgings. The Group believes that human resources is very important, thus always provides internal trainings and encourages internal promotions.

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, 25th April, 2001