

PORTS DESIGN LIMITED

2003

ANNUAL REPORT



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1. YEAR IN REVIEW FOR 2003

- PORTS DESIGN LIMITED achieved strong top and bottom line growth, despite the impact of Severe Acute Respiratory Syndrome (“SARS”). Revenue increased 24% from RMB470 million in 2002 to RMB585 million in 2003. Profit attributable to shareholders increased 16% from RMB93 million in 2002 to RMB108 million in 2003
- PORTS DESIGN LIMITED reached a milestone in its history by opening its 250th retail store
- PORTS DESIGN LIMITED ended the year in strong financial position with a current ratio of 6.1 given its current assets of RMB607 million (of which cash and time deposits exceeded RMB315 million) and current liabilities of RMB100 million (with no bank borrowings)
- PORTS DESIGN LIMITED listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 31 October 2003. Public offering is more than 90 times oversubscribed (international placing 15 times oversubscribed)
- PORTS DESIGN LIMITED was named “Best Newly Listed Company in Hong Kong” for 2003 by *Asiamoney* magazine

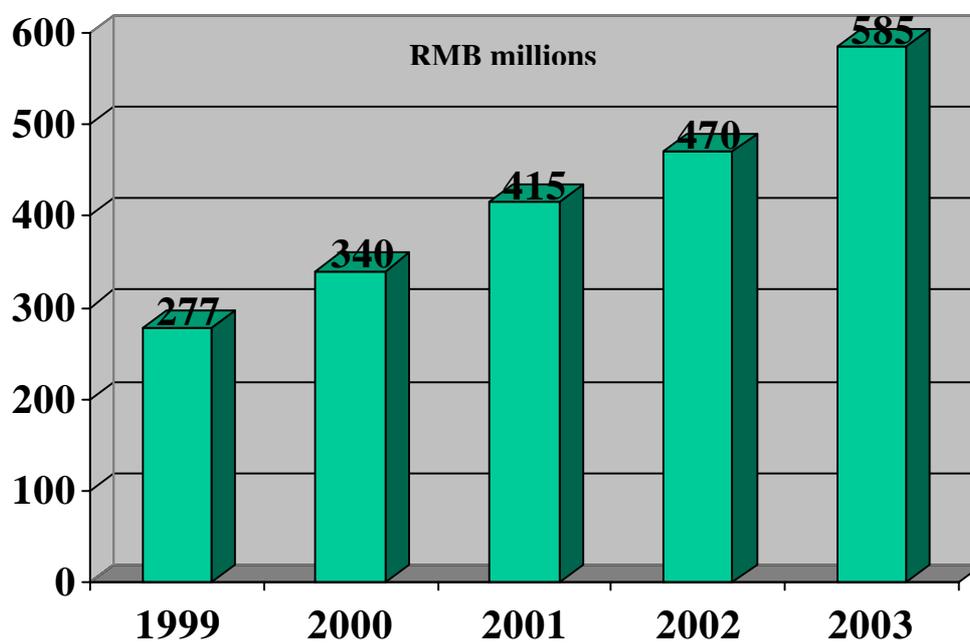
2. FINANCIAL HIGHLIGHTS

Five-Year Statistics

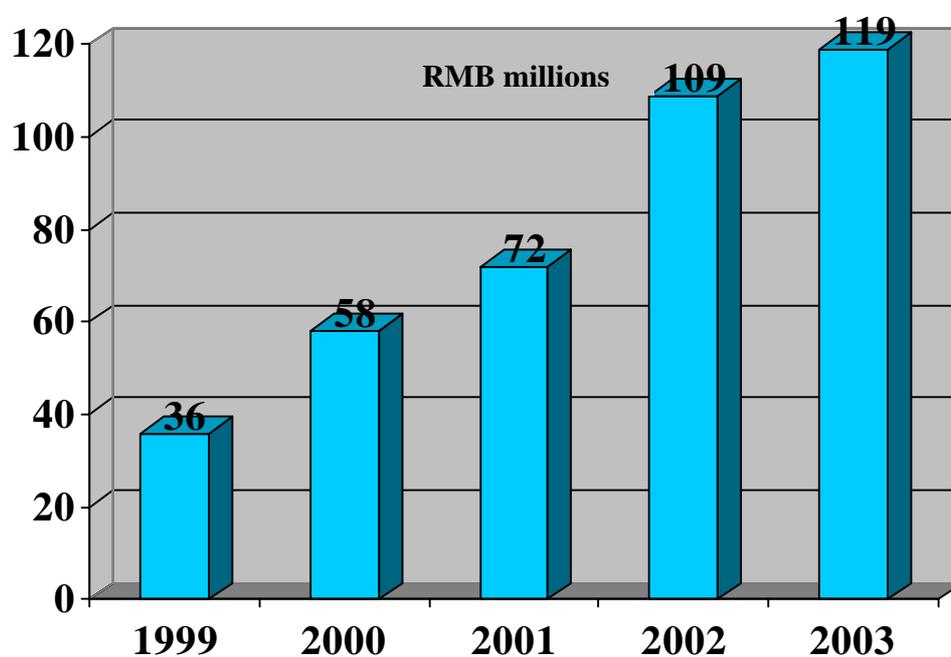
(Financial figures are expressed in Renminbi
("RMB") million)

	<u>For the year ended 31 December</u>				
	2003	2002	2001	2000	1999
<hr/>					
Results					
Turnover	<u>585</u>	<u>470</u>	<u>415</u>	<u>340</u>	<u>277</u>
Profit attributable to shareholders	<u>108</u>	<u>93</u>	<u>59</u>	<u>48</u>	<u>29</u>
Assets and liabilities					
Non-current assets	<u>86</u>	<u>77</u>	<u>51</u>	<u>39</u>	<u>34</u>
Current assets	<u>607</u>	<u>282</u>	<u>250</u>	<u>200</u>	<u>148</u>
Current liabilities	<u>100</u>	<u>155</u>	<u>150</u>	<u>111</u>	<u>77</u>
Net current assets	<u>507</u>	<u>127</u>	<u>100</u>	<u>89</u>	<u>71</u>
Total assets less current liabilities	<u>593</u>	<u>204</u>	<u>151</u>	<u>128</u>	<u>105</u>
Non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Shareholders' Equity	<u>593</u>	<u>204</u>	<u>151</u>	<u>128</u>	<u>105</u>

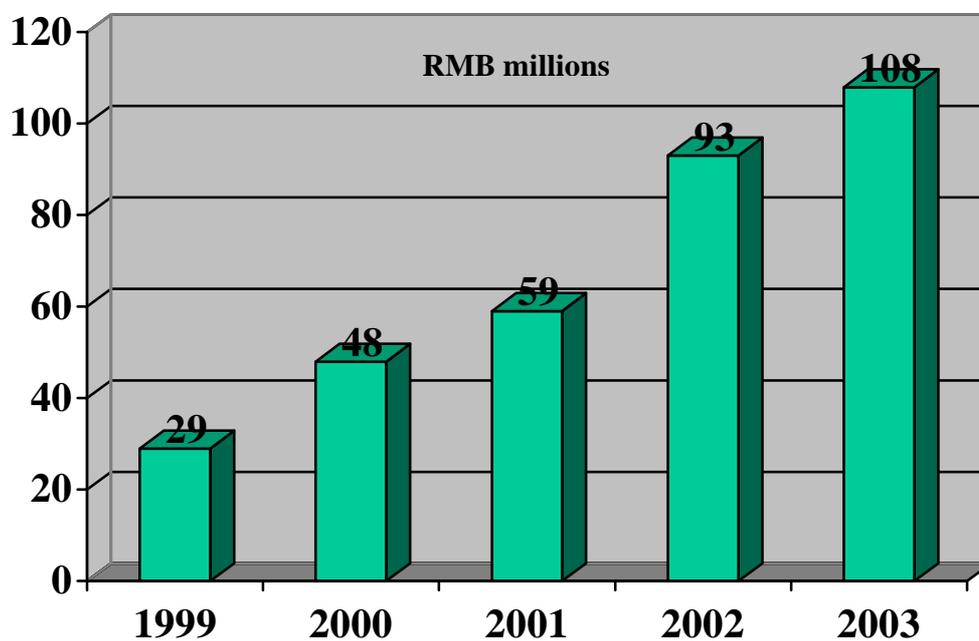
2.1 Turnover



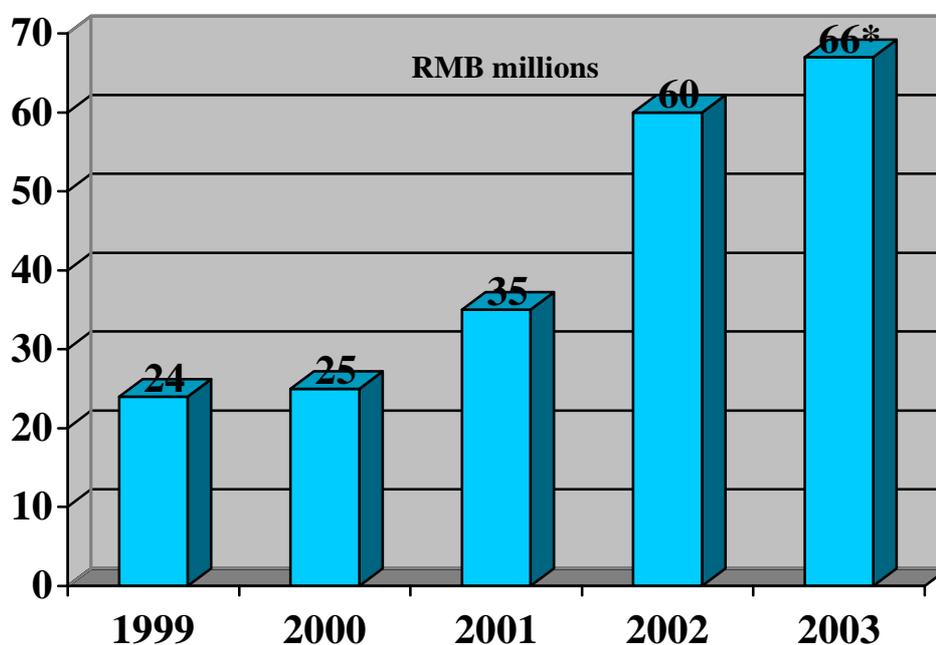
2.2 Profit from Operations



2.3 Profit Attributable to Shareholders



2.4 Dividend History



* Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of a final dividend of RMB0.23 per share, totaling RMB31.236 million

3. CHAIRMAN'S STATEMENT

I am pleased with the performance of PORTS DESIGN LIMITED (“PORTS” or the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2003. Although last year was a period of immense turbulence, with the onset of hostilities in Iraq and the outbreak of SARS, the Group ended the year with turnover and profit attributable to shareholders increasing 24% and 16% respectively. Turnover increased from RMB470 million in 2002 to RMB585 million in 2003 and profit attributable to shareholders from approximately RMB93 million in 2002 to RMB108 million in 2003. This improvement came almost entirely during the second half of 2003 once the SARS outbreak had waned, when the Group’s operations resumed its historic pattern of growth. The shares of the Company were listed on the main board of the Stock Exchange on 31 October 2003. The initial public offering (“IPO”) was well received by investors worldwide, as well as in Hong Kong, with the public offering over 90 times oversubscribed (international placing 15 times oversubscribed). It was also gratifying that Asiamoney named PORTS as the “Best Newly Listed Company in Hong Kong” for 2003. As we look forward to 2004 and beyond, our goal is to maintain our record of above average performance and to lay the foundation for continued future success.

3.1 Highlights from 2003

Despite war in Iraq and the SARS outbreak, the Group was able to achieve record turnover and profitability in 2003. Turnover increased from RMB470 million in 2002 to RMB585 million in 2003 and profit attributable to shareholders from RMB93 million in 2002 to RMB108 million in 2003. Top-line growth and profitability were both affected by SARS in the first half of the year, with normal business operations disrupted. However, a recovery in the second half, particularly in the PORTS retail division, allowed the Group to achieve record turnover and profit. Growth in turnover was strong across all business segments – Retail, original equipment manufacturer (“OEM”) and Others.

Turnover from the Retail segment increased by approximately 16% from RMB327 million in 2002 to RMB379 million in 2003, despite the interruption in our new store expansion program and the drop in retail traffic in the People’s Republic of China (“PRC”) market caused by SARS. Offsetting the negative impact of SARS in the first half of 2003 was the strong retail turnover growth in the second half, which is a reflection of the strength of the PORTS franchise in the PRC market. Turnover in the Bayerische Motoren Werke AG (“BMW”) branded line of merchandise (“BMW Lifestyle”) division grew by more than 80% in 2003, albeit from a very small base. The division incurred a small loss in 2003 due to insufficient scale in retail operations. It is anticipated that with the additional new stores scheduled to open in 2004, the BMW Lifestyle division will become profitable and start contributing to the Group’s earnings. BMW is pleased with the quality and performance of the Group and the relationship expanded recently to include the design and manufacture of apparel for the Yachting Collection of the BMW-Oracle Yachting Team.

Turnover in the OEM segment grew roughly 44% from RMB117 million in 2002 to RMB168 million in 2003. The OEM business saw an increase in demand as North American retailers

shifted orders to countries with lower perceived risks from terrorism such as the PRC. This increased demand caused Chinese manufacturers, including those contracting with the Group to increase their prices. Furthermore, SARS-related travel complications hampered the Group's ability to locate and approve new manufacturing sources to accommodate the increased OEM orders. The OEM segment benefited from this trend and was able to achieve strong top line growth by taking advantage of its historical track record of providing reliability, value and service to its clients in North America. Margins in the OEM segment, however, were affected by SARS, war in Iraq and threat of terrorism, which disrupted normal business operations.

PORTS finished the year in a strong financial position. The Group's total bank borrowings of RMB61 million were repaid during the year. With net proceeds from the IPO, amounting to roughly RMB315 million residing in time deposits and cash, the Group is in a strong financial position to take advantage of future business opportunities.

3.2 A look forward to 2004 and beyond

Looking into the future, PORTS is committed to continuing its tradition of excellence and performance.

Given the positive overall macroeconomic environment, the management team is cautiously optimistic about the business outlook for 2004. With consumer spending boosted by a strong economy and modest inflation in China, the business outlook appears favorable for PORTS, as shown by retail turnover performance in the first three months of 2004. The management team is closely watching the bird's flu outbreak and its potential impact, and contingency plans have been developed to ensure, as much as possible, smooth business operations.

The Group will continue to build upon and solidify the leading position of PORTS for the PRC market and will cautiously seek opportunities to expand to other countries in Asia and Oceania. The management team will seek to strengthen the PORTS brand in the PRC market through a number of initiatives including: the opening of superstores, expanding our design talent, rolling out the fifth generation retail store concept, developing additional product lines, and continuing advertising and promotional activity (such as the sponsorship of high-profile cultural/social events). Although the BMW Lifestyle division remains in the early stages of growth, the management team strongly believes in the potential of this concept. The Group will continue to invest in building this division so as to realize the returns that the BMW Lifestyle concept is capable of delivering to its shareholders.

In addition, the management team is evaluating opportunities to deploy the proceeds from the IPO. The Group's aim is to make careful investments in capabilities or assets that are directly related to our core retail and fashion expertise. Several opportunities have come to light and are under investigation by the management team. Any investment that the management team may consider will be consistent with our overriding goal of prudently enhancing and managing shareholder value.

3.3 Investor Relations & Corporate Governance

PORTS is committed to maintaining an honest and open relationship with its shareholders. This policy is especially important, as a large part of the Group's operations are based in China, an often-opaque market with underdeveloped corporate governance standards.

PORTS is committed to maintaining world-class standards in corporate governance with the goal of following the strictest ethical standards of corporate behavior and providing transparent information to its shareholders. The management team places a high degree of importance on this objective and pro-actively engages in activities to further this end. One initiative, in particular, that I would like to highlight is the upcoming nomination of a Corporate Governance Officer from the Company's existing Board of Directors. The Corporate Governance Officer will supervise our extensive internal controls and ensure that the Group diligently follows best practices. In short, we remain committed to maintaining the highest levels of ethical standards at PORTS.

With the global economy appearing to continue its recovery and the PRC economy experiencing strong growth, the management team feels cautiously upbeat about the strength of the Group's business and the growth opportunity that is available to us in the future. The PRC is the Group's core market, and we know this market well. Over the last decade, we have laid a solid foundation upon which we can build a strong business. We believe that the Group's efforts will deliver superior returns to our shareholders.



Edward Tan Han Kiat
Chairman

30 March 2004
Xiamen, China

4. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

4.1 Turnover

From financial year 2002 to financial year 2003, turnover increased by RMB114.9 million, or 24.46%, to RMB584.6 million. Turnover is comprised of three different segments: Retail, OEM and Other:

4.1.1 Retail

Retail turnover increased by RMB52.4 million, or 16.03%, to RMB379.3 million in financial year 2003. This increase was driven by an increase in unit volume sold and a modest increase in average unit selling price. The increase in unit volume sold reflected, among other factors, the expansion in the number of the Group's PORTS (including concessions and retail stores) and BMW Lifestyle retail outlets from 247 at the beginning of the year to 270 as of 31 December 2003. The Group's new store expansion program was disrupted by SARS. The increase in average unit selling price reflected, in part, the strength of the PORTS brand as the Group was able to achieve this increase in a PRC market that experienced deflation in the consumer goods market as well as the continued effectiveness of the Group's marketing program and brand-building activities. The Group believes the overall retail turnover increase was also a reflection of the continued growth in average annual household income in urbanised PRC cities where the Group principally locates its retail outlets, and the increased ability and willingness of these households to purchase fashion and luxury items.

Retail turnover was adversely affected by the SARS outbreak, as the new store expansion program was interrupted and traffic in shopping malls and departments stores was significantly reduced. The increase in retail turnover came mostly in the second half of the year.

In financial year 2003, turnover from concessions represented 73.21% of total retail turnover and turnover from retail stores represented 26.79% of total retail turnover. In the past, Chinese consumers have looked to department stores for their retail needs. The Group followed this trend when it entered the PRC market, selling its branded products primarily through an increasing number of concessions in department stores. As the PRC retail market has evolved, shopping malls with individual free-standing stores have been developed and Chinese consumers have begun to change their shopping patterns. In connection with this development, the Group has increased its focus on retailing through its own retail stores. The Group expects retail store turnover to increase further as shopping malls continue to be built in China and shopping patterns continue to shift toward a stronger consumer preference for shopping in malls.

4.1.2 OEM

OEM turnover increased by RMB51.5 million, or 44.08%, to RMB168.2 million in financial year 2003. OEM turnover benefited as North American retailers concerned about the war in Iraq and the increasing threat of terrorism in India and certain South East Asian countries shifted orders to the PRC. The OEM segment was able to take advantage of its strong reputation in the industry to win new contracts. As a percentage of total turnover, OEM turnover increased from 24.86% in 2002 to 28.78% in 2003.

4.1.3 Other

The Group's other turnover increased by RMB11.1 million, or 42.35%, to RMB37.2 million in financial year 2003. In 2003, Other turnover comprised mainly of wholesale sales to corporate customers and sales to retailers in smaller cities in China. It also includes export sales of BMW Lifestyle apparel as part of a new agreement signed between the Group and BMW, in which the Group was appointed by BMW to supply BMW Lifestyle apparel products worldwide. The growth in the BMW export sales business accounted for all the increase in this segment. As a percentage of total turnover, other turnover increased from 5.55% in 2002 to 6.35% in 2003.

4.2 Cost of sales

Cost of sales increased by RMB72.6 million, or 41.45%, to RMB247.9 million in financial year 2003. Most of this increase in cost of sales is directly related to the increase in turnover and sales volume in 2003.

4.3 Gross profit

As a result of the factors discussed above, the Group's gross profit increased 14.35% to RMB336.7 million in 2003, but gross profit margin decreased from 62.69% in 2002 to 57.59% in 2003. The decline in gross profit margin was particularly pronounced in the first half of the year reflecting the negative effects of the SARS outbreak. First half gross profit margin was 54.69%; while, second half gross profit margin improved to 59.81%, reflecting the diminished effects of SARS.

Gross profit margin profitability varied significantly between Retail, OEM and Other reflecting the different business dynamics faced by each segment:

4.3.1 Retail

For the retail business, gross profit increased 12.87% to RMB290.1 million in financial year 2003, while gross profit margin declined from 78.63% in 2002 to 76.50% in 2003. The management team believes the Group's gross profit margin is within the range of such margins achieved by other international fashion and luxury brands. The decrease in gross profit margin in 2003 was due to the impact of SARS. Because overall consumer traffic was down due to the reticence of ordinary citizens to venture into public places due to SARS, a larger share of our turnover, particularly in the first half of financial year 2003, were made to our VIP customers (through a "shop-at-home" program available only to members of our VIP program). PORTS has developed several important customer relationship management initiatives to cater to these high-volume affluent shoppers. One important component of these loyalty programs is that our

VIP customers are entitled to a modest discount when shopping at PORTS. Gross profit margin was thus negatively impacted, particularly in the first half of financial year 2003, as a larger proportion of our turnover was transacted with our VIP customers. First half gross profit margin was, thus, 75.85%. Second half gross profit margin increased to 76.99%, reflecting the diminished effect of SARS.

Of the Group's total gross profit, retail accounted for approximately 86% in financial year 2003. This reflects the importance of the retail business towards the overall operation of the Group.

4.3.2 OEM

For the OEM business, gross profit declined 1.33% to RMB24.3 million in financial year 2003. However, gross profit margin declined from 21.08% in 2002 to 14.44% in 2003. SARS-related travel restrictions prevented the Group's quality control staff to inspect OEM merchandise in a timely manner. As a result shipments were delayed to certain OEM customers. The Group offered discounts to affected customers as inducement and also picked up the cost of air freighting the merchandise to some North American customers. The Group also had difficulty in securing new sources for outsourcing. . The negative effect of SARS was particularly pronounced during the first half of 2003 when gross profit margin declined to 12.92%. In the second half of 2003, the OEM business' gross profit margin increased to 15.97% reflecting diminished impact of SARS and improved global political situation.

4.3.3 Other

Gross profit from other businesses increased by RMB9.5 million, or 74.07%, to RMB22.3 million in financial year 2003. Gross profit margin increased from 49.08% in 2002 to 60.02% in 2003. The increase in gross profit reflects the Group's improved bargaining position with corporate and wholesale customers as well as the additional business from the shipment of BMW Lifestyle products to BMW dealers worldwide. The management team believes that the additional business reflects, in part, the confidence of BMW in the quality and reliability of the PORTS team.

4.4 Other operating income

Other operating income decreased by RMB1.0 million, or 10.91%, to RMB7.9 million in financial year 2003. In financial year 2003, other operating income consisted principally of income from store design and decoration services provided to third parties, including department stores that contain new *PORTS INTERNATIONAL* concessions. Design and decoration income decreased by 16.64% to RMB4.9 million in 2003. This decrease was primarily due to the interruption in the new store expansion program caused by the SARS outbreak. In addition, royalty income from the sale of *PORTS INTERNATIONAL* branded eyewear increased RMB0.3 million, or 37.93%, to RMB1.2 million in financial year 2003. This increase reflects, in part, the growing brand recognition and acceptance of *PORTS INTERNATIONAL* branded eyewear in the market.

4.5 Distribution expenses

Distribution expenses increased by RMB24.3 million, or 15.13%, to RMB185.1 million in financial year 2003. The increase was principally due to increases in rent and depreciation. Rent expenses for retail outlets increased by RMB15.5 million, or 18.63%, to RMB98.7 million in financial year 2003. This increase was mainly due to an increase in the number of retail outlets. In particular, because the occupancy cost of a concession is equal to a percentage of the monthly turnover made through that concession, increases in the Group's retail turnover led to increases in the Group's rent expenses. Depreciation expenses increased by 56.55% to RMB9.4 million in financial year 2003. The increase was principally driven by greater renovation and fixtures costs related to an increase in the number of Group-owned stores. Other major components of distribution cost only increased modestly. Salaries and benefits increased by RMB1.4 million, or 4.46%, to RMB32.2 million in financial year 2003. This small increase was mainly due to the fact that there was little inflationary pressure on retail wages and benefits in the PRC. Advertising, the other key driver of distribution expenses, increased by RMB0.7 million, or 3.71%, to RMB19.2 million in financial year 2003. This increase in advertising was modest because of the cancellation of most large-scale cultural and social events (such as high-profile fashion shows) due to SARS.

4.6 Administrative expenses

Administrative expenses increased by RMB2.0 million, or 12.17%, to RMB18.6 million in financial year 2003 as a result of the increase in mainly rental expenses of RMB0.8 million. Rental expenses increased from RMB0.45 million in 2002 to RMB1.24 million in 2003. Administrative salaries and benefits, which is the largest category of administrative expense, increased by 3.3% to RMB12.1 million in financial year 2003. Other administrative expenses, such as, insurance, travel and general office expenses, increased by 19.09% reflecting the increased size of the administrative function, as noted above, increased travel to Munich, Germany, in support of the BMW Lifestyle initiative and the continued expansion of the Group's operations.

4.7 Other operating expenses

Other operating expenses consist principally of a stock provision that is taken against ageing inventory. In financial year 2003, inventory increased 15.31% to RMB184.8 million. In financial year 2003, the stock provision increased by RMB4.8 million, or 29.45%, to RMB21.2 million in 2003.

4.8 Profit from operations

As a result of the factors discussed above, the Group's profit from operations increased by 9.3% to RMB119.1 million in 2003 and the Group's operating margin (profit from operations expressed as a percentage of turnover) decreased from 23.20% in financial year 2002 to 20.37% in financial year 2003. The decline in profitability is largely the result of the disruption in

normal business operations caused by the SARS outbreak and was particularly pronounced during the first half of 2003. First half operating margin was 15.03%; while, second half operating margin improved to 24.46%, reflecting the diminished effects of SARS.

4.9 Income tax expense

The Group's effective income tax rate decreased from 10.87% of profit before tax in 2002 to 7.21% of profit before tax in 2003. The decrease in the Group's effective income tax rate in 2003 reflects the fact that the Group received RMB6.6 million in tax refunds during 2003 pursuant to certain PRC tax laws and regulations relating to the re-investment of net profits by foreign invested companies. Under the PRC Income Tax Law, all production foreign investment enterprises established in the PRC with an operational period of over 10 years are allowed a tax holiday during their first two years of profit making operations. Such companies are then taxed for the next three years at half their income tax rate, and taxed thereafter at their full income tax rate. The full income tax rate currently applicable to the Group's subsidiaries located for tax purposes in the Xiamen special economic zone is 15%. Most subsidiaries have fully utilised their tax holiday. Ports International Marketing (Xiamen) Ltd., which operates the BMW Lifestyle business in China, has not had a profitable financial year since its incorporation and the tax holiday has not yet been triggered. Ports International (Beijing) Co. Ltd and Xiamen Xiangyu Ports Trading Co., Ltd. are not entitled to any tax holiday. Most of the Group's subsidiaries are located for tax purposes in the Xiamen special economic zone.

4.10 Profit attributable to shareholders

As a result of the factors discussed above, the Group's profit attributable to shareholders increased by 15.70% to RMB107.5 million in financial year 2003. The Group's net profit margin decreased from 19.78% in financial year 2002 to 18.39% in financial year 2003. The decline in net profit margin was largely due to the disruption in normal business operations caused by the SARS outbreak and was particularly pronounced in the first half of the year. First half net profit margin was 14.15%. In the second half, net profit margin rebounded to 21.63% reflecting an increase in profitability, due to the decline of SARS and changes in product mix related to seasonality.

4.11 Financial Position & Liquidity

The Group continues to be in a very strong financial position, with significant cash generated from normal business operations and from the proceeds of the IPO in 2003. As of 31 December 2003, the Group has roughly RMB315 million in cash and cash equivalents and time deposits with major banks compared with RMB45 million in 2002. The Group also possessed available bank loans and overdraft facilities of roughly RMB101 million, which have not been utilized, and which remain unchanged from 2002. During 2003, the Group paid off all its interest-bearing loans and borrowings, of RMB61 million, and currently has no such liabilities outstanding. As of 31 December 2003, the Group's gearing ratio was zero, based on no debt outstanding and total assets of roughly RMB692 million. The Group's gearing ratio was 17.1% in 2002. The current ratio was 6.1, based on current assets of RMB607 million and current liabilities of RMB100 million.

4.12 Acquisitions & Disposals of Subsidiaries & Associated Companies

The Group did not engage in any material acquisitions or disposals of any subsidiaries or associated companies in 2003.

4.13 Currency Risk Management

The Group's cash balances, from normal business operations and the proceeds from the IPO, are mainly deposited in Hong Kong dollars ("HK\$"), United States dollars ("US\$") and RMB with major international banks in Hong Kong and China.

The Group does not engage in any currency hedging, but considers its risk exposure to currency fluctuations to be minimal. Given the mix of currencies that the Group's revenue and cost base are denominated in, we feel that a natural hedge exists which limits the Group's foreign exchange risk. The Group's cost base is mainly denominated in RMB with limited Euro (Euro is the European common currency, adopted by 12 of the 15 members of the European Union, as part of the European Monetary Union) exposure. Revenue from operations is denominated mainly in RMB with limited Euro and US\$ exposure.

4.14 Capital Commitments & Contingent Liabilities

As of 31 December 2003, the Group had capital commitments of RMB120 million based on authorized but not contracted for expenses, compared with RMB47 million in 2002. These expenses are related to planned initiatives such as the opening of superstores, expansion and renovation of retail operations and new product development. As of 31 December 2003, the Group has no contingent liabilities.

4.15 Capital Structure of the Group

The Group requires working capital to support its manufacturing, Retail, OEM and Other operations. In the past, the Group has financed its working capital needs principally through net cash inflows from operating activities and from short-term interest-bearing loans. As of 31 December 2003, the Group had cash and cash equivalents of RMB315 million, denominated principally in HK\$, US\$ and RMB, an increase of 604% from 31 December 2002, reflecting the Group's listing in Hong Kong as well as net cash inflows from operating activities before working capital changes. Net cash inflows from operating activities before working capital changes increased 11% to RMB132 million in 2003 from RMB119 million in 2002. The Group currently has no outstanding interest-bearing debt obligations.

4.16 Major Customers & Suppliers

During 2003, the Group purchased approximately 10% and 27% of its goods and services from its largest supplier and five largest suppliers, respectively. The percentage of turnover attributable to the Group's largest customer and five largest customers combined were roughly 19% and 31%, respectively. None of the Directors, their associates or shareholders (to the best knowledge of the Directors that own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers or customers.

4.17 Charges on Assets

As of 31 December 2003, the Group had not charged any of its assets.

4.18 Human Resources

As of 31 December 2003, the Group had in total approximately 2,950 employees. Total personnel expenses, comprised of wages, salaries and benefits, was RMB68 million in 2003, compared to RMB65 million in 2002.

PORTS is committed to fostering a safe workplace and a culture that prizes learning and merit-based advancement. Due emphasis is placed on training and developing our team, as PORTS' success is contingent on the efforts of a skilled and motivated work force. The Group engages in job-related training programs to help in the professional development of its employees.

PORTS strives to offer its staff competitive remuneration schemes. In addition, share options are given to eligible employees based on individual and Group performance. Share options may be granted to, among others, employees of the Group to subscribe for shares of the Company pursuant to the terms and conditions of the share option scheme adopted by the Company on 14 October 2003.

4.19 Post-Balance Sheet Date Developments

After the balance sheet date, the directors proposed a final dividend on 15 March 2004. Further details are disclosed in note 12 to the Financial Statements.

5. CORPORATE GOVERNANCE

PORTS is committed to maintaining the highest levels of ethical behavior from all its employees. The foundation of PORTS' corporate governance rests on several basic principles: zero tolerance, internal accountability and independent supervision.

Zero Tolerance: The Group maintains a strict zero-tolerance policy on any and all infringements of its corporate code of conduct.

Internal Accountability: The Group has developed extensive internal control and accounting systems that are designed to provide reasonable assurance that assets are protected from unauthorized use or transfer and transactions are executed consistent with management authorization. Qualified and trained employees are located in all divisions within the Group to maintain and monitor corporate governance.

Independent Supervision: The Company's audit procedures are strictly monitored by independent board members, who possess appropriate industry and financial experience.

5.1 Audit Committee

The audit committee consists of Mr. Rodney Ray Cone and Ms. Valarie Fong Wei Lynn, who are both independent non-executive directors of the Company. Mr. Rodney Ray Cone is the chairman of the audit committee.

5.2 Corporate Social Responsibility

The Group frequently monitors its suppliers to ensure that adherence to national labor laws and international best practices on labor, health and environmental standards are met.

5.3 Corporate Governance Officer

The management team is pleased to announce that it is in the process of nominating an existing board member to the post of *Corporate Governance Officer*. This initiative will build upon the principles that the Group has followed strictly in the past. The *Corporate Governance Officer* will meet with senior management frequently to monitor corporate governance as well as to develop new processes and systems to ensure compliance and the Group's adherence with industry best practices.

6. REPORT OF THE DIRECTORS

The Directors submit their annual report together with the audited financial results of PORTS DESIGN LIMITED (“PORTS” or the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2003.

6.1 Principal Activities

The Group is a vertically integrated, international fashion and luxury goods company with its own design, manufacturing, marketing, distribution and retail capabilities. The Group is primarily engaged in the design, manufacture and retail distribution of ladies’ and men’s fashion garments and the sale of accessories such as shoes, handbags, scarves and fragrances in China and more recently in Hong Kong, under the brand name PORTS INTERNATIONAL. The Group is one of the leading international fashion companies in China with over 250 retail outlets.

6.2 Major Customers & Suppliers

An overview of the Group’s major customers and suppliers are set out on page 16.

6.3 Financial Results & Appropriations

The results of the Group for the year ended 31 December 2003 are set out in the consolidated profit and loss account on page 33.

An interim dividend of RMB31.1 million was paid to shareholders during the year ended 31 December 2003 (an outstanding payment of RMB3.9 million has subsequently been made to Suez Asia Holdings Pte. Limited (“Suez Asia”). The Board recommends the payment of a final dividend of RMB0.23 per share, amounting to a total of approximately RMB31.236 million be paid to shareholders on the register of members on 31 May 2004, which together with the interim dividend payment amounts to a total of about RMB66.236 million, and the retention of the remaining profits for the year.

The Board has carried out a review of the Group’s business strategy, the macro-economic environment, the Group’s medium-term capital requirements and financial position and has determined that the Group, upon payment of this final dividend, would be solvent and able to meet all its obligations as they become due.

6.4 Transfer to Reserves

The Group transferred approximately RMB5.4 million from its profits attributable to shareholders before dividends to its reserves in 2003, compared with RMB10.1 million in 2002. Details of transfers to reserves are outlined on pages 68 to 70.

6.5 Group Financial Summary

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 3.

6.6 Share Capital

Details of the movements in share capital of the Group are set out in pages 65 to 66.

6.7 Fixed Assets

During 2003, the Group acquired fixed assets of approximately RMB26.2 million, compared with RMB30.7 million in 2002. Details of fixed asset acquisitions are outlined in pages 60 to 61.

6.8 Directors

The Directors of PORTS during the year were:

6.8.1 Executive Directors

Mr. Edward Tan Han Kiat
Mr. Alfred Chan Kai Tai
Mr. Pierre Frank Bourque

6.8.2 Non-Executive Directors

Mr. Kunnasagaran Chinniah
Ms. Janine Tran Chanh Lien

6.8.3 Independent Non-Executive Directors

Mr. Rodney Ray Cone
Ms. Valarie Fong Wei Lynn

Pursuant to bye-law 99 of the Bye-Laws of the Company, Messrs Edward Tan Han Kiat, Alfred Chan Kai Tai, Pierre Frank Bourque, Kunnasagaran Chinniah, Janine Tran Chanh Lien, Rodney Ray Cone and Valarie Fong Wei Lynn shall retire by rotation in the forthcoming annual general meeting and all, being eligible, offer themselves for re-election.

A brief biography of the Directors and senior management of the Group are outlined in pages 27 to 30.

6.9 Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Group that is not terminable within one year without payment of compensation other than statutory compensation.

6.10 Directors' and Chief Executives' Interests and Short Positions

As at 31 December 2003, the interests of each Director, Chief Executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporations of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies are as follows:

(i) Shares of the Company of HK\$0.01 each ("Shares")

	Personal Interest	Corporate Interest	Family Interest	Other interest	Total interest
Mr. Edward Tan Han Kiat ¹	0	62,772,819	0	0	62,772,819
Mr. Alfred Chan Kai Tai ¹	0	62,772,819	0	0	62,772,819
Mr. Pierre Frank Bourque	0	0	0	0	0
Mr. Kunnasagaran Chinniah	0	0	0	0	0
Ms. Janine Tran Chanh Lien	0	0	0	0	0
Mr. Rodney Ray Cone	0	0	0	0	0
Ms. Valarie Fong Wei Lynn	0	0	0	0	0

Notes:

1. 872,819 shares are owned by Ports International Enterprise Limited ("PIEL"), the issued share capital of which is owned as to 50% by Mr. Tan and Mr. Chan. 60,900,000 Shares was owned by 1074820 Ontario Inc., an indirect subsidiary of PIEL and 1,000,000 Shares by CFS International Inc., a direct subsidiary of PIEL. Mr. Tan and Mr. Chan are deemed to be interested in 46.22% of the issued share capital of the Company by virtue of their respective interests in PIEL pursuant to Part XV of the SFO

(ii) Share Options in the Company

	Number of outstanding share options	Percentage of issued share capital
Mr. Pierre Frank Bourque	45,000	0.03%
Mr. Rodney Ray Cone	15,000	0.01%
Ms. Valarie Fong Wei Lynn	15,000	0.01%

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or Chief Executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) were required to be notified to the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein.

6.11 Share Option Scheme

The Company adopted a share option scheme (the “Scheme”) pursuant to the resolutions of the shareholders of the Company passed on 14 October 2003:

1. The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contributions to the Group.
2. The participants of the Scheme are (i) any employee of the Company, any of its subsidiaries or any entity in which any member of the Group holds an equity interest (“Invested Entity”), including any executive director of the Company (but excluding Mr. Alfred Chan Kai Tai and Mr. Edward Tan Han Kiat and each of their respective associates), any of its subsidiaries or any Invested Entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to any member of the Group or any Invested Entity.
3. As at 30 March 2004, the maximum number of shares available for issue under the Scheme is 10,081,000 representing approximately 7.42% of the issued share capital of the Company.
4. Unless approval by shareholders in general meeting, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1% of issued share capital of the Company from time to time.
5. An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during a period to be notified by the Directors to each grantee, which period may commence on the date upon which the offer for grant of options is made (“Offer Date”) but shall expire on the day immediately preceding the tenth anniversary of the Offer Date.

6. An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. A nominal consideration of HK\$10 is payable on acceptance of the grant of an option.
7. The subscription price for Shares under the Scheme, subject to any adjustment stipulated therein, shall be a price determined by the Directors, but shall be the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations on the Offer Date; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the Shares.
8. The Scheme shall be valid and effective for a period of 10 years commencing on 3 November 2003.

Details of the share options outstanding as at 31 December 2003 under the Scheme were as follows:

	Options held at 1/1/2003	Options granted during the period	Options exercised during the period	Options lapsed during the period	Exercise Price (HK\$)	Grant Date	Exercisable from	Exercisable until
Mr. Edward Tan Han Kiat	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Alfred Chan Kai Tai	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Pierre Frank Bourque	0	45,000	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Mr. Kunnasagaran Chinniah	0	0	0	0	10.50	N/A	N/A	N/A
Ms. Janine Tran Chanh Lien	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Rodney Ray Cone	0	15,000	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Ms. Valarie Fong Wei Lynn	0	15,000	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Continuous contract employees	0	3,425,000	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013

Note: On and subject to the terms of the Share Option Scheme, the Options shall only be exercisable in respect of such part thereof that has been vested in accordance with the following manner:

Fraction of the Shares covered under the Option

1/3
1/3
1/3

Vesting Date

First anniversary of the Offer Date
Second anniversary of the Offer Date
Third anniversary of the Offer Date

The Board may in its absolute discretion relax or accelerate all or any of the above vesting periods in such manner as it may deem fit.

6.12 Substantial Shareholders

As at 31 December 2003, the interests or short positions of the shareholders, other than a Director or Chief Executive of the Company, in the shares and underlying shares of the Company as record in the register required to be kept by the Company under section 336 of the SFO were as follows:

Names of shareholders	Class of shares	Capacity	Number of shares of the Company	Total number of shares of the Company	Percentage of the issued share capital
CFS International Inc.	Ordinary	Beneficial Owner	1,000,000	61,900,000	45.58%
		Interest of Controlled Corporation	60,900,000		
1074820 Ontario Inc.	Ordinary	Beneficial Owner	60,900,000	60,900,000	44.84%
Ports International Enterprises Limited	Ordinary	Beneficial Owner	872,819	62,772,819	46.22%
		Interest of Controlled Corporation	61,900,000		
Tetrad Ventures Pte. Limited	Ordinary	Beneficial Owner	16,227,181	16,227,181	11.95%
GIC Special Investments Pte. Ltd.	Ordinary	Interest of Controlled Corporation	16,227,181	16,227,181	11.95%
Government of Singapore Investment Corp. Pte. Ltd.	Ordinary	Interest of Controlled Corporation	16,227,181	16,227,181	11.95%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	Ordinary	Interest of Controlled Corporation	16,227,181	16,227,181	11.95%
Minister for Finance (Incorporated), Singapore	Ordinary	Interest of Controlled Corporation	16,227,181	16,227,181	11.95%
Baring Asset Management	Ordinary	Investment Manager	6,870,000	6,870,000	5.06%

Note: All interests disclosed are long positions of the relevant entities in the shares of the Company.

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2003

6.13 Directors' Interest in Contracts of Significance

There were 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, at the year end of or at any time during the year.

6.14 Purchase, Sale or Redemption of Group's Listed Securities

During the year ended 31 December 2003, the Company has not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

6.15 Pre-emptive Rights

There is no provision regarding pre-emptive rights under the Bye-Laws of the Company and the laws of Bermuda.

6.16 Properties

Details of the major properties and property interests of the Group are outlined in pages 60 to 61.

6.17 Retirement Scheme

The Group participates in the Pension Plan benefit scheme mandated by the PRC government for its employees based in the PRC and the Mandatory Provident Plan mandated by the Hong Kong Government for its employees in Hong Kong.

6.18 Continuing Connected Transactions

Since 2002 the Group has sold ladies and men's fashion garments and accessories and other merchandise or products branded with the *PORTS INTERNATIONAL* brand to Ports International Retail Corporation ("PIRC"), a wholly-owned subsidiary of CFS International Inc., which resold them in Europe and North America ("Continuing Connected Transactions"). The Group supplies its products to PIRC on a contract basis, with each contract specifying the quantity to be sold, the price and the date of delivery.

For the year ended 30 December 2003, the Group's total sales to PIRC were RMB2,132,984, representing approximately 0.37% of the Group's then consolidated net tangible assets.

The independent non-executive directors of the Company had reviewed the Continuing Connected Transactions made for the year ended 31 December 2003 and confirmed that:

- (a) the Continuing Connected Transactions had been entered into in the ordinary and usual course of business of the Group;

- (b) the Continuing Connected Transactions had been entered into either on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;
- (c) the Continuing Connected Transactions had been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (d) the aggregate amount of the Continuing Connected Transactions did not exceed the higher of HK\$10 million and 3% of the latest published consolidated net tangible assets of the Group.

The auditors of the Company had also confirmed to the board of Directors of the Company that:

- (a) the Connected Transactions entered into between the Group and its connected parties during the year ended 31 December 2003 have been approved by the directors of the Company;
- (b) nothing came to our attention that caused us to believe that the Connected Transactions entered into between the Group and its connected parties during the year ended 31 December 2003 were not in accordance with either the terms of the relevant agreements where there are such agreements or, if there are no such agreements, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (c) nothing came to our attention that caused us to believe that the aggregate amount of the Connected Transactions have exceeded the higher of HK\$10 million and 3% of the consolidated net tangible assets of the Group as at 31 December 2003.

Transactions between the Group and any related parties are outlined in pages 57 to 58.

6.19 Pledging of shares by controlling shareholders

The controlling shareholder of the issuer has not pledged any of its interests in shares of the Group to any third-party.

6.20 Compliance with the Code of Best Practices

The Group has complied throughout the year with the Code of Best Practices as set out in Appendix 14 of the Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

6.21 Corporate Governance

Principal corporate governance practices are outlined in page 17.

6.22 Use of Proceeds

There has been no change in the application of proceeds raised through the public offering of the Company on 31 October 2003.

6.23 Auditors

The accounts have been reviewed by KPMG who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Group is to be proposed at the upcoming Annual General Meeting.

6.24 Statement of Sufficiency of Public Interest

As at 30 March 2004, based on the information publicly available to the Company and within the knowledge of the Directors, 41.83% of the Shares were publicly held.



On Behalf of the Board
Edward Tan Han Kiat
Chairman

30 March 2004
Xiamen, China

7. SENIOR MANAGEMENT & DIRECTORS

7.1 Executive Directors

Tan, Han Kiat Edward, aged 61, is the Chairman of the Company and a founder of the Group. Mr. Tan has more than 35 years experience in the textile, garment and trading business. Mr. Tan is responsible for setting the general direction of the Group. Mr. Tan has extensive experience in carrying out business in both Canada and China. He is a director of the Canada-China Business Council. Mr. Tan has been an executive director of CFS since 1989.

Chan, Kai Tai Alfred, aged 56, is the Chief Executive Officer and Managing Director of the Company, and a founder of the Group. Mr. Chan is the younger brother of Mr. Tan. Mr. Chan has over 20 years experience in the garment and fashion industry in North America and Asia. He was nominated as one of the 200 top Chief Executive Officers in Canada by the Financial Post of Canada in 1992. He is responsible for the overall management and operations of the Group. Mr. Chan graduated from McGill University in Canada with a Bachelor of Science degree in Physics in 1970 and a Masters degree in Electrical Engineering in 1972.

Bourque, Pierre Frank, aged 56, is the Executive Vice President of the Company. Mr. Bourque has over 20 years experience in the garment and fashion industry with knowledge of inventory management, inventory quality control, marketing, merchandising and sales. Mr. Bourque joined the **PORTS INTERNATIONAL** Canadian operations in 1997 and was the vice president of CFS in the same year. Mr. Bourque joined the Group in August 2002.

7.2 Non-Executive Directors

Tran, Chanh Lien Janine, aged 54, is a non-executive Director. Ms. Tran joined the Group in August 2002. Ms. Tran graduated from the University of Keele, in England in 1972 with a Bachelor of Arts degree, majoring in Economics and French. Ms. Tran has extensive experience in the corporate finance and securities industry. In 1981, Ms. Tran joined the investment banking subsidiary of Banque Indosuez (now part of the Credit Agricole Group) in Hong Kong and was subsequently posted to Malaysia and Singapore. Ms. Tran is the managing director of Suez Asia in Singapore.

Chinniah, Kunnasagaran, aged 46, is a non-executive Director. He is an executive vice president of GIC Special Investments Pte. Ltd., a private equity arm of Government of Singapore Investment Corporation Pte. Ltd. ("GIC"), and the general manager of GIC Infrastructure Pte Ltd. Mr. Chinniah is a Chartered Financial Analyst. He obtained his Bachelor of Electrical Engineering degree from the National University of Singapore in 1982 and completed a Master of Business Administration in 1989 from the University of California, Berkeley. In 1997, Mr. Chinniah attended the World Bank Executive Programme conducted by Harvard University. Mr. Chinniah began his career in 1982 as a senior field engineer with Schlumberger Wireline Services in the Middle East. He left the company in 1986 to pursue an MBA at the University of California, Berkeley. Upon graduation, Mr. Chinniah joined GIC's equities department in July 1989. Between November 1989 and November 1997, he held

various positions with the special investments department of GIC in the North America and Europe divisions, including the position of regional manager, on separate occasions, for Europe and North America, overseeing private equity investments in both regions. Mr. Chinniah was also GIC's representative in Frankfurt. He was based in Frankfurt between March 1992 and February 1995 and in San Francisco between November 1989 and April 1991 and from March 1995 to November 1997. His last position prior to returning to Singapore in November 1997 was regional manager of the North America division of the special investments department.

7.3 Independent Non-Executive Directors

Cone, Rodney Ray, aged 43, is an independent non-executive Director and a member and the chairman of the audit committee of the Company. Mr. Cone graduated from the Wharton School, the University of Pennsylvania with a Master of Business Administration degree in 1993. Mr. Cone was a general manager of Healthcare Asia (Taiwan) Ltd. from 1993 to 1996. Mr. Cone is currently an independent businessman operating in Hong Kong, Taiwan and the PRC. Mr. Cone joined the Group in October 2002.

Fong, Wei Lynn Valarie, aged 31, is an independent non-executive Director and a member of the audit committee of the Company. Ms. Fong graduated from Australian National University in 1995 with a Bachelor of Commerce degree. Ms. Fong was an accountant with Ernst & Young, Hong Kong from 1996 to 1998. Ms. Fong is a member of the Australian Society of Certified Public Accountants. Ms. Fong is currently an art dealer at Contrasts Gallery, Hong Kong where she is responsible for purchases of art pieces for private clients, organising exhibitions and events, co-ordinating public relations and marketing events and preparing production schedules and budgets. Ms. Fong joined the Group in August 2002.

7.4 Senior Management

Wong, Fung Mei Irene, aged 51, is the company secretary of the Company. Miss Wong is an associate member of the Institute of Chartered Secretaries and Administrators, fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Society of Accountants. She is also a Certified Public Accountant in Hong Kong and has been a practicing accountant for over 20 years. Miss Wong joined the Company in September 2003.

Yang, De Ming, aged 50, is the senior vice president of the Company. Mr. Yang joined the PORTS INTERNATIONAL North American operations in 1989 and was transferred to China in 2003. Mr. Yang has 30 years of retail experience in Canada. Mr. Yang is responsible for the overall operations of the Group's business in China.

Singh, Deepak, aged 37, is a vice president of the Company. Mr. Singh is responsible for the Group's corporate development and communications. He has over 11 years of experience working in New York and Toronto involving capital markets, information technology, eBusinesses and management functions.

He, Kun, aged 33, is the financial controller of the Group. Mr. He is responsible for budget control and financial reporting. Mr. He completed a professional accounting degree in 1992 at Xiamen University in China. Mr. He joined the Group in 1992.

Shebani, Faeza and Thuraya, aged 38 and 31 respectively, are the Chief Collection Designers. They have been involved in operations for the last nine years in China and are intimately involved in the development of the Group's clothing lines. They are responsible for setting the overall artistic direction of the Group. Faeza and Thuraya Shebani (known professionally as Fiona and Tia Cibani) joined the PORTS INTERNATIONAL North American operation in 1989.

Chen, Hong, aged 35, is the director of the marketing department. Ms. Chen is responsible for promotional and public relations events, advertising and media relationships. Ms. Chen joined the Group in 1997. Ms. Chen graduated from Xiamen University, China, in 1991 with a Bachelor of Laws degree.

Jiao, Xin, aged 36, is the national retail manager. Ms. Jiao is responsible for supervising and training retail staff and maintaining the level of service in every PORTS INTERNATIONAL retail outlet. Ms. Jiao joined the Group in 1994.

Law, Chung Hin, aged 44, is the manager of the information technology department. Mr. Law graduated from the University of Toronto, Canada in 1984 with a Bachelor of Science degree, majoring in mathematics and computer science. Mr. Law joined the PORTS INTERNATIONAL North American operation in 1989 and is responsible for computer and data processing, including the development of computer programs and the maintenance of computer and data processing equipment. Mr. Law was transferred to China in 1994.

Chen, Xi Fan, aged 33, is the manager of merchandising. Ms. Chen is responsible for the ordering of merchandise for distribution to retail outlets. Ms. Chen graduated from Fuzhou University, China, in 1991 with a Bachelor of Arts degree. Ms. Chen joined the Group in 1992.

He, Cai Mao, aged 31, is the manager of the Group's legal department. Mr. He is responsible for legal matters, compliance with Chinese law, trade mark registration and infringement issues. Mr. He graduated from Xiamen University, China, in 1996 with a Bachelor of Laws degree. Mr. He joined the Group in 1996.

Pick, Adrian John, aged 29, is the software system designer of the Group. Mr. Pick has six years of experience working in a variety of positions designing and supporting enterprise class software applications. Mr. Pick holds a Bachelor of Arts degree in computer science from the University of Western Ontario, Canada. Mr. Pick joined the Group in 2003.

Halliday, Theresa, aged 28, is the visual merchandising and display manager. Ms. Halliday has three years of experience working as a visual merchandiser in Toronto. Ms. Halliday holds a Visual Merchandising diploma from Seneca College, Toronto. Ms. Halliday joined the Group in 2002.

8. FINANCIAL REPORT

PORTS DESIGN LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Ports Design Limited Annual Report 2003

9. REPORT OF THE AUDITORS

Auditors' report to the shareholders of
PORTS DESIGN LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 33 to 77 which have been prepared in accordance with international financial reporting standards.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements, which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

in our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 30 March 2004

10. CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2003
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2003</i>	<i>2002</i>
Turnover	4	584,639,973	469,737,982
Cost of sales		<u>(247,926,143)</u>	<u>(175,277,732)</u>
Gross profit		336,713,830	294,460,250
Other operating income	6	7,886,301	8,851,881
Distribution expenses		(185,056,585)	(160,738,303)
General and administrative expenses		(18,621,518)	(16,600,802)
Other operating expenses	7	<u>(21,811,216)</u>	<u>(16,995,770)</u>
Profit from operations		119,110,812	108,977,256
Net finance costs	9	<u>(3,243,925)</u>	<u>(4,730,726)</u>
Profit from ordinary activities before taxation	9	115,866,887	104,246,530
Income tax expenses	10(i)	<u>(8,358,258)</u>	<u>(11,327,589)</u>
Profit attributable to shareholders	11,28(a)	<u>107,508,629</u>	<u>92,918,941</u>
Dividends attributable to the year:	12		
Dividend declared during the year		35,000,000	60,000,000
Final dividend proposed after the balance sheet date		<u>31,236,300</u>	<u>-</u>
		<u>66,236,300</u>	<u>60,000,000</u>
Earnings per share			
-Basic	13	<u>0.97</u>	<u>0.88</u>
-Diluted	13	<u>0.97</u>	<u>N/A</u>

The notes on pages 40 to 77 form part of these financial statements.

11. CONSOLIDATED BALANCE SHEET

at 31 December 2003

(Expressed in Renminbi Yuan)

	Note	2003	2002
Assets			
Lease prepayments	17	11,190,575	11,444,940
Property, plant and equipment	18	69,698,772	57,947,361
Intangible assets	19	1,183,710	1,829,370
Deferred tax assets	20	<u>3,503,229</u>	<u>5,664,642</u>
Total non-current assets		<u>85,576,286</u>	<u>76,886,313</u>
Inventories	21	184,815,705	160,274,857
Accounts receivable	22	72,275,008	50,019,144
Bills receivable		12,651,091	8,369,354
Amounts due from a related company	23(a)	-	323,215
Advances to suppliers		8,882,482	2,788,948
Other receivables, deposits and prepayments		12,877,316	15,203,966
Time deposits with a bank		82,767,000	-
Cash and cash equivalents	24(a)	<u>232,290,271</u>	<u>44,783,479</u>
Total current assets		<u>606,558,873</u>	<u>281,762,963</u>

The notes on pages 40 to 77 form part of these financial statements.

Consolidated Balance Sheet (continued)
at 31 December 2003
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2003</i>	<i>2002</i>
Current liabilities			
Interest-bearing loans and borrowings	25	-	61,331,900
Bills payable		359,124	835,037
Accounts payable	26	39,972,591	24,012,372
Other creditors and accruals		47,698,551	42,314,345
Amounts due to related companies	23(a)	1,100,828	14,112,320
Tax payable	10(iii)	6,526,888	11,662,091
Dividend payable		<u>3,850,690</u>	<u>-</u>
Total current liabilities		<u>99,508,672</u>	<u>154,268,065</u>
Net current assets		<u>507,050,201</u>	<u>127,494,898</u>
Net assets		<u>592,626,487</u>	<u>204,381,211</u>
Equity			
Share capital	27	1,442,185	1,119,675
Reserves	28(a)	<u>591,184,302</u>	<u>203,261,536</u>
Capital and reserves		<u>592,626,487</u>	<u>204,381,211</u>

Approved and authorised for issue by the board of directors on 30 March 2004.



Alfred Chan Kai Tai
Chief Executive Officer



Pierre Frank Bourque
Executive Vice President

The notes on pages 40 to 77 form part of these financial statements.

12. BALANCE SHEET

at 31 December 2003

(Expressed in Renminbi Yuan)

	Note	2003	2002
Assets			
Investments in subsidiaries	29	<u>152,379,654</u>	<u>152,378,826</u>
Total non-current assets		<u>152,379,654</u>	<u>152,378,826</u>
Amounts due from subsidiaries		134,486,564	-
Other receivables, deposits and prepayments		486,250	-
Time deposits with a bank		82,767,000	-
Cash and cash equivalents	24(b)	<u>104,573,334</u>	<u>3,311</u>
Total current assets		<u>322,313,148</u>	<u>3,311</u>
Other creditors and accruals		128,006	-
Amounts due to a related company	23(b)	506,508	-
Amounts due to a subsidiary		2,080,091	3,311
Dividend payable		<u>3,850,690</u>	<u>-</u>
Total current liabilities		<u>6,565,295</u>	<u>3,311</u>
Net current assets		<u>315,747,853</u>	<u>-</u>
Net assets		<u>468,127,507</u>	<u>152,378,826</u>
Equity			
Share capital	27	1,442,185	1,119,675
Reserves	28(b)	<u>466,685,322</u>	<u>151,259,151</u>
Capital and reserves		<u>468,127,507</u>	<u>152,378,826</u>

Approved and authorised for issue by the board of directors on 30 March 2004.



Alfred Chan Kai Tai
Chief Executive Officer



Pierre Frank Bourque
Executive Vice President

The notes on pages 40 to 77 form part of these financial statements.

Ports Design Limited Annual Report 2003

13. CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2003

(Expressed in Renminbi Yuan)

	2003	2002
Operating activities		
Profit from ordinary activities before taxation	115,866,887	104,246,530
Adjustments for:		
Depreciation of property, plant and equipment	14,390,385	10,669,812
Amortisation of lease prepayments	254,365	209,542
Amortisation of intangible assets	645,660	645,660
Losses/(gains) on sales of property, plant and equipment	1,357	(13,736)
Interest expense	1,771,347	3,918,507
Interest income	<u>(543,156)</u>	<u>(415,312)</u>
Cash flows from operating activities before working capital changes	132,386,845	119,261,003
Increase in inventories	(24,540,848)	(31,703,347)
Increase in accounts receivable and bills receivable	(26,537,601)	(13,066,711)
Net (increase)/decrease in amounts due from/to related companies	(4,411,077)	14,116,743
(Increase)/decrease in advances to suppliers	(6,093,534)	867,422
Decrease/(increase) in other receivables, deposits and prepayments	2,326,650	(6,885,872)
Increase/(decrease) in bills payable and accounts payable	15,484,306	(269,968)
Increase in other creditors and accruals	<u>5,384,206</u>	<u>11,254,376</u>
Cash inflows from operating activities	93,998,947	93,573,646
Tax refund from the PRC government	6,585,862	2,938,662
Income tax paid	<u>(17,917,910)</u>	<u>(6,979,591)</u>
Net cash inflows from operating activities	<u>82,666,899</u>	<u>89,532,717</u>

The notes on pages 40 to 77 form part of these financial statements.

Consolidated Cash Flow Statement (continued)
for the year ended 31 December 2003
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2003</i>	<i>2002</i>
Investing activities			
Interest received		543,156	415,312
Lease prepayments		-	(5,643,756)
Acquisition of property, plant and equipment		(26,152,843)	(29,747,165)
Proceeds from disposal of property, plant and equipment		9,690	880,338
Increase in time deposits with a bank		<u>(82,767,000)</u>	<u>-</u>
Net cash outflows from investing activities		<u>(108,366,997)</u>	<u>(34,095,271)</u>
Financing activities			
Interest expense paid		(1,771,347)	(3,918,507)
Proceeds from interest-bearing loans and borrowings		80,764,600	153,939,400
Repayment of interest-bearing loans and borrowings		(142,096,500)	(163,010,700)
Repayment of advances to related companies		(8,277,200)	(13,631,589)
Dividends paid		(31,149,310)	(60,000,000)
Proceeds from the issue of share capital		338,635,238	20,679,705
Share issue expenses paid		<u>(22,898,591)</u>	<u>-</u>
Net cash inflows/(outflows) from financing activities		<u>213,206,890</u>	<u>(65,941,691)</u>
Net increase/(decrease) in cash and cash equivalents		187,506,792	(10,504,245)
Cash and cash equivalents at beginning of year		<u>44,783,479</u>	<u>55,287,724</u>
Cash and cash equivalents at end of year	24(a)	<u>232,290,271</u>	<u>44,783,479</u>

The notes on pages 40 to 77 form part of these financial statements.

14. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2003

(Expressed in Renminbi Yuan)

	Share Capital (Note 27)	Capital reserve (Note 28)	Share premium (Note 28)	General reserve fund (Note 28)	Enterprise expansion fund (Note 28)	Retained Earnings (Note 28)	Total
Balance at 1 January 2002	81,604	43,517,389	-	19,735,904	9,867,952	77,579,716	150,782,565
Issuance of shares of Ports Asia Holdings Limited	4,601	-	20,675,104	-	-	-	20,679,705
Issuance of shares of the Company	1,119,675	(1,033,470)	-	-	-	-	86,205
Capital elimination on combination	(86,205)	-	-	-	-	-	(86,205)
Net profit for the year	-	-	-	-	-	92,918,941	92,918,941
Transfer to reserves	-	-	-	10,108,148	-	(10,108,148)	-
Dividend Declared	-	-	-	-	-	(60,000,000)	(60,000,000)
Balance at 31 December 2002	<u>1,119,675</u>	<u>42,483,919</u>	<u>20,675,104</u>	<u>29,844,052</u>	<u>9,867,952</u>	<u>100,390,509</u>	<u>204,381,211</u>
Balance at 1 January 2003	1,119,675	42,483,919	20,675,104	29,844,052	9,867,952	100,390,509	204,381,211
Issuance of shares of the Company	322,510	-	338,312,728	-	-	-	338,635,238
Share issue expenses	-	-	(22,898,591)	-	-	-	(22,898,591)
Net profit for the year	-	-	-	-	-	107,508,629	107,508,629
Transfer to reserves	-	-	-	5,405,873	-	(5,405,873)	-
Dividend declared	-	-	-	-	-	(35,000,000)	(35,000,000)
Balance at 31 December 2003	<u>1,442,185</u>	<u>42,483,919</u>	<u>336,089,241</u>	<u>35,249,925</u>	<u>9,867,952</u>	<u>167,493,265</u>	<u>592,626,487</u>

The notes on pages 40 to 77 form part of these financial statements.

15. NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Reorganisation

PORTS DESIGN LIMITED (“the Company”) was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) on 28 June 2002. Pursuant to a reorganisation (“the Reorganisation”) to rationalise the structure of the group in preparation for the Hong Kong public offering and the international placing of the Company’s shares on 31 October 2003, the Company became the holding company of the companies comprising the group (hereinafter collectively referred to as “the Group”) on 3 August 2002. This was accomplished by the Company acquiring the entire issued share capital of Ports Asia Holdings Limited (“PAHL”, formerly known as Smythe Capital Incorporated), the then holding company of other subsidiaries except for Ports International Marketing Ltd. (formerly known as Smythe Trading Co., Ltd.). Further details of the Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 27 and 29 to the financial statements and in the Company’s prospectus dated 21 October 2003.

2. Basis of presentation

The Group resulting from the Reorganisation has been regarded as a continuing group. The consolidated financial statements have been prepared using the pooling of interests method of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries for both years presented, rather than from the date of acquisition on 3 August 2002. Accordingly, the consolidated results of the Group for the two years ended 31 December 2002 and 2003 include the results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, where this is a shorter period, as if the current Group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 December 2002 has been prepared on the basis that the current Group structure was in place with effect from 1 January 2002.

In the opinion of the directors, the consolidated financial statements prepared on the above basis give a more meaningful and fair view of the results and the state of affairs of the Group as a whole.

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”). IFRS includes International Accounting Standards (“IAS”) and interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“the SEHK”). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statement is historical cost.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

(c) Basis of consolidation

i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company’s balance sheet, investments in subsidiaries are stated at cost less any impairment losses (refer to accounting policy i).

(d) Lease prepayments

Leases of land are classified as operating leases. The prepaid lease payments are amortised over the lease period on a straight-line basis.

(e) Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer to accounting policy i).

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Buildings acquired by way of finance leases are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to accounting policy i).

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, as follows:

Buildings 20 years
Plant and machinery 10 years
Fixtures, fittings and other fixed assets 3-5 years

(v) Disposals

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is calculated based on the weighted average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (refer to accounting policy i).

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with banks with an initial term of less than three months.

(i) Impairment

The carrying amounts of the Group's assets, other than inventories (refer to accounting policy f) and deferred tax assets (refer to accounting policy q), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Intangible asset

The intangible asset acquired by the Group is stated at cost less accumulated amortisation and impairment losses (refer to accounting policy i). Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the intangible asset.

Trademark use rights are amortised over the estimated useful life of 10 years from the date of acquisition.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(l) Employee benefits

(i) Defined contribution plan

Obligations for contributions to a defined contribution pension plan are recognised as an expense in the income statement as incurred.

(ii) Mandatory Provident Funds

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

(iii) Share option

When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(m) Trade and other payables

Trade and other payables are stated at their cost.

(n) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

(o) Revenue

(i) Sales of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Services rendered

Revenue from services rendered is recognised in the income statement when the service is rendered.

(p) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the terms of the respective leases. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings, calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the assets.

Interest expense is recognised in the income statement using the effective interest rate method.

(q) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment of tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Foreign currency transactions

Transactions in foreign currencies are translated to Renminbi (“RMB”) at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet dates are translated to RMB at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, that are stated at historical cost are translated to RMB at the foreign exchange rate ruling at the date of the transaction.

(s) Related parties

For the purposes of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

(t) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

4. Turnover

The principal activities of the Group are the manufacturing and sales of garments. Turnover represents income arising from the sale of garments net of value added tax.

5. Segment information

Segment information is presented in respect of the Group’s business and geographical segments. The primary format, business segments, is based on the Group’s management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowing and expenses, and corporate assets and expense.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises two principal business segments which are retail and original equipment manufacturer (“OEM”) respectively.

Geographical segments

The Group’s business is managed on a worldwide basis, but participates in four principal geographical areas, the PRC (other than Hong Kong), North America, Hong Kong and Europe.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

5.1 Business segments

	2003	2002
Turnover		
Retail	379,251,367	326,869,859
OEM	168,233,379	116,767,476
Unallocated	<u>37,155,227</u>	<u>26,100,647</u>
Total	<u>584,639,973</u>	<u>469,737,982</u>
Segment result		
Retail	101,201,778	96,483,186
OEM	<u>14,230,076</u>	<u>16,283,806</u>
Total	115,431,854	112,766,992
Unallocated operating income and expenses	<u>3,678,958</u>	<u>(3,789,736)</u>
Profit from operations	119,110,812	108,977,256
Net financing cost	(3,243,925)	(4,730,726)
Income tax	<u>(8,358,258)</u>	<u>(11,327,589)</u>
Profit attributable to shareholders	<u>107,508,629</u>	<u>92,918,941</u>
Segment assets		
Retail	316,261,946	284,547,300
OEM	<u>38,408,174</u>	<u>24,046,317</u>
Total	354,670,120	308,593,617
Unallocated assets	<u>337,465,039</u>	<u>50,055,659</u>
Total assets	<u>692,135,159</u>	<u>358,649,276</u>

	2003	2002
Segment liabilities		
Retail	69,594,040	52,207,838
OEM	<u>17,559,832</u>	<u>11,675,896</u>
Total	87,153,872	63,883,734
Unallocated liabilities	<u>12,354,800</u>	<u>90,384,331</u>
Total liabilities	<u>99,508,672</u>	<u>154,268,065</u>
Capital expenditure		
Retail	24,223,204	34,472,850
OEM	-	-
Unallocated	<u>1,929,639</u>	<u>1,844,293</u>
Total	<u>26,152,843</u>	<u>36,317,143</u>
Depreciation and amortisation		
Retail	14,209,874	10,506,994
OEM	-	-
Unallocated	<u>1,080,536</u>	<u>1,018,020</u>
Total	<u>15,290,410</u>	<u>11,525,014</u>

5.2 Geographical segments

	2003	2002
Turnover		
the PRC	392,607,302	347,543,561
North America	173,330,335	117,874,008
Hong Kong	9,853,854	4,320,413
Europe	<u>8,848,482</u>	-
Total	<u>584,639,973</u>	<u>469,737,982</u>
Segment assets		
the PRC	375,967,572	331,461,514
Hong Kong	<u>316,167,587</u>	<u>27,187,762</u>
Total	<u>692,135,159</u>	<u>358,649,276</u>
Capital expenditure		
the PRC	25,523,676	36,317,143
Hong Kong	<u>629,167</u>	-
Total	<u>26,152,843</u>	<u>36,317,143</u>

6. Other operating income

	<i>2003</i>	<i>2002</i>
Liaison service income	245,998	743,252
Royalty income	1,247,264	870,093
Design and decoration income	4,873,124	5,846,335
Insurance compensation	674,937	632,903
Others	844,978	759,298
	<u>7,886,301</u>	<u>8,851,881</u>

7. Other operating expenses

	<i>2003</i>	<i>2002</i>
Stock provision	21,165,556	16,350,110
Amortisation of intangible asset	645,660	645,660
	<u>21,811,216</u>	<u>16,995,770</u>

8. Personnel expenses

	<i>2003</i>	<i>2002</i>
Wages, salaries and staff benefits	66,463,873	63,186,076
Contributions to defined contribution retirement plan	1,816,688	1,650,132
	<u>68,280,561</u>	<u>64,836,208</u>
Average number of employees during the year	<u>2,786</u>	<u>2,620</u>

The Group participates in a defined contribution plan managed by the local government authorities of Xiamen whereby the Group is required to contribute to the plan. The applicable rates of contribution are either 6% of the minimum salary level of employees in Xiamen or 14% (2002: 16%) of the higher of the average salary of employees in Xiamen and the individual basic salary of the Group's employees. The Group has no obligation for the payment of retirement benefits other than the contributions described above.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution plan as mentioned above. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

Personnel expenses include directors' remuneration of RMB1,191,850 (2002: RMB 850,000) for the year ended 31 December 2003.

9. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	<i>2003</i>	<i>2002</i>
(i) Net financing costs		
Interest income	(543,156)	(415,312)
Interest expense on bank advances repayable		
within five years	1,771,347	3,918,507
Bank charges	1,578,459	1,101,579
Net foreign exchange loss	<u>437,275</u>	<u>125,952</u>
Net financing costs	<u><u>3,243,925</u></u>	<u><u>4,730,726</u></u>
	<i>2003</i>	<i>2002</i>
(ii) Other items		
Auditors' remuneration	900,000	505,400
Depreciation		
- owned fixed assets	14,118,615	10,398,042
- leased fixed assets	271,770	271,770
Amortisation		
- lease prepayment for land	254,365	209,542
- intangible assets	645,660	645,660
Operating leases charges in respect of properties		
- minimum lease payments	27,513,162	23,749,364
- contingent rents	<u><u>71,165,440</u></u>	<u><u>59,435,468</u></u>

10. Income tax expense

(i) Income tax expense represents:

	<i>2003</i>	<i>2002</i>
Current year expense	12,614,591	16,938,568
Under provision in prior years	168,116	57,424
Income tax refund	<u>(6,585,862)</u>	<u>(2,938,662)</u>
	6,196,845	14,057,330
Changes in deferred taxes	<u>2,161,413</u>	<u>(2,729,741)</u>
	<u><u>8,358,258</u></u>	<u><u>11,327,589</u></u>

The Group's applicable tax rate represented the preferential PRC enterprise income tax of 15% applicable to companies located within special economic zones in the PRC.

The Group was granted tax refund of RMB6,585,862 during the year ended 31 December 2003 (2002: RMB2,938,662), pursuant to the relevant PRC tax law and regulations applicable to re-investment of profits earned.

(ii) The following is a reconciliation of income tax calculated at the applicable tax rate with income tax expense.

	<i>2003</i>	<i>2002</i>
Profit from ordinary activities before taxation	115,866,887	104,246,530
Computed tax using the Group's applicable tax rate	17,380,033	15,636,980
Rate differential on subsidiaries taxed at 0%	(2,604,029)	(1,428,153)
Income tax refund	(6,585,862)	(2,938,662)
Under provision in prior years	<u>168,116</u>	<u>57,424</u>
	<u><u>8,358,258</u></u>	<u><u>11,327,589</u></u>

(iii) Taxation in the consolidated balance sheet represents:

	<i>2003</i>	<i>2002</i>
Balance at beginning of year	11,662,091	1,645,690
Provision for income tax for the year	12,782,707	16,995,992
Paid during the year	<u>(17,917,910)</u>	<u>(6,979,591)</u>
Balance at end of year	<u><u>6,526,888</u></u>	<u><u>11,662,091</u></u>

11. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of RMB12,034 (2002: -) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	<i>2003</i>
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	12,034
Final dividends from a subsidiary attributable to the profit of the previous financial year, approved and paid during the year	<u>35,000,000</u>
Company's profit for the year (note 28 (b))	<u><u>35,012,034</u></u>

12. Dividends attributable to the year

	<i>2003</i>	<i>2002</i>
Special dividend declared of RMB - per share (2002: RMB6,000 per share)	-	60,000,000
Interim dividend declared of RMB 0.33 per share (2002: - per share)	35,000,000	-
Final dividend proposed after the balance sheet date of RMB0.23 per share (2002: -)	<u>31,236,300</u>	<u>-</u>
	<u><u>66,236,300</u></u>	<u><u>60,000,000</u></u>

Pursuant to a resolution passed at the board of directors' meeting held on 26 August 2002, a special dividend of RMB60,000,000 was declared by the Company's subsidiary, PAHL, to its then shareholders. The calculation of dividend per share is based on the dividend of RMB60,000,000 and the 10,000 shares of PAHL which qualified for the entitlement to dividends.

Pursuant to a resolution passed at the board of directors' meeting held on 13 October 2003, an interim dividend of RMB35,000,000 for the current year was declared by the Company to its shareholders whose names appeared on its register of members on 25 October 2003. The calculation of dividend per share is based on the dividend of RMB35,000,000 and the 105,560,000 shares of the Company which qualified for the entitlement to dividends.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

13. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB107,508,629 (2002:RMB92,918,941) and the weighted average of 110,425,068 (2002:105,560,000) ordinary shares in issue during the year. The weighted average number of shares used to calculate the last year's earnings per share included the pro-forma ordinary shares in issue calculated based on the assumption that the Reorganisation, as set out in note 1 to the financial statements, had been completed on 1 January 2002.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of RMB107,508,629 and the weighted average number of 110,549,811 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

There were no dilutive potential ordinary shares in existence during the year ended 31 December 2002, and therefore diluted earnings per share is not presented for last year.

(c) Reconciliation

	<i>2003</i>
	<i>Number of shares</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	110,425,068
Deemed issue of ordinary shares for no consideration	<u>124,743</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>110,549,811</u>

14. Directors' emoluments

Details of directors' emoluments are as follows:

	<i>2003</i>	<i>2002</i>
Fees	-	-
Basic salaries, housing benefits, other allowances and benefits in kind	1,191,850	850,000
Contributions to retirement benefit scheme	<u>-</u>	<u>-</u>
	<u>1,191,850</u>	<u>850,000</u>

An analysis of directors' emoluments by the number of directors' emolument range is as follows:

	<i>2003</i>	<i>2002</i>
RMB Nil – RMB1,000,000	<u>7</u>	<u>3</u>

No bonuses were paid or payable as at 31 December 2003 and 2002 by the Group to the directors which were discretionary or based on the Group's or any member of the Group's performance.

There was no directors' remuneration paid to the non-executive directors during the year.

Certain directors were granted options to subscribe for shares in the Company. Details of the share options granted and outstanding in respect of each director as at 31 December 2003 are set out under Section 6.11 "Share Options" in the Report of the Directors.

Save as disclosed above, no directors' remuneration has been paid or is payable by the Group for the year ended 31 December 2003.

15. Senior management's emoluments

The five highest paid individuals in the Group during the year ended 31 December 2003 included one (2002: -) director of the Company whose remuneration is reflected in note 14 above. Details of the emoluments paid by the Group and designated bands for the remaining highest paid, non-director individuals members are as follows:

	2003	2002
Basic salaries, allowances and other benefits	2,146,824	2,808,978
Discretionary bonuses	-	130,000
Contributions to retirement benefit scheme	-	-
	<u>2,146,824</u>	<u>2,938,978</u>

An analysis of emoluments paid to the remaining 4 (2002: 5) highest paid individuals by number of individuals and emolument range is as follows:

	2003	2002
RMB Nil – RMB1,000,000	<u>4</u>	<u>5</u>

During the relevant period, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. Related party transactions

Transactions with the following parties are considered as related party transactions for the years ended 31 December 2003 and 2002.

Name of party	Relationship
CFS International Incorporated	Ultimate holding company
Brimeland Company Limited	Fellow subsidiary company
Ports International Retail Corporation	Fellow subsidiary company
PIHK Limited	Fellow subsidiary company
Fair Capital International Limited	Fellow subsidiary company

(a) Recurring

Particulars of significant transactions between the Group and the above related parties for the years ended 31 December 2003 and 2002 are as follows:

	2003	2002
Sales of goods to:		
CFS International Incorporated	79,681	-
PIHK Limited	3,085,339	1,730,707
Ports International Retail Corporation	2,132,984	1,972,260
Brimeland Company Limited	-	1,619,468

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from independent third parties, and in the ordinary course of business, and this has been confirmed by the independent non-executive directors.

(b) Non-recurring

	<i>2003</i>	<i>2002</i>
Purchase of goods and fixed assets from:		
CFS International Incorporated	493,792	178,486
PIHK Limited	7,415,869	785,873
Brimeland Company Limited	-	4,791,824
Expenditure paid on the Group's behalf by:		
PIHK Limited	4,854,221	6,619,192
CFS International Incorporated	2,911,303	-
Expenditure paid on the Group's behalf of:		
CFS International Incorporated	3,391,002	5,980,949
Brimeland Company Limited	-	3,172,356
PIHK Limited	4,930,717	-
Ports International Retail Corporation	406,081	-
Liaison service income from:		
CFS International Incorporated	-	44,896
Advance from/(repayment of advances):		
Fair Capital International Limited	-	(11,504,447)
Brimeland Company Limited	-	(10,404,342)
PIHK Limited	(8,277,200)	8,277,200

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from independent third parties, and in the ordinary course of business. The directors have confirmed that the above transactions were discontinued after the listing of the Company's shares on the SEHK on 31 October 2003.

17. Lease prepayments

	2003	2002
Cost		
Balance at beginning of year	11,946,485	6,302,729
Additions	<u>-</u>	<u>5,643,756</u>
Balance at end of year	<u>11,946,485</u>	<u>11,946,485</u>
Accumulated amortisation		
Balance at beginning of year	(501,545)	(292,003)
Amortisation charge for the year	<u>(254,365)</u>	<u>(209,542)</u>
Balance at end of year	<u>(755,910)</u>	<u>(501,545)</u>
Net book value		
At end of year	<u>11,190,575</u>	<u>11,444,940</u>

The lease prepayments of the Group represented rentals prepaid for land use rights in the PRC for periods of between 20 to 50 years.

18. Property, plant and equipment

	Buildings	Plant and machinery	Fixtures, fitting and other fixed assets	Construction in progress	Total
Cost					
Balance at 1 January 2002	16,869,106	12,768,328	26,820,495	4,470,501	60,928,430
Acquisitions	-	1,255,470	11,314,903	18,103,014	30,673,387
Transfer from construction in progress	10,235,448	-	4,608,561	(14,844,009)	-
Disposals	<u>(2,080,189)</u>	<u>-</u>	<u>(6,604,891)</u>	<u>-</u>	<u>(8,685,080)</u>
Balance at 1 January 2003	25,024,365	14,023,798	36,139,068	7,729,506	82,916,737
Acquisitions	-	3,937,647	15,689,422	6,525,774	26,152,843
Transfer from construction in progress	10,344,586	-	2,584,610	(12,929,196)	-
Disposals	<u>-</u>	<u>-</u>	<u>(4,186,360)</u>	<u>-</u>	<u>(4,186,360)</u>
Balance at 31 December 2003	<u>35,368,951</u>	<u>17,961,445</u>	<u>50,226,740</u>	<u>1,326,084</u>	<u>104,883,220</u>
Depreciation					
Balance at 1 January 2002	3,050,867	6,572,585	12,329,370	-	21,952,822
Depreciation charge for year	1,129,737	1,097,996	8,442,079	-	10,669,812
Disposals	<u>(1,058,821)</u>	<u>-</u>	<u>(6,594,437)</u>	<u>-</u>	<u>(7,653,258)</u>
Balance at 1 January 2003	3,121,783	7,670,581	14,177,012	-	24,969,376
Depreciation charge for year	1,463,262	1,027,770	11,899,353	-	14,390,385
Disposals	<u>-</u>	<u>-</u>	<u>(4,175,313)</u>	<u>-</u>	<u>(4,175,313)</u>
Balance at 31 December 2003	<u>4,585,045</u>	<u>8,698,351</u>	<u>21,901,052</u>	<u>-</u>	<u>35,184,448</u>
Net book value					
At 31 December 2003	<u>30,783,906</u>	<u>9,263,094</u>	<u>28,325,688</u>	<u>1,326,084</u>	<u>69,698,772</u>
At 31 December 2002	<u>21,902,582</u>	<u>6,353,217</u>	<u>21,962,056</u>	<u>7,729,506</u>	<u>57,947,361</u>

All of the buildings owned by the Group are located in the PRC under medium term leases.

As at 31 December 2003, the net book value of a building held under a finance lease arrangement of the Group amounted to RMB4,231,660 (2002: RMB4,503,430).

For the purpose of the Hong Kong Public Offering and the International Placing of the Company's shares, the properties of the Group were revalued as at 31 July 2003 by American Appraisals China Limited (formerly known as American Appraisals Hong Kong Limited), an independent professional valuers. Based on the valuation report issued by American Appraisals China Limited, the aggregate fair market value of certain properties was above the respective aggregate carrying value by approximately RMB412,000 as at 31 July 2003. According to the Group's accounting policy, the surplus on revaluation was not recorded in the Group's consolidated financial statements. If the surplus on revaluation had been included in the Group's consolidated financial statements, an additional depreciation charge of approximately RMB10,000 would have been incurred for the year ended 31 December 2003.

19. Intangible assets

	2003	2002
Cost		
Balance at beginning/end of year	<u>6,450,600</u>	<u>6,450,600</u>
Amortisation		
At beginning of year	4,621,230	3,975,570
Amortisation charge for the year	<u>645,660</u>	<u>645,660</u>
At end of year	<u>5,266,890</u>	<u>4,621,230</u>
Net book value		
At end of year	<u>1,183,710</u>	<u>1,829,370</u>

Intangible assets comprise trademark use rights registered in the PRC held by the Group.

20. Deferred tax assets

Deferred tax assets are attributable to the following:

	2003	2002
Stock provision	3,078,021	5,051,373
Tax value of loss carried forward	378,978	539,219
Others	<u>46,230</u>	<u>74,050</u>
Total	<u>3,503,229</u>	<u>5,664,642</u>

The Group did not have material unprovided deferred taxation at the balance sheet date.

21. Inventories

Inventories represent:

	2003	2002
Raw materials	43,683,505	32,968,466
Work in progress	10,300,709	9,378,442
Finished goods	129,008,372	115,517,089
Goods in transit	<u>1,823,119</u>	<u>2,410,860</u>
	<u>184,815,705</u>	<u>160,274,857</u>

Inventories stated at net realisable value 60,916,809 42,246,320

The cost of inventories recognised as expenses in the income statement can be specified as follows:

Cost of sales	247,926,143	175,277,732
Stock provision	<u>21,165,556</u>	<u>16,350,110</u>
	<u>269,091,699</u>	<u>191,627,842</u>

22. Accounts receivable

An ageing analysis of accounts receivable (net of provisions for bad and doubtful debts) is as follows:

	2003	2002
Within 1 month	59,587,793	37,898,158
Over 1 month but less than 3 months	11,455,675	11,711,703
Over 3 months but less than 6 months	1,201,928	330,496
Over 6 months but less than 12 months	29,612	47,694
Over 1 year but less than 2 years	<u>-</u>	<u>31,093</u>
	<u>72,275,008</u>	<u>50,019,144</u>

Customers are normally granted credit terms of 0 to 60 days, depending on the credit worthiness of individual customers.

23. Amounts due from/to related companies

(a) The Group

	2003	2002
Amounts due from		
Ports International Retail Corporation	<u>-</u>	<u>323,215</u>
	<u>-</u>	<u>323,215</u>
Amounts due to		
CFS International Incorporated	(95,172)	(160,762)
PIHK Limited	<u>(1,005,656)</u>	<u>(13,951,558)</u>
	<u>(1,100,828)</u>	<u>(14,112,320)</u>

(b) The Company

	2003	2002
Amounts due to		
PIHK Limited	<u>(506,508)</u>	<u>-</u>
	<u>(506,508)</u>	<u>-</u>

The amounts due from/to related companies are unsecured, interest free and have no fixed repayment terms. The balances arise from the related party transactions disclosed in note 16.

24. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is set out below:

(a) The Group

	2003	2002
Cash at bank and in hand	48,317,365	44,783,479
Time deposits	<u>183,972,906</u>	<u>-</u>
	<u>232,290,271</u>	<u>44,783,479</u>

(b) The Company

	2003	2002
Cash at bank and in hand	11,813,228	3,311
Time deposits	<u>92,760,106</u>	<u>-</u>
	<u>104,573,334</u>	<u>3,311</u>

25. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and currency risk, refer to note 30.

	2003	2002
<i>Current liabilities</i>		
Unsecured bank loans	<u>-</u>	<u>61,331,900</u>
	<u>-</u>	<u>61,331,900</u>

Interest-bearing loans as at 31 December 2002 carried interest at rates ranging from 3.00% to 5.29% per annum, and were repayable within one year.

26. Accounts payable

An ageing analysis of accounts payable is as follows:

	2003	2002
Within 1 month or on demand	23,308,866	15,295,450
Over 1 month but less than 3 months	11,202,688	5,616,161
Over 3 months but less than 6 months	4,798,751	2,791,478
Over 6 months but less than 12 months	<u>662,286</u>	<u>309,283</u>
	<u>39,972,591</u>	<u>24,012,372</u>

27. Share capital

	2003 HK\$	2002 HK\$
Authorised:		
900,000,000 ordinary shares of HK\$0.01 each	<u>9,000,000</u>	<u>9,000,000</u>

Issued and fully paid:

	2003			2002		
	Number of shares	HK\$	RMB equivalent	Number of shares	HK\$	RMB equivalent
At 31 December	<u>135,810,000</u>	<u>1,358,100</u>	<u>1,442,185</u>	<u>105,560,000</u>	<u>1,055,600</u>	<u>1,119,675</u>

During the period from 28 June 2002 (date of incorporation of the Company) to 31 December 2003, the following changes in the Company's authorised and issued share capital were recorded:

(a) On 28 June 2002, the Company was incorporated with an authorised share capital of HK\$100,000 divided into 10,000,000 ordinary shares of HK\$0.01 each, all of which were allotted and issued nil paid to the initial subscriber and such shares were subsequently transferred at nil consideration to World Best Creation Limited, Suez Asia holdings Pte. Limited, Mr. Zou Jianning and Brimeland Hong Kong Limited on 3 August 2002.

(b) Pursuant to resolutions in writing of the sole shareholder of the Company passed on 10 July 2002 and 24 July 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$1,000,000 by the creation of an additional 90,000,000 shares of HK\$0.01 each and from HK\$1,000,000 to HK\$9,000,000 by the creation of an additional 800,000,000 shares of HK\$0.01 each respectively.

(c) On 3 August 2002, pursuant to the Reorganisation described in note 1 to the financial statements, the Company allotted and issued 95,560,000 ordinary shares of HK\$0.01 each, credited as fully paid, and also credited as fully paid the 10,000,000 nil paid ordinary shares of HK\$0.01 each as set out in (a) above, in consideration for the acquisition of the entire issued share capital of PAHL. The excess of the fair value of the shares of PAHL determined on the basis of the consolidated net assets of PAHL at that date, over the aggregate of the nominal value of the Company's shares issued in exchange therefore, amounting to RMB151,259,151, was credited to the Company's contributed surplus account as set out in note 28(b) below.

(d) On 31 October 2003, 25,000,000 ordinary shares of HK\$0.01 each were issued under the Hong Kong Public Offering ("the Offering") and the International Placing ("the

Placement”) of the Company’s shares at HK\$10.50 each for a total cash consideration of HK\$262,500,000 before the related issue expenses.

(e) On 19 November 2003, the underwriters of the Placement exercised the over-allotment option for the issuance of 5,250,000 ordinary shares of HK\$0.01 each at HK\$10.50 per share. The total consideration amounted to HK\$55,125,000 before the related issue expenses.

A summary of the above movements in the issued share capital of the Company is as follows:

Issued and fully paid:	2003		2002	
	Number of shares	Amount HK\$	Number of shares	Amount HK\$
At the beginning of the year	105,560,000	1,055,600	-	-
Ordinary shares issued nil paid on incorporation and subsequently credited as fully paid as part of the consideration for the acquisition of the entire issued share capital of PAHL	-	-	10,000,000	-
Ordinary shares issued as the remaining consideration for the acquisition of the entire issued share capital of PAHL	-	-	95,560,000	1,055,600
New issue under the Offering and the Placement	25,000,000	250,000	-	-
New issue under the over-allotment option related to the Placement	<u>5,250,000</u>	<u>52,500</u>	-	-
At the end of the year	<u>135,810,000</u>	<u>1,358,100</u>	<u>105,560,000</u>	<u>1,055,600</u>
		<i>RMB equivalent</i>		<i>RMB equivalent</i>
		<u>1,442,185</u>		<u>1,119,675</u>

Share options

Under the terms of the Company's shares option scheme (the "SO Scheme") adopted on 14 October 2003, the directors of the Company may, at their discretion, grant options to any employees, non-executive directors, suppliers, customers or any persons or entities who provide research, development or technological support who will or have contributed to the Group, to subscribe for shares of the Company. A nominal consideration of HK\$10 is payable on acceptance of the grant of an option and will entitle the holder to subscribe for shares during a period to be determined and notified by the directors of the Company, in any event not later than 10 years from the date of the grant of the option, as may be determined by the directors of the Company at a price not less than the highest of (i) the closing price of the shares as stated in the SEHK's daily quotations on the offer date; and (ii) the average price of the closing price of the shares as stated in the SEHK's daily quotations for the five trading days immediately preceding the offer date (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the SO Scheme to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time. Any shares allotted and issued on the exercise of options will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

During the year, the movement in the number of share options outstanding under the aforesaid share option scheme was as follows:

Date of option granted	Exercise Price per share	Exercise period	Number of options granted during the year	Outstanding at 31 December 2003
3 November 2003	HK\$10.50	3 November 2003 to 2 November 2013	<u>3,500,000</u>	<u>3,500,000</u>

The options shall only be exercisable in respect of such part thereof that has been vested in accordance with the following manner:

Fraction of the Shares covered under the Option	Vesting Date
1/3	First anniversary of the Offer Date
1/3	Second anniversary of the Offer Date
1/3	Third anniversary of the Offer Date

The Board may in its absolute discretion relax or accelerate all or any of the above vesting periods in such manner as it may deem fit.

Up to 31 December 2003, no share options have been exercised.

28. Reserves

(a) The Group

	Capital reserve <i>(i)</i>	Share premium <i>(ii)</i>	General reserve fund <i>(iii)</i>	Enterprise expansion fund <i>(iii)</i>	Retained Earnings	Total
Balance at 1 January 2002	43,517,389	-	19,735,904	9,867,952	77,579,716	150,700,961
Issuance of shares of Ports Asia Holdings Limited	-	20,675,104	-	-	-	20,675,104
Issuance of shares of the Company	(1,033,470)	-	-	-	-	(1,033,470)
Net profit for the year	-	-	-	-	92,918,941	92,918,941
Transfer to reserves	-	-	10,108,148	-	(10,108,148)	-
Dividend Declared	-	-	-	-	(60,000,000)	(60,000,000)
Balance at 31 December 2002	<u>42,483,919</u>	<u>20,675,104</u>	<u>29,844,052</u>	<u>9,867,952</u>	<u>100,390,509</u>	<u>203,261,536</u>
Balance at 1 January 2003	42,483,919	20,675,104	29,844,052	9,867,952	100,390,509	203,261,536
Issuance of shares of the Company	-	338,312,728	-	-	-	338,312,728
Share issue expenses	-	(22,898,591)	-	-	-	(22,898,591)
Net profit for the year	-	-	-	-	107,508,629	107,508,629
Transfer to reserves	-	-	5,405,873	-	(5,405,873)	-
Dividend declared	-	-	-	-	(35,000,000)	(35,000,000)
Balance at 31 December 2003	<u>42,483,919</u>	<u>336,089,241</u>	<u>35,249,925</u>	<u>9,867,952</u>	<u>167,493,265</u>	<u>591,184,302</u>

(i) Capital reserve

Capital reserve represents the differences between the nominal value of the share capital of the subsidiaries acquired pursuant to group reconstructions over the nominal value of the shares issued by PAHL and the Company respectively in exchange therefor.

(ii) Share premium

Pursuant to an ordinary resolution passed at a directors' meeting held on 3 August 2002, 556 ordinary shares of US\$1.00 each of PAHL were issued and credited as fully paid to Suez Asia at a cash consideration of US\$2,498,545 (equivalent to RMB20,679,705). The excess of the consideration over the nominal value of the shares issued, amounting to RMB20,675,104, was credited to the share premium account of PAHL.

25,000,000 ordinary shares of HK\$0.01 each of the Company were issued at HK\$10.50 under the Offering and the Placement on 31 October 2003. An additional 5,250,000 ordinary shares of HK\$0.01 each of the Company were issued at HK\$10.50 on 19 November 2003 pursuant to the over-allotment option related to the Placement. The excess of the consideration over the nominal value of the shares issued, less certain listing costs incurred in connection with the issue of share capital, amounting to RMB315,414,137 equivalent, was credited to the share premium account of the Company.

(iii) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(i) General reserve fund

The subsidiaries in the PRC are required to transfer at least 10% of their profit after taxation, as determined under the PRC accounting regulations, to the general reserve fund until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

The general reserve fund can be used to make good losses and convert into share capital by the issue of new shares to shareholders in proportion to their existing equity holdings.

(ii) Enterprise expansion fund

The transfers from retained earnings to the enterprise expansion fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries and were approved by the respective boards of directors.

The enterprise expansion fund can be used to convert into share capital to acquire fixed assets and to increase current assets.

(b) The Company

	Share premium	Contributed surplus	Retained earnings	Total
Balance at 1 January 2002	-	-	-	-
Arising on acquisition of PAHL and applied in payment of 10,000,000 share allotted nil paid on incorporation	<u>-</u>	<u>151,259,151</u>	<u>-</u>	<u>151,259,151</u>
Balance at 31 December 2002	<u>-</u>	<u>151,259,151</u>	<u>-</u>	<u>151,259,151</u>
Balance at 1 January 2003	-	151,259,151	-	151,259,151
Issue of shares of the Company	338,312,728	-	-	338,312,728
Share issue expenses	(22,898,591)	-	-	(22,898,591)
Dividend declared	-	-	(35,000,000)	(35,000,000)
Net profit for the year	<u>-</u>	<u>-</u>	<u>35,012,034</u>	<u>35,012,034</u>
Balance at 31 December 2003	<u>315,414,137</u>	<u>151,259,151</u>	<u>12,034</u>	<u>466,685,322</u>

(i) Share premium

Under the Companies Act 1981 of Bermuda (as amended), the share premium account is distributable in the form of fully paid bonus shares.

(ii) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of PAHL determined on the basis of the consolidated net assets of PAHL at the date of Reorganisation over the nominal value of the shares issued by the Company in exchange therefor.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company shall not declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(iii) Distributable reserves

In the opinion of the directors, the aggregate amount of reserves available for distribution to shareholders of the Company at 31 December 2003 was RMB151,271,185 (2002: 151,259,151).

29. Investments in subsidiaries

	2003	2002
Unlisted shares, at cost	<u>152,379,654</u>	<u>152,378,826</u>

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are subsidiaries as defined under note 3(c) and have been consolidated into the consolidated financial statements.

Name of subsidiary	Place of incorporation and operation	Percentage of equity attributable to the Company		Issued and fully paid-up share/ authorised capital (in thousands)	Paid-up/ registered capital (in thousands)	Principal activities
		Direct %	Indirect %			
Ports Asia Holdings Limited (formerly known as Smythe Capital Incorporated)	the British Virgin Islands,	100	-	USD11/ USD50	-	Sales of garments and investment holding
Ports International Marketing Ltd. (formerly known as Smythe Trading Co., Ltd.)	the British Virgin Islands,	100	-	USD0.1/ USD0.1	-	Sales of garments
Ports Retail (H.K.) Limited (formerly known as Milestone Holdings Limited)	Hong Kong,	-	100	HK\$1/ HK\$10	-	Sales of garments
Xiamen Brimeland Garments Ltd. (i)	the PRC,	-	100	-	HK\$8,000/ HK\$8,000	Manufacturing and sales of garments

Etac Fashion (Xiamen) Ltd. (i)	the PRC,	-	100	-	HK\$170,000/ HK\$170,000	Manufacturing and sales of garments
Xiamen Xiangyu Ports Trading Co., Ltd. (i)	the PRC,	-	100	-	USD2,020/ USD2,020	Sales of garments
Ports International (Beijing) Co., Ltd. (i)	the PRC,	-	100	-	USD1,850/ USD1,850	Manufacturing and sales of garments
Ports International Marketing (Xiamen) Ltd. (i)	the PRC,	-	100	-	USD2,100/ USD2,100	Manufacturing and sales of garments

Notes:

- (i) All the subsidiaries incorporated in the PRC are wholly foreign-owned enterprises, except for Ports International Marketing (Xiamen) Ltd., which is a Sino-foreign equity joint venture.

30. Financial instruments

Financial assets of the Group include cash and cash equivalents, deposits with a bank, trade and other receivables and amounts due from related companies. Financial liabilities of the Group include, bank loans, trade and other payables and amounts due to related companies. The Group does not hold or issue financial instruments for trading purposes. Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) *Credit risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At the balance sheet dates the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) *Interest rate risk*

The interest rates and term of repayment of the bank loans of the Group are disclosed in note 25 above.

(c) *Foreign currency risk*

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

(d) *Fair value*

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2003 and 2002.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

- (i) Cash and cash equivalents, pledged deposits, trade and other receivables, trade and other payables, amounts due from/to related companies.

The carrying values approximate fair value because of the short maturities of these instruments.

(ii) *Bank loans*

The carrying amount of bank loans approximate their fair value based on the borrowing rate currently available for bank loans with similar terms and maturity.

31. Operating leases commitments

Non-cancellable operating lease rentals are payable as follows:

	2003	2002
Less than one year	33,651,952	12,770,184
Between one and five years	23,032,534	10,308,551
More than five years	<u>84,000</u>	<u>-</u>
	<u>56,768,486</u>	<u>23,078,735</u>

The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum rental payments disclosed above, the Group has a commitment to pay rent of a proportion of turnover for certain leased properties. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

32. Capital commitments

Capital commitments outstanding at 31 December 2002 and 2003 but not provided for in the consolidated financial statements were as follows:

	2003	2002
Contracted for	-	-
Authorised but not contracted for	<u>120,000,000</u>	<u>46,800,000</u>
	<u>120,000,000</u>	<u>46,800,000</u>

33. Subsequent events

After the balance sheet date, the directors proposed a final dividend on 15 March 2004. Further details are disclosed in note 12.

34. Ultimate holding company

The directors consider the ultimate holding company at 31 December 2003 to be CFS International Incorporated, which is incorporated in Canada.

16. INFORMATION FOR INVESTORS

16.1 Shareholder's Calendar

Close of Register

26 May 2004 – 31 May 2004 (both days inclusive)

Annual General Meeting

9:30 a.m., 31 May 2004

17. NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of PORTS DESIGN LIMITED (the "Company") will be held at 27 Jiyuan Road, Jimei, Xiamen, 361021 China on Monday, 31 May 2004 at 9:30 a.m. for the following purposes:

- 1 To receive and consider the audited financial statements and the reports of the directors and the auditors for the year ended 31 December 2003.
- 2 To declare a final dividend.
- 3 To re-appoint auditors and authorise the board of directors to fix their remuneration.
- 4 To re-elect directors of the Company and to authorise the board of directors to fix their remuneration.
- 5 As special businesses, to consider, and if thought fit, to pass with or without modification the following resolutions:

ORDINARY RESOLUTIONS

A. "THAT:

to consider and approve the appointment of an additional independent non-executive director of the Company and to authorise the board of directors to enter into a service contract with him/her upon such terms and conditions as the board of directors shall think fit."

B. "THAT:

- (a) Subject to paragraph (c) below, pursuant to the Listing Rules, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company (including without limitation, by way of right) and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) The approval in paragraph (a) shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) The aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue (as hereinafter defined) or (ii) the exercise of the subscription rights under the share option scheme of the Company or (iii) an issue of

shares as scrip dividends pursuant to the memorandum and bye-laws of the Company from times to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date 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 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 the bye-laws of the Company or any applicable law of Bermuda to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

and **"Rights Issue"** means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company on the register of members on a fixed record date (excluding for such purpose any shareholder that is resident in a place outside Hong Kong provided the directors of the Company consider such exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body of stock exchange in that place) and where appropriate, the holders of other equity securities of the Company entitled to such offer, pro rata (apart from fractional entitlements) to their existing holdings of shares or such other equity securities;

C. "THAT:

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to repurchase its own securities, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of securities of the Company repurchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval be limited accordingly; and

(c) for the purposes of this resolution:-

"Relevant Period" means the period from the passing of this resolution until whichever is the earlier 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 the bye-laws of the Company or any applicable law of Bermuda to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

D. "THAT:

Conditional upon Resolution nos. 5B and 5C above being passed, the general unconditional mandate referred to in resolution no. 5B above be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed to be allotted by the directors of the Company pursuant to such general unconditional mandate of an amount representing the aggregate nominal amount of the Shares repurchased by the Company since the granting of the said general unconditional mandate pursuant to the mandate to repurchase securities referred to in resolution no. 5C above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution."

SPECIAL RESOLUTIONS

E. "THAT:

the Bye-Laws of the Company be amended by:

- (a) Deleting the existing definition of "associates" in Bye-law 1(A) and substituting thereof the following:

"associates" shall have the meaning as defined in the Listing Rules;

- (b) Adding the following new definition of "Listing Rules" in Bye-law 1(A):

"Listing Rules" shall mean the rules governing the listing of securities made by The Stock Exchange of Hong Kong Limited (as amended from time to time);

- (c) By adding after Bye-law 76 the following new Bye-law 76A:

76A Where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(d) By adding the following words at the end of Bye-law 103:

"The period for lodgment of the notice required under this bye-law will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting."

(e) By deleting the existing Bye-law 98(H) and substituting thereof the following Bye-law 98(H):

(H) A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his associate(s) has/have a material interest, and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters namely:-

(i) the giving of any security or indemnity either:-

(a) to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or

(b) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iii) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:-
 - (a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his associate(s) may benefit; or
 - (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

By Order of the Board
Irene F. M. Wong
Company Secretary

Hong Kong, 30 March 2004

Notes:

- (1) Shareholders entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company's registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, together with a power of attorney or other authority, if any, under which is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (2) The Register of Members of the Company will be closed from 26 May 2004 to 31 May 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for receiving the final dividend payable on 30 June 2004 and attending the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 25 May 2004.

An explanatory statement containing further details in respect of Ordinary Resolution No. 5C will be dispatched to the shareholders together with the 2003 annual report of the Company.

18. LISTING INFORMATION

18.1 Share Listing

The Company's shares are listed on The Main Board of The Stock Exchange of Hong Kong Limited

18.2 Stock Code

The Stock Exchange of Hong Kong Limited: 589

Bloomberg: 589 HK

Reuters: 0589.HK

18.3 Price History

	High (HK\$)	Low (HK\$)
October	14.35	12.70
November	14.75	12.40
December	14.40	13.40

18.4 Dividends per share

Interim Dividend: RMB0.33

Paid from: 18 November 2003 – 13 January 2004

Final Dividend: RMB0.23 (Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting)

Payable on: 30 June 2004

18.5 Board of Directors

Edward Tan Han Kiat*, *Chairman*

Alfred Chan Kai Tan *, *Chief Executive & Managing Director*

Pierre Frank Bourque*, *Executive Vice President*

Janine Tran, *Non-executive Director*

Kunnasagaran Chinniah, *Non-executive Director*

Rodney Ray Cone, *Independent Non-executive Director*

Valarie Fong Wei Lynn, *Independent Non-executive Director*

* *Executive Director*

18.6 Company Secretary

Irene Wong Fung Mei

18.7 Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

18.8 Principal Bankers

Hong Kong & Shanghai Banking Corporation Limited, Xiamen Branch
Ground Floor, The Bank Centre
189 Xiahe Road
Xiamen Fujian PRC

Bank of China (Hong Kong) Limited
International Finance Centre Branch
One Harbour View Street
Central Hong Kong

18.9 Principal Place of Business in Hong Kong

Suite 101A, Sunbeam Center
27 Shing Yip Street
Kwun Tong
Kowloon, Hong Kong

18.10 Auditors

KPMG
8th Floor, Prince's Building
10 Chater Road
Central Hong Kong

18.11 Corporate Counsel

Norton Rose
38th Floor, Jardine House
One Connaught Place
Central Hong Kong

18.12 Registrar & Transfer Offices

Principal:

Reid Management Limited

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Hong Kong Branch:

Computershare Hong Kong Investor Services Limited

Shops 1712-1716

17th Floor, Hopewell Center

183 Queen's Road East

Hong Kong