



PORTS DESIGN LIMITED

寶姿時裝有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 589)

2004 ANNUAL REPORT

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1. FINANCIAL HIGHLIGHTS

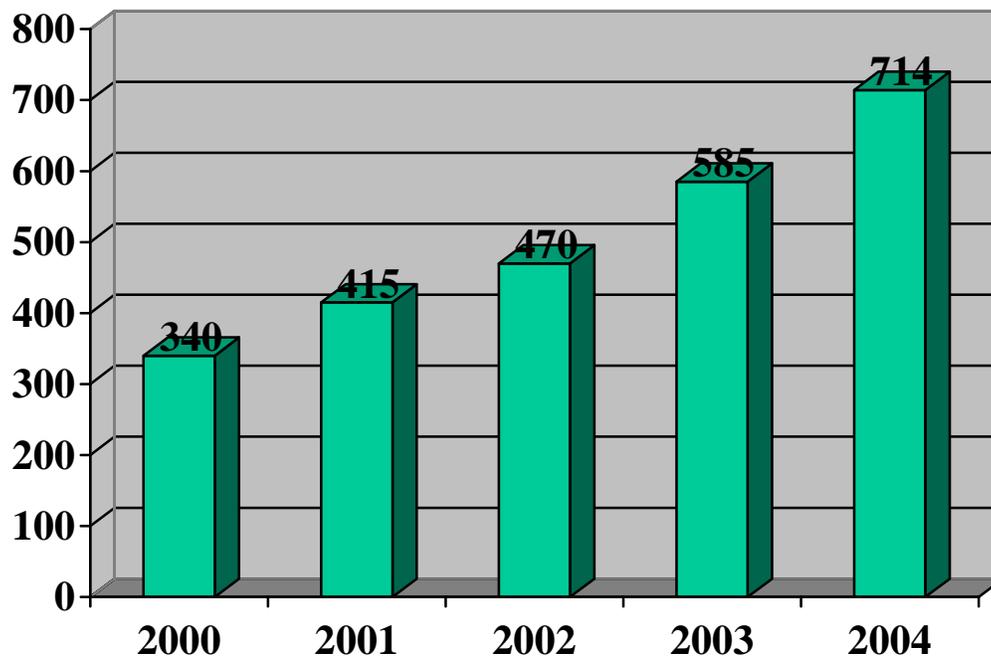
Five-Year Statistics

(Financial figures are expressed in Renminbi (“RMB”) million)

		<u>For the year ended 31 December</u>				
		2004	2003	2002	2001	2000
Results						
Turnover	1.1	<u>714</u>	<u>585</u>	<u>470</u>	<u>415</u>	<u>340</u>
Profit attributable to						
Shareholders	1.3	<u>137</u>	<u>108</u>	<u>93</u>	<u>59</u>	<u>48</u>
Assets and liabilities						
Non-current assets		<u>105</u>	<u>86</u>	<u>77</u>	<u>51</u>	<u>39</u>
Current assets		<u>718</u>	<u>607</u>	<u>282</u>	<u>250</u>	<u>200</u>
Current liabilities		<u>146</u>	<u>100</u>	<u>155</u>	<u>150</u>	<u>111</u>
Net current assets		<u>572</u>	<u>507</u>	<u>127</u>	<u>100</u>	<u>89</u>
Non-current liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets less						
liabilities		<u>677</u>	<u>593</u>	<u>204</u>	<u>151</u>	<u>128</u>
Shareholders' Equity		<u>677</u>	<u>593</u>	<u>204</u>	<u>151</u>	<u>128</u>

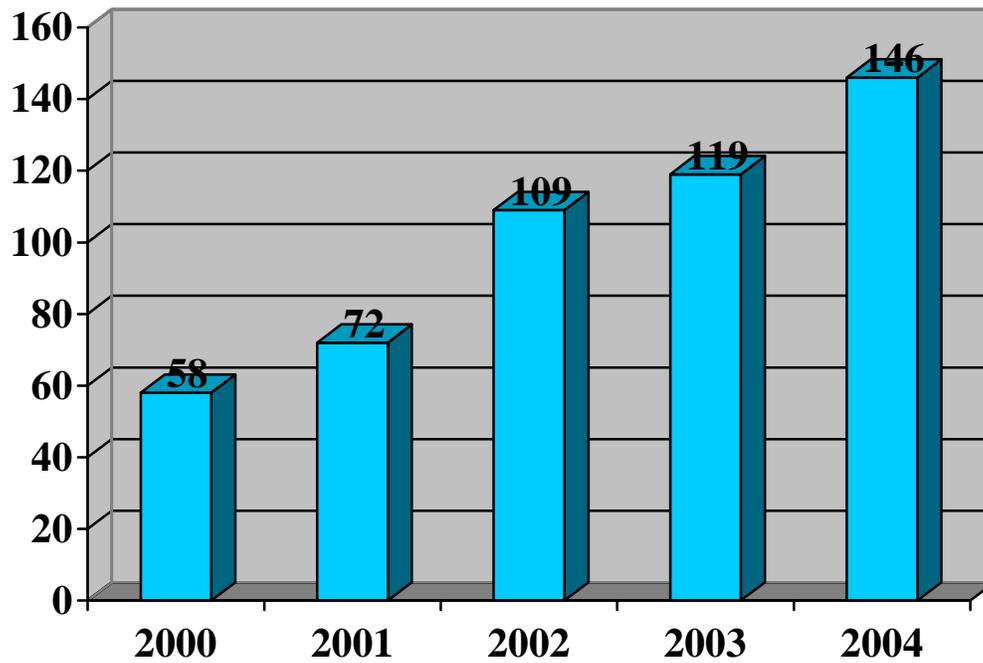
1.1 Turnover

RMB millions



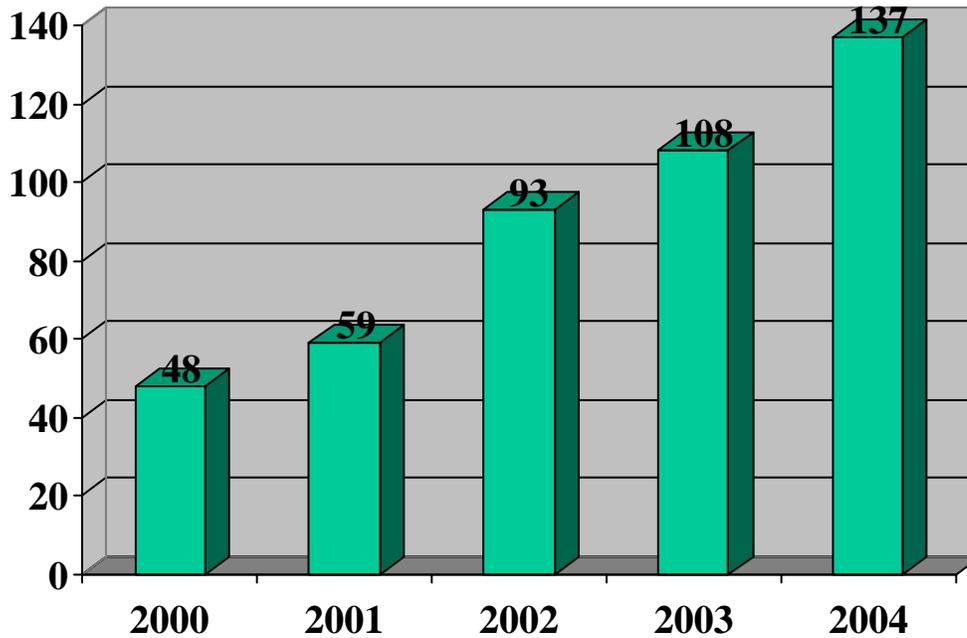
1.2 Profit from Operations

RMB millions



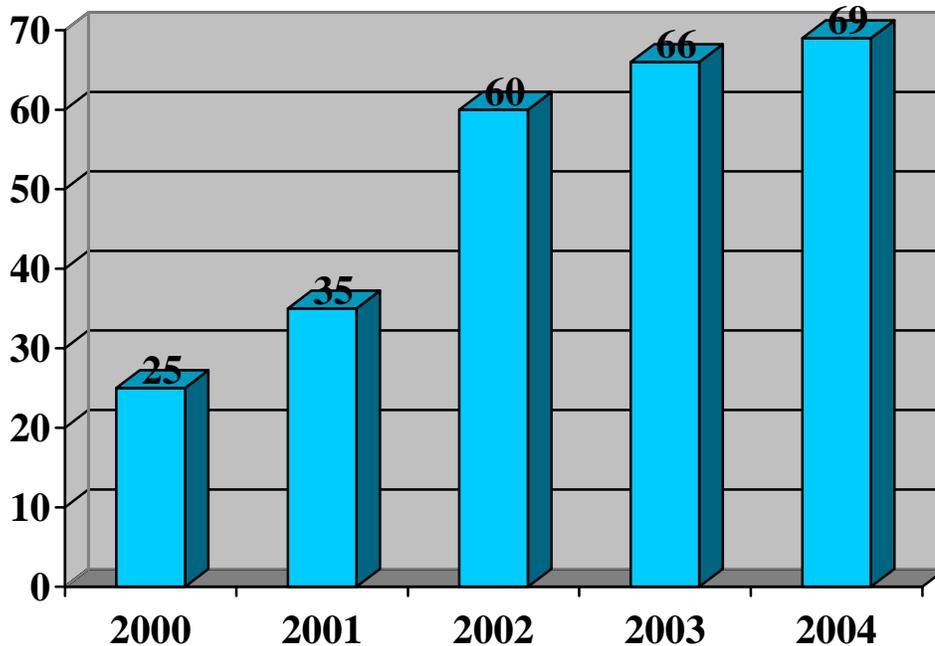
1.3 Profit Attributable to Shareholders

RMB millions



1.4 Dividend history

RMB millions



*Note to Figure 1.4: Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of a final dividend of RMB0.0875 per share, totaling RMB47.534 million

2. YEAR IN REVIEW FOR 2004

- PORTS DESIGN LIMITED (“PORTS” or the “Company”) continued the trend of strong top and bottom line growth. Revenue increased 22% from RMB585 million in the year ended 31 December 2003 (the “2003 Financial Year” or “FY2003”) to RMB714 million in the year ended 31 December 2004 (the “2004 Financial Year” or “FY2004”). The Company’s profit attributable to shareholders increased from 108 million in FY2003 to RMB137 million in FY2004, an increase of 27%. The Company’s net profit margin also improved from 18% in FY2003 to 19% in FY2004.
- PORTS DESIGN LIMITED continued its retail store expansion program during the year ended FY2004 having 282 PORTS retail locations as at 31 December 2004. The company also opened 2 PORTS flagship retail locations in Xintiandi, Shanghai and Oriental Plaza in Beijing. The Company’s third flagship store is due to open shortly at Bund 18 in Shanghai.
- PORTS DESIGN LIMITED ended the year in a strong financial position with a current ratio of 4.9 given its current assets of RMB718 million (of which cash and time deposits exceeded RMB375 million) and current liabilities of RMB146 million (with no bank borrowings).
- PORTS DESIGN LIMITED executed a four-for-one share subdivision in November 2004 to improve share liquidity. Although liquidity improved slightly as a result of the share subdivision, further efforts to improve liquidity will continue to be pursued by the Company in the upcoming year.
- BMW LIFESTYLE broke even in the second half of FY2004. As at 31 December 2004, the Company had 17 BMW Lifestyle stores in the PRC. Exports to BMW AG to supply BMW dealers worldwide experienced significant growth, increasing from RMB12 million in FY2003 to RMB 36 million in FY2004, an increase of approximately 208%. The Directors consider that the BMW Lifestyle retail concept is now proven in the PRC market and on this basis, management intends to accelerate growth of the distribution network in 2005. Management also feels that there is significant growth potential in the export of BMW Lifestyle products and expects growth in this business to continue in 2005.

3. CHAIRMAN'S STATEMENT

The 2004 Financial Year was another record performing year for PORTS and its subsidiaries (the "Group"). Driven by the strong results of the retail operation, the Group achieved strong growth in turnover and profits. As compared to the 2003 Financial Year, the 2004 Financial Year saw an increase in turnover of 22.2% to RMB714.2 million, an increase in net cash inflow from operating activities of 81.8% to RMB150.3 million and an increase in profit attributable to shareholders of 27.4% to RMB137.1 million.

3.1 The year in review

The Group's retail operation, consisting of PORTS and BMW LIFESTYLE retail outlets, continued to grow. The number of PORTS branded retail outlets had grown to 282 concession stores and freestanding retail stores, accounting for the majority of the Group's retail outlets, as at 31 December 2004. The strong results of the retail operation, and the increasing media coverage of PORTS promotional events, is indicative of the growth in both recognition and acceptance of the PORTS brand by PRC consumers. PORTS brand building efforts during the 2004 Financial Year continued with the same zeal and attention to detail as the previous year. In particular, the Group sponsored a number of high-profile events during the 2004 Financial Year including the Miss Universe China contest, the Elite Model Look contest, and the PORTS annual Canadian model tour. These events received wide spread media coverage, with coverage from the Miss Universe China and the Elite Model Look events reaching an audience in excess of hundreds of millions of people, both inside and outside of the PRC.

The BMW LIFESTYLE retail concept reached a milestone during the 2004 Financial Year, with the number of retail outlets reaching 17 as at 31 December 2004. Combined with a significant increase in turnover, the BMW Lifestyle business turned a small profit for the first time. On this basis, the Group intends to accelerate the number of store openings for the BMW LIFESTYLE brand in 2005. In addition to the retail operations, the Directors believe that the export of BMW Lifestyle products to BMW dealers throughout the world, which started in 2003, appears to have strong growth potential. Growing from RMB11.8 million in the 2003 Financial Year, total exports to BMW A.G. increased to RMB36.4 million in the 2004 Financial Year, an increase of 208.5%.

The OEM segment experienced a slight decline in turnover during the 2004 Financial Year, although gross profit margins increased slightly. The contribution from the OEM segment to the Group's net earnings during the 2004 Financial Year remained approximately the same as the previous year. Expressed as a percentage of total earnings, the OEM segment continued to be of lesser importance to the Group.

The financial position of the Group went from strength to strength. As at 31 December 2004, the Group had approximately RMB375.1 million in cash, cash equivalents and time deposits, as compared to RMB315.1 million for the 2003 Financial Year, with no bank debt or borrowing. The Directors believe that is in a strong financial position to take advantage of future business opportunities.

3.2 A look forward to 2005 and beyond

Going forward, the Group is committed to continuing its tradition of performance and operational excellence. Given the positive overall macroeconomic environment, the Directors are cautiously optimistic about the business outlook for 2005. With consumer spending boosted by a strong economy and modest inflation in the PRC, the business outlook appears to be favorable to the Group, as reflected by a significant increase in retail sales during the first two months of 2005.

The Group will continue to build upon and solidify the leading position of PORTS within the PRC market and will cautiously seek opportunities to expand to other countries in the Asia Pacific region. The Group will seek to strengthen the PORTS brand in the PRC market through a number of initiatives including the opening of more flagship stores, the expansion of our talented design team, upgrading existing locations to our fifth generation store design, developing complimentary luxury product lines, and continued advertising and promotional activities (such as the sponsorship of high-profile events). Although the BMW Lifestyle business remains in the early stages of growth, the management team strongly believes in the potential of this business. The Group will continue to invest in the growth of this business so as to realize the returns that the BMW Lifestyle business is capable of delivering to our shareholders.

In addition, management is evaluating opportunities to deploy the proceeds of the IPO. The Group's aim is to make careful investments in licenses, partnerships, and/or assets that are directly related to our core competence of high-end retailing in the PRC market, and which management believes have significant potential return on investment. Several opportunities are currently under consideration 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.

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 opportunities available. The PRC is the Group's core market, one in which we are highly experienced. 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

Chairman

23 March 2005
Xiamen, China

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

4.1 Turnover

Turnover increased from RMB584.6 million in FY2003 to RMB714.2 million in FY2004, an increase of 22.2%. Turnover comprises of three different segments: retail, OEM, and other turnover. In FY2004, the retail segment grew in importance in terms of overall turnover, increasing from 64.9% of total Group turnover in FY2003, to 68.8% of total turnover in FY2004.

4.1.1 Retail

Retail turnover increased from RMB379.3 million in FY2003 to RMB491.6 million in FY2004, an increase of 29.6%. The increase was driven by an increase in unit volume sold, growth in sales in existing stores and sales from new stores, and an increase in the average selling price. The increase in unit volume sold is due to, among other factors, the increase in the number of PORTS and BMW Lifestyle retail outlets from 270 as at 31 December 2003 to 299 as at 31 December 2004. The number of new stores opened during FY2004 was in line with the Group's ongoing plan to increase the size of its retail network by 10% each year. The increase in average selling price reflects, in part, the increasing strength of the PORTS and BMW Lifestyle brands, and the effectiveness of the Group's marketing program. The Directors believe that the increase in retail turnover is also partially attributable to the continued growth in average annual household income in urban cities in the PRC, where most of the Group's retail outlets are located. This increase in income enables an increasing number of PRC consumers to purchase the Group's products.

During FY2004, turnover from concessions represented 71.8% of total retail turnover and turnover from retail stores represented 28.2% of total retail turnover. Accordingly, sales from concessions in department stores still represented the majority of the Group's retail turnover. However, the Directors believe that retail stores located in upscale shopping malls will become of increasing importance to the positioning of the PORTS and BMW Lifestyle brands.

As at 31 December 2004, turnover from the retail segment represented a larger percentage of the overall turnover of the Group than in previous years, from 64.9% of total Group turnover in FY2003, to 68.8% of total Group turnover in FY2004.

4.1.2 OEM

Turnover from the OEM segment decreased from RMB 168.2 million in FY2003 to RMB157.2 million in FY2004, a decrease of 6.5%. As a percentage of total turnover, the OEM segment declined in importance for the Group in terms of overall turnover, declining from 28.8% of total turnover in FY2003 to 22.0% of total turnover in FY2004. This decline was driven primarily by a reduction in orders from certain key OEM customers in North America. The Directors anticipate that the contribution of OEM turnover to the Group's total turnover will continue to decline in 2005.

4.1.3 Other

Other turnover increased from RMB37.2 million in FY2003 to RMB65.3 million in FY2004, an increase of 75.7%. This increase was driven primarily by a significant increase in the export of BMW Lifestyle products to BMW dealers worldwide. The increase in the export of BMW Lifestyle products has more than offset the decline of the Group's wholesale business within this segment. On this basis, the Directors intend to focus on continuing to grow export sales of BMW Lifestyle products, whilst lessening the Group's focus on its wholesale business. The Directors anticipate that exports of BMW Lifestyle products will continue to grow, whilst the wholesale business will continue to decline in 2005.

4.2 Cost of sales

Cost of sales increased from RMB247.9 million in FY2003 to RMB278.0 million in FY2004, an increase of 12.1%. The increase in cost of sales was directly related to the increase in the Group's turnover during FY2004, although the percentage increase in cost of sales is significantly less than the percentage increase in total turnover and volume of sales.

4.3 Gross profit

Gross profit increased from RMB336.7 million in FY2003 to RMB436.1 million in FY2004, an increase of 29.5%. Gross profit margin also increased from 57.6% in FY2003 to 61.1% in FY2004. The improvement in gross profit margin was driven predominantly by the increasing contribution of gross profit generated by the retail segment.

4.3.1 Retail

Gross Profit for the retail segment increased from RMB290.1 million in FY2003 to RMB378.1 million in FY2004, an increase of 30.3%. Gross profit margin for the retail segment also improved from 76.5% in FY2003 to 76.9% in FY2004. The Directors believe that the gross profit margin enjoyed by the retail segment is in line with what is achieved by other international high end fashion and luxury brands. In FY2004, the retail segment accounted for 86.7% of the Group's total gross profit, up from 86.2% of the Group's total gross profit in FY2003. This increase, in part, reflects the growing importance of the retail segment to the Group.

4.3.2 OEM

Gross profit from the OEM segment increased from RMB24.3 million in FY2003 to RMB25.6 million in FY2004, an increase of 5.3%. Gross profit margin also improved, increasing from 14.4% in FY2003 to 16.3% in FY2004. The Group introduced controls on gross profit margin for the OEM segment in FY2004 by refusing orders with unacceptable gross profit margin. However, as OEM is a very competitive business, the Directors do not expect any significant improvement in the performance of the OEM segment going forward.

4.3.3 Other

Gross profit from the Other segment increased from RMB22.3 million in FY2003 to RMB32.4 million in FY2004, an increase of 45.3%. However, gross profit margin declined from 60.0% in FY2003 to 49.6% in FY2004. The mix of business within this segment changed in FY2004. Business has shifted away from the high margin, low volume wholesale of PORTS branded products, towards the lower

margin, high volume business generated by the export of BMW Lifestyle products. BMW Lifestyle products have been well received by BMW dealers throughout the world, and the Directors anticipate continued growth in the export of BMW Lifestyle products during 2005. The Directors anticipate that the overall gross profit contribution of the Other segment to the Group's gross profit will increase in 2005, but also anticipate a continued decrease in the gross profit margin of the Other segment due to the shifting mix of business. The Other segment now ranks second in terms of contribution to the Group's net profit in FY2004.

4.4 Other operating income

Other operating income decreased from RMB7.9 million in FY2003 to RMB4.8 million in FY2004, a decrease of 39.2%. This decline was mostly attributable to a decrease in store design and decoration service income, although the decrease was partially offset by an increase in royalty income from sales of PORTS branded eyewear, which almost doubled to RMB2 million in FY2004. The Directors anticipate that royalty income from sales of PORTS branded eyewear will continue to increase during FY2005.

4.5 Operating Expenses

Operating expenses increased from RMB225.5 million in FY2003 to RMB294.8 million in FY2004, an increase of 30.6%. Operating expenses have generally increased in accordance with the growth of the business. The Group experienced higher operating expenses during FY2004 compared to previous years due to the fact that FY2004 was the first full year that the Company operated as a publicly listed company. Operating Expenses consist of distribution expenses, administrative expenses and other operating expenses:

4.5.1 Distribution expenses

Distribution expenses increased from RMB185.1 million in FY2003 to RMB243.8 million in FY2004, an increase of 31.8%. The increase was principally due to an increase in sales commissions, rental payments, and depreciation charges. Depreciation charges increased by RMB4.4 million in FY2004 as a result of increased investments in manufacturing, distribution facilities and retail outlets. Advertising and promotional costs increased by approximately RMB2.8 million in FY2004, amounting to approximately 4.5% of retail turnover.

4.5.2 Administrative expenses

Administrative expenses increased from RMB18.6 million in FY2003 to RMB26.5 million in FY2004, an increase of 42.1%. The increase was principally due to an increase in salaries and benefits, insurance and office sundries mostly attributable to the fact that FY2004 was the first full year that the Company operated as a publicly listed company. The Directors anticipate that the rate of increase in administrative expenses will remain constant during FY2005.

4.5.2 Other operating expenses

Other operating expenses increased from RMB21.8 million in FY2003 to RMB24.5 million in the FY2004, an increase of 12.2%. The increase was due to a small increase in the provision for ageing inventory.

4.6 Profit from operations

As a result of the increase in turnover, and the increasing economies of scale derived from the growth of the Group's operations, the Group's profit from operations increased from RMB119.1 million in FY2003 to RMB146.1 million in FY2004, an increase of 22.7%. The Group's operating margin (profit from operations expressed as a percentage of turnover), increased from 20.4% in FY2003 to 20.5% in FY2004.

4.7 Income tax expense

The Group's effective income tax rate increased from 7.2% of profit before tax in FY2003 to 8.3% of profit before tax in FY2004. This increase was due to a decrease in the tax refund received by the Group from RMB6.6 million in FY2003 to RMB5.0 million in FY2004.

The majority of the Company's subsidiaries are located, for tax purposes, in the Xiamen special economic zone, and thus enjoy a favorable income tax rate of 15%. The effective tax rate of the Group is reduced by tax refunds received each year pursuant to certain PRC tax laws and regulations relating to the re-investment of net profits by foreign owned companies. The tax refund received by the Group, amounting to RMB6.6 million in FY2003, decreased to RMB5.0 million in FY2004. This decrease increased the effective tax rate of the Group. Further, one of the Company's subsidiaries, Ports International Marketing (Xiamen) Ltd., which operates the BMW lifestyle business in The PRC, has for the first time, turned a small profit, and hence triggered the tax holiday for this business in FY2004.

4.8 Profit attributable to shareholders

As a result of the factors discussed above, the Company's profit attributable to shareholders increased from 107.5 million in FY2003 to RMB137.1 million in FY2004, an increase of 27.5%. The Company's net profit margin also improved from 18.4% in FY2003 to 19.2% in FY2004.

4.9 Financial Position & Liquidity

The Group continues to enjoy a strong financial position, with significant cash reserves generated from normal business operations. Cash inflow from operating activities increased from RMB82.7 million in FY2003 to RMB150.3 million in FY2004, an increase of 81.7%. Investment in fixed assets increased from RMB26.2 million in FY2003 to RMB41.0 million in FY2004, an increase of 56.5%. As at 31 December 2004, the Group had approximately RMB375.1 million in cash, cash equivalents and time deposits, as compared to RMB315.1 million as at 31 December 2003. The Group also had access to significant bank loans and overdraft facilities, although these were not utilized. The Group currently has no interest bearing loans with any commercial banks. As at 31 December 2004, the Group's gearing ratio was zero. The Group's current ratio is 4.9, based on current assets of RMB718.4 million and current liabilities of RMB146.0 million.

4.10 Acquisitions & Disposals of Subsidiaries & Associated Companies

The Group did not engage in any acquisitions or disposals of any subsidiaries or associated companies during FY2004.

4.11 Currency Risk Management

The Group's cash balances from normal business operations are mainly deposited in Renminbi ("RMB"), United States dollars ("US\$"), Hong Kong dollars ("HK\$") and the European Union common currency ("Euros"), with major banks in Hong Kong and the PRC. The Group is engaged in very limited currency hedging and considers its risk exposure to currency fluctuations to be minimal.

4.12 Capital Commitments & Contingent Liabilities

As at 31 December 2004, the Group had capital commitments of RMB109.9 million (compared to RMB120.0 million as at 31 December 2003) based on RMB98.0 million of authorized but not contracted for capital commitments (compared to RMB120.0 million as at 31 December 2003), and RMB11.9 million authorized and already contracted for capital commitments (compared to RMBNil million as at 31 December 2003). These capital commitments were primarily attributable to planned budgeted activities such as the opening of superstores, the expansion and renovation of retail outlets and the expansion of manufacturing and distribution facilities. As at 31 December 2004, the Group had no material contingent liabilities.

4.13 Capital Structure of the Group

The Group requires working capital to support its manufacturing, retail, OEM and other operations. As at 31 December 2003, the Group had cash, cash equivalents and time deposits of approximately RMB315.1 million, denominated principally in HK\$, US\$ and RMB. As at 31 December 2004, cash, cash equivalents and time deposits held by the Group increased to approximately RMB375.1 million, denominated principally in RMB, US\$, HK\$ and Euros. Cash balances and net cash inflow from operating activities are sufficient to support the operating activities of the Group.

The Company exercised a four-for-one share subdivision in November 2004, although this did not affect the capital structure of the Company.

4.14 Major Customers & Suppliers

During FY2004, the Group purchased approximately 12% and 32% 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 was roughly 11% and 26%, 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.

4.15 Charges on Assets

As at 31 December 2004, the Group had not charged any of its assets.

4.16 Human Resources

As at 31 December 2004, the Group had approximately 3,850 employees. Total personnel expenses, comprised of wages, salaries, and benefits, amounted to RMB95.9 million in FY2004, compared with RMB68.3 million in FY2003.

The Group is committed to fostering a safe and comfortable workplace and a corporate culture that emphasizes training, career development opportunities and rewards employees for performance. A competitive remuneration scheme, a safe and comfortable work environment, and a merit-based advancement program provide incentives for employees to excel in their areas of responsibility. In addition, share options were granted to Directors and eligible employees pursuant to the terms and conditions of the share option scheme adopted by the Company on 14 October 2003. No new share options were granted in FY2004.

4.17 Post-Balance Sheet Date Developments

After the balance sheet date, the Directors proposed a final dividend on 23 March 2005. Further details are disclosed in note 10 to the financial statements.

5. CORPORATE GOVERNANCE

The Group is committed to maintaining the highest levels of ethical behavior from all its employees. The foundation of the Group's corporate governance rests on several basic principles: zero tolerance, internal accountability and independent supervision, which are monitored by Valarie Fong, an independent non-executive director who acts as the *Corporate Governance Officer* for the Company. The Corporate Governance Officer meets with senior management as required to monitor corporate governance as well as to develop new processes and systems to ensure compliance and the Group's adherence with the highest standards of corporate governance practice.

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

Internal Accountability: The Group has developed extensive internal controls 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 the independent non-executive Directors, each of whom possess appropriate industry and financial experience.

5.1 The Board and senior management

The Board is responsible for protecting and maximizing long-term shareholder value. The Company has eight Directors on its Board, including the Chairman and three executive Directors. Of the remaining five non-executive Directors, three are independent. Details of the Directors and senior management are given on pages 29 to 31 of this report.

The Chairman and the Chief Executive Officer of the Company are brothers. Mr. Edward Tan is the Chairman of the Company, and Mr. Alfred Chan is the Chief Executive Officer of the Company. The role of Chairman is clearly segregated from that of the Chief Executive Officer.

The Chairman is responsible for managing and providing leadership to the Board. He ensures that the Company establishes sound corporate governance practices and procedures and encourages the Directors to make a full and active contribution to the affairs of the Board. The Chairman is also responsible for approving the agenda for each Board meeting taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda. With support of the executive directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive complete and reliable information in a timely manner.

As Chief Executive Officer, Mr Chan is directly responsible for the day-to-day management of the business of the Company and maintaining the operational performance of the Company. With the assistance of senior management, he ensures that the funding requirements of the business are met and closely monitors the operating and financial results against plans and budgets, taking remedial action when necessary and advising the Board of any significant developments and issues. The Chief Executive Officer also reviews and presents to the Board the annual business plans and budgets of the operations for consideration and approval by the Board.

The Board meets regularly and no less than four times a year. During the course of FY2004, the board held eight board meetings. All Directors understand their duty to represent the interests of shareholders and each Director attends meetings as regularly as possible. When a director is not able to attend a meeting, the Chairman and/or the Chief Executive Officer briefs them fully on the content and results of the Board meeting. Pursuant to the bye-laws of the Company, each Director shall retire by rotation in the forthcoming annual general meeting and all, being eligible, offer themselves for re-election.

5.2 Directors Responsibility

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Report of the Auditors on page 33 which acknowledges the reporting responsibilities of the Group's auditors.

5.2.1 Annual Report and Accounts

The Directors acknowledge their responsibility to review financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

5.2.2 Accounting Policies

The Directors consider that in preparing the financial statements the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

5.2.3 Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

5.2.4 Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

5.3 Director's Securities Transactions

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. All Directors confirmed that they have complied with the Model Code and the Securities Trading Policy in their securities transactions throughout the year.

5.4 Remuneration of Directors

In FY2004 the remuneration of Directors and senior management was determined by the Board with reference to the performance and profitability of the Group as well as remuneration benchmarks from other companies in the high-end retail industry and the prevailing market conditions. Details of the remuneration and emoluments awarded can be found on pages 55 to 56.

A Remuneration Committee which comprises three Board members has recently been formed. The Committee is chaired by the Chief Executive Officer, Mr. Alfred Chan. The other two members are Ms Lara Lai and Mr. Rodney Cone, both independent non-executive Directors. The Remuneration Committee is charged with the responsibility of assisting the Board in achieving its objective of attracting, retaining and motivating people of the highest caliber and experience needed to develop and implement the Group's strategy. The Committee is also responsible for the development and administration of a fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Company and for determining their remuneration packages. Executive Directors, however, do not participate in the determination of their own remuneration.

5.5 Nomination of Directors

New directors are appointed to the Board by the existing Board of Directors. Vacant seats are discussed at the Board level and appropriate candidates are considered based on prior experience and qualifications. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

5.6 Auditors' remuneration

The amount of fees charged by the Company's auditors in respect of their audit and non-audit services is disclosed in the notes to the financial statements of the Company. The Audit Committee is responsible for approving the remuneration and terms of engagement of the external auditors and for making recommendations to the Board regarding any non-audit services to be provided to the Company by the external auditors. In FY2004, the fees paid to the Company's auditors were primarily for audit services as no significant non-audit service assignments were undertaken by them.

5.7 Audit Committee

The Audit Committee consists of Mr. Rodney Ray Cone, Ms. Valarie Wei Lynn Fong and Lara Magno Lai, who are all independent non-executive Directors of the Company. The Audit Committee is chaired by Mr. Rodney Ray Cone. All committee members possess appropriate business and financial experience. However, the Audit Committee is authorized to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

The Audit Committee is responsible for monitoring the integrity of financial statements of the Company. In addition to the review of financial information of the Company, the Committee's other primary duties are monitoring the relationship with the Company's external auditors and oversight of the Company's financial reporting system, internal control and risk management procedures. In FY2004, the Audit Committee considered reports from the financial controller in respect of a number of matters including the Group's reporting, budgeting and forecasting procedures, audit strategy, and key performance indicators. With respect to the Group's results for FY2004, the Audit Committee reviewed with senior

management and the external auditors their respective audit findings, the accounting principles and practices adopted by the Group and internal control, risk management and financial reporting matters.

5.8 Internal controls and risk management

The Board of Directors has overall responsibility for establishing and maintaining the Group's internal control systems and approval procedures. Together with the internal audit team, external auditors and senior management of the Group, the Audit committee reviews and monitors such internal control and approval procedures with a view to ensuring their effectiveness. The Company also maintains a system of disclosure controls and procedures to ensure that information required to be disclosed by the Company is recorded, processed, summarized and reported within the required time periods and accumulated and communicated to the Company's management to allow timely decisions regarding disclosure.

5.8.1 Internal Control Environment

The Board has overall responsibility for monitoring the Group's operations. Executive Directors are appointed to the boards of all material operating subsidiaries and management works closely with the senior management of the Group's operations, monitoring their performance to ensure that strategic objectives and business performance targets are being met.

Senior management of each of the operations within the Group prepares a business plan and budget annually which is subject to review and approval by the Executive Directors. When setting budgets and forecasts, senior management identifies, evaluates and reports on the likelihood and potential financial impact of any significant business risks. Budgets are prepared on an annual basis and forecasts are prepared on a quarterly basis and reviewed for differences to the budget.

The financial controller has established guidelines and procedures for the approval and control of expenditures. Both operating and capital expenditures are subject to overall budget control. Operating expenditure is further controlled by approval levels for such expenditures being set by reference to the level of responsibility of the relevant executives and officers. Capital expenditures are also subject to specific approval prior to commitment for material expenditures within the approved budget, and also unbudgeted expenditures.

The Group's internal audit function provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations. Using risk assessment methodology and taking into account the dynamics of the Group's activities, internal audit derives its yearly audit plan. The plan is reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met and internal audit also follows up on all findings to ensure that identified issues are satisfactorily resolved. Internal audit is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and to report its findings to the Audit Committee, the Chief Executive Officer, the financial controller and relevant senior management.

5.8.2 Review of Internal Controls

The Directors confirm that they have reviewed the effectiveness of the system of internal controls of the Company and its subsidiaries and that they consider that such system is reasonably effective and adequate although they cannot provide absolute assurance that all material risks are appropriately identified, evaluated and managed. The review covered all material controls including financial, operational and compliance controls and the risk management function. Whilst the various procedures described above are designed to identify and manage risks that could potentially adversely affect the Group's ability to meet its business objectives and to properly record and report financial information, they do not provide absolute assurance against material misstatement or loss.

5.9 Corporate Social Responsibility

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

5.10 Model Code for Securities Transactions by Directors

As noted above, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"). The Directors have complied with the Model Code and the interests of Directors' notified to the Company in accordance with the Model Code are set out at page 22.

5.11 Code of Best Practice

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout FY2004.

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 2004.

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 the PRC and more recently in Hong Kong, under the brand name PORTS INTERNATIONAL and BMW Lifestyle. The Group is one of the leading international fashion companies in the PRC with 299 PORTS INTERNATIONAL and BMW Lifestyle retail outlets as at 31 December 2004.

6.2 Major Customers & Suppliers

An overview of the Group’s major customers and suppliers is set out on page 13.

6.3 Financial Results & Appropriations

The results of the Group for FY2004 are set out in the consolidated profit and loss account on page 34.

An interim dividend of RMB21.7 million was paid to shareholders during FY2004. The Board recommends the payment of a final dividend of RMB0.0875 per share, amounting to approximately RMB47.534 million to be paid to shareholders on the register of members (pending shareholders approval at the forthcoming annual general meeting). This final dividend, together with the interim dividend payment, amounts to approximately RMB69.263 million. The remaining profits for FY2004 were retained by the Group.

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 Company, upon payment of this final dividend, will be solvent and able to meet all of its obligations as they become due.

6.4 Transfer to Reserves

The Group transferred approximately RMB12.2 million from its profit attributable to shareholders before dividends to its reserves in FY2004, compared with RMB5.4 million in FY2003. Details of transfers to reserves are outlined on pages 68 to 69.

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 Company are set out on pages 65.

6.7 Fixed Assets

During FY2004, the Group acquired fixed assets of approximately RMB42.0 million, compared with RMB26.2 million in 2003. Details of fixed asset acquisitions are outlined on page 60.

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 Chanh Lien Tran

6.8.3 Independent Non-Executive Directors

Mr. Rodney Ray Cone
Ms. Valarie Fong Wei Lynn
Ms. Lara Magno Lai

Pursuant to bye-law 99 of the bye-laws of the Company, Edward Han Kiat Tan, Alfred Kai Tai Chan, Pierre Frank Bourque, Kunnasagaran Chinniah, Rodney Ray Cone, Valarie Wei Lynn Fong and Lara Magno Lai shall retire by rotation in the forthcoming annual general meeting and all, being eligible, offer themselves for re-election. Ms Janine Chanh Lien Tran will retire at the forthcoming annual general meeting but will not be seeking re-election

The Company has received from each of its independent non-executive Directors an annual confirmation of his or her independence and the Company still considers all its independent non-executive Directors to be independent

A brief biography of each Director and each member of senior management of the Company can be found on pages 29 to 31.

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 determinable 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 2004, 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\$0.0025 each ("Shares")

	Personal Interest	Corporate Interest	Family Interest	Other interest	Total interest
Mr. Edward Han Kiat Tan ¹	0	251,091,276	0	0	251,091,276
Mr. Alfred Kai Tai Chan ¹	0	251,091,276	0	0	251,091,276
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
Ms. Lara Magno Lai	0	0	0	0	0

Note: 3,491,276 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. 247,600,000 Shares are owned 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, during FY2004 no interests and short positions were held or deemed 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) which 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 were required pursuant to section 352 of the SFO to be entered in the register referred to therein.

6.11 Share Options 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. Chan, Kai Tai Alfred and Mr. Tan, Han Kiat Edward 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 23 March 2005, the maximum number of Shares available for issue under the Scheme was 40,324,000 representing approximately 7.4% of the issued share capital of the Company.
4. Unless otherwise approved 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 the 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. The period for exercise 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 2004 under the Scheme were as follows:

	Options held at 1/1/2004	Options granted during the period	Options exercised during the period	Options lapsed during the period	Exercise Price per option (HK\$)	Grant Date	Exercisable from	Exercisable until
Mr. Edward Han Kiat Tan	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Alfred Kai Tai Chan	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Pierre Frank Bourque	45,000	0	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	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Rodney Ray Cone	15,000	0	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Ms. Valarie Fong	15,000	0	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Ms. Lara Lai	0	0	0	0	10.50	N/A	N/A	N/A
Continuous contract employees	3,425,000	0	0	14,800	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013

Notes: On and subject to the terms of the Share Option Scheme (terms and conditions contained in this letter shall prevail in case of any inconsistencies), 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 of Directors may in its absolute discretion relax or accelerate all or any of the above vesting periods in such manner as it may deem fit. The exercise price for each share is HK\$2.625 (after adjustment for the effect of share split during the year).

6.12 Substantial Shareholders

As at 31 December 2004, 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 recorded 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 issued share capital
CFS International Inc.	Ordinary	Beneficial Owner	247,600,000	247,600,000	45.58%
Ports International Enterprises Limited	Ordinary	Beneficial Owner	3,491,276	251,091,276	46.22%
		Interest of Controlled Corporation	247,600,000		
Tetrad Ventures Pte. Limited	Ordinary	Beneficial Owner	52,908,724	52,908,724	9.74%
GIC Special Investments Pte. Ltd.	Ordinary	Interest of Controlled Corporation	32,620,724	32,620,724	6.00%
Government of Singapore Investment Corp. Pte. Ltd.	Ordinary	Interest of Controlled Corporation	52,908,724	52,908,724	9.74%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	Ordinary	Interest of Controlled Corporation	52,908,724	52,908,724	9.74%
Minister for Finance (Incorporated), Singapore	Ordinary	Interest of Controlled Corporation	52,908,724	52,908,724	9.74%
Arisaig Greater China Fund Limited	Ordinary	Beneficial Owner	42,556,000	42,556,000	7.83%
Arisaig Partners (Mauritius) Limited	Ordinary	Investment Manager	42,556,000	42,556,000	7.83%
Baring Asset Management	Ordinary	Investment manager	33,358,000	33,358,000	6.14%

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 2004.

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, during FY2004.

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

During FY2004, the Company did not redeem, and neither the Company nor any of its subsidiaries 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 on page 60.

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 resells them in Europe and North America. These transactions constitute "Continuing Connected Transactions" for the purpose of the Listing Rules. 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. During FY2004, the Group's total sales to PIRC was RMB5,681,190, representing approximately 0.84% of the Group's then consolidated net tangible assets.

The independent non-executive Directors of the Company have reviewed the Continuing Connected Transactions made during FY2004 and have 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 2004 had been approved by the Directors of the Company;
- (b) nothing came to their attention that caused them to believe that the Connected Transactions entered into between the Group and its connected parties during the year ended 31 December 2004 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 their attention that caused them 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 2004.

Details of the transactions between the Group and any related parties can be found on pages 57 to 58.

6.19 Pledging of shares by controlling shareholders

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

6.20 Corporate Governance

The Group's principal corporate governance practices are outlined on pages 15 to 19.

6.21 Use of Proceeds

There has been no change to the proposed application of proceeds raised from the IPO on 31 October 2003.

6.22 Auditors

A resolution for the re-appointment of KPMG as auditors of the Group is to be proposed at the upcoming annual general meeting.

6.23 Statement of Sufficiency of Public Interest

As at 23 March 2005, based on the information publicly available to the Company and within the knowledge of the Directors, 44.04% of the Shares were publicly held.



On Behalf of the Board
Edward Tan Han Kiat
Chairman

23 March 2005
Xiamen, China

7. SENIOR MANAGEMENT & DIRECTORS

7.1 Executive Directors

Tan, Han Kiat Edward, aged 62, 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 The PRC. 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 57, 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 57, 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 55, 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 47, 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 44, 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 32, 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.

Lai, Lara Magno, aged 34, is the vice president of education for Sky Media Pte. Ltd. Ms. Lai graduated from the University of London's Institute of Education in with a Master's Degree in Media Studies. Ms. Lai was part of the pioneering team that created the SKYTUTOR e-learning program in 1995, and was instrumental in securing Sky Media's position as the only e-education content provider for the pilot Singapore ONE national broadband infrastructure project. Her exemplary work in the field of e-education has helped Sky Media Pte. Ltd. to secure numerous awards and grants under the National Innovation and Development Scheme. Ms. Lai joined the group in March 2004.

7.4 Senior Management

Wong, Fung Mei Irene, aged 52, 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 51, is the senior vice president of the Company. Mr. Yang joined the PORTS INTERNATIONAL North American operations in 1989 and was transferred to The PRC 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 The PRC.

He, Kun, aged 34, is the financial controller of the Group. He is responsible for budget control and financial reporting. He completed a professional accounting degree in 1992, and a Master of Business Administration in 2004, at Xiamen University in The PRC. He joined the Group in 1992.

Cibani, Fiona and Tia, aged 39 and 32 respectively, are the creative directors of the Company. They are responsible for the overall artistic direction of the Group, and direct a team of designers and assistant

designers in the creation of the Group's products, which include clothing and accessories. The Cibani sisters joined the Group in 1989.

Zanardi-Landi, Chantal, age 36, is the director of marketing. Ms. Zanardi-Landi is responsible for the marketing and promotion of the Group's brand image through various activities such as PR events, advertising and media relationship. Ms. Zanardi-Landi graduated from University of Bordeaux in 1993 in Bordeaux, France, and MBA Luxury Brand Management in l'ESSEC Business School in Paris in 1997. Prior to joining the Company, she held executive positions in Chanel, Lancome, and Cartier.

Jiao, Xin, aged 37, is the national retail manager. Ms. Jiao is responsible for supervising and training retail staff and maintaining the level of service in PORTS retail outlets. Ms. Jiao joined the Group in 1994.

Zheng KaiMei, aged 36, is the manager of the information technology department. He is responsible for the day-to-day operations of the Group's information and technology services. Mr. Zheng graduated from Dalian Maritime University, China in 1990. Mr. Zheng joined the Group in 1993.

He, Cai Mao, aged 32, is the manager of the Group's legal department. He is responsible for legal matters, compliance with Chinese law, trade mark registration and infringement issues. 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 30, is the assistant vice president of corporate communications. He is responsible for communications with the Hong Kong Stock Exchange and financial media, and coordinating the Group's investor relations program. He holds a Bachelor of Arts degree in computer science from the University of Western Ontario, Canada. Mr. Pick joined the Group in 2003.

Chen, Xi Fan, aged 34, is the manager of merchandising. Ms. Chen is responsible for the ordering of merchandise for the Group, as well as the development of the BMW Lifestyle export business to BMW dealers worldwide. Ms. Chen graduated from Fuzhou University, China in 1991, with a Bachelor of Arts degree. Ms. Chen joined the Group in 1992.

Allan, Stuart, aged 42 is the manager of visual display and merchandising. He has ten years of experience in North America working with major upscale retailers, including Holt Renfrew, holding an executive position in display and visual merchandising. He is responsible for the creation of store window displays and visual merchandising for the Group. Mr. Allan joined the Group in 2004.

8. FINANCIAL REPORT

PORTS DESIGN LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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 34 to 73 which have been prepared in accordance with International Financial Reporting standards promulgated by the International Accounting Standards Board.

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 judgments 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 Institute of Certified Public 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 judgments 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 2004, 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 promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance

KPMG
Certified Public Accountants
Hong Kong, 23 March 2005

10. CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2004

	<i>Note</i>	<i>2004</i> <i>(RMB)</i>	<i>2003</i> <i>(RMB)</i>	<i>2004</i> <i>(US\$)</i> <i>(Unaudited)</i> <i>(Note 28)</i>	<i>2003</i> <i>(US\$)</i> <i>(Unaudited)</i> <i>(Note 28)</i>
Turnover	2	714,150,093	584,639,973	86,286,485	70,636,845
Cost of sales		<u>(278,008,426)</u>	<u>(247,926,143)</u>	<u>(33,590,097)</u>	<u>(29,954,709)</u>
Gross profit		436,141,667	336,713,830	52,696,388	40,682,136
Other operating income	4	4,758,771	7,886,301	574,974	952,832
Distribution expenses		<u>(243,844,679)</u>	<u>(185,056,585)</u>	<u>(29,462,293)</u>	<u>(22,358,740)</u>
General and administrative expenses		<u>(26,456,997)</u>	<u>(18,621,518)</u>	<u>(3,196,641)</u>	<u>(2,249,872)</u>
Other operating expenses	5	<u>(24,463,218)</u>	<u>(21,811,216)</u>	<u>(2,955,744)</u>	<u>(2,635,255)</u>
Profit from operations		146,135,544	119,110,812	17,656,684	14,391,101
Net finance income/(costs)	7(i)	<u>3,375,077</u>	<u>(3,243,925)</u>	<u>407,790</u>	<u>(391,935)</u>
Profit from ordinary activities before taxation	7	149,510,621	115,866,887	18,064,474	13,999,166
Income tax expenses	8(i)	<u>(12,397,293)</u>	<u>(8,358,258)</u>	<u>(1,497,891)</u>	<u>(1,009,854)</u>
Profit attributable to shareholders	9,25(a)	<u>137,113,328</u>	<u>107,508,629</u>	<u>16,566,583</u>	<u>12,989,312</u>
Dividends attributable to the year	10(a)				
- Interim dividend approved and paid during the year		21,729,600	35,000,000	2,625,458	4,228,739
- Final dividend proposed after the balance sheet date		<u>47,533,797</u>	<u>31,236,300</u>	<u>5,743,224</u>	<u>3,774,004</u>
		<u>69,263,397</u>	<u>66,236,300</u>	<u>8,368,682</u>	<u>8,002,743</u>
Earnings per share					
-Basic	11	<u>0.25</u>	<u>0.24</u>	<u>0.03</u>	<u>0.03</u>
-Diluted	11	<u>0.25</u>	<u>0.24</u>	<u>0.03</u>	<u>0.03</u>

The notes on pages 40 to 73 form part of these financial statements.

11. CONSOLIDATED BALANCE SHEET
at 31 December 2004

	<i>Note</i>	<i>2004</i> <i>(RMB)</i>	<i>2003</i> <i>(RMB)</i>	<i>2004</i> <i>(US\$)</i> <i>(Unaudited)</i> <i>(Note 28)</i>	<i>2003</i> <i>(US\$)</i> <i>(Unaudited)</i> <i>(Note 28)</i>
Assets					
Lease prepayments	15	7,072,074	11,190,575	854,476	1,352,058
Property, plant and equipment	16	90,759,847	69,698,772	10,965,969	8,421,082
Intangible assets	17	538,050	1,183,710	65,009	143,017
Deferred tax assets	18	<u>5,999,335</u>	<u>3,503,229</u>	<u>724,863</u>	<u>423,264</u>
Total non-current assets		<u>104,369,306</u>	<u>85,576,286</u>	<u>12,610,317</u>	<u>10,339,421</u>
Inventories	19	212,949,534	184,815,705	25,729,419	22,329,637
Trade and other receivables, deposits and prepayments	20(a)	130,404,466	106,685,897	15,755,993	12,889,907
Time deposits with banks		66,382,500	82,767,000	8,020,600	10,000,000
Cash and cash equivalents	21(a)	<u>308,681,696</u>	<u>232,290,271</u>	<u>37,296,163</u>	<u>28,065,566</u>
Total current assets		<u>718,418,196</u>	<u>606,558,873</u>	<u>86,802,175</u>	<u>73,285,110</u>
Current liabilities					
Trade payables, other payables and accruals	22(a)	135,962,976	89,131,094	16,427,592	10,768,916
Tax payable	8(iii)	10,050,611	6,526,888	1,214,355	788,586
Dividend payable		-	<u>3,850,690</u>	-	<u>465,245</u>
Total current liabilities		<u>146,013,587</u>	<u>99,508,672</u>	<u>17,641,947</u>	<u>12,022,747</u>
Net current assets		<u>572,404,609</u>	<u>507,050,201</u>	<u>69,160,228</u>	<u>61,262,363</u>
Net assets		<u>676,773,915</u>	<u>592,626,487</u>	<u>81,770,545</u>	<u>71,601,784</u>
Equity					
Share capital	24	1,442,185	1,442,185	174,251	174,246
Reserves	25(a)	<u>675,331,730</u>	<u>591,184,302</u>	<u>81,596,294</u>	<u>71,427,538</u>
Capital and reserves		<u>676,773,915</u>	<u>592,626,487</u>	<u>81,770,545</u>	<u>71,601,784</u>

Approved and authorised for issue by the Board of Directors on 23 March 2005.



Alfred Chan Kai Tai
Chief Executive Officer

The notes on pages 40 to 73 form part of these financial statements.



Pierre Frank Bourque
Executive Vice President

12. BALANCE SHEET
at 31 December 2004

	<i>Note</i>	<i>2004</i> <i>(RMB)</i>	<i>2003</i> <i>(RMB)</i>	<i>2004</i> <i>(US\$)</i> <i>(Unaudited)</i> <i>(Note 28)</i>	<i>2003</i> <i>(US\$)</i> <i>(Unaudited)</i> <i>(Note 28)</i>
Assets					
Investments in subsidiaries	26	<u>152,387,931</u>	<u>152,379,654</u>	<u>18,412,122</u>	<u>18,410,677</u>
Total non-current assets		<u>152,387,931</u>	<u>152,379,654</u>	<u>18,412,122</u>	<u>18,410,677</u>
<hr style="border-top: 1px dashed black;"/>					
Trade and other receivables, deposits and prepayments	20(b)	160,946,908	134,972,814	19,446,253	16,307,564
Time deposits with a bank		-	82,767,000	-	10,000,000
Cash and cash equivalents	21(b)	<u>156,721,534</u>	<u>104,573,334</u>	<u>18,935,726</u>	<u>12,634,665</u>
Total current assets		<u>317,668,442</u>	<u>322,313,148</u>	<u>38,381,979</u>	<u>38,942,229</u>
<hr style="border-top: 1px dashed black;"/>					
Trade payables, other payables and accruals	22(b)	1,085,864	2,714,605	131,199	327,982
Dividend payable		-	3,850,690	-	465,245
Total current liabilities		<u>1,085,864</u>	<u>6,565,295</u>	<u>131,199</u>	<u>793,227</u>
<hr style="border-top: 1px dashed black;"/>					
Net current assets		<u>316,582,578</u>	<u>315,747,853</u>	<u>38,250,780</u>	<u>38,149,002</u>
<hr style="border-top: 1px dashed black;"/>					
Net assets		<u>468,970,509</u>	<u>468,127,507</u>	<u>56,662,902</u>	<u>56,559,679</u>
<hr style="border-top: 1px dashed black;"/>					
Equity					
Share capital	24	1,442,185	1,442,185	174,251	174,246
Reserves	25(b)	<u>467,528,324</u>	<u>466,685,322</u>	<u>56,488,651</u>	<u>56,385,434</u>
Capital and reserves		<u>468,970,509</u>	<u>468,127,507</u>	<u>56,662,902</u>	<u>56,559,680</u>

Approved and authorised for issue by the Board of Directors on 23 March 2005.



Alfred Chan Kai Tai
Chief Executive Officer



Pierre Frank Bourque
Executive Vice President

The notes on pages 40 to 73 form part of these financial statements.

13. CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2004
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2004</i>	<i>2003</i>
Cash generated from operating activities	(a)	150,261,535	82,666,899
Cash flow from investing activities		-----	-----
Interest received		2,728,294	543,156
Acquisition of property, plant and equipment		(41,024,082)	(26,152,843)
Proceeds from disposal of property, plant and equipment		897,767	9,690
Proceed from disposal of land use right		3,960,001	-
Decrease/(increase) in time deposits with banks		<u>16,384,500</u>	<u>(82,767,000)</u>
Net cash used in investing activities		(17,053,520)	(108,366,997)
Cash flow from financing activities		-----	-----
Interest expense paid		-	(1,771,347)
Proceeds from interest-bearing loans and borrowings		-	80,764,600
Repayment of interest-bearing loans and borrowings		-	(142,096,500)
Repayment of advances to related companies		-	(8,277,200)
Dividends paid		(56,816,590)	(31,149,310)
Proceeds from the issue of share capital		-	338,635,238
Share issue expenses paid		<u>-</u>	<u>(22,898,591)</u>
Net cash (used in)/generated from financing activities		(56,816,590)	213,206,890
Net increase in cash and cash equivalents		76,391,425	187,506,792
Cash and cash equivalents at beginning of year		<u>232,290,271</u>	<u>44,783,479</u>
Cash and cash equivalents at end of year		<u>308,681,696</u>	<u>232,290,271</u>

The notes on pages 40 to 73 form part of these financial statements.

**Notes to the consolidated Cash Flow Statement
for the year ended 31 December 2004
(Expressed in Renminbi Yuan)**

(a) Reconciliation of profit from ordinary activities before taxation to cash generated from operating activities

	2004	2003
Profit from ordinary activities before taxation	149,510,621	115,866,887
Adjustments for:		
Depreciation of property, plant and equipment	19,980,108	14,390,385
Amortisation of lease prepayments	247,564	254,365
Amortisation of intangible assets	645,660	645,660
Losses on disposal of property, plant and equipment	88,265	1,357
Gain on disposal of land use right	(89,064)	-
Interest expense	-	1,771,347
Interest income	<u>(3,874,311)</u>	<u>(543,156)</u>
Cash flow from operating activities before changes in working capital	166,508,843	132,386,845
Increase in inventories	(28,133,829)	(24,540,848)
Increase in accounts receivable and bills receivable	(12,868,884)	(26,537,601)
Net increase in amounts due from/to related companies	(3,023,066)	(4,411,077)
Increase in advances to suppliers	(485,935)	(6,093,534)
(Increase)/decrease in other receivables, deposits and prepayments	(7,295,495)	2,326,650
Increase in bills payable and accounts payable	19,707,214	15,484,306
Increase in other creditors and accruals	<u>27,222,363</u>	<u>5,384,206</u>
Cash generated from operations	161,631,211	93,998,947
Tax refund from the PRC government	5,016,960	6,585,862
Income tax paid	<u>(16,386,636)</u>	<u>(17,917,910)</u>
Cash generated from operating activities	150,261,535	82,666,899

The notes on pages 40 to 73 form part of these financial statements.

14. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2004
(Expressed in Renminbi Yuan)

	Share capital <i>(Note 24)</i>	Capital reserve <i>(Note 25a)</i>	Share premium <i>(Note 25a)</i>	General reserve fund <i>(Note 25a)</i>	Enterprise expansion fund <i>(Note 25a)</i>	Retained earnings <i>(Note 25a)</i>	Total
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>
Balance at 1 January 2004	1,442,185	42,483,919	336,089,241	35,249,925	9,867,952	167,493,265	592,626,487
Net profit for the year	-	-	-	-	-	137,113,328	137,113,328
Transfer to reserve	-	-	-	12,155,319	-	(12,155,319)	-
Dividend declared	-	-	-	-	-	(52,965,900)	(52,965,900)
Balance at 31 December 2004	<u>1,442,185</u>	<u>42,483,919</u>	<u>336,089,241</u>	<u>47,405,244</u>	<u>9,867,952</u>	<u>239,485,374</u>	<u>676,773,915</u>

The notes on pages 40 to 73 form part of these financial statements.

15. NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Significant accounting policies

Ports Design Limited (“the Company”) is a company incorporated in Bermuda with limited liability. The consolidated financial statements of the Company for the year ended 31 December 2004 comprise the Company and its subsidiaries (together referred to as the “Group”).

(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 related 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”).

The IASB has issued a number of new and revised IFRS and IAS (“new IFRS”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended 31 December 2004. The Group has commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRS would have a significant impact on its results of operations and financial position.

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.

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

(c) Basis of consolidation

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.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

(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.

(vi) Construction in progress

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction incurred during the periods of construction and installation. The asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the Group's policy.

(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.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

(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 p), 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.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

(k) Employee benefits

(i) Defined contribution plan

Obligations for contributions to a defined contribution pension plan, including contributions to Mandatory Provident Fund 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.

(ii) 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.

(l) Trade and other payables

Trade and other payables are stated at their cost.

(m) 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.

(n) 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.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

(o) 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.

(p) 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.

(q) 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.

(r) ***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.

(s) ***Dividends***

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

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

(t) 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.

2. 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.

3. 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, 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.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

Business segments

	2004	2003
Turnover		
Retail	491,639,236	379,251,367
OEM	157,234,803	168,233,379
Unallocated	<u>65,276,054</u>	<u>37,155,227</u>
Total	<u>714,150,093</u>	<u>584,639,973</u>
Segment result		
Retail	124,879,228	101,201,778
OEM	<u>16,557,638</u>	<u>14,230,076</u>
Total	141,436,866	115,431,854
Unallocated operating income and expenses	<u>4,698,678</u>	<u>3,678,958</u>
Profit from operations	146,135,544	119,110,812
Net financing income/(costs)	3,375,077	(3,243,925)
Income tax	<u>(12,397,293)</u>	<u>(8,358,258)</u>
Profit attributable to shareholders	<u>137,113,328</u>	<u>107,508,629</u>
Segment assets		
Retail	383,816,651	316,261,946
OEM	<u>24,013,255</u>	<u>38,408,174</u>
Total	407,829,906	354,670,120
Unallocated assets	<u>414,957,596</u>	<u>337,465,039</u>
Total assets	<u>822,787,502</u>	<u>692,135,159</u>

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

	2004	2003
Segment liabilities		
Retail	112,680,268	69,594,040
OEM	<u>23,282,737</u>	<u>17,559,832</u>
Total	135,963,005	87,153,872
Unallocated liabilities	<u>10,050,582</u>	<u>12,354,800</u>
Total liabilities	<u><u>146,013,587</u></u>	<u><u>99,508,672</u></u>
Capital expenditure		
Retail	39,723,088	24,223,204
OEM	-	-
Unallocated	<u>2,303,927</u>	<u>1,929,639</u>
Total	<u><u>42,027,015</u></u>	<u><u>26,152,843</u></u>
Depreciation and amortisation		
Retail	19,778,019	14,209,874
OEM	-	-
Unallocated	<u>1,095,313</u>	<u>1,080,536</u>
Total	<u><u>20,873,332</u></u>	<u><u>15,290,410</u></u>
<i>Geographical segments</i>		
	2004	2003
Turnover		
the PRC	502,348,520	392,607,302
North America	163,040,206	173,330,335
Hong Kong	12,329,965	9,853,854
Europe	<u>36,431,402</u>	<u>8,848,482</u>
Total	<u><u>714,150,093</u></u>	<u><u>584,639,973</u></u>
Segment assets		
the PRC	656,439,486	375,967,572
Hong Kong	<u>166,348,016</u>	<u>316,167,587</u>
Total	<u><u>822,787,502</u></u>	<u><u>692,135,159</u></u>
Capital expenditure		
the PRC	40,492,360	25,523,676
Hong Kong	<u>1,534,655</u>	<u>629,167</u>
Total	<u><u>42,027,015</u></u>	<u><u>26,152,843</u></u>

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

4. Other operating income

	2004	2003
Liaison service income	265,735	245,998
Royalty income	2,134,700	1,247,264
Design and decoration income	1,100,409	4,873,124
Insurance compensation	251,228	674,937
Others	<u>1,006,699</u>	<u>844,978</u>
	<u>4,758,771</u>	<u>7,886,301</u>

5. Other operating expenses

	2004	2003
Stock provision	23,817,558	21,165,556
Amortisation of intangible asset	<u>645,660</u>	<u>645,660</u>
	<u>24,463,218</u>	<u>21,811,216</u>

6. Personnel expenses

	2004	2003
Wages, salaries and staff benefits	93,366,039	66,463,873
Contributions to defined contribution retirement plan	<u>2,501,089</u>	<u>1,816,688</u>
	<u>95,867,128</u>	<u>68,280,561</u>
Average number of employees during the year	<u>3,502</u>	<u>2,786</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% (2003: 14%) 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 RMB1,200,556 for the year ended 31 December 2004 (2003: RMB 1,191,850).

Notes To The Financial Statements
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7. Profit from ordinary activities before taxation

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

	2004	2003
(i) Net financing (income)/cost		
Interest income	(3,874,311)	(543,156)
Interest expense on bank advances repayable within five years	-	1,771,347
Bank charges	1,498,653	1,578,459
Net foreign exchange (gain)/loss	<u>(999,419)</u>	<u>437,275</u>
Net finance (income)/cost	<u>(3,375,077)</u>	<u>3,243,925</u>
	2004	2003
(ii) Other items		
Auditors' remuneration	1,754,966	900,000
Depreciation		
- owned fixed assets	19,708,338	14,118,615
- leased fixed assets	271,770	271,770
Amortisation		
- lease prepayments	247,564	254,365
- intangible assets	645,660	645,660
Operating leases charges in respect of properties		
- minimum lease payments	38,364,773	27,513,162
- contingent rents	<u>89,813,282</u>	<u>71,165,440</u>

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

8. Income tax expense

(i) Income tax expense represents:

	2004	2003
Current year expense	20,181,188	12,614,591
(Over)/under provision in prior years	(270,829)	168,116
Income tax refund	<u>(5,016,960)</u>	<u>(6,585,862)</u>
	14,893,399	6,196,845
Changes in deferred taxes	<u>(2,496,106)</u>	<u>2,161,413</u>
	<u>12,397,293</u>	<u>8,358,258</u>

Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in Bermuda. Also, certain subsidiaries located in foreign jurisdictions are not subject to any income tax in their local jurisdictions.

Provision for Hong Kong Profits tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits of a subsidiary in Hong Kong. No provision for Hong Kong Profits tax has been made during the year ended 31 December 2004 as that subsidiary did not earn any assessable income for Hong Kong Profits tax purposes.

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.

Pursuant to the income tax rules and regulations of the PRC, certain subsidiaries located in the PRC ("PRC subsidiaries") are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC Enterprise income tax at 50% of the applicable income tax rate for the following three years.

The Group was granted a tax refund of RMB5,016,960 during the year ended 31 December 2004 (2003: RMB6,585,862), pursuant to the relevant PRC tax law and regulations applicable to re-investment of profits earned.

Notes To The Financial Statements
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- (ii) The following is a reconciliation of income tax calculated at the Group's PRC applicable tax rate with income tax expense.

	2004	2003
Profit from ordinary activities before taxation	<u>149,510,621</u>	<u>115,866,887</u>
Computed tax using the Group's applicable tax rate	22,426,593	17,380,033
Rate differential on the Company and subsidiaries' income taxed at 0%	(2,238,160)	(2,604,029)
Tax holiday enjoyed by a PRC subsidiary	(3,657,820)	-
Non-deductible expenses net of non-taxable income	36,054	-
Deferred tax asset not recognised	1,118,415	-
Income tax refund	(5,016,960)	(6,585,862)
(Over)/under provision in prior years	<u>(270,829)</u>	<u>168,116</u>
	<u>12,397,293</u>	<u>8,358,258</u>

- (iii) Taxation in the consolidated balance sheet represents:

	2004	2003
Balance at beginning of year	6,526,888	11,662,091
Provision for income tax for the year	19,910,359	12,782,707
Paid during the year	<u>(16,386,636)</u>	<u>(17,917,910)</u>
Balance at end of year	<u>10,050,611</u>	<u>6,526,888</u>

9. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of RMB22,572,602 (2003: RMB12,034) 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:

	2004	2003
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	22,572,602	12,034
Final dividends from a subsidiary attributable to the profit of the previous financial year, approved and paid during the year	<u>31,236,300</u>	<u>35,000,000</u>
Company's profit for the year (Note 25 (b))	<u>53,808,902</u>	<u>35,012,034</u>

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

10. Dividends

(a) Dividends attributable to the year	<i>2004</i>	<i>2003</i>
Interim dividend approved and paid of RMB 0.16 (2003:RMB0.33) per share	21,729,600	35,000,000
Final dividend proposed after the balance sheet date of RMB0.0875 (2003: RMB0.23) per share	<u>47,533,797</u>	<u>31,236,300</u>
	<u>69,263,397</u>	<u>66,236,300</u>

The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date. The calculation of final dividend per share is based on 543,240,000 ordinary shares in issue as at 31 December 2004 (2003: 135,810,000 ordinary shares).

(b) Dividends attributable to the previous financial year, approved and paid during the year	<i>2004</i>	<i>2003</i>
Final dividend in respect of the previous financial year, approved and paid during the year of RMB 0.23 (2003:Nil) per share	<u>31,236,300</u>	<u>-</u>

11. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB137,113,328 (2003: RMB107,508,629) and the weighted average of 543,240,000 (2003: 441,700,272) ordinary shares in issue during the year. The weighted average number of ordinary shares in issue for 2003 has been retrospectively adjusted for the effect of the share split during the year ended 31 December 2004 (Note 24).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of RMB137,113,328 (2003: RMB107,508,629) and the weighted average number of 547,375,337 (2003: 442,199,244) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's share option scheme. The weighted average number of ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares for 2003 has been retrospectively adjusted for the effect of share split during the year ended 31 December 2004 (Note 24).

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

(c) Reconciliation

	2004	2003
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	543,240,000	441,700,272
Deemed issue of ordinary shares for no consideration	<u>4,135,337</u>	<u>498,972</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>547,375,337</u>	<u>442,199,244</u>

12. Directors' emoluments

Details of Directors' emoluments are as follows:

	Fees	Basic salaries housing benefits, other allowances and benefits in kind	Contributions to retirement benefit scheme	Total 2004	Total 2003
Executive Directors					
Mr. Edward Tan Han Kiat	-	266,000	-	266,000	266,000
Mr. Alfred Chan Kai Tai	-	266,000	-	266,000	266,000
Mr. Pierre Frank Bourque	-	668,556	-	668,556	659,850
Non-Executive Directors					
Mr. Kunnasagaran Chinniah	-	-	-	-	-
Ms. Janine Tran Chanh Lien	-	-	-	-	-
Mr. Rodney Ray Cone *	-	-	-	-	-
Ms. Valarie Fong Wei Lynn *	-	-	-	-	-
Ms. Lara Magno Lai *	-	-	-	-	-
	<u>-</u>	<u>1,200,556</u>	<u>-</u>	<u>1,200,556</u>	<u>1,191,850</u>
2003	<u>-</u>	<u>1,191,850</u>	<u>-</u>		

* independent non-executive Directors

- (a) There was no Directors' remuneration paid to the non-executive Directors during the year.

- (b) No bonuses were paid or payable as at 31 December 2004 and 2003 by the Group to the Directors which were discretionary or based on the Group's or any member of the Group's performance.
- (c) Certain Directors were granted options to subscribe for ordinary shares in the Company. Details of the share options granted and outstanding in respect of each director as at 31 December 2004 are set out in the "Share Options Scheme" section in the Report of the Directors.
- (d) Save as disclosed above, no Directors' remuneration has been paid or is payable by the Group for the year ended 31 December 2004.

Notes To The Financial Statements
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13. Senior management's emoluments

None of the Directors of the Company whose remuneration reflected in note 12 above is among the five highest paid individuals in the Group during the year ended 31 December 2004 (2003: one director). Details of the emoluments paid by the Group for the five highest paid employees in 2004 (2003: the remaining four top-paid employees) are as follows:

	2004	2003
Basic salaries, allowances and other benefits	4,530,133	2,146,824
Discretionary bonuses	-	-
Contributions to retirement benefit scheme	-	-
	<u>4,530,133</u>	<u>2,146,824</u>

An analysis of emoluments paid to the 5 (2003: the remaining four) highest paid individuals by number of individuals and emolument range is as follows:

	2004	2003
RMB Nil – RMB 1,000,000	4	4
RMB 1,000,001 – RMB1,500,000	<u>1</u>	<u>-</u>
	<u>5</u>	<u>4</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.

14. Related party transactions

Transactions with the following parties are considered as related party transactions for the years ended 31 December 2004 and 2003.

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

(a) **Recurring**

Particulars of significant transactions between the Group and the above related parties for the years ended 31 December 2004 and 2003 are as follows:

	2004	2003
Sales of goods to:		
Ports International Retail Corporation	<u>5,681,190</u>	<u>2,132,984</u>

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*

	2004	2003
Sales of goods to:		
CFS International Incorporated	-	79,681
PIHK Limited	-	3,085,339
Purchase of goods and fixed assets from:		
CFS International Incorporated	-	493,792
PIHK Limited	-	7,415,869
Expenditure paid on the Group's behalf by:		
PIHK Limited	-	4,854,221
CFS International Incorporated	-	2,911,303
Expenditure paid on behalf of:		
CFS International Incorporated	-	3,391,002
PIHK Limited	-	4,930,717
Ports International Retail Corporation	-	406,081
Repayment of advances:		
PIHK Limited	-	<u>(8,277,200)</u>

The non-recurring transactions in 2003 as shown above were entered prior to the listing of the Company's shares on the Stock Exchange of Hong Kong Limited on 31 October 2003 (the "Listing"). In connection with the Listing, the Directors of the Company have confirmed that the above transactions would not continue after the Listing.

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.

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15. Lease prepayments

	<i>The Group</i>	
	2004	2003
Cost		
Balance at beginning of year	11,946,485	11,946,485
Disposal	<u>(4,081,792)</u>	<u>-</u>
Balance at end of year	<u>7,864,693</u>	<u>11,946,485</u>
Accumulated amortisation		
Balance at beginning of year	(755,910)	(501,545)
Amortisation charge for the year	(247,564)	(254,365)
Disposal	<u>210,855</u>	<u>-</u>
Balance at end of year	<u>(792,619)</u>	<u>(755,910)</u>
Net book value		
At end of year	<u>7,072,074</u>	<u>11,190,575</u>

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

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16. Property, plant and equipment

The Group

	Buildings	Plant and machinery	Fixtures, fitting and other fixed assets	Construction in progress	Total
Cost					
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	-	-	(4,186,360)	-	(4,186,360)
Balance at 1 January 2004	35,368,951	17,961,445	50,226,740	1,326,084	104,883,220
Acquisitions	-	5,749,968	24,831,744	11,445,503	42,027,215
Transfer from construction in progress	303,377	348,941	4,935,887	(5,588,205)	-
Disposals	-	(3,667,205)	(6,274,743)	-	(9,941,948)
Balance at 31 December 2004	<u>35,672,328</u>	<u>20,393,149</u>	<u>73,719,628</u>	<u>7,183,382</u>	<u>136,968,487</u>
Depreciation					
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	-	-	(4,175,313)	-	(4,175,313)
Balance at 1 January 2004	4,585,045	8,698,351	21,901,052	-	35,184,448
Depreciation charge for year	1,595,472	1,336,829	17,047,807	-	19,980,108
Disposals	-	(2,878,779)	(6,077,137)	-	(8,955,916)
Balance at 31 December 2004	<u>6,180,517</u>	<u>7,156,401</u>	<u>32,871,722</u>	<u>-</u>	<u>46,208,640</u>
Net book value					
At 31 December 2004	<u>29,491,811</u>	<u>13,236,748</u>	<u>40,847,906</u>	<u>7,183,382</u>	<u>90,759,847</u>
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>

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

As at 31 December 2004, the net book value of a building held under a finance lease arrangement of the Group amounted to RMB3,959,890 (2003: RMB4,231,660).

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17. Intangible assets

	<i>The Group</i>	
	2004	2003
Cost		
Balance at beginning/end of year	<u>6,450,600</u>	<u>6,450,600</u>
Amortisation		
At beginning of year	5,266,890	4,621,230
Amortisation charge for the year	<u>645,660</u>	<u>645,660</u>
At end of year	<u>5,912,550</u>	<u>5,266,890</u>
Net book value		
At end of year	<u>538,050</u>	<u>1,183,710</u>

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

18. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the items set out below:

	<i>The Group</i>	
	2004	2003
Stock provision	4,976,608	3,078,021
Tax value of loss carried forward	-	378,978
Other creditors and accruals	845,909	-
Others	<u>176,818</u>	<u>46,230</u>
Total	<u>5,999,335</u>	<u>3,503,229</u>

Unrecognised deferred tax asset

A deferred tax asset has not been recognised in respect of the following item:

	<i>The Group</i>	
	2004	2003
Tax losses of a subsidiary	<u>1,118,415</u>	-
Total	<u>1,118,415</u>	-

A deferred tax asset has not been recognised in respect of the above item because it is not probable that sufficient future taxable profits will be available against which the subsidiary can utilise the benefits therefrom.

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19. Inventories

Inventories represent:

	<i>The Group</i>	
	<i>2004</i>	<i>2003</i>
Raw materials	52,183,338	43,683,505
Work in progress	14,771,610	10,300,709
Finished goods	143,463,513	129,008,372
Goods in transit	<u>2,531,073</u>	<u>1,823,119</u>
	<u>212,949,534</u>	<u>184,815,705</u>

Inventories stated at net realisable value 70,671,151 60,916,809
The cost of inventories recognised as expenses in the income statement can be specified as follows:

Cost of sales	278,008,426	247,926,143
Stock provision	<u>23,817,558</u>	<u>21,165,556</u>
	<u>301,825,984</u>	<u>269,091,699</u>

20. Trade and other receivables, deposits and prepayments

(a) The Group

	<i>2004</i>	<i>2003</i>
Accounts receivable (note (i) below)	89,898,515	72,275,008
Bills receivable	7,896,468	12,651,091
Amounts due from related companies (note 23(a))	1,922,238	-
Advances to suppliers	9,368,417	8,882,482
Other receivables, deposits and prepayments	<u>21,318,828</u>	<u>12,877,316</u>
	<u>130,404,466</u>	<u>106,685,897</u>

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

	<i>2004</i>	<i>2003</i>
Within 1 month	77,929,060	59,587,793
Over 1 month but less than 3 months	11,439,416	11,455,675
Over 3 months but less than 6 months	435,089	1,201,928
Over 6 months but less than 12 months	<u>94,950</u>	<u>29,612</u>
	<u>89,898,515</u>	<u>72,275,008</u>

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

(b) The Company

	<i>2004</i>	<i>2003</i>
Amounts due from subsidiaries	160,492,532	134,486,564
Other receivables, deposits and prepayments	<u>454,376</u>	<u>486,250</u>
	<u><u>160,946,908</u></u>	<u><u>134,972,814</u></u>

21. Cash and cash equivalents

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

(a) The Group

	<i>2004</i>	<i>2003</i>
Cash at bank and in hand	96,494,857	48,317,365
Time deposits with banks	<u>212,186,839</u>	<u>183,972,906</u>
	<u><u>308,681,696</u></u>	<u><u>232,290,271</u></u>

(b) The Company

	<i>2004</i>	<i>2003</i>
Cash at bank and in hand	7,454,530	11,813,228
Time deposits with banks	<u>149,267,004</u>	<u>92,760,106</u>
	<u><u>156,721,534</u></u>	<u><u>104,573,334</u></u>

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22. Trade payables, other payables and accruals

(a) The Group

	<i>2004</i>	<i>2003</i>
Bills payable	405,052	359,124
Accounts payable (note (i) below)	60,637,010	39,972,591
Other creditors and accruals	74,920,914	47,698,551
Amounts due to related companies (note 23(a))	<u>-</u>	<u>1,100,828</u>
	<u>135,962,976</u>	<u>89,131,094</u>

(i) An ageing analysis of accounts payable is as follows:

	<i>2004</i>	<i>2003</i>
Within 1 month or on demand	32,888,958	23,308,866
Over 1 month but less than 3 months	19,206,908	11,202,688
Over 3 months but less than 6 months	7,864,089	4,798,751
Over 6 months but less than 12 months	<u>677,055</u>	<u>662,286</u>
	<u>60,637,010</u>	<u>39,972,591</u>

(b) The Company

	<i>2004</i>	<i>2003</i>
Other creditors and accruals	1,028,950	128,006
Amount due to a related company (note 23(b))	-	506,508
Amounts due to subsidiaries	<u>56,914</u>	<u>2,080,091</u>
	<u>1,085,864</u>	<u>2,714,605</u>

23. Amounts due from/to related companies

(a) The Group

	<i>2004</i>	<i>2003</i>
Amount due from		
Ports International Retail Corporation	<u>1,922,238</u>	<u>-</u>
Amounts due to		
CFS International Incorporated	-	(95,172)
PIHK Limited	<u>-</u>	<u>(1,005,656)</u>
	<u>-</u>	<u>(1,100,828)</u>

Notes To The Financial Statements
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(b) The Company

	2004	2003
Amount due to		
PIHK Limited	-	(506,508)
	<u>-</u>	<u>(506,508)</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 14.

24. Share capital

	<i>The Group and the Company</i>			
	2004		2003	
	<i>Number of shares</i>	<i>Amount HK\$</i>	<i>Number of shares</i>	<i>Amount HK\$</i>
Authorised:				
Ordinary shares of HK\$0.01 each	-	-	900,000,000	9,000,000
Ordinary shares of HK\$0.0025 each	<u>3,600,000,000</u>	<u>9,000,000</u>	-	-
	<u>3,600,000,000</u>	<u>9,000,000</u>	<u>900,000,000</u>	<u>9,000,000</u>
Issued and fully paid:				
At the beginning of the year	135,810,000	1,358,100	105,560,000	1,055,600
Shares sub-division	407,430,000	-	-	-
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>543,240,000</u>	<u>1,358,100</u>	<u>135,810,000</u>	<u>1,358,100</u>
		<i>RMB equivalent</i>		<i>RMB equivalent</i>
		<u>1,442,185</u>		<u>1,442,185</u>

Pursuant to an ordinary resolution passed at a special general meeting held on 15 November 2004, the Company subdivided every issued and unissued ordinary share of HK\$0.01 each in the capital of the Company into four ordinary shares of HK\$0.0025 each in the Company.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

Share options

Under the terms of the Company's share 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. 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 of Directors may in its absolute discretion relax or accelerate all or any of the above vesting periods in such manner as it may deem fit.

Movement in share options are as follows:

	<i>2004</i> <i>Number of</i> <i>shares involved</i> <i>in the options</i>	<i>2003</i> <i>Number of</i> <i>shares involved</i> <i>in the options</i>
At beginning of year	3,500,000	-
Granted	-	3,500,000
Adjustment *	10,500,000	-
Cancelled	<u>(59,200)</u>	<u>-</u>
At end of year	<u>13,940,800</u>	<u>3,500,000</u>
Options vested at end of year	<u>4,646,933</u>	<u>-</u>

* Adjustment for the effect of share split during the year

The outstanding share options at the balance sheet dates were granted on 3 November 2003 and are exercisable for a period commencing 3 November 2003 to 2 November 2013 at an

exercise price of HK\$2.625 per share (after adjustment for the effect of share split during the year).

Up to 31 December 2004, no share options have been exercised.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

25. Reserves

(a) The Group

	<i>Capital Reserve</i>	<i>Share premium</i>	<i>General reserve fund (i)</i>	<i>Enterprise expansion fund (ii)</i>	<i>Retained earnings</i>	<i>Total</i>
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>
Balance at 1 January 2004	42,483,919	336,089,241	35,249,925	9,867,952	167,493,265	591,184,302
Net profit for the year	-	-	-	-	137,113,328	137,113,328
Transfer to reserves	-	-	12,155,319	-	(12,155,319)	-
Dividends declared	-	-	-	-	(52,965,900)	(52,965,900)
Balance at 31 December 2004	<u>42,483,919</u>	<u>336,089,241</u>	<u>47,405,244</u>	<u>9,867,952</u>	<u>239,485,374</u>	<u>675,331,730</u>

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.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

(b) The Company

	Share premium	Contributed surplus	Retained earnings	Total
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	-	-	35,012,034	35,012,034
Balance at 31 December 2003	<u>315,414,137</u>	<u>151,259,151</u>	<u>12,034</u>	<u>466,685,322</u>
Balance at 1 January 2004	315,414,137	151,259,151	12,034	466,685,322
Dividend declared	-	-	(52,965,900)	(52,965,900)
Net profit for the year	-	-	53,808,902	53,808,902
Balance at 31 December 2004	<u>315,414,137</u>	<u>151,259,151</u>	<u>855,036</u>	<u>467,528,324</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*

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 2004 was RMB152,114,187 (2003: RMB151,271,185).

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

26. Investments in subsidiaries

The Company
2004 2003

Unlisted shares, at cost 152,387,931 152,379,654

The following list contains only the particulars of subsidiaries which principally affect 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 1(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	British Virgin Islands	100	-	USD11/ USD50	-	Sales of garments and investment holding
Ports International Marketing Ltd.	British Virgin Islands	100	-	USD0.1/ USD0.1	-	Sales of garments
Smythe Trading Company Limited	Samoa Islands	99.9	0.1	USD1/ USD1,000	-	Sales of garments
Ports Retail (H.K.) Limited	Hong Kong	-	100	HK\$1/ HK\$10	-	Sales of garments
Xiamen Brimeland Garments Ltd. (i)	PRC	-	100	-	HK\$8,000/ HK\$8,000	Manufacturing and sales of garments
Etac Fashion (Xiamen) Ltd. (i)	PRC	-	100	-	HK\$237,000/ HK\$237,000	Manufacturing and sales of garments
Xiamen Xiangyu Ports Trading Co., Ltd. (i)	PRC	-	100	-	USD2,020/ USD2,020	Sales of garments
Ports International (Beijing) Co., Ltd. (i)	PRC	-	100	-	USD1,850/ USD1,850	Manufacturing and sales of garments
Ports International Marketing (Xiamen) Ltd. (i)	PRC	-	100	-	USD2,100/ USD2,100	Manufacturing and sales of garments

Note:

- (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.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

27. Financial instruments

Financial assets of the Group include cash and cash equivalents, deposits with banks, and trade and other receivables. Financial liabilities of the Group include trade and other payables. The Group does not hold or issue financial instruments for trading purposes. Exposure to credit 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 concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) 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.

(c) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2004 and 2003 as these assets and liabilities are in short maturities.

28. United States Dollar amounts

The U.S. dollars figures shown in the consolidated income statements and the consolidated balance sheets are for information only. The consolidated income statement for the year ended 31 December 2004 and the consolidated balance sheet as at 31 December 2004 are translated from Renminbi Yuan at RMB8.2765=US\$1.00, the rate ruling at 31 December 2004. The consolidated income statement for the year ended 31 December 2003 and the consolidated balance sheet as at 31 December 2003 are translated from Renminbi Yuan at RMB8.2767=US\$1.00, the rate ruling at 31 December 2003. These translations should not be construed as representations that the Renminbi amounts could actually be converted into U.S. dollars at such rate or at all.

Notes To The Financial Statements
(Expressed in Renminbi Yuan)

29. Operating leases commitments

Non-cancellable operating lease rentals are payable as follows:

	<i>The Group</i>	
	2004	2003
Less than one year	54,621,821	33,651,952
Between one and five years	49,732,624	23,032,534
More than five years	<u>-</u>	<u>84,000</u>
	<u>104,354,445</u>	<u>56,768,486</u>

The leases run for an initial period of one to five 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.

30. Capital commitments

Capital commitments in respect of purchase of property, plant and equipment outstanding at 31 December 2004 and 2003 but not provided for in the consolidated financial statements were as follows:

	<i>The Group</i>	
	2004	2003
Contracted for	11,866,208	-
Authorised but not contracted for	<u>98,000,000</u>	<u>120,000,000</u>
	<u>109,866,208</u>	<u>120,000,000</u>

31. Subsequent events

After the balance sheet date, the Directors proposed a final dividend on 23 March 2005. Further details are disclosed in note 10.

32. Ultimate holding company

The Directors consider the ultimate holding company at 31 December 2004 to be CFS International Incorporated, which is incorporated in Canada.

16. INFORMATION FOR INVESTORS

16.1 Shareholder's Calendar

Close of Register

4:00 pm, 18 May 2005

Annual General Meeting

4:00pm, 24 May 2005

17. LISTING INFORMATION

17.1 Share Listing

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

17.2 Stock Code

The Stock Exchange of Hong Kong Limited: 589

Bloomberg: 589 HK

Reuters: 0589.HK

17.3 Price History

MONTH	PER SHARE	
	High (HK\$)	Low (HK\$)
2004		
April	16.10	14.00
May	15.80	14.10
June	15.75	14.80
July	15.30	14.30
August	14.60	14.20
September	15.10	14.20
October	15.10	14.30
November*	16.10	3.65
December	4.20	3.63
2005		
January	4.33	3.73
February	4.95	4.20
March	5.45	4.72

**Note: four-for-one share subdivision was effected in November 2004*

17.4 Dividends per share

Interim Dividend: RMB0.04 per share (after adjustment for the effect of share split during the year)

Paid from: 30 September 2004 – 24 November 2004

Final Dividend: RMB0.0875 per share (subject to the approval of the shareholders of the Company at the forthcoming annual general meeting)

Payable on: 30 June 2005

17.5 Board of Directors

Edward Han Kiat Tan*, *Chairman*

Alfred Kai Tan Chan*, *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 Wei Lynn Fong, *Independent Non-executive Director*

Lara Magno Lai, *Independent Non-executive Director*

* *Executive Director*

17.6 Company Secretary

Irene Fung Mei Wong

17.7 Compliance Officer

Valarie Wei Lynn Fong

17.8 Registered Office

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

17.9 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

17.10 Principal Place of Business in Hong Kong

Suite 102, Sunbeam Center
27 Shing Yip Street
Kwun Tong
Kowloon, Hong Kong

17.11 Auditors

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

17.12 Corporate Counsel

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

17.13 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